

## 'Sinister' Auckland Business Cliques, 1840-1940

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IN 1985 an article, 'Who Runs Auckland? An Anatomy of Power' appeared in the *Metro* magazine.<sup>1</sup> The argument, by no means new but better developed than most statements of the same thing, can be summarized thus. Radical changes to Auckland's economic environment over the last fifteen years have failed to shift the long-standing locus of wealth and power in this particular city where commerce has always been king. At the centre of the business community, a 'virtually invisible' coterie self-confidently 'remains in charge, with its influence substantially intact'.<sup>2</sup> Shunning publicity, it prefers to exert its undoubted political influence by stealth.<sup>3</sup> Yet this century-old 'oligarchy' is in every way a power elite. Wealth, a web of interlocking company directorates, common circles of friendship, and a shared background of exclusive schools and gentlemen's clubs, with the staunch, lifelong loyalties these engender, have given to this inner group and its families, to an unusual degree, social cohesiveness and a shared world view.

What is an historian to make of this argument? It is generally agreed that Auckland has been, almost since its foundation, the commercial city of New Zealand, and that its main business group over the years has exerted extraordinary influence in the city and beyond. Further, there persisted, at least until the Second World War, the seductive and stubborn myth that at the heart of Auckland's affairs was a powerful, self-seeking, manipulative, inner group. To give the discussion an historical dimension, I now consider four supposed manifestations of this phenomenon, two from the nineteenth century and two, at somewhat greater length, from the inter-war years.

Within eighteen months of Auckland's foundation as capital in 1840 the settlement was split down the middle between the governor and his officials, on the one hand, and on the other, the wealthy settlers, some of

1 Bruce Jesson, 'Who Runs Auckland?', *Metro* (November 1985), pp. 76-87.

2 *ibid.*, p. 78.

3 *ibid.*, p. 82.

whom were unabashed adventurers hoping to grow up with the infant capital.<sup>4</sup>

The early members of the settler faction were: William Brown, its most important and constant member; his co-founder of the capital's pioneer merchant-firm, Logan Campbell; Dr Samuel Martin, peppery editor of Auckland's first stable newspaper, the *Southern Cross*; Dudley Sinclair, son of a Scottish baronet and Auckland's first suicide; Walter Brodie, the trader who went to London in 1843 to testify to the iniquities of Crown Colony government to a parliamentary committee; W. E. Cormack, a watchmaker; and Charles Abercrombie, a mining speculator. All of these men, as the names show, were Scots and although other tribal homelands were found also among members, the group became known among its opponents (not inappropriately) as 'the Scotch Clique'. An early hostile newspaper called it 'The Cabal', that 'domineering little party, familiarly recognised here as "The Clique"'.<sup>5</sup>

The disaffected group met in a variety of places: Abercrombie's private home, Glenmore, which became known as 'Conspiracy Cottage'; hotels, especially the Royal, where the prestigious Northern Club now stands, and the Exchange; but most often they met in stores and warehouses. Their larger gatherings they called among themselves, in a mock-heroic way, 'the Senate'.<sup>6</sup>

Lacking other institutional ways of opposing the governors and their officials, the Clique resorted to the Australian tradition of attack through the press. At first the *New Zealand Herald and Auckland Gazette*, and then the *Southern Cross* (which Brown owned) carried articles and leaders of savage invective, damning the administration for its failure to allow cheap abundant land to fall into European hands, and for its neglect of the interests of merchants and of pre-1840 'purchasers' of Maori land. Hobson in particular crumpled before this kind of onslaught. Once his hypersensitivity was discovered, it was said 'he never had a day's peace'.<sup>7</sup> In later years the scabrous though dubious tale was circulated that the Clique by 'gross personal insult' hounded the 'excellent and amiable Captain Hobson' to death, 'reviled his memory and exulted over his grave'.<sup>8</sup>

Grey proved a much tougher opponent. He infuriated the Clique by reversing the cheap-land policy of his predecessor FitzRoy. The Clique developed an invincible distrust of him, and he of it. He acquired supporters. A large inflow of generally poorer settlers in the late 1840s broke down the former intimacy of the settlement and loosened the hold of the

4 Russell Stone, 'Auckland's Political Opposition in the Crown Colony Period, 1841-53', in Len Richardson and W. David McIntyre, eds., *Provincial Perspectives*, Christchurch, 1980, pp. 15-35.

5 *Auckland Times*, 16 January 1844.

6 R. C. J. Stone, *Young Logan Campbell*, Auckland, 1982, pp. 103-4.

7 R. A. A. Sherrin and J. H. Wallace, *The Early History of New Zealand*, Auckland, 1890, p. 608.

8 *New-Zealander*, 27 November 1847; 30 April 1853. See also Sherrin and Wallace, p. 609.

now-prosperous merchants over the rest of the community. An anti-Scotch-Clique faction grew up whose mouthpiece was the newspaper the *New-Zealander*. It was pro-Grey and represented an Irish-cum-Wesleyan point of view said to be disregarded by the Clique. The Clique became derided by these opponents as a 'knot of men, disappointed and sour-tempered'; vindictive, self-seeking merchants, land-sharks and their hangers-on, with the 'self-imposed task of spreading discontent and dissatisfaction'.<sup>9</sup>

Once representative institutions were introduced into the colony in 1853 the Clique reformed itself as the Progress Party to express the political interests of the commercial group, though in a period when political allegiances did not depend on simple sectional interests, it also enjoyed a great deal of voting support from lower strata in the Auckland community.<sup>10</sup> Upon the departure from New Zealand first of Brown, then of Campbell in 1856, the Clique fell apart as a political force. Some of its members—like the youthful Tom Russell, and Logan Campbell on his return to the colony—lived on to be members of the next commercial coterie, the 'Bank of New Zealand Ring', or to use its more usual name, the 'Limited Circle', which had its *succès de scandale* in the 1880s.

The emergence of Auckland as an important commercial and financial centre was encouraged by the gold discoveries of the 1860s — coinciding as they did with the foundation of the Bank of New Zealand (BNZ) in 1861 — and the expansionist programmes of borrowing, public and private, of the 1870s. The BNZ and its cognate institutions, the New Zealand Insurance Company (NZI) and the New Zealand Loan and Mercantile Agency Company Limited (NZL&MA), grew rapidly. They had largely interlocked directorates. In spite of the growing complexity of the city's commercial functions, the number of Auckland businessmen — merchants, lawyers, and capitalists — qualified by expertise and shareholding to serve on the Boards of these premier companies was so limited that increasingly their directors were drawn from the same pool of candidates.<sup>11</sup>

This group was much under the influence of the lawyer Thomas Russell, who dominated the Auckland boards of the BNZ and NZL&MA, it was said, according to 'the one-man-power principle'.<sup>12</sup> The Thames gold fields, where many of these men invested together, built up even further the cohesion of this inner group and Russell's mana within it. The 'enormous profits' Russell was reputed to have realized from his mining investments gave him the reputation for astuteness that quelled any doubts within the circle as to his continuing leadership of it.<sup>13</sup>

9 *New-Zealander*, 27 November 1847, Letter by 'X'.

10 R. C. J. Stone, 'Auckland Party Politics in the Early Years of the Provincial System, 1853–58', *New Zealand Journal of History*, XIV, 2 (1980), pp. 153–78.

11 R. C. J. Stone, *The Father and his Gift*, Auckland, 1987, ch. viii.

12 Falconer Larkworthy, *Ninety-one Years*, London, 1924, pp. 356–7.

13 *Observer*, Auckland, 13 November 1880; J. T. Mackelvie to W. Brown, 13 July 1868, Box 6, Mackelvie Papers, Auckland Public Library.

Fifteen years later, members of this Auckland commercial elite were distinguished less by their mining interests than by their heavy indebtedness on rural estates. This came about when they exploited the opening up of the Maori lands consequent on the wars of the 1860s. A number of those who had done well out of the Thames, and out of merchanting, or land speculations in or about Auckland, took the opportunity to buy large tracts in the Waikato, Waipa and Thames valleys and then used those lands for security to borrow heavily in order to develop them as estates. Those landowners who were on the boards of the BNZ and the NZL&MA, or were the intimates of the directors, were treated generously in their search for financial accommodation by those institutions even when financial stringency set in after 1878. The favours extended to Russell were outrageous.<sup>14</sup>

It is possible to reconstruct the membership of this coterie of directors, borrowers and their sympathizers as it took final shape in the 1880s. At its heart was a trio of financial entrepreneurs: Russell, his legal partner Frederick Whitaker, and D. L. Murdoch, executive head in Auckland of both the Bank and its Loan Company. (It was said of the Bank in 1880 that 'the real head, bones and body' was Murdoch. However, though Russell had been living abroad since 1874, even from afar he continued to dominate this reputedly masterful General Manager.) Then there was a group of merchant princes: Logan Campbell, Thomas Morrin, G. B. Owen, Samuel Browning, J. C. Firth, J. McCosh Clark, and James Williamson.

Certain families were prominent. One thinks of the Taylors — wealthy suburban farmers in Mt Albert, and Tamaki (as also were the Macleans) — and the Wilson brothers of the *New Zealand Herald*. Rather more on the fringe yet having ties of family and social loyalty to the inner circle were Robert Graham, C. J. Stone, W. C. Daldy, and Alfred Buckland.

The group came under heavy censure when the shaky position of the Bank of New Zealand was revealed by an audit committee in October 1888. The committee maintained that a group of directors, all Aucklanders, were 'primarily responsible' for the Bank's straits and that 'the real control of the Bank's policy appears to have been for many years in the hands of a limited circle, with which the late General Manager [Murdoch] was intimately associated'.<sup>15</sup>

Then the world at large carried out its own inquisition. The limited circle was damned, and, with it, Auckland's reputation for financial leadership. The directors of the Bank were savaged by the press, by the *Auckland Observer* most of all, which complained that 'our one New Zealand Bank was all but wrecked by the culpable misconduct of its directors' who, by advancing enormous 'sums of money to *themselves* as well as to friends', had 'made Auckland a by-word and reproach'.<sup>16</sup>

14 See e.g. NZL&MA London Board Minutebook, Vol. 8, 16 November 1887.

15 *Appendices to the Journals of the House of Representatives* (AJHR), 1896, I-6, Appendix 5.

16 *Observer*, 29 June 1889; 12 October 1889.

Similar imputations of mismanagement were later made against the controlling board of the NZL&MA in London. After the company passed into receivership, its directors were subjected to a cross-examination by Justice R. B. Vaughan Williams of the Court of Queen's Bench. This judge reserved his severest censures for the wealthy expatriate, Thomas Russell. At crucial points in the company's history, the judge said, the other directors had left Russell 'absolute master of the situation' in 'the fixed belief that anything [he suggested] must be right and for the interest of the company'.<sup>17</sup>

What is astonishing is the influence of Russell over Auckland's businessmen as well, even years after he had left the colony. His enormous persuasiveness and resourcefulness only partly explain this. Probably more important was his practice of periodically making extended visits between London and the colony. This gave him a unique monopoly of knowledge of both sides of the investment equation, so to speak — fund-raising in Britain, and loans-on-mortgage in New Zealand. Little wonder he had commanding power and influence over his associates.

Further, by entangling Bank and Loan Company directors in Auckland and London in his own land companies, or by using his influence where he could to ensure generous loans to others, he stripped them of their freedom to curb him.<sup>18</sup> He, rather than Murdoch, must be seen as the evil genius of the Limited Circle.

But notions of guilty men implicit in terms such as 'evil genius' and 'Limited Circle' are a snare for the historian who wishes to go beyond perceptions of conspiracy and malpractice to reality itself. These further points should be considered. First, in times of economic crisis, banks and lending institutions become conveniently both bogey and scapegoat. This was the case in New Zealand in the 1880s; in the 1930s it was to be so again. Second, in the 1870s a fever for lavish borrowing was over the *whole* land not just among directors of Auckland financial institutions. The ease with which loan money could be raised in Britain was a constant incitement to borrow. Third, the realization that members of the Limited Circle had indulged in misdirected investment became apparent only when the rural depression of the 1880s raised liquidity problems of a kind and severity to which previous experience gave no guide. Finally, as Jeremy Bentham recognized, in 'the uncertainty of the law' lay the 'power of the lawyer'. Equally, that same ambiguity gives power to the less-than-scrupulous businessman. The imperfect state of company law encouraged mismanagement if not actual malpractice in nineteenth-century Auckland. The companies' acts in both Britain and Australasia in the 1880s gave scope for (among other things) slack auditing, imperfect levels of disclosure in published financial records and a lack of definition of the degree of security for debenture-holders — all to an extent unthinkable today. When this was

17 Philip Mennell, *The New Zealand Loan & Mercantile Agency Company Limited*, London, 1894, pp. 71-72.

18 Larkworthy, p. 388.

associated, as is the case here, with appointment to boards of ill-qualified directors, dangerous power was put in the hands of the few.

In the inter-war world of 1919–39 it became commonplace for complex problems to be seen in moral terms. Community difficulties might well be attributed to sinister alien forces, perhaps operating from without, perhaps undermining the social fabric from within. New Zealand, plagued by economic uncertainties after 1920, shared in this world-wide phenomenon, most of all during the Great Slump.<sup>19</sup> Groups perceived as working mischief here varied from group to sectional group and according to some particular crisis of the time. Favoured targets were: international bankers, shipping rings, middlemen handling New Zealand's exports in London like the dairy-produce merchants of Tooley Street; and in New Zealand, price-rigging rings of wholesalers,<sup>20</sup> the liquor trade, Roman Catholics, and socialists manipulated from Moscow. But the list could be made much longer than that.

For this bumper crop of inter-war phobias the seeding- and growing-time stretched well back. True, the 1914–18 war unbottled many hatreds and created the habit of equating dissident opinion with disloyalty. But long before that, sectarian and nationalist prejudices flourished, while the ferocious pre-war temperance contest — fought by the abolitionists (at least) as a war between good and evil — left an unhealthy residue of suspicion and rancour.

Auckland showed no more bigotry as a rule than elsewhere. But it must be conceded that the most rabid sectarian organization, the Protestant Political Association, formed in 1917, was largely the creation of a hardline branch of the loyal Orange Order in that city.<sup>21</sup> However, in the post-war decades bizarre theories of conspiracy were concerned less with religious prejudices, and much more enduringly woven about the business elites of Auckland.

Commercial influence and power in Auckland had remained, as in the 1880s, concentrated in relatively few hands. Some new families had come to the fore; some of the old survived. If there was change there was equally continuity. Kenneth B. Myers, who as a young man resettled from abroad in 1933, to assume control of a large liquor firm, recalls that 'Auckland seemed just like a village. I found it was a simple matter to get to know in a short time everyone of importance in the business community.'<sup>22</sup> The men of power in the commercial world were indeed few: proprietors of the established merchant houses and of the two daily newspapers, the directors

19 H. S. Moores, 'The Rise of the Protestant Political Association', M.A. thesis, University of Auckland, 1966, chs. i, ii, xi; Michael C. Pugh, 'The New Zealand Legion and Conservative Protest in the Great Depression', M.A. thesis, University of Auckland, 1969, chs. i, vii.

20 See e.g. George Fraser, *Ungrateful People*, Wellington, 1961, pp. 29–31.

21 Moores, ch. iii.

22 Sir Kenneth B. Myers, interview, 5 November 1985. Myers emphasized, however, that the established public and business reputation of his father Sir Arthur Myers, a past mayor and cabinet-member, automatically opened doors for him, making his case somewhat exceptional.



of the New Zealand Breweries (who also often dominated private companies controlling wholesale liquor outlets and hotels), the senior partners of a handful of legal firms, and the directors of the South British and New Zealand Insurance Companies. What is also noteworthy is that the same names recurred from boardroom to boardroom. It is not surprising, therefore, that the two business groups marked out for populist attack, the Beer Barons and the Kelly Gang, had an overlapping membership.

But naming precisely who were the members of the two supposed coteries, and getting hard facts about the deals they were alleged to get up to are, in practice, difficult.<sup>23</sup> Newspaper references to them — except in the short-lived *Sun* — were rare, probably because members of both groups had influence over the boards of the *Herald* and the *Star*. A further complication is that the only people who knew the groups at first-hand and wrote unguardedly about them were John A. Lee, a notorious political fantasist, and J. W. S. McArthur, a discredited bubble-company promoter. But because what each wrote closely approximates to the myth of the time, their accounts will be used as the point of entry of this investigation.

In his novel *For Mine is the Kingdom*, Lee depicted his Beer Barons virtually without disguise.<sup>24</sup> His chief character, Ernest Booze, and Booze's brother Ally, are transparently Ernest and Eliot (Elly) Davis, who in real life controlled Hancock & Co. Sir Alfred Bankart, managing director of Campbell & Ehrenfried, becomes Banky. The inner group is completed by Olly, the nickname in life, as in this book, of Oliver Nicholson, the lawyer who acted for all the Davis liquor interests, and was chairman of Hancock & Co.<sup>25</sup>

The novel is a lightly fictionalized account of Lee's relationship over many years with Mr Booze. It relates how he first got to know Ernie Davis well when he (Lee) became MP for Auckland East (1922–8), the electorate said to have the greatest concentration of hotels in the Dominion. Mr Booze, aware of the need to protect his properties from the prohibition threat, offers Lee unsolicited gifts of liquor, and free hotel accommodation

23 I am indebted to oral reminiscence from a number of people. Some have expressed a wish not to be named or to be cited. The others I now list. Some of them have asked not to be directly cited or have attribution made. Beside the names of the persons interviewed, where relevant I have indicated the aspect of the inter-war business scene that they have known at first hand: Edgar Bartlett (law, Amalgamated Theatres); Morton Coutts (brewing, Dominion Breweries); Kenneth E. Fletcher (Stock Exchange and J. W. S. McArthur); C. F. Jenkins (law); Des Leahy (NZB and hotel properties); Mrs Norma Lewis (Oliver Nicholson); Sir Alex McKenzie (Bond-selling, stock exchanges); Laurence E. Mellsop (law; Kelly Gang); Michael Moodabe Jnr (Civic Theatre; Amalgamated Theatres); K. B. Myers (general); Lawrence D. Nathan (general); J. H. Rose (law); J. M. Stacpoole (general; cinemas); David H. Steen (accounting); John J. K. Terry (law, especially licensing law); L. R. Willis (accounting, company development).

24 John A. Lee, *For Mine is the Kingdom*, Martinborough, 1975.

25 Sir Ernest Davis testified before the Royal Commission on Licensing in 1945 that Oliver Nicholson was no guinea-pig chairman of Hancock & Co. 'He takes a very active and definite part in all questions of policy and all decisions arrived at.' *Notes on the Proceedings of the Royal Commission on Licensing*, 1945, p. 4285.

while travelling. He also contributes to Lee's election campaign fund. Lee assures us that his treatment was not unique, but part of the general insurance policy of the licensed trade as it disbursed money from its Defence Fund to any candidate, regardless of party, who had some chance of winning, or holding, a seat, and who might sympathize with the Liquor Interest.

Lee claimed to have no illusions about Davis. He was not surprised to hear from Uncle Scrim (C. G. Scrimgeour) the story of how Davis asked Scrim to make on his behalf a secret donation of £200 to the cause of the temperance leader Mrs Bessie Lee-Cowie<sup>26</sup> who, during a prayer meeting outside a newly-established rival brewery at Otahuhu, had called upon God to intervene and convert the brewery 'into a flourmill, a dairy factory, or a church'.<sup>27</sup>

The novel exposes Davis as the shameless corrupter of politicians and unionists, repeating the old tale that, through his supposed hireling F. G. Young, Secretary of the hotel-workers' union and chairman of the Auckland Labour Representation Committee, Davis contrived that Labour nominate a nonentity as candidate for the mayoral election which Davis had decided to contest.<sup>28</sup> Lee represents Booze, chief of the beer barons, as more than a 'ruthless business plunderer'. He contends that 'there was behind the scenes no more sinister figure in New Zealand's political life, a man who owed loyalty to The Trade's investments only, maybe the greatest shadowland manipulator of politics New Zealand is ever likely to see'.<sup>29</sup>

It is obvious that the version Lee presents falls well short of reality. By emphasizing the role of 'Ernest Booze' he leaves the group, of which Davis was part, ill-defined. But it is possible to identify these otherwise faceless beer barons of the 1920s through their weight of shareholding or their repeated listing as directors in the main liquor companies. They were Ernest and Eliot Davis and Oliver Nicholson of Hancock & Co., Alfred Bankart of Campbell & Ehrenfried, and (as the agents of others) Harry McCoy of Lion Breweries, and William Warnock of L.D. Nathan & Co.<sup>30</sup> Nathan's had no brewery and, in a contemporary article written on the beer barons, that firm was said to be but 'a lesser satellite'.<sup>31</sup> Yet Nathan's must be included in the clique. By the 1920s it had diversified its original merchant

26 C. G. Scrimgeour, John A. Lee, and Tony Simpson, *The Scrim-Lee Papers*, Wellington, 1976, p. 35. Mr Morton Coutts says that the proprietors of the Waitemata Brewery had heard that Ernie Davis paid for the buses which brought members of the Women's Christian Temperance Union from Auckland to Otahuhu.

27 *New Zealand Herald* (NZH), 6 November 1929; *50th Golden Anniversary*, publication of Dominion Breweries, Auckland, 1980.

28 Lee, *For Mine is the Kingdom*, pp. 141-3; see also Keith Sinclair, *Walter Nash*, Auckland, 1976, p. 110.

29 Lee, p. 6. Conrad Bollinger, *Grog's Own Country*, Auckland, 1967, ch. vi, has unique material on the relationship between the beer barons and the Kelly Gang.

30 'Report of the Royal Commission on Licensing', AJHR, H-38, 1946, p. 80.

31 'The Beer Barons in Press and Politics', by 'Gold Top', in *New Zealand Worker*, 17 February 1932.



base and as an aspect of this had moved into liquor-wholesaling and had acquired a number of hotels, some reverting to it through bad debts, but most bought in order to secure an outlet for its wholesale liquor.<sup>32</sup>

It is hard to say precisely when the community at large, and not merely the prohibitionists, became aware of the considerable wealth of certain Aucklanders who had begun to dominate the licensed trade. Above all else the formation of New Zealand Breweries (NZB) in 1923 alerted people to the concentrated power of the liquor interest in Auckland. But this merger, which seems on the surface to be a financial strategy devised by brewing companies to get the advantages of scale and monopoly, must also be seen as the fevered response of the licensed trade to the prohibition movement. The trend of pre-war licensing polls had seemed to foreshadow the country's embracing prohibition.<sup>33</sup> It is difficult to exaggerate, therefore, how shocked were the brewery and hotel owners by the 1919 liquor poll. National Prohibition would have been carried had not the vote of the returning soldiers, which was solidly for Continuance, narrowly tipped the balance.<sup>34</sup>

The fear that evangelizing zealots of the prohibition movement would persuade the country to go dry convinced the Trade that it must maintain into the 1920s its pre-war political machine. Only then could it ensure that, for what the Auckland City Missioner called 'the mad three years' rush',<sup>35</sup> every continuance voter was enrolled and carried to the poll, and that any person with a vested interest in continuance, be he hop-grower, vat-washer or official in the hotel-workers' union, was recruited for the cause.<sup>36</sup>

How a handful of Auckland liquor merchants acquired unusual power through the NZB is explicable only if the terms upon which this amalgamation of the ten principal brewing companies of the country took place in June 1923 are recalled.<sup>37</sup> The subscribed capital of £500,000 took the form of paid-up vendors' shares in consideration of the goodwill of the absorbed brewing companies.<sup>38</sup> The breweries themselves were paid for by funds provided by the outside investing public who took up £1,000,000 of first-mortgage debenture stock. In practice this was an excellent financial deal for the two giant Auckland firms, Hancocks and Campbell & Ehrenfried who, though handsomely paid for the breweries of which they had divested themselves, could through their vendors' shares still dominate the new NZB board. They also kept their hotels and wholesale liquor businesses, both highly profitable, operating them through their old companies, or 'particularly in Auckland' through new subsidiary companies which had

32 Lawrence D. Nathan, *As Old as Auckland*, Auckland, 1984, pp. 57-58, 97-99; see also Nathan's evidence before the Royal Commission in 1945, *Notes of Evidence*, pp. 4344, 4354.

33 AJHR, 1946, H-38, pp. 44-46.

34 Rex Monigatti, *New Zealand Sensations*, Wellington, 1962, pp. 105-10; Nathan, p. 77.

35 Jasper Calder, cited by 'Report of Royal Commission', AJHR, 1946, H-38, p. 49.

36 *New Zealand Worker*, 17 February, 24 February 1932.

37 AJHR, 1946, H-38, p. 55.

38 *ibid.*, pp. 53-54.

interlocking directorates.<sup>39</sup> What had hitherto been essentially a national industry tended to fall under Auckland control.

The idea of a self-serving Auckland Junta was reinforced by the way New Zealand Breweries handled what it coyly called its 'restricted monopoly'.<sup>40</sup> In the past hotel-owners wishing to dispose of their properties had been able to demand heavy goodwill payments from brewing firms competing to create tied houses. After 1923, breweries were no longer so competing, and the independent hotel-proprietors in consequence suffered a loss of equity. Licensees also smarted under a new sense of oppression. In Auckland, where NZB now monopolized supply, the generous credit facilities formerly provided by brewing companies vying for trade came to an end. 'New Zealand Breweries, it was said, insisted on payment of bills for beer delivered to hotels "on the knocker"'.<sup>41</sup> The period after 1923 until the newly-formed Dominion Breweries Limited broke NZB's monopoly in 1930 had meant for NZB, so a later licensing commission reported, 'seven years of prosperous trading'.<sup>42</sup>

The advent of Dominion Breweries restored the market value of the remaining independent hotels, pushing up prices as it set about buying up freeholds to secure a 'fixed outlet', to some effect it seems.<sup>43</sup> By 1938 it had acquired, according to an Australian report, 'a chain of hotels. . . radiating from Auckland. . . in practically every centre of note' in New Zealand.<sup>44</sup>

One must return to the key question: how justified was the almost legendary reputation for great wealth and influence of the liquor magnates of Auckland? The Royal Commission on Licensing of 1946 postulated that 'the directors of the important hotel companies in Auckland', through New Zealand Breweries and its 'extensive business outside the Auckland Provincial District', had been provided with 'the opportunity of influencing the conduct of the trade throughout New Zealand'. When 'Gold Top' wrote on the 'Beer Barons', in the *New Zealand Worker* he was much more categorical: 'The truth is that Auckland rules the roost'. Although for many years the NZB had its head office in Wellington, the general belief was that, for more than two decades, real power was in the hands of the Auckland directors who, through their own heavy shareholding and their control of proxy votes, could control the operations of the company.

The economic base of the Auckland liquor companies still remained within their own province. Assiduous buying of hotels continued through the 1920s and 1930s so that by 1939 almost all the hotels of the city had been placed under the control of one or other of the brewing or hotel companies. By 1945 five Auckland companies controlled 133 licensed premises, a figure

<sup>39</sup> *ibid.*, p. 56.

<sup>40</sup> *ibid.*, p. 54.

<sup>41</sup> Mr Morton Coutts, interview.

<sup>42</sup> AJHR, 1946, H-38, p. 54.

<sup>43</sup> *Notes of Evidence*, pp. 4218, 4273-4. Sworn evidence of H. J. Kelliher before Royal Commission on Licensing.

<sup>44</sup> *50th Golden Anniversary*, p. 11.

that would have been yet higher had the premises controlled by the Auckland-dominated NZB been included.<sup>45</sup> This point is important because the profits from hotel ownership had become unusually high.

The liquor firms themselves generally provided the resources for these purchases. They were much wealthier than they appeared in their books. It had been traditional among the main Auckland liquor companies to plough back profits, to go not for immediate high dividends but for growth and capital gains, and to build up great reserves while constantly writing down assets.<sup>46</sup> This policy became characteristic of NZB, too. Yet it has been estimated that by 1945 the annual *net* profit on its shareholders' capital was 37%. Or take the estimated yield on shareholders' capital for Campbell & Ehrenfried in 1935 — 80%, and this at the end of a severe depression.<sup>47</sup>

The main shareholders of Hancock & Co. in the early days, the Moss Davis family, became extremely wealthy.<sup>48</sup> Lee was right in describing Ernie Davis as the chief of the barons. In the first two decades of the life of NZB, Davis had commanding influence in its boardroom through the weight of his shareholding and the force of his personality. But his wealth was essentially Auckland-based. Nothing actualized that more than the property he had in the very heart of the city at the time of which I write. Take the intersection of Queen and Customs Streets: Davis controlled three of the four corners — with the Great Northern Hotel on one, the refurbished Waverley Hotel diagonally opposite, and on the opposite side from it there were Palmerston Buildings (put up by Thomas Russell as a speculation long ago) over which he held the lease. To be sure the building on the fourth corner was not his, but Queen's Arcade, which flanked it on two sides, was.

Davis was more than a beer baron. He served on the boards of a number of non-liquor companies.<sup>49</sup> His investment portfolio ranged widely. He put money into printing, insurance, banking, shipping and thoroughbred racehorses; into industries such as fishworks, a condiment factory, coal, timber, bricks and cement; above all into real estate — hotels, flats, arcades, cinemas and farms.<sup>50</sup> It can be understood, therefore, why he and his brother Eliot were associated in the public mind with that reprobated commercial elite, the Kelly Gang.

To find out more about the gang one goes to J. W. S. McArthur, the Auckland financier who was determined to unmask its members and (as he thought) their conspiratorial activities. Why he had this obsession to do so must be explained.

After 1930 the operations of his company, the Investment Executive Trust (IET), and its 14 affiliated companies, functioning from Yorkshire

45 AJHR, 1946, H-38, p. 79.

46 *ibid.*, p. 83; Stone, *Father*, ch. xiv.

47 AJHR, 1946, H-38, p. 84.

48 This paragraph is based on Ernest Davis Scrapbook, No. 2, Auckland Institute and Museum Library, and on interviews.

49 e.g. Northern Steamship Co., Devonport Steam Ferry Co., Auckland Meat Co.

50 *New Zealand Worker*, 17 February 1932.

House in Shortland Street, increasingly alarmed Auckland's financial establishment: the Stock Exchange, the insurance companies and the banks.<sup>51</sup> Investment Trusts have an honourable lineage. But the IET did not operate like the British investment trusts. They were sound, cautious institutions with a large paid-up capital more than covering their debenture liability; and their policy was to invest funds in diversified securities without speculative risk in order to get modest but solid returns.<sup>52</sup> On the contrary, the IET had but a small paid-up capital and that was concentrated in few hands, permitting a small number of shareholders to control allied companies through intermeshing directorates.<sup>53</sup> The working capital came entirely from the issue of debenture-bonds often hawked from door-to-door by canvassers; bonds that gave their holders very limited security, and even less control of the investment of the funds they had provided. Nor, as far as could be seen, was investment diversified or without risk. It was generally believed that some of the early Trust funds had been applied to extricate McArthur in 1932 from the bankruptcy which had threatened him because of his indebtedness in certain timber and afforestation companies.<sup>54</sup> His shaky reputation was not helped when it became known that one of the private companies financed by this Trust, the Pacific Exploration Company Limited, had passed over to McArthur to be registered in his name, as his own property, the newly-built *Morewa*, the largest and most luxurious yacht in Auckland.<sup>55</sup>

In 1934, J. G. Coates, the Minister of Finance, arranged for a three-man commission to investigate bond-issuing companies.<sup>56</sup> Within a few weeks the commission reported back in an interim way to say it recommended an immediate detailed investigation of the affairs of the McArthur companies whose directors had already refused to pass over their books to what they had branded 'a hostile, biased and interested Commission'.<sup>57</sup> Urgent legislation was passed through Parliament to allow this investigation to take place.<sup>58</sup> Subsequently, legislation was simultaneously passed in New Zealand and New South Wales (where the Trust had shifted much of its operations) in the first instance, to place the companies under the Public Trustee, and later (April 1935) to enforce the compulsory winding up of the McArthur empire.<sup>59</sup>

51 Fraser, *Ungrateful People*, pp. 58-61. Rex Monigatti, *New Zealand Headlines*, Wellington, 1963, pp. 144-50.

52 'Report of Commission of Inquiry', AJHR, 1934, H-25B, pp. 45-50.

53 *ibid.*, pp. 52-70. The Report said that for the IET, 93% of the paid-up share capital was in the names of J. W. S. McArthur and C. G. Alcorn. So through their own £22,575 they had control of nearly £500,000.

54 *ibid.*, H-25, p. 11.

55 *ibid.*, H-27, pp. 113-22.

56 The inquiries into the McArthur companies are reported on in AJHR, 1934-5, H-25, H-25A, H-25B, H-27, H-27A, H-27B.

57 AJHR, 1934, H-25, p. 12.

58 For the debate on the Companies (Special Investigations) Bill, see *New Zealand Parliamentary Debates* (NZPD), 1934, 239, pp. 52-60.

59 NZH, 5 May 1935.

The original decision to look into McArthur's affairs arose out of pressure from two directions. First, two Auckland University College economists, upon making a study of afforestation and kindred land utilization companies financed by bond issues — the paradigm of the McArthur company — discerned so many irregularities that they pressed for a Commission of Inquiry to be set up.<sup>60</sup> Second, there had been agitation for an investigation into McArthur's companies by the stockbrokers and the insurance companies. It was reported that his bond salesman had made a practice of searching shareholders' lists of established companies in the Companies' Office to ascertain names and addresses, and had then gone to those people to persuade them to sell up their 'good marketable securities' in exchange for risky McArthur debentures.<sup>61</sup> Insurance companies, restive since 1930 at what they saw as an abuse of trust funds, had become positively alarmed when it was revealed that through stealthy share-buying the IET was about to take over the sound and staid Dunedin insurance firm, The Trustee Executors and Agency Company Ltd, which controlled £4,500,000 of trust assets. Above all, McArthur's buying of shares in South British—darling of the Auckland commercial elite—was regarded by its Board as a challenge not to be endured.

McArthur himself was in no doubt, however, who had 'conspired' (his term) with Coates, Minister of Finance, to destroy his Investment Trust.<sup>62</sup> It was 'the sinister group of financiers', 'known throughout the length and breadth of the Dominion as the "Kelly Gang"'.<sup>63</sup> This group, commanding 'funds and assets [worth] at least £180,000,000',<sup>64</sup> which had 'existed in Auckland . . . for many years', had (he wrote) 'unbelievable power'.<sup>65</sup> It was controlled by Oliver Nicholson, 'in New Zealand today . . . the supreme dominant force in finance, the press, banking, commerce and politics'.<sup>66</sup> Yet this 'all-powerful leader', like his group, tries to remain 'unseen and anonymous'.<sup>67</sup> 'He carefully avoids the limelight, and his controlling force is hidden by his henchmen, and the galaxy of knights whom from time to time he creates.'<sup>68</sup> Just who these henchmen were McArthur never precisely said, other than to observe that the 'Group comprises directors of

60 H. Belshaw & F. B. Stephens, *The Financing of Afforestation, Flax, Tobacco, and Tung Oil Companies*, Auckland University College Bulletin No. 22, Auckland, June 1933. A fine background source for bond-financing is Brian Healy, *A Hundred Million Trees*, Auckland, 1982, especially chs. ii, vi. The *Sun* made an attack on bond-selling as early as 14–20 January 1928.

61 AJHR, 1934, H-25B, p. 58.

62 J. W. S. McArthur, *When Raiders Ruled: How the Kelly Gang Made a Sham of Self-Government*, Wellington, 1936, p. 5.

63 J. W. S. McArthur, *McArthur Strikes Back at Coates and the 'Kelly Gang'*, Auckland, 1934, p. 1.

64 *When Raiders Ruled*, p. 6.

65 *McArthur Strikes Back*, p. 2.

66 *ibid.*, p. 2.

67 *When Raiders Ruled*, p. 4.

68 *McArthur Strikes Back*, p. 2.

the New Zealand Insurance Co. Ltd., and the South British Co. Ltd. (which embraces the Guardian Trust)'.<sup>69</sup>

Here is one man's version of the legend. What was the reality? Speak to any well-informed survivor of the 1920s and 1930s, and invariably he or she will have heard of, and generally believe in, the existence of the Kelly Gang. The notion of a group called by that name which was a law unto itself seems to date from before the Great War. One suspects that the term entered into general parlance after the exhibition in Auckland in 1907 of a widely attended and very popular pioneer full-length film of the Australian movie industry, 'The Story of the Kelly Gang'.<sup>70</sup> The Kelly Gang quickly became part of the stock-in-trade of local folk-culture, and the name became attached to a clique indulging in inside speculative dealing in shares of New Zealand and Australian gold mining companies. By the 1920s, the Gang's activities were supposed to range far more widely than this, and its membership therefore to be correspondingly greater.

Because the group had a completely informal existence it would be impossible to agree on its membership. Oral history appears to support McArthur's claim that members were well represented on the boards of the South British and the New Zealand Insurance Companies. Supposed members who were prominent in the South British were: Sir George Elliot who was also chairman of the BNZ for ten years and associated with several industrial concerns including Wilson's Portland Cement and the Auckland Gas Company;<sup>71</sup> V. J. Larner who had wide gold-mining investments, and had great influence in the Guardian Trust;<sup>72</sup> and Edward Russell of Russell McVeagh, one of the oldest and most powerful law firms of the city.<sup>73</sup> W. R. Wilson, who was also on the board (1906-47), was an influential figure in Auckland, but there is no evidence that he or Sir Henry Horton, an NZI director (1903-42) — the two who for many years dominated Wilson & Horton Ltd, publishers of the *New Zealand Herald* — were attested members of the 'Gang'.

NZI board members spoken of as belonging to the Gang were: Oliver Nicholson, senior partner of Nicholson Gribbin,<sup>74</sup> sometime chairman of the BNZ and of liquor and industrial concerns; Sir James Gunson, a long-serving Mayor of Auckland; Charles V. Houghton, also on the Guardian Trust; Alfred S. Bankart; Sir George H. Wilson, chairman of the Reform Party in Auckland and in McArthur's view Oliver Nicholson's 'chief henchman'.<sup>75</sup> The two Davis brothers, already mentioned as members, had no connections, however, with the world of insurance.

69 *ibid.*, p. 16.

70 Bruce W. Hayward and Selwyn P. Hayward, *Cinemas of Auckland, 1896-1979*, Auckland, 1979, p.4.

71 N. M. Chappell, *New Zealand Banker's Hundred*, Wellington, 1961, p. 295.

72 C. W. Vennell, *Risks and Rewards*, Auckland, 1972, p. 303.

73 At the time written of here the firm was called Russell, McVeagh, Macky & Barrowclough.

74 At that time, Nicholson, Gribbin, Rogerson & Nicholson.

75 *McArthur Strikes Back*, p.11.



The link between the beer barons and the Kelly Gang was provided by the two lawyers: Russell, who represented the interests of Campbell & Ehrenfried, the Lion Brewing Co. and Northern Properties; and Nicholson with his Hancock & Co. and NZB connections. One might assume that the dominance within the 'Gang' ascribed to Nicholson was derived from his deep experience in commercial and licensing law and his unusually comprehensive collection of banking, insurance and liquor directorships. That he was also for 40 years Provincial Grand Master in the Masonic Order<sup>76</sup> suggested to some critics a certain conspiratorial element in his influence.

There is little hard evidence that these men did work together as a group to bring off speculative coups as Lerner, Elliott, Houghton, Bankart and Edward Russell undoubtedly had before 1914. The only well-authenticated occasion on which the Kelly Gang acted in concert was in the construction of the Civic Theatre. And then they got their fingers badly burnt.

The circumstances were these. T. A. O'Brien, controller of a small chain of good cinemas, conceived the ambition to build 'The Dominion's Greatest Theatre; A National Institution' at just the stage when movie exhibiting had entered upon a boom with the advent of the talking picture.<sup>77</sup> Shortly before construction began, one of O'Brien's cinemas began a record-breaking run (2 May 1929) with the great talkie success, *The Singing Fool*, starring Al Jolson. Full houses, session after session, week after week, confirmed O'Brien in his belief that his new and sumptuous Civic with its seating-capacity of 3,500 would be a wonderful money-spinner. He seemed also to convince his lawyer Oliver Nicholson of this. And the BNZ, too (of which Nicholson was a director), because when the original method of financing that had been proposed — by preference shares and debenture issues — fell through, the Bank provided an overdraft of up to £180,000 contingent upon the individual guarantees (as collateral) of a number of Nicholson's business friends, that is the Kelly Gang.

O'Brien spent lavishly, his 'florid imagination'<sup>78</sup> amply fed by the 'epic' design of an Australian architect specializing in picture palaces, C. H. Bohringer, and by the fantastic internal embellishments of Arnold Zimmerman, whose statuary and friezes under trick lighting represented Indian temples, Turkish seraglios, and other romantically fanciful interiors. It has been said of the Civic: 'We shall not look on its like again.'<sup>79</sup> Seven weeks before completion £69,000 had been spent on building and furnishings. The final cost went much beyond that. An estimate of £215,200 made in Parliament in 1934 was not challenged.<sup>80</sup>

<sup>76</sup> NZH, 1 August 1952.

<sup>77</sup> This paragraph is based on the following files at the Auckland Companies' Office: Amalgamated Theatres Ltd (A1924/174); and Civic Theatre Ltd (A1929/11D). Michael Moodabe Jnr. helped by interview, as did the late Edgar Bartleet.

<sup>78</sup> Gordon Ingham, 'Everyone's Gone to the Movies', Auckland, 1973, p.35; *The Civic Review*, Souvenir Number, Auckland, December 1929, pp. 13, 31.

<sup>79</sup> Ingham, p. 35.

<sup>80</sup> F. Langstone, NZPD, 1934, 239, p. 61 (8 August). See also Fraser, *Ungrateful People*, p.60.

The Civic never did well. The collapse of the talking-picture boom at the end of 1931<sup>81</sup> bankrupted O'Brien. Members of the Kelly Gang were then forced to pay up their individual guarantees to BNZ to become, with certain other creditors, the reluctant owners of Civic Theatre Ltd. Later in the Depression the Moodabes's Amalgamated Theatres took over the Civic with a small down-payment, and, shortly after October 1936, paid off the remainder, presumably with money provided by Twentieth Century Fox which had just taken up a half-interest in Amalgamated Theatres Ltd. Only then did the Civic nightmare pass away from the Kelly Gang.

On closer examination the legend of the Kelly Gang as a shady clique has little substance. Undoubtedly there was in Auckland an inner group of wealthy businessmen with a common social background, sometimes jointly owning racehorses, generally belonging to the Northern Club, sharing commercial intelligence, traditionalist in economic matters, politically on the right — tending to support the Reform Party.<sup>82</sup> They were essentially backward-looking. They represented the economic environment of pre-war Auckland. But sinister, conspiratorial? No.

The true condottiere was the man this group found distasteful, McArthur. But curiously he, rather than they, represented the emerging kind of investment — far from entirely reprehensible — characterizing post-war Auckland, and indeed New Zealand. Remember, McArthur had a background of bond-raising for afforestation companies, some of which today are incidentally great export-earners for New Zealand. While this system of capitalization was open to gross abuse, it was unusually suited to the new kinds of land-utilization which were developing, like afforestation, where realization upon the initial investment might take twenty years or more. And it provided the means by which a multitude of small capitalists, not habituated to channelling their savings through traditional agencies such as the stock-exchange, were drawn into the process of investing. It is undeniable that stock exchanges at the time of McArthur's heyday were small, undersupplied with brokers, and somewhat insensitive to the capital needs of new industries. Hence the growth of this novel, unregulated capital market which McArthur was able to exploit.

Sir Alex McKenzie, personally involved in capital-raising in New Zealand for over sixty years, recalls the paradox he encountered in inter-war Auckland.<sup>83</sup> Companies were desperate for development-capital, while large sums were left on fixed deposit in the bank by the well-to-do — through conservatism or commercial inexperience, who can say? G. R.

81 AJHR, 1934, H-44A, pp. 19-20.

82 Those in the liquor industry spread their political support. Ernest Davis had a soft spot for Labour; Eliot was loyal to Reform — and later National. Alfred Bankart seems to have been drawn by A. E. Davy to support Ward's United Party in 1928. A number of the Gang seemed to be sympathetic to Davy's politics.

83 McKenzie, now the principal of Alex McKenzie & Co. (Sharebrokers), was a most talented organizer of bond-selling in the 1920s; see Healy, pp. 24-28. See Fraser, p. 43, confirming what McKenzie says.

Hawke has made a convincing enough general explanation by emphasizing the national paralysis of confidence: the 'pessimistic investment expectations' of capitalists, the 'lack of nerve among the private sector' during the Depression.<sup>84</sup> The Auckland experience suggests one could also take into account the growing inadequacy of the capital market. Significantly, the same commission which condemned McArthur recommended a shake-up of the organization of stock exchanges of New Zealand.<sup>85</sup> It is well that improvement did take place to ensure that factory production — already expanding in certain quarters during the Depression — was able more adequately to enter a period of growth up to 1950 during which industrial production more than trebled.<sup>86</sup>

McArthur cannot be whitewashed. It is hard to dissent from the opinion of Judge P. Halse Rogers of Sydney that, in the case of every transaction in which McArthur was involved, not a single one 'was honest and straightforward';<sup>87</sup> that he and his fellow-directors 'really abused the positions of trust . . . in which they were placed . . . for their own advancement.'<sup>88</sup> But the scope for commercial malfeasance must also be taken into account. The McArthur investigations had pointed up the failure of company law to keep pace with the changing character of investment. George Fraser believes that when McArthur fell 'not a few company directors must have felt, "There but for the grace of God, go I", even if they never said it aloud.'<sup>89</sup> The commission investigating McArthur's Trust was perceptive and literate enough to cite Shakespeare's observation that in the imperfection of the law no less than in the greed of man may be the explanation of wrongdoing:

We must not make a scarecrow of the Law  
 Setting it up to fright the birds of prey,  
 And let it keep one shape till custom make it  
 Their perch and not their terror.  
 Shakespeare, *Measure for Measure*.<sup>90</sup>

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84 G. R. Hawke, *The Making of New Zealand*, Cambridge, 1985, pp. 143, 161.

85 AJHR, 1934, H-25, pp. 79-85.

86 S. G. Holland, *The New Zealand Economy 1939-51*, Wellington, 1951, pp. 12-15.

87 AJHR, 1934, H-27, p. 205.

88 *ibid.*, p. 206.

89 Fraser, *Ungrateful People*, p. 60.

90 AJHR, 1934, H-25B, p. 92. (Shakespeare wrote, in fact, 'to fear', not 'to fright'.)