one
birth of a nation

"It is manifest to those who have directed attention to the subject, that the Banking establishments in New Zealand have derived immense profits which are payable entirely to a foreign proprietary, *from a trade carried on with the funds of the colonists*" - BNZ prospectus, 1861

IT BEGINS, as all good bank stories should, with the dirt and scum of a new land, and that's just some of the customers.

The year is 1861. The place is Auckland: a relative village of some 8,000 inhabitants scattered over acres of pastureland and dusty tracks leading to outlying settlements like Mt Eden or Onehunga.

In the United States at this time, Abraham Lincoln has just been elected President on a campaign platform of abolishing slavery and monetary reform. The US Civil War is about to break out. But in New Zealand, the buzz of summer cicadas, the clatter of horse hooves and carriage wheels, and the shouted greetings between colonial settlers are all that disturbs the mantle of unseasonal autumn heat that's wrapped up the town for the past two weeks leaving residents gasping for some cool relief.

The sparkling waters of the Waitemata harbour lap at the shoreline along what is now Fort Street, and stevedores on the rickety wharf shoulder aside Imperial troopers, merchants, sailors and donkeys as they shift cargo under the beating sun of an Indian Summer.

It is a new land politically, a young land physically, and on the harbour where sleek America's Cup yachts will sluice through a massive spectator fleet little more than one person's lifetime later, the vista in March of 1861 is of barques and scows, trading ships and Maori waka.

By the dusty hillside goat track known now as Shortland Street, two men are in earnest discussion outside the Oriental Bank office. One is a senior banker, the other is prominent lawyer Thomas Russell – a man whose family name remains closely linked to controversy and banking a hundred and forty years later through the auspices of the Russell McVeagh lawfirm.

It would be fair to say Russell was a mover and shaker in colonial Auckland: as a Member of Parliament his word carried added weight.

As a British colony, New Zealand had just turned 21. With colonisation had come settlers, and commerce, and a demand for banking. Although the Auckland Savings Bank had been launched in 1847, and attempts had been made to set up a national New Zealand bank, the market was dominated in the fifties and early sixties by the Australians through the Union Bank of Australia, and London's Oriental Bank. So far, no one had successfully created a bank of New Zealand.

But that was about to change.

Russell's eyes briefly followed a team of asses on their way up Shortland St – a path well trodden by lawyers these days – but it was a momentary distraction. A chance comment from the man rambling to him in the bank's doorway shook him back to reality.

"We're closing the bank," explained Oriental's Auckland manager Falconer Larkworthy. "Melbourne feels our efforts would be better expended in the Far East, not New Zealand."

Russell felt his stomach clench. He had a lot of business with Oriental. He'd borrowed a lot of money. The bank couldn't just close and call in all its loans!

As if reading the lawyer's mind, Larkworthy hastily added:

"It's not a complete closure – they've asked Bank of New South Wales to step into Oriental's shoes over here. They'll close many accounts, I'm sure, but many will also be transferred to the Wales."

The memorandum to Larkworthy from his superiors had been clear:

"Let your discounts slip gradually into the hands of the new bank. You will have difficulties with some of those accounts which have so often been discussed before, and whether you will be able to come out of the fire unburnt, I cannot tell.

"You will not precipitate matters, and yet you must remember that inevitable loss had better be looked plainly in the face.

"Try to get the New South Wales Bank to take your clerks," the letter ended forlornly.

As Russell stumped his own way up Shortland Street later that afternoon, he pondered the vicissitudes of fate: After 21 years, New Zealand's banking system was still in disarray, still at the mercy of foreigners coming and going when the mood took them. Things needed to change, he grumbled.

It wasn't that the Australian and London-based banks were incapable of servicing Victoria's youngest realm. It was more the problem that the first loyalty of these banks was to their home markets: when money was tight in Australia, the Australian banks squeezed credit in New Zealand regardless of local conditions.

And so it was, a couple of weeks later, that MP and lawyer Thomas Russell found himself once again darkening the doorstep of the Oriental Bank, only this time it was a Bank of New South Wales officer who was giving him trouble.

As BNZ historian N M Chappell described it in *New Zealand Banker's Hundred*:

"It is related by Larkworthy that [David] Murdoch, the inspector of the Bank of New South Wales, when taking over the accounts of the Oriental Bank…had hesitated long upon the question of accepting Russell's account, which was a large and troublesome one. Russell was annoyed at the delay, and in an interview with Murdoch declared that if the 'Wales' would not have it, neither should the 'Union'."

Russell's solution, as he steamed back up Shortland St, was to set up his own bank.

"A plague on both your houses!" he muttered.

"Murdoch is said to have smiled incredulously at the notion of another bank being established," wrote Chappell in 1961. "He realised later that Russell was in deadly earnest."

Being a politician, Russell networked like a man possessed and, in late May of 1861, he called meetings attended by a number of prominent MPs – men like John Logan Campbell, W C Daldy or Otago's Edward McGlashan, and merchants like James Williamson, Thomas Crummer or Thomas Henderson, men whose names now grace streets or suburbs. Their goal? To thrash out a prospectus for a new financial institution: the Bank of New Zealand.

It is somewhat ironic in the 21st century, with New Zealand banks almost entirely foreign-owned with a free outflow of money and profits, to reflect on the situation facing the colonists in 1861 and stated clearly in the BNZ's original prospectus:

"It is manifest to those who have directed attention to the subject, that the Banking establishments in New Zealand have derived immense profits which are payable entirely to a foreign proprietary, *from a trade* CARRIED ON WITH THE FUNDS OF THE COLONISTS: [their emphasis] a circumstance which must lead to the consideration whether the Colonists of New Zealand are not now in a position to enjoy, and *entitled to receive*, whatever advantages can be derived from the employment of their own capital."

In other words, after 21 years of freemarket economics and financial markets controlled by foreign interests, it had finally dawned on the

Colonists that they were sending all their profits offshore needlessly. As they say, history repeats.

"Another consideration," the prospectus continued, "which should unite the Colonists of New Zealand in an effort to establish a New Zealand Bank, is this, no Foreign Bank will study the interests of New Zealand; but the interests of such an establishment are regarded as paramount; the New Zealand branches being of necessity made to feel the effects of financial pressures in other Colonies, and accommodation is given or refused, frequently, not according to the requirements of the Bank's customers in New Zealand, but measured by the Bank's engagements and necessities elsewhere.

"A New Zealand institution would not be disturbed by these influences: its capital would be specially devoted to New Zealand interests."

This, then, was the birth of the BNZ bank.

Although begun as a private company, it still needed State protection and, on June 19, 1861, Thomas Russell introduced a Private Member's Bill to Parliament, "The New Zealand Bank Bill", which went before Queen Victoria in July and was law by August.

As the *Southern Cross* newspaper of August 6 noted:

"The Colony requires such a local institution notwithstanding the liberal management of the English and Australian Banking corporations having agencies in New Zealand.

"There is a necessity for identifying our Colonial Bank with our Colonial interests, but this can never be wholly attained so long as our banking business is done with institutions managed for the settled purpose of enriching an alien proprietary."

It took only a matter of months for the Bank of New Zealand to spread its operational tentacles around the country – a task made particularly simple by virtue of the fact that the major settlements could be counted on one and a half hands.

Purely by coincidence, just days after the meetings in May of 1861 that resulted in the BNZ's establishment, prospector Gabriel Read struck gold in a gully in Central Otago, near the town of Lawrence.

The resulting boomtimes were a natural playground for bankers and the BNZ was no exception. Wherever there were hard-drinking men, saloon girls and gold dust, you'd also find a bank manager.

The logic was simple. With tonnes of the precious metal being panned and hacked out of the Otago hillcountry, and living quarters for the average miner confined to a tent between two shrubs, security was a foreign concept. There was a common joke that if the saloons were empty, it was probably because of a rumoured thief on the loose, and sure enough if you ventured down to tent city you'd find four thousand hairy grimy and smelly miners all sitting outside their quarters eyeing each other suspiciously whilst trying to look as though they'd planned all along to "have an evening in".

Before the banks arrived, it was common for nuggets to go missing from tents, and New Zealand's singular lack of packrats meant miners needed to beware of rats of the two-legged variety.

Back in the 1860s the banks all printed their own money, and for the BNZ in the Otago goldfields that created a whole new ballgame.

Falconer Larkworthy, who'd quit the retreating Oriental Bank for a senior position with the BNZ, was sent to Dunedin with orders to corner the market. Prior to his arrival in New Zealand for Oriental, he'd worked as a banker in the South Australian goldfields.

Knowing that the BNZ had not yet begun to print its own bank notes, Larkworthy opted for Plan B, designing his own and furiously printing them over a weekend on a lithographic press.

The bank notes were nothing more than a promise by the bank to pay the bearer of the note its face value in bullion, on demand.

Armed with a sack of these bank notes worth £20,000, Larkworthy clambered into a Cobb & Co stagecoach and set off for Gabriel's Gully.

There was disappointment on arrival when he found that both the Union Bank and the Bank of New South Wales had beaten him to it with branches at Gabriel's Gully and Waitahuna, but he finally located fertile ground at a settlement called Wetherstones, some distance further out.

Renting space in a general store, Larkworthy hung out his Bank sign and waited for business. It didn't take long to come. Miners who were sick of having to carry around their precious heavy cargo were more than happy to swap it for lightweight paper notes.

"The tidings of my presence went like wildfire," he later wrote, "and I stood all day buying gold dust as hard as I could."

Within four days, he'd cleaned out the Wetherstones field, and set off for Dunedin with 4,000 ounces of gold under escort – leaving behind a supply of bank notes with friendly storekeepers so they could purchase more gold on his behalf.

But unfortunately, as often came to be the case in the BNZ's chequered history, the best laid plans of packrats and mortals sometimes come unstuck.

While Larkworthy was away, some of his rival banks began to play – refusing to honour the new BNZ bank notes and telling stunned miners that the notes were false "duffers".

Naturally, thousands of hairy, grimy and smelly gold prospectors were none too keen on this, and they stormed the merchants at Wetherstones demanding the storekeepers either return their gold dust or honour the notes in coinage.

When the retailers refused to do so there was chaos, and at least one merchant was arrested and chained to an iron bed for a couple of days until the police team escorting BNZ gold returned to the town and sorted out the trouble.

In a mercy dash to prevent further violence, Dunedin's police chief located Larkworthy and told him he'd need to return to Wetherstones with coin of the realm, and be prepared to refund the angry miners.

It was the first ever run on the BNZ bank.

Larkworthy bought up every gold sovereign he could find in Dunedin – eight thousand of them – and rejoined the police escort for a hurried journey back to the goldfields.

Once the miners realised he had coin of the realm to refund them, they settled down and ironically no refunds were actually asked for.

As for the cause of the crisis? The rival bank's tellers had refused to accept the BNZ notes because they were dated on a Sunday. Ultimately this hiccup, too, was resolved. The Bank of New Zealand was well and truly open for business.

For its first 15 years, the BNZ returned an average yearly dividend to its shareholders of 14 percent. Not bad money. But a depression in the 1880s caused financial pain. Despite that pain, the BNZ kept paying dividends, a sure-fire path to an early death. In April 1887 it was forced to pay a dividend and bonus from its cash reserves, then in October 1887 the board decided not to pay the next half-yearly dividend. The shareholders were far from impressed, and their reaction forced directors to pay another half-yearly dividend in April 1888, despite worsening financial performances.

"It was felt the shareholders should not be deprived of a dividend for two half years in succession," bank historian N M Chappell writes.

Despite running at a continuous loss, the BNZ paid out £4 million in dividends and lent a further £160,000 to directors. By 1894, it was nearly all over, rover. Cap in hand, the privately owned New Zealand bank went to the Government. Both Houses of Parliament met under urgency to debate the crisis.

"The Lower House adjourned at 4.12am," writes Chappell. "The Governor had been kept waiting before the fire in his dressing gown and slippers to give assent."

And when that assent came, it came with £500,000 in cash, stock guarantees of £2 million and assorted other goodies. The Evening Star newspaper wrote:

"The people of New Zealand awoke this morning to find, if not a state bank in the strictest sense of the term, something like it, fully established, with splendid buildings, and with branches and agencies all over the country. Was ever such a financial wonder worked between the setting and the rising of the sun?"

In 1895, more money was funneled in, and eventually the Government would own a third of the share capital and appointed two thirds of the board of directors.

"In 1890," reported the New Zealand Times newspaper 96 years later, "a parliamentary inquiry had been set up to investigate claims that ministers had used public money to assist the bank. It was also alleged that the Attorney-General, Sir Frederick Whitaker, who was also chairman of the bank's board, owed a large sum to the bank and was therefore using his influence to place public funds in the bank's hands. The inquiry collapsed when the committee failed to get the bank to supply sufficient records.

"In 1896, inquiries ran into similar problems. Both the Upper and Lower Houses had set up committees to investigate the bank. The Lower House committee wanted to know the names, people and corporations whose debts had been written off.

"Bank president William Watson refused to give details of individual accounts. The House responded by fining him £500 for breach of privilege and having him detained in custody by the sergeant-at-arms until payment was made."

In a historical precursor to the BNZ collapse a hundred years later, dripping with irony, it was a top Russell McVeagh lawyer, acting as an adviser to the Bank of New Zealand, who during the '96 inquiry told the Bank's president to "on no account" divulge to a hostile MP "which of the BNZ's past directors had supposedly received large loans on inadequate security, thereby placing the bank in jeopardy."

The lawyer, Theophilus Cooper, left the banker clear instructions.

"If you are asked, don't tell them, and let Parliament do its damnedest, but you will get away with it."

And he did. The BNZ paid the fine two days later. Watson was never detained in anything but name.

Theophilus Cooper went on to be rewarded with an appointment as a Supreme Court judge shortly afterward and earned a knighthood to boot.

The Bank of New Zealand was back in business.

two

the truth about banks

"If the American people allow private banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all their property until their children will wake up homeless on the continent their fathers conquered." - Thomas Jefferson, 1787

TO UNDERSTAND the real significance of this book, you first need to understand the concepts behind modern banking as we know it.

Modern banking is a financial fiction. In the past, such as when the BNZ first began, governments operated under what was known as "The Gold Standard". This meant that all paper banknotes issued by a bank were backed up by the equivalent amount of precious metals – either silver or gold – held in the bank's vaults and repositories.

The reason for this was simple: if currency wasn't backed up by something of real value, how could it have any worth? Up until the invention of the printing press, all currency was "coin of the realm", usually silver or gold. The value of a coin was exactly equal to its metallic composition and weight.

Coinage had its own problems, however, such as unscrupulous merchants, bankers and officials who stole tiny scrapings of metal from each coin they handled, thus accumulating a pile of gold dust over a period of time that they could melt into gold for themselves.

With the advent of paper money, not only did people not have to carry large amounts of heavy coinage around with them but they were guaranteed that if they took their paper banknote to the issuing bank they would get their money back in the form of physical bullion.

This state of affairs lasted for hundreds of years, even into New Zealand's recent history as you saw in the previous chapter.

So what changed? The financial system moved from a "what goes in comes out" mode to a credit-based system – and it is credit, or fake money, that lies at the heart of the modern financial world.*

In the 1500s, wealthy Spanish or Italian families like the Medicis began using their surplus profits to invest in other businesses – effec-

*When I use the term 'fake money', it is in comparison with hard currency. Credit is real money as long as the community supports it. When communities lose faith in credit, the financial system crashes.

tively providing credit and being paid interest or use of money dividends.

So large were the profits they made from their loans, and so ruthless their enforcement measures, that the "merchant banks" quickly became self-sustaining businesses, lenders of last resort, in their own right. An indicator of how they were seen by their contemporaries is clear from a commentary published in 1544 by Dr Saravia de la Calle, who described them as "hungry gluttons, who swallow everything, destroy everything, confuse everything, steal and dirty everything, like the harpies of Pineo", before then comparing the merchant banks to brothels. Obviously a man with a bad banking experience.

The huge influx of gold and precious metals and gems from the discovery of the Americas 50 years earlier was having a big financial impact on the merchants and economies of Spain and the Italian city-states.

The merchant banks ended up with huge sums on deposit in their vaults as European explorers plundered the new world. This vast haul of wealth didn't go unnoticed in high places, and Spain's King Carlos V swooped on the House of Seville in 1545 to forcibly uplift the millions in storage there. It was a move of royal prerogative, in direct conflict with common law property rights. Carlos V didn't care. As Emperor of Spain and her domains, he simply confiscated the money that savers had deposited with the bank.*

That royal raid led to a major change of direction for the merchant banks. Wary now of future royal incursions, the merchant bankers decided to lend as much of the money out again as soon as it came in, so as to leave as little gold as possible in storage in the vaults.

Naturally, this led to an explosion in the creation of credit. The banks were now lending out other people's money – money entrusted to them for safe-keeping. They didn't tell depositors this – to do so would have caused a run on the banks.

At this stage, depositors were not paid interest on their money. Rather, they paid the banks a fee to look after their money. That was how the banks made money. Thus, the lending out of money with interest allowed the merchant banks to double-clip the ticket – taking a fee from depositors and charging interest on the money loaned out, and the money wasn't even the bank's in the first place. Under existing contract law at the time, it was highly illegal.

The Emperor, however, was no slug either. He continued to raid the banks for the bullion reserves they still retained in their vaults, and when the cupboard was bare he forced the banks to underwrite loans to the Crown. Either way, the nobles figured they were on to a good racket.

***(http://www.ucm.es/info/econap4/archivos/prehistory.htm)**

Within 30 years, by 1575, however, the pressure was beginning to tell. King Felipe II was bankrupted for a second time when he failed to repay loans, and in turn a number of the key bankers themselves went bankrupt when depositors discovered the missing funds. It was the start of what we now know as "boom and bust".

"Saravia de la Calle indicates how the bankers have a great tendency to become bankrupt," writes Spanish historian Jesús Huerta de Soto, "even making a brief theoretical analysis which shows that, after the expansionary phase resulting from the artificial expansion of the credits which these logreros ("moneylenders") grant, there inevitably comes a phase of recession in which the bad debts cause a chain of bankruptcies among the banks. And he adds that, "if the merchant does not pay the moneylender, it makes him bankrupt, and thus he suspends payments and all is lost, of all which, as is notorious, these moneylenders are the beginning, occasion and cause, because if they did not exist, each person would trade with his money as he could and no more, and thus things would cost their fair price and more than the price in cash would not be charged."

It became clear to both the bankers and the Crown that some system of repaying Crown borrowings would have to be devised, and this is where the modern income tax comes in.

Although income tax as New Zealanders know it is only a hundred years old, and in fact only a little over 80 years old in the USA, it was the latest in a string of moves by European monarchs and Parliaments to find ways of paying for their financial excesses.

The introduction of income tax in both countries was forced when both adopted the European "fractionalised reserve banking" system, with the US providing a particularly stark example. From the time of the US War of Independence in the late 1700s, and through to the mid 1860s, the European merchant banks had been increasingly active in the US economy. Prime among these was Rothschilds.

The Rothschild Brothers of London and Berlin had been pushing for the US Government to abandon the gold standard in favour of fractionalised reserve banking (FRB). FRB is a fine-tuning of the Medici-style banks of the Renaissance, and allows banks to lend out up to 20 times the money that they actually have stored on deposit.

The system works on the basis that only five to ten percent of the deposits are ever asked for at any one time, so that's all that needs to be held in reserve.

In practice, it works like this: You deposit $1000 with the Bank of New Zealand. The BNZ can then lend out $20,000, based on that reserve ratio. Now obviously the extra $19,000 isn't cash. It's credit. Loan documentation, existing on paper and on a computer. A promise by a borrower to pay back money from his or her future earnings to the bank, for the privilege of having access to $20,000 now.

You may have noticed that most banks get quite shirty if you try to withdraw a $20,000 loan in cash. That's because turning it into cash eats into their capital reserves. They would far rather hand you a cheque, just a piece of paper, to circulate through the system.

Ninety-five percent of the money in existence is fake money. Created out of thin air by a bank. If everyone walked into their banks tomorrow and demanded their money the entire system would collapse. There is simply not enough real money in existence. Yet the banks get to charge interest on this non-existent money. Twenty times more interest than they would have been able to charge under the old system.

Of course, if an ordinary New Zealander ran a business where their liabilities exceeded their assets by a factor of 20, they would be charged with trading whilst insolvent and bankrupted – usually at the instigation of a bank. What's good for the masters is certainly not good for the peasants, in this case.

It is little wonder that Baron de Rothschild boasted of his plans in a letter to an American colleague in 1867.

"A few who can understand the system [cheques, credit facilities] will either be so interested in its profits, or so dependent on its favours, that there will be no opposition from that class," he said, referring to Governments and businesses who would have access to much greater amounts of loan finance, "while on the other hand the great body of the people mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint, and perhaps without even suspecting that the system is inimical to their interests."

And for those naïve people who don't believe in conspiracies, try this one for size: the Rothschilds and other merchant bankers had stayed focused on the goal of capturing the US money supply for *eighty years* prior to the letter quoted above. Eighty years of plotting and scheming, never taking their eyes off the ball.

At the US Constitutional Convention of 1787, future president Thomas Jefferson waxed lyrical about the evils of the merchant bankers.

"I believe that banking institutions are more dangerous to our liberties than standing armies. Already, they have raised up a money aristocracy that has set the Government at defiance.

"The Central Bank is an institution of the most deadly hostility existing against the principles and form of our Constitution. I am an enemy to all banks, discounting bills or notes for anything but coin.

"If the American people allow private banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all their property until their children will wake up homeless on the continent their fathers conquered."

The chief reason for opposing fractional reserve banking, controlled by private banks, was simple: "Gold and silver are recognised around the world for their tangible wealth," wrote one commentator, "because someone has to work very hard to get it out of the earth. How much effort does a banker expend in applying ink to paper to create a fractional reserve banknote?"

Even more to the point, the ability to "create money out of thin air" was a privilege belonging only to the banks. Jefferson and others saw the powers that could be wrought by those with the ability to keep printing unlimited money, and knew that in the end everything would be owned by the bankers, and people would end up mortgaging their entire working lives to the banks.

But Rothschilds and others continued to plot and scheme. Finally, in 1913, US Senator Nelson Aldrich, the maternal grandfather of current Chase Manhattan Bank supremo David Rockefeller and under the guidance of Rothschilds of London, championed two key pieces of US legislation.

The first was the Income Tax Act via the 16th Amendment to the US Constitution in 1913. The second was the Federal Reserve Act. The latter was drafted by Paul Warburg, of the Warburg banking family and another close associate of Rothschilds. What it did was revolutionary.

From that moment forward, control of the US currency and money supply passed from the US Government, where it had been since independence in 1783, to a private banking institution known as the Federal Reserve, and the US Government was, allegedly, given the power to levy income taxes on its citizens as a guarantee that the Government could meet its debts on borrowings from the Federal Reserve.

To emphasize the point: the Federal Reserve is not owned or controlled by the US Government. It is privately owned.

Although the legality of the income tax amendment passed by Rockefeller's grandfather is now in serious doubt as a result of new legal discoveries in the US that the amendment was not properly ratified by the individual states, the two pieces of legislation nonetheless combined to ensure that not only did control of the money supply switch to the private banks, but also that all US citizens would be taxed to pay for it.

The Fed, as it is known these days, is owned largely by Rothschilds, Lazard Brothers of Paris, Israel Seiff of Italy, Kuhn-Loeb of Germany, Warburg of Amsterdam, Lehman Brothers New York, Goldman Sachs New York and Rockefeller of New York. The balance of stock in the Fed is owned by the major commercial banks of the US.

When most people purchase US dollars for their travel overseas, they assume they are buying American money. They are not. Under Articles 1 and 8 of the US Constitution, only the US Government can issue "lawful money", which is defined as gold or silver coins of a specific metallic weight. That definition has been upheld by the US Supreme Court and remains the rule today.

So if US dollars are not "money" (not being gold or silver coins) what are they? The greenbacks you buy are Federal Reserve Notes, which are a promise by the Fed to meet the debt represented by the note.

It actually says this on the US dollar note, or the one I'm holding anyway: "This certificate is legal tender for all debts, public and private".

In other words, if you buy a hat for $20 and hand over a US $20 note to the shopkeeper, legally you are not using money but a Federal Reserve IOU which promises the shopkeeper that he will receive $20 credit for the note, and so on down the food chain it goes.

Up until 1963, US dollars were named on the notes "Silver Certificate", with the words "This certifies that there is on deposit in the Treasury of the United States of America, one dollar in silver payable to the bearer on demand".

In New Zealand, the old "sterling" notes likewise entitled the bearer to sterling silver in exchange.

During the period prior to the introduction of fractionalised reserve banking, inflation was almost non-existent. As all paper money had to be backed up by real gold or silver, new money (and hence inflation)