

“Most Injudicious . . . Most Injurious”

THE ROYAL BANK OF AUSTRALIA'S LOAN TO THE NEW ZEALAND GOVERNMENT, 1842

THE EARLY years of New Zealand present an unhappy picture of unreasonable expectations and speculation by private investors, eager exploitation of government patronage by the office seekers that flocked to any new colonial venture, and financial mismanagement by a hard-pressed government, faced with the need to resolve conflicting interests among land speculators, Maoris and missionaries, and with the parsimony of the home government.

The economic disasters of the first two governors, Hobson and FitzRoy, might, perhaps, have been resolved sooner by a more generous initial investment in the colony's establishment. To his great good fortune, British policy was more generous by the time of Governor Grey's arrival in 1847, and the plaudits bestowed on his government owe a good deal to his stronger financial position.

Until FitzRoy's recall, however, the New Zealand government tottered on the edge of bankruptcy, its position worsened by its uneasy relationship with New South Wales, itself suffering depression during this period. The New South Wales government, under George Gipps, had little cash or sympathy to offer its neighbour, whilst a series of bank crashes in the early 1840s left private investors bruised and wary of further speculative adventures in New Zealand or anywhere else.

The object of this paper is to chart the history of one such speculation, the relationship between the New Zealand government and the Royal Bank of Australia during the first decade of New Zealand's colonial government.

In 1840, Benjamin Boyd, a London stockbroker, established a private bank, the Royal Bank of Australia, to tap the growing and apparently lucrative Australian financial market. In particular, the bank hoped to offer improved services for the transfer of colonial funds, a service which was becoming increasingly important as trade with England expanded in the wake of the wool boom. In July 1842, he and his partner, Joseph Phelps Robinson, arrived in Sydney in pursuit of banking business.

In New South Wales, Boyd's imagination burgeoned. Besides banking, he had a considerable interest in shipping, and he was soon involved in the carrying trade with New Zealand, working both for private contractors and for the New Zealand government. He rapidly accumulated squatting runs, easily and cheaply available in the depressed conditions of rural New South Wales in the early 1840s, and established himself especially in the area

around Twofold Bay, south of Sydney, where he was well-placed to share in the growing trans-Tasman trade. An advertisement which appeared regularly throughout the early 1840s gives some idea of his activities: 'Ships can Refresh or Refit at this Harbour free of all Port charges, Pilotage, &c, and can obtain Wood, Water, fresh and salt Provisions, Vegetables, Ship Chandlery, Stores and Slops of every kind and description, and if required the services of Shipwrights and Boatbuilders upon the most reasonable terms. N.B. Oil and Bone taken in exchange.'¹

In addition, he developed a bay-whaling establishment, using largely Maori labour, and behind the port, he ran cattle which were bought further inland, brought down to fatten on the richer coastal soils, then shipped to New Zealand, either for meat, or to supply the pastoralists moving into the new colony. Despite his many other activities, however, Boyd was predominantly a banker, and it was as a banker that he was to make his greatest impact on New Zealand economic development.

When Boyd arrived in Sydney, the New Zealand government was in its infancy. In early 1840, New Zealand was annexed as a dependency of New South Wales. Captain Hobson proclaimed himself Lieutenant-Governor on 29 January, and it was as Lieutenant-Governor, under the *de jure* authority of New South Wales, that on 5 February he met with the New Zealand chiefs to negotiate the Treaty of Waitangi. Despite numerous ambiguities, under the Treaty a prescriptive right over the purchase of all Maori land was ceded to the new colonial government, which had the intention of purchasing land for re-sale to the European settlers. The profits from these land sales, with customs duties, constituted virtually the sole revenue of the colonial government. In November 1840, New Zealand was proclaimed a separate Crown Colony, and Hobson was appointed as Governor.

It is generally accepted that the New Zealand government was established by Britain with inadequate funds. More seriously, perhaps, the government was obliged to take over the debt incurred on its behalf by Sir George Gipps who, while responsible for New Zealand, had, without Colonial Office authority, drawn bills on the Treasury in England to relieve the New South Wales immigration fund. The Lords of the Treasury reluctantly authorized the bills, 'assigning as a reason the fact that Gipps had not been apprised of their intention to make the New Zealand Government repay the advances'.² Governor Hobson was ordered by the British government to repay this debt, amounting to £44,000, in addition to meeting all local demands. This proved impossibly unrealistic.

To make matters worse, the civil officers appointed in New Zealand lacked the necessary financial skills to administer the new colony and, faced with a severe economic crisis, they were forced to adopt desperate, and possibly illegal, methods. The situation was further confused by the incapa-

1 *Southern Cross* (Auckland), 15 June 1844.

2 G. W. Rusden, *History of New Zealand*, 2nd ed., Melbourne, 1895, I, p.277.

city of Governor Hobson, who had a stroke shortly after arriving in Auckland.

The government depended for its financial affairs on the equally fragile New Zealand Banking Company. Established in Sydney in 1840, the bank's original prospectus spoke of raising 10,000 shares of £10 each.³ Had this promise been fulfilled, with a paid-up capital of £100,000 the bank might have survived the rigours of the 1840s, but only 4,239 shares were subscribed, for an initial payment of £1 per share, and it was with this meagre capital that the bank began business in September 1840. A later call of £1 only raised a further £3,747⁴ and the bank was soon in trouble. Nonetheless it performed a useful function in Auckland, and the New Zealand government, when not itself relying on it, attempted to support it.

During 1841 and 1842, the New Zealand government was close to bankruptcy. The government was expected to finance its operations from the sale of lands and from customs dues, but land sales fell during the depression, and were complicated by the need to conciliate the original Maori owners. Customs duties had also dropped, partly in response to depression and falling consumption, partly because of increased smuggling which had the added effect of destroying the trade of New Zealand's oldest port, Kororareka. In 1841, government expenditure exceeded £80,000, against a revenue of £37,000, £28,000 of which came from land sales and £6,407 from customs dues.⁵

Government expenses were considerable, for the extension of government to New Zealand involved the appointment of large numbers of petty officials — too many, according to the merchant community. In March 1842, faced with a burden of debt, Governor Hobson, like Gipps, and Governor Gawler of South Australia, took the desperate measure of funding government expenditure with bills drawn on the Lords Commissioners of the Treasury, which had not been authorized by the Colonial Office.

In August 1842, the New Zealand government decided once again to use the credit of the British government. The Executive Council authorized the drawing up of £15,000 in government drafts on the British Treasury and sent them to New South Wales with George Cooper, Customs Officer and director of the New Zealand Banking Company, who was instructed to discount the bills in Sydney so that cash could be obtained urgently to cover current expenditure. In justification for the illegality of the action, Willoughby Shortland, a young naval lieutenant who was Hobson's Colonial Secretary, begged 'to draw . . . attention to the following Extract from His Excellency's Instructions from the Secretary of State for the Colonies, in which, speaking of Public Revenues, His Lordship Remarks "*Extreme cases may of course arise, to which every such general rule must yeild [sic]*" by which you will perceive that in *emergencies* like the present

3 *Sydney Herald*, 28 August 1840.

4 *Southern Cross*, 22 February 1845.

5 Rusden, p.277.

Governors are authorised to adopt any financial measures they may wish with the advice of their Council consider necessary.'⁶

Cooper arrived at a time of depression and of massive and entirely warranted suspicion of the New Zealand government's financial position. The next month, the New Zealand Banking Company asked the government to repay its overdraft. To do so, the government was forced to borrow money from other sources. In New Zealand itself, the only prospect lay with the Anglican Church, and Bishop Selwyn agreed to lend £5,000 at what was, given the New Zealand government's credit rating, the generous rate of 5% per annum. For further funds, the government turned to Cooper in Sydney, who had as yet failed to find any financial institution that would handle the Treasury drafts, unauthorized as they were by the British government.

In this situation, he turned to Boyd and Robinson, newly arrived in Sydney, who agreed to provide funds for the government — but upon terms. The terms they negotiated, on behalf of the Royal Bank of Australia, were so harsh that they suggest that the bankers were fully aware of the speculative nature of the undertaking and of the poor financial standing of their new client. On 12 October 1842 they agreed to provide the government with cash in exchange for £15,000 in Treasury bills, discounted by 15%, which would be sent to England for payment. As collateral security they would take £15,000 in debentures on the revenues of New Zealand, to pay 15%. On 31 October this amount was reduced to between £6,000 and £7,500.

On 10 September, Hobson died and Shortland became Acting-Governor. Boyd wrote to Cooper asking whether the contract was to stand or not, and was reassured that it would remain intact.

The immediate plight of the government had meanwhile eased slightly. The New Zealand Banking Company, despite its fragile condition, managed to raise £2,000 to lend to the government. On the basis of this temporary respite, Shortland, perhaps not understanding the nature of Cooper's contract with Boyd and Robinson, decided not to send the debentures to Sydney.

As yet, Shortland had not had to draw on the Royal Bank of Australia loan, but the government's improved situation proved transitory. By the end of 1842, the New Zealand Banking Company, always in difficulties, faced the prospect of shutting its doors, and requested the return of its £2,000 loan from the government. A run on the bank would clearly precipitate a financial crisis in Auckland, and the Colonial Treasurer, Alexander Shepherd, was faced with a dilemma. Both Shortland and the Attorney-General, Swainson, were absent from Auckland, so Shepherd found himself dependent for economic advice on men who were directly involved in the crisis, the directors of the New Zealand Banking Company.

⁶ Shortland to Cooper, 24 August 1842, Colonial Secretary's Department, Internal Affairs, I, (I.A.,I.) 47/2344. New Zealand Archives.

On 15 January 1843, Shepherd met with William Connell, the Acting Colonial Secretary, and George Cooper and Felton Mathew, directors of the New Zealand Banking Company, to discuss the financial crisis of the bank and, in consequence, of the New Zealand government. Jointly they agreed to fall back on the earlier negotiations of Cooper with Boyd and Robinson and, on 27 January 1843, Shepherd wrote a cheque for £2,000, payable to Alexander Kennedy, Manager of the New Zealand Banking Company, payable at thirty days' sight on Boyd and Robinson.⁷ They paid grudgingly, since the promised debentures had not yet arrived, but their acceptance of this cheque made Shepherd less cautious, and on 13 March 1843, with the New Zealand government still in financial straits, Shepherd wrote a cheque for a further £3,000. Aware now that some indication of good faith was required, the New Zealand government instructed their agent, G. R. Griffiths, of Griffiths, Gore and Co. of Sydney, to offer Boyd and Robinson debentures to the value of £3,500, with instructions to pay the remaining £500 into the Bank of Australasia.⁸

Boyd and Robinson would have none of it. Apart from the failure to fulfil the original contract, the New Zealand government was now offering debentures with the commencement dated 13 March 1843, rather than the original contracted date of 31 October 1842, representing a loss of five months' interest on the loan. On 8 April, the bank told Griffiths that they considered that their contract had been breached by the non-arrival of the debentures. They would agree only to the terms of the original contract: in other words, if these debentures were backdated to 31 October 1842, and if a further £4,500 in debentures were delivered 'by return of post from Auckland', they would meet the present £3,000 cheque and make available a further £2,500 'which with Two thousand already advanced will make up the full sum of Seven thousand five hundred Pounds as arranged on the 31st October, and from which time the money has been unproductive at the call of the Government'.⁹

Griffiths was not empowered to fulfil the original contract, and a fruitless search ensued, as he sought alternative creditors in a desperate attempt to prevent the dishonouring of the government cheque. To no avail. Griffiths even approached Governor Gipps, but without success,¹⁰ and the cheque was duly dishonoured. In effect, the New Zealand government was bankrupt.

In Auckland, the local newspaper, ever hostile to Shortland and his associates, criticized his arrangement with Boyd and Robinson as 'not only the most injudicious but the most injurious to the interests of this Colony that could be entered into'. Angry at the harsh treatment the government had received at their hands, it railed: 'Obliged to sell Bills upon the British

7 Shepherd to Boyd and Robinson, 27 January 1843, *ibid.*

8 Griffiths to Boyd and Robinson, 8 April 1843, *ibid.*

9 Boyd and Robinson to Griffiths, 8 April 1843, *ibid.*

10 Minute by George Gipps, 18 April 1843, 43/2942 in Colonial Secretary's Department, Archives Office of New South Wales.

Treasury at a discount of 15 per cent., giving Debentures upon the Colonial Revenue as security besides??? — Was the British Government ever before at such a discount in any other part of the world?!"¹¹

Was the Royal Bank of Australia's treatment usurious? 15% was, in 1842, a high, but not extreme rate of interest when loans were being made locally for 10 to 12%. Credit on British Treasury bills, of course, should have been a different matter: Boyd told his London directors that 'dealing with the Government puts all risks out of the question, and would give the Bank the highest position in the Colony from such a connection'.¹² But the situation was different where *unauthorized* bills were concerned. The speculative nature of the loan was apparently well understood in Sydney and, apart from Boyd and Robinson, no one would touch the New Zealand government's paper at any price. As Boyd and Robinson themselves made clear: '[Mr Cooper] never applied to us until he had tried every other Channel not excepting the Government here, but such was the low estimate of New Zealand credit that he was unable except through us, to raise a shilling, and it was entirely from the knowledge that we had offered assistance that the Government again got credit.'¹³ Credit was, in any case, extremely tight at this date, the New South Wales government was hard pressed to meet its own commitments for the immigration fund, and all financial institutions were anxious to avoid large loans, especially after the collapse of the Bank of Australia in 1842.

In the event, this caution was fully justified. On 7 August 1843, news arrived in Sydney that the Treasury bills for £15,000, accepted as collateral security for a loan of which they had so far only lent £2,000, had been refused in London the previous March.¹⁴ At a stroke, the tables were turned; now Boyd and Robinson were faced with the need to get back from the New Zealand government the £2,000 they had already lent, preferably with interest, or, as a last resort, to secure the loan with the debentures they had spurned so scornfully the previous April.

This was to prove difficult. The British government, in refusing to honour New Zealand's unauthorized Treasury bills, advised the colonial government that outstanding loans should be changed to 5% non-transferable debentures on the government revenue.¹⁵ This was unacceptable to Boyd; the earlier debentures had promised 15%. Moreover, these debentures were to be dated from 15 January 1843, the actual date on which the government's cheque for £2,000 had been met by the Royal Bank. This was an improvement on Griffiths's earlier offer of debentures, but still unacceptable since, they argued, the money had been set aside for the New

11 *Southern Cross*, 20 May 1843.

12 Boyd to Sutherland, 17 August 1842 in Minute Book, Royal Bank of Australia, J90/1332, Public Record Office, London. (P.R.O.)

13 Boyd and Robinson to Shortland, 20 April 1843, I.A., I, 47/2344, New Zealand Archives.

14 Boyd and Robinson to Shortland, 7 August 1843, *ibid*.

15 Trevelyan (Treasury) to G. H. Wray, 3 April 1843, enclosure, *ibid*.

Zealand government since 31 October 1842, and interest should be paid from this date.

In December 1843 the new Governor, Robert FitzRoy, arrived in Sydney to discuss the consequences of the loan with Boyd and Robinson, as well as with Gipps. By this time, a good deal of anger had been generated between the various parties to the original contract, and the real intentions behind those negotiations were now difficult to ascertain for all concerned.

FitzRoy, for his part, blamed Boyd and Robinson for entering into an unequal contract and claimed that 'the Lords of the Treasury had refused to accept these bills from a Knowledge that the Transaction was one of so extraordinary & unheard of a character as to stand . . . on a pedestal of its own'.¹⁶

He further claimed that the Treasury had been alerted to the arrangement in a despatch from Gipps. In an interview with Boyd, the New South Wales governor denied that he had done so, or 'had considered the transaction . . . discreditable',¹⁷ or, indeed, that he had known anything about Boyd's negotiations with Cooper until Griffiths's arrival six months later. Something, however, must have led the Treasury to treat the transaction with such suspicion that the Royal Bank's London manager, 'on making the third application for them' to the Treasury, was fobbed off: 'the answer is "that they are under the consideration of Lord Stanley"'.¹⁸

Boyd, too, was by now shifting his ground. He now denied that the contract had been a loan at all: 'it was not an arrangement for a Cash credit . . . but a direct bargain of Sale of certain Debentures bearing 15 Pr Cent Interest. . . . We receiving as collateral security for the due payment of said Debentures at maturity certain Bills of Exchange upon the Lords of the Treasury the proceeds of which if accepted in London, were to be held by us at the credit of the New Zealand Government.'¹⁹ By treating the Treasury bills, rather than the debentures, as the collateral security, Boyd hoped to avert the prospect of losing the bank's money entirely through a bad debt: the debentures, at least, might maintain some of their value in the future.

The dishonouring of British Treasury bills caused a minor sensation in London, where George Wray, the Manager of the Royal Bank, wrote despairingly: 'the statement that the [New Zealand] government there is in an insolvent condition is alarming our Directors as they, & all here, are . . . ignorant in this case.'²⁰

The loss of £2,000 was a serious blow to the bank's board of directors and caused questions to be raised, both inside and outside the bank's management, about Boyd's acumen, although, as the bank had not paid

16 Boyd to FitzRoy, 7 December 1843, *ibid.*

17 *ibid.*

18 Wray to Ben Boyd, 20 March 1843, Royal Bank of Australia Correspondence, J90/1422, P.R.O.

19 Boyd to FitzRoy, 7 December 1843, as in note 16.

20 Wray to Webb, 22 April 1844, J90/1422 P.R.O.

the full amount negotiated, the loss was much less than first reports indicated.²¹

As time passed, and the Royal Bank's financial position became more desperate, so Boyd's determination to receive compensation from the New Zealand government grew frantic. In the negotiations, however, first with FitzRoy and later with Grey, he found himself increasingly arguing from a position of weakness as New Zealand gradually emerged from its early penury, while the Royal Bank of Australia plunged ever deeper into the mire of Boyd's wild speculations.

The issue was not resolved until 1847. By then New Zealand's third governor, George Grey, had been appointed with a more substantial budget, and this eventually made a settlement possible, though largely on the government's terms. On 11 August 1847, Benjamin's youngest brother, James Boyd, on behalf of Boyd and Robinson, accepted £2,000 worth of government debentures 'on His Excellency's terms as a Settlement with the Local Government reserving to them (Messrs B & R) or [him]self a right of referring the disputed Interest and charges to the Home Government through our friends in London'.²² Those terms restricted the interest rate to 5%, and denied the bank either charges or compound interest on the loan.

Meanwhile, however, the fact that the New Zealand government was in debt to the Royal Bank operated in Boyd's favour in his many other dealings with the New Zealand government. While his banking operations in New Zealand were in limbo, many of his other activities there prospered. Boydtown, at Twofold Bay, was built with the trans-Tasman trade in mind and, with the development of his cattle stations in Monaro, the sale of live cattle and salt beef across the Tasman became important. Boyd and Robinson's ships were employed as troop carriers to the Maori Wars from 1844 to 1846.

Boyd, as a squatter, saw in New Zealand a natural extension of the New South Wales frontier. In August 1847, having previously brought across livestock for sale on Ben Boyd's behalf, James Boyd arrived in New Zealand with one hundred cattle, nine hundred sheep and thirty horses and 'the confident assurance that every exertion would be made to give him such tracts of Country as would be suitable for an Establishment of a somewhat extensive nature, and that upon terms corresponding to those upon which Squatters hold their lands in New South Wales and South Australia'.²³

James Boyd was Benjamin's youngest brother. With his kinsman, Alexander Sprot, who acted as an agent for the Boyds in Auckland, he exerted considerable pressure on the New Zealand government to meet their requirements, despite the unwillingness of the Maoris to sell the land they

21 *The Times*, 19 April 1844, spoke of a loss of £15,000.

22 James Boyd to Colonial Secretary, 11 August 1847, 47/1469 in 47/2344, I.A.,I, New Zealand Archives.

23 Sprot to Grey, 6 October 1847, I.A.,I, 47/1968, New Zealand Archives.

had chosen, a block of about forty square miles bounded by the Waitemata Harbour and the Kaipara River.²⁴

Although it was never explicitly stated, it seems clear that the preferential treatment from Governor Grey that James Boyd expected, and to some extent received, owed much to his privileged position as brother and agent of the government's longstanding and embarrassing creditor, Ben Boyd.

In 1845, Robert FitzRoy, second governor of New Zealand, was dismissed by the Colonial Office for gross financial mismanagement. FitzRoy was accused of making a series of errors of judgment, culminating in his decision to release debentures to the local population which quickly depreciated, adding the problem of inflation to the many others facing the infant colony. As a governor, it seemed, FitzRoy made a good ship's captain.

In retrospect, it seems that FitzRoy's disastrous attempt to gain money was a consequence of similarly desperate schemes by Hobson, his predecessor, and particularly by those of the interim administration under Shortland. Those schemes involved both the unauthorized issue of debentures and the dishonouring of Treasury bills.

FitzRoy lacked the capacity, but also the capital, to restore the government's financial standing. His decision to release debentures to the New Zealand public was subsequently condemned in Britain, but it may in part have been a response to the failure of negotiations with the Royal Bank. It is worth noting that the Auckland newspaper *Southern Cross*, as early as May 1843, recommended that debentures should be sold locally in lots of £100, as a preferable alternative to raising money through Sydney bankers.²⁵

FitzRoy's own action precipitated his recall, but the desperation of his financial situation, as well as public disillusion with the Sydney banking establishment, derived from the actions of earlier administrators. The result was a financial debacle which diminished the reputation of the New Zealand government at the very commencement of its existence.

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24 James Boyd to Colonial Secretary, 13 August 1847, with Minutes, 47/1492 in 47/1968, I.A., I, New Zealand Archives.

25 *Southern Cross*, 20 May 1848.