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**AUSTRALIA'S GOVERNMENT BANK**



HEAD OFFICE OF THE COMMONWEALTH BANK  
IN MARTIN PLACE, SYDNEY, N.S.W.

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**AUSTRALIA'S  
GOVERNMENT BANK**

BY

**LESLIE C. JAUNCEY, PH. D.**

1933

**CRANLEY & DAY**

First published in January 1934  
by Cranley & Day Limited  
15a, Harrington Road, London,  
S.W. 7

X621. 9, 0/12/1

G-1

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DEDICATED  
TO  
KING O'MALLEY  
FOUNDER  
OF  
THE COMMONWEALTH BANK  
OF  
AUSTRALIA

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## PREFACE

**T**HIS work is the result of a thesis accepted for the degree of Doctor of Philosophy in 1929 by the Economics Department of Harvard University, Cambridge, United States of America. While the thesis was in preparation, the suggestions of Professor John H. Williams and Mr. R. G. Hawtrey, British economist visiting Harvard at the time, were invaluable in matters pertaining to central banking and foreign exchange. Miss Catherine Tatnall of Harvard University was particularly helpful.

Almost four years after the acceptance of the thesis the author visited Australia after an absence of twelve years and there met Sir Robert Gibson, Chairman of the Commonwealth Bank Board, from whom he obtained useful information on banking developments in Australia. At the same time the author met the Honourable King O'Malley, to whom the thesis at Harvard was dedicated. Mr. O'Malley was most helpful in giving information on the political side of Australia during the early years of the present century.

The author wishes to give particular thanks to Mr. Hawtrey for his assistance in the preparation of the book in London.

The mention of any person in this volume is in no way any indication of his endorsement of the main theme of the book.

L.C.J.

# AUSTRALIA'S GOVERNMENT BANK

## CHAPTER ONE

### INTRODUCTION

**A**USTRALIANS have made many attempts to improve the lot of the ordinary citizen. They have enacted minimum wage laws, "anti-sweating" statutes, and industrial arbitration and conciliation acts, but besides attempting industrial welfare measures, Australians collectively have made equally significant, though less heralded, contributions in the domain of finance and banking.

The Federal Parliament has enacted no more important legislation during its existence than the Act of 1911 establishing the Commonwealth Bank. This institution is an innovation, for it is the only State-owned commercial bank in the British Empire. It has no share capital, and in this respect is almost without precedent, although, when the Riksbank of Sweden was founded in the seventeenth century, it possessed no capital of its own. Certain State receipts, however, were made over to the Riksbank. The Commonwealth Bank is well secured, for it has the whole of Australia at its back, and any profit really goes back to the people, as it either goes to form a reserve for the bank that belongs to the people or it is used to repay the debt of the Commonwealth.

Originally a product of the Labour Party, the bank was intended to assist the ordinary man in financing his projects,

but during the war the Commonwealth Bank became the foundation of Australia's financial structure and occupied a key position in the war policy of the Commonwealth. The national importance of the institution has increased since that date so that the Commonwealth Bank has become the centre of Australia's programme to thwart the depression.

### *The Commonwealth Bank and the Federal Reserve System*

Although the Commonwealth Bank commenced operations about six months before the Federal Reserve System went into effect in the United States, the reasons for establishing these measures were not the same. The Federal Reserve System was a consequence of banking ills that arose from the National Bank Act of 1863, for the independent unit banking system with its nearly thirty thousand banks needed some co-ordinating force in case of emergency, a deficiency still present in 1933 as the bank holiday in the United States demonstrated. The Commonwealth Bank, on the other hand, is not the result of any particular banking ills but is rather a consequence of a political philosophy that holds that happiness of a community can be enlarged by regarding almost all forms of economic activity as public utilities that the State should own. And so while the Federal Reserve System has thus far concerned itself purely with bankers' banking, the Commonwealth Bank can deal directly with the public in competition with the ten private commercial banks operating in Australia to-day.

### *Government Ownership in Australia*

From 1788 to 1821 the Governor of the Australian colonies was the main employer in the community. At that time the Governor settled all disputes. When the several colonies received self-government in the "fifties" of last century, parliament became the arbiter of the people. Those who had

previously gone to the Governor in time of need, now went to the Government for redress. Hence the sociological background of Australia gave the Government the appearance of an arbiter rather than that of a tyrant. Add to this situation the fact that Australia was sparsely settled and far removed from the centres of the world and so offered little inducement to private enterprise in the field of public utilities and the result is that the economic features of the country gave the people the opportunity to exploit their sociological background! The objection of the people to granting large subsidies in land to railway contractors provided in Australia the immediate cause of the movement for government ownership.

When the Labour Party came on the scene in 1891, it heartily endorsed public ownership. It is a mistake, however, to regard that party as the original source of that policy, for the idea was prominent before 1890. Labour did give the proposal added impetus. Since the advent of Labour in Australia as a political power government ownership has increased until to-day Australia has far more public ownership than any other English speaking community.

Many Australians have reviewed the problem of public ownership. C. G. Wade in *Australia—Problems and Prospects* discusses the merits and demerits of the system.

In theory the State should be able to carry out public utilities more efficiently than private enterprise, for the following reasons:

- (a) The State organization and resources are stronger than any combination of individuals and this should lead to cheapening the cost of operations.
- (b) As the State does not look for profit, the items which the private contractor charges against risk of failure (and for which he is paid although no loss has been sustained) need not be entertained.

- (c) State enterprise excludes the middleman, who is often a cause of increased cost to the consumer.
- (d) Under wise administration the wasteful competition of private enterprise is eliminated.

Whilst these may be set down as the advantages of State ownership, there are, on the other hand, manifest dangers which, if uncontrolled, may lead to failure :

- (a) Political influence may intrude. This may be coupled with the danger of a huge Civil Service.
- (b) Efficiency of labour may fall off.

In the matter of debts another phase of public ownership arises. The greater part of Australia's present debt has been used for developmental purposes; much has been spent on the construction of railways. To-day motor vehicles are successfully competing for much of the business previously going to railways. As a result debts based on railways do not look as sound to-day as they did at the time of construction. Under private ownership a few private shareholders would lose, but under government ownership a State is bound to pay even if the debt is based upon some economic process long since defunct. On the other hand, there is the gain of spreading any loss from a public utility over the entire community.

Opponents of government ownership in Australia claim that this practice usually leads to inefficiency. So far as this factor reflects itself in the matter of profits, the Commonwealth Bank is not an illustration of the alleged usual inefficiency of government institutions in Australia. For many years the Commonwealth Bank has amassed large profits and so differs from many other cases of public ownership in Australia. It would have been disastrous if the bank had been conducted with the idea of making the rich by taxation fund the indebtedness of the bank. That kind of policy is debatable even in industrial concerns, but if applied to banking it

would be fatal, for the success of a bank depends largely upon public confidence in its solvency. It is true that the Commonwealth Government guarantees its bank, but this security is not as intelligible to the public as balanced accounts always are.

*Financial Provisions of the Australian Constitution*

Although the Australian Constitution is based primarily upon that of the United States, in some respects the Commonwealth Government exercises wider powers than those possessed by the Government of the United States of America. In the matter of finance the Australian Constitution under Section 51 allows the Commonwealth Government to engage in banking. The financial connections between the Federal Government and the States are much closer in Australia than in the United States. At the time of federation Australian colonies received most of their revenues from customs receipts. Under the suggested federation, Commonwealth authorities were to receive most of their revenues from customs receipts and thus deprive the States of their main source of income. The proposed States objected, but, as it was essential for the federation to have one customs rate throughout, representatives of the States to be formed were willing to relinquish their command over customs receipts provided that the Federal Government would take over the State debts. The proponents of the federal plan would not accept this condition. At the last moment, when a deadlock and a rupture of the convention in 1898 seemed certain, Sir Edward Braddon, Premier of Tasmania, proposed that of every £1 of customs duties collected by the Commonwealth fifteen shillings should be handed back to the States. The clause was originally to be permanent, but in the final draft it was limited to ten years and ended on December 31, 1910.

*Surplus Revenue Act of 1910*

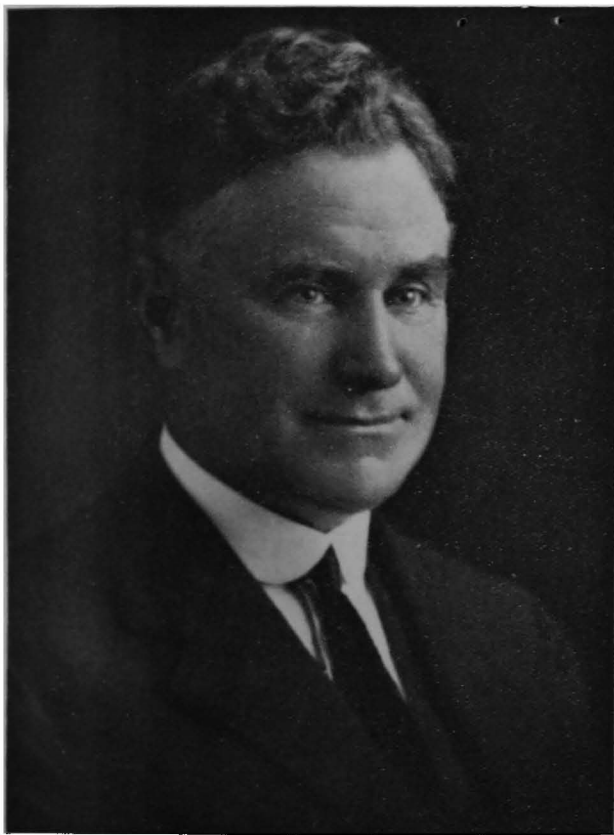
The Surplus Revenue Act of 1910 provided that thereafter the Commonwealth would retain the whole of the customs receipts and excise revenues and in return would pay annually to each State twenty-five shillings per head of its population. Under the Surplus Revenue Act the States received in 1910-11 £5,592,000, while under the Braddon Clause they would have obtained £8,491,521. Consequently, the new Act placed the States in a less favourable position financially. The people had rejected the content of the Act of 1910 in a referendum in the election of that year, but as this proposal was part of the Labour platform the Government after the election immediately put the proposal into effect in spite of the referendum. In 1928 the Financial Agreement Act, introduced by Dr. Earle Page, displaced the Surplus Revenue Act.

*Financial Agreement Act of 1928 and  
Loan Council*

Under the Financial Agreement Act of 1928, which was ratified by the people in the election of that year, a Loan Council for Australian governments has operated in reviewing loans of all the States and the Commonwealth. The Council consists of a Minister or representative of each State and of the Commonwealth who is appointed by the Premiers and Prime Minister respectively. A majority of the Council constitutes a quorum. The Commonwealth Minister or three State Ministers may call a meeting of the Council. There are no set dates in the Act for meetings. On every question at issue in the Council the representative of the Commonwealth has two and a casting vote, and each member representing a State one vote. A Minister may appoint a deputy to vote or may vote by letter or telegram.

The Loan Council reviews all loans of the States and Com-





RIGHT HON. DR. EARLE PAGE, P.C., M.H.R.

monwealth, except those of the Commonwealth for defence purposes. Where borrowing is for temporary purposes, the Financial Agreement Act does not apply. If members of the Loan Council do not agree on the amount to be drawn by each State and by the Commonwealth for a particular year, the amount to be borrowed for that year shall be allocated as follows :

- (i) The Commonwealth shall, if it desires, be entitled to have one-fifth or any less proportion of such amount allocated to the Commonwealth; and
- (ii) Each State shall be entitled to have allocated to it a sum (being a portion of the balance of such amount) bearing to the balance of such amount the same proportion which the net loan expenditure of that State in the preceding five years bears to the net loan expenditure of all the States during the same period. Provided that any State may, if it so desires, have allocated to it a sum less than the sum to which it is entitled under this sub-clause or no sum, and that when a less or no sum has been allocated to any State or States in the manner aforesaid the amount then remaining available for allocation shall be allocated to the other States in the proportion which the net loan expenditure of each such other States in the preceding five years bears to the net loan expenditure of all such other States during the same period. For the purpose of this sub-clause net loan expenditure does not include expenditure for the conversion, renewal, or redemption of loans, but means the gross other loan expenditure of a State less any amounts of such expenditure repaid to the State other than moneys repaid to State in manner stated in Part II, clause 4 (e), or Part III, clause 3 (i), of this Agreement.

Clauses mentioned at the end of the preceding section state that :

Where loan moneys have been advanced by a State under

terms providing for the repayment of such moneys, the State shall as and when such moneys are repaid pay such moneys either to the State Loan Fund or to the account or fund from which such moneys were advanced, or to the sinking fund hereinafter mentioned, and shall, in addition, make from revenue its sinking fund contributions in respect of the loan or loans from which the moneys so advanced were provided.

Provided that when loan moneys have been advanced by a State to a Public or Local Authority or body constituted by the State or under the laws of the State and the Authority or body repays such moneys out of its revenue the State may out of moneys so repaid make its sinking fund contributions in respect of the loan moneys so advanced.<sup>1</sup>

Under the Financial Agreement Act the Commonwealth on July 1, 1929, took over :

- (i) the balance then unpaid of the gross public debt of each State existing on June 30, 1927; and
- (ii) all other debts of each State existing on July 1, 1929, for moneys borrowed by that State which by this Agreement are deemed to be moneys borrowed by the Commonwealth for and on behalf of the State—

and will in respect of the debts so taken over assume as between the Commonwealth and the States the liabilities of the States to bondholders.

Subject to this clause the Commonwealth will pay to bondholders from time to time interest payable on the Public Debts of the States taken over by the Commonwealth as aforesaid other than debts due by the States to the Commonwealth.

It was this clause that prevented actual default on the part of New South Wales during 1931 and 1932 to overseas bondholders. The Commonwealth stepped in and paid the overseas interest.

<sup>1</sup> This provision refers to bodies such as Closer Settlement Boards.

The gross debt of the States on June 30, 1927, was £672,120,415. For fifty-eight years the Commonwealth will contribute annually £7,584,912 towards the interest of State debts.

An important feature of the Act establishes a sinking fund for Australia's debts.

A sinking fund at the rate of 7/6 per annum for each £100 of the net public debts of the States existing on June 30, 1927, shall be established in the manner hereinafter set forth. . . .

During the period of fifty-eight years commencing on the 1st July, 1927, the Commonwealth shall pay from revenue annually a sinking fund contribution at the rate of 2/6 for each £100 of the net public debts of the States existing on 30th June, 1927, and each State (other than the State of New South Wales) shall in each year during the said period pay from revenue a sinking fund contribution at the rate of 5/- for each £100 of the net public debt of such State existing on 30th June, 1927. The State of New South Wales during the period of fifty-eight years commencing on the 1st July, 1928, shall in each year pay from revenue a sinking fund contribution at the rate of 5/- for each £100 of the net public debt of that State existing on 30th June, 1927. If a sinking fund of more than 7/6 has been contracted in a State debt, the amount above 7/6 will be provided for out of the National Debt Sinking Fund.

The net public debt of the States was the gross public debt minus properties valued at £10,924,323 transferred to the Commonwealth together with the amount of any moneys or securities standing to the credit of any sinking fund of a like nature of the States as on 30th June, 1927. The net debt of the States at that time was £641,345,397.

For new loans floated after June 30, 1927, a sinking fund at the rate of 10/- per £100 per annum must be provided. This provision does not apply to redemption, renewal, or con-

version loans.<sup>c</sup> In these cases the new loans will assume the sinking fund provisions attached to the loans replaced. For other new loans the Commonwealth will provide for fifty-three years a sum of 5/- per £100 annually for sinking fund purposes. Where a State floats a loan to meet a deficit, the Commonwealth will not contribute to the sinking fund. The State, however, must provide a sinking fund of four per cent until redemption. A loan floated to retire Treasury bills issued to meet a deficit would not come under the provision requiring a four per cent sinking fund.

As the Commonwealth Bank is the banker of the Commonwealth Government, directors of the bank are vitally concerned in actions of the Loan Council. The bank is also banker of all States except New South Wales and Victoria. In Western Australia the Commonwealth Bank has the Australian account but not the English banking of the State Government.

According to Commonwealth official figures the gross debt of Australia, both of the States and of the Commonwealth, totalled on June 30, 1932, £1,187,827,868. Local debts at this date approximated £102,000,000. The population of the Commonwealth at the same time was 6,549,076. The per capita debt of the Commonwealth was almost £197. Every man, woman, and child in Australia on June 30, 1932, owed on a per capita basis a governmental debt of £197.

Before the war the Commonwealth Government had almost no indebtedness. Since that time its debt has grown until on June 30, 1932, it reached £298,884,729. At the same date States had obligations amounting to £788,943,138. The War placed a heavy burden on Australian finances. On January 1, 1933, the total cost of the war to Australia passed the £770,000,000 mark.

Of the total Commonwealth and State debt at June 30,

1932, £586,219,929 was owed in Australia, £554,528,415 in London, and £47,079,523 in New York. A floating debt of £82,315,000 appeared among the items of the Australian debt, increasing from £58,695,000 during the preceding year. This item increased slightly during 1932-33 and has been causing Australian authorities considerable concern. Governments have been meeting budgetary deficits by the issue of Treasury bills, which have loomed large in the increase in the floating debt. In an effort to stop the growing floating debt the Loan Council at the end of October, 1932, decided to devote £4,000,000 of a loan issued at the time to funding this amount of the floating debt. The final solution of the floating debt lies in balanced budgets, which it is hoped will be appearing at the end of 1933-34.

During the six years ending June 30, 1933, State governments failed to balance most of their annual budgets. During 1926-27 New South Wales, Western Australia, and Tasmania balanced their budgets. Next year Tasmania alone did so. In 1928-29 Victoria was the only State to balance accounts. Since that time no State has balanced its budgets. The Commonwealth did so in 1931-32 for the first time since 1926-27. The Commonwealth surplus for 1931-32 was £1,314,000. The Commonwealth Accumulated Deficit at June 30, 1932, was thereby reduced to £15,902,340. During 1932-33 no State balanced its budget, but the Commonwealth Government showed a good balance of £3,595,000. Customs receipts during the first ten months of 1932-33 improved from £23,705,000 to £27,722,000 in comparison with the same period of the previous year.

#### *Political Parties and the Commonwealth Bank*

The history of the Commonwealth Bank divides itself into two parts. The break comes during the war. For the first four years of the bank's existence Labour controlled the

Federal Parliament and so far as possible tried to launch the bank successfully with a view to later on making it an active contender for commercial banking. In 1916 Labour became so disrupted over universal manhood conscription for war purposes that, although Australia twice endorsed Labour's opposition to conscription, that party has not controlled both Houses of the Federal Parliament since that time. In 1916 Liberals joined with Labour men favouring conscription and as Nationalists retained power until 1929. In that year Labour gained control of the Lower House but could not enact its banking policy because of a hostile Senate.

Forces opposed to Labour in the Commonwealth Parliament since the war have desired to turn the Commonwealth Bank completely into a central bank and do not wish to see it become an active competitor for general banking business. Since 1916 the bank has moved steadily in the direction of central banking.

## CHAPTER TWO

### BANKING IN AUSTRALIA

**P**HASES of banking considered at this stage will emphasize the situation in Australia previous to the establishment of the Commonwealth Bank. If, however, a feature demands more recent material, data later than that of 1912 will appear, but only for the purpose of showing whether trends that existed before 1912 have continued since that time.

#### *Banking and Currency in the Colonies*

In 1788 the first settlers arrived in Botany Bay. For nearly thirty years after this event, no bank existed in the colony. Currency during this period was shipped from England, but, as the amount so obtained was insufficient for local requirements, many foreign coins, notably Spanish dollars, appeared in circulation. Colonists used rum extensively as a medium of exchange. Actually currency became so troublesome that many people resorted to barter. Officials made various attempts to remedy the monetary situation but without avail. Governor Bligh in 1807 tried to suppress the "rum currency" but owing to lack of public support failed.

#### *Bank of New South Wales*

In 1817 a group of Sydney merchants organized the Bank of New South Wales, partly to cure the unsatisfactory currency situation, partly to establish thrift. On Tuesday, April 8, 1817, the bank opened its doors for business and with



that event banking in Australia commenced. The Bank of New South Wales immediately began to issue bank notes and this action partly eliminated the evils resulting from the absence of a stable currency. (The bank enjoyed a monopoly of note issue until 1826. In that year the Bank of Australia, organized by Sydney merchants, began to share the right of note issue. The Bank of Van Diemens Land (later renamed the Bank of Tasmania) obtained with its appearance in 1824 the right to issue notes.) Within the next decade other banks began to operate, including the Government Savings Bank of Sydney (1832), the Commercial Banking Company of Sydney (1834) and the Bathurst Bank (1835).

#### *Savings Banks in the Colonies*

On July 17, 1819, the first savings bank in Australia commenced operations at Sydney with branches at Parramatta, Liverpool, and Windsor. It had been organized at a meeting at the general hospital on June 5, 1819, and was named the New South Wales Savings Bank, although it was popularly known as "Campbell's Bank". This bank continued business until 1833 at which time its deposits were transferred to the Savings Bank of New South Wales, which an Act passed in 1832 established. The Act was the first savings bank legislation in Australia. The Savings Bank of New South Wales allowed interest on deposits at the rate of 5 per cent per annum with a division among depositors of the surplus interest at the end of each year. In 1841, on account of the increase in population and the distance from Sydney, an Act created the Port Phillip Savings Bank.

#### *Decimal System of Coinage in Colonial Australia*

During the early days of the Botany Bay Settlement Spanish dollars circulated freely even though the English pound was

the unit of account. In 1823 Sir Thomas Brisbane, Governor of the Colony, imported large quantities of Spanish dollars from (India) and attempted to make them the standard currency of Australia. A Government order, dated February 5, 1823, directed that public accounts should be kept in dollars and cents, and this order remained in force until the end of 1826. During this time the circulating medium was mainly Spanish dollars and notes of the Bank of New South Wales expressed in Spanish dollars. After the Spanish dollar had been the standard for values for a few years, the English pound replaced it in 1830 as the unit of account and has continued so since that time.

Suggestions appear from time to time looking towards the adoption of the decimal system in Australia. The Official Year Book of the Commonwealth of Australia of 1906 states :

. . . the introduction of a decimal coinage would present no great difficulties. Of the various systems that have been advocated from time to time, the one that appears to meet with most favour and presents the maximum advantage, would retain the sovereign as the unit, but would divide it into a thousand parts instead of 960 farthings.

Australians have not yet seriously considered adopting the decimal system and until Great Britain acts on this question Australian authorities will probably do little in the matter. It would be well, however, if Australians were to review the decimal system as part of the present monetary problem. Now that the Australian and English pounds are two different units of value it might be possible for Australia to establish its monetary unit with the advantages of the decimal system.

Before the great world-wide depression of recent years two events stood prominently in the economic history of Australia.

Discoveries of gold and the financial panic of 1893 both left their mark on Australian banking.

### *Effect of Gold Discoveries on Banking*

When gold rushes started in 1851, Australian banks received much gold to be exchanged for money. As there was at the time no branch of the Royal Mint in Australia, banks fell back on the privilege of issuing notes to meet the demands for cash. Although bank notes had been used since the establishment of the Bank of New South Wales, it was not until the discovery of gold that issue of notes assumed any large scale. Miners gladly received bank notes for their gold. With this superabundance of gold in the hands of the banks, need for a branch of the Royal Mint in Australia became pressing. As a result on May 14, 1855, Sydney obtained a branch of the Royal Mint. On June 12, 1872, the Melbourne branch commenced operations. Finally, on June 20, 1899, after the second gold rush, a branch opened in Perth. These branches, with the exception of the one in Sydney, still operate. The one in Sydney closed on November 12, 1926. Before the war Australian branches of the Royal Mint only coined gold. Until 1910 they coined English sovereigns, which freely circulated throughout Australia.

Apart from the increased use of notes and the establishment of branches of the Mint in Australia, Australian banks began during the days of the discoveries of gold to hold large gold reserves against their liabilities. They continued to do so until the Commonwealth Bank Act of 1929 gave that bank the right to take over the gold reserves of the ordinary banks. Between December, 1929, and June 1, 1930, the Commonwealth Bank acquired £12,650,000 of gold by compulsory acquisition and £4,000,000 voluntarily from the banks, who received for the gold £2,150,000 in Australian notes, £10,500,000 in credits with

the Commonwealth Bank, and £4,000,000 in London exchange.

### *Financial Crisis of 1893*

The world-wide financial crisis of 1893 bore down heavily upon Australian banking. The trouble started with public distrust of the building and land companies that had made excessive advances. From there it naturally spread to the banks, whose loans rose to 137 per cent of their deposits, while the ratio of cash reserves to deposits was only 17 per cent. During the crisis twelve banks, having 965 branches throughout Australia with aggregate liabilities of over £100,000,000, suspended operations. Twenty-three banks failed between July, 1891, and May, 1893. Only ten banks weathered the storm. These facts make even the depression of recent years appear less disturbing to Australian banking than the crisis of 1893. Yet the difficulties of the last few years have been more persistent.

The New South Wales Government attempted to get out of the troubles of 1893 by passing an Act making notes of the Bank of New South Wales, of the City Bank of Sydney, of the Union Bank, and of the Bank of Australasia legal tender for a period of six months, while a further Act authorized the Treasury to advance to depositors one-half of the balance which the provisional liquidations of the suspended banks certified was standing to their credit. The advances were to be made in Treasury notes of a five years' maximum currency. Bank notes were also made a first charge on assets for six months.

In Queensland the Government took over the note issue and maintained a monopoly of issue in the colony until Commonwealth authorities established the Australian note issue in 1910.

These measures tended to restore confidence and slowly the clouds passed away. In New South Wales, under the Act

authorizing the Treasury to make advances, the Treasury might have been called upon for £2,400,000 but actually advanced only £358,000.

The experience of the crisis of 1893 was so drastic that until the present depression advances of banks did not again exceed 80 per cent of their deposits, while they had been as low as 67 per cent. During the troublesome days of 1930, however, advances reached 97.45 per cent of deposits.

One of the surviving memorials of the great panic of 1893 appears in statements of certain banks of perpetual depositors' certificates. These certificates issued during the reorganization have become a sort of preferred stock on which the dividend rate is so low that it is not to the interest of banks to retire them, although they could have done so many years ago. Today they are in effect part of the banks' capital and are transferred on the books like shares. These certificates are now known as inscribed deposit stock.

### *Bank Failures Rare in Australia*

Perhaps the most remarkable feature of Australian banking since the crisis of 1893 is the almost complete absence of bank failures. No commercial bank, except the Federal Deposit Bank, which was a small bank in Queensland, has failed since the troublesome days of 1893. One private agricultural bank, the Primary Producers Bank, suspended business in August, 1931, and the Government Savings Bank of New South Wales stopped payments to depositors in April of the same year. In the latter case deposits became available in full after amalgamation with the Commonwealth Savings Bank. As Australia is essentially an agricultural and pastoral country that suffers from prolonged drought, the almost complete absence of commercial bank failures since 1893 is truly remarkable. Under the independent unit banking system of the United States 484

banks failed even in the prosperous year, 1927-28. During the first eight months of 1932, 1,048 banks with liabilities of over £100,000,000 closed. The "bank holiday" of March 1933, was the culmination of increasing distrust in banks caused by the persistence of failures in those institutions.

#### *Financial Provisions of the Australian Constitution*

The next event of importance in the history of banking in Australia occurred with the establishment in 1901 of the Commonwealth. Section 51 of the Australian Constitution provides that :

The Parliament shall, subject to this Constitution, have power to make laws for the peace, order, and good government of the Commonwealth, with respect to :

- (v) Postal, telegraphic, telephonic, and other like services;
- (xii) Currency, coinage, and legal tender;
- (xiii) Banking, other than State Banking; also State Banking existing beyond the limits of the State concerned; the incorporation of banks, and the issue of paper money;
- (xiv) Bills of Exchange and promissory notes;
- (xx) Foreign corporations and trading or financial corporations formed within the limits of the Commonwealth.

Although under the Australian Constitution banking and currency are matters of Federal concern, the Commonwealth Parliament passed no legislation before 1909 affecting the banking system. The States continued to use post offices as agencies for their savings banks, which had been set up in the colonies some years before federation.

In 1909 the Commonwealth Government passed two bills dealing with banking and currency matters. The Bills of Exchange Act, which superseded the various Acts in the several States, unified the law in this respect. It followed closely

the Acts of the States and is almost identical with the British Bills of Exchange Act. The Coinage Act of 1909 was the other measure of financial interest. By this Act, Australian mints were authorized to coin silver, bronze, and nickel if desired. Previously in 1898 permission from the Royal Mint allowed Australian branches to coin silver and bronze, but the Act of 1909 was the first Australian legislation on the subject.

The Australian sovereign has in every way been equivalent to the English sovereign. Whether this will be the case when the two pounds are stabilized is problematical. The Australian sovereign, as does the British sovereign, contains 123,27447 grains of 916.6 fine gold or 113,00160 grains of fine gold. While Australia was on the gold standard, the price of gold was £3 17s. 10½d. per ounce standard. Since May, 1917, mints have coined bronze in Australia, but so far Australian subsidiary coinage contains no nickel. Coinage of silver commenced in Sydney in January, 1921. Previous to these dates Australia imported bronze and silver coins from England. Under the Coinage Act of 1909 no provision appeared for the half-crown, for this coin was often confused with the florin. The half-crown has now disappeared from Australian currency.

#### *Mint Regulations of April 25, 1932*

Under regulations of April 25, 1932, gold can be deposited at the mint in Australia, in small or large parcels, subject to the following conditions:

##### Charges.

1. For a deposit containing 1,000 ounces gross or over, Three halfpence per ounce.
2. For a deposit containing 500 ounces gross or over, and less than 1,000 ounces gross, Twopence per ounce.

3. Less than 500 ounces gross, Threepence per ounce, provided that the minimum charge for any deposit shall be Seven shillings and sixpence.  
The above charges will be made on the gross weight melting.
4. For deposits containing old jewellery or manufactured gold—
  - (a) 500 ounces gross or over, Fivepence per ounce.
  - (b) Less than 500 ounces, Sevenpence per ounce.

Sixteen shillings shall be the minimum charge for any one deposit.

If a deposit other than old jewellery or manufactured gold contains more than 2 per cent of base metal, an extra charge, to be fixed by the Deputy Master, will be made for its extraction.

Provided that of these charges One penny per ounce standard shall be considered to be an assay and coinage charge, and that the minimum weight of gold not requiring refining which will be received for assay and coinage will be 250,000 ounces.

#### Allowance.

Any silver in a deposit in excess of 8 per cent of the weight of the deposit after melting will be allowed for at a rate per ounce fine, to be fixed periodically by the Deputy Master.

Provided that this shall not apply to deposits containing old jewellery or manufactured gold, and that for them no silver assay need be made.

#### Mode of Payment.

Deposits weighing in the aggregate 1,000 ounces or over will be paid for, if desired (in even thousands), in coin and the balance by cheque; or in fine gold bars and the balance by cheque. All other deposits will be paid for by cheque. Gold deposits payable wholly by cheque will be due for payment fourteen days after the date of lodgment, and all other



deposits on a date to be fixed by the Deputy Master. Payment can be obtained for gold deposits payable by cheque as soon as they have been assayed and valued by paying a discount charge, to be fixed from time to time by the Deputy Master, for the unexpired days.

N.B.—These arrangements respecting payment will be carried out as far as possible, but the Deputy Master cannot be held responsible for their absolute performance, and shall have power to postpone date of payment.

Each parcel for which a separate assay is required at the mint is regarded as a separate deposit. The Deputy Master of the mint may refuse any deposit which he deems unsuitable for coinage. Gold and silver can be obtained at the mint to a limited extent, but the price of gold must in no case be below £3 17s. 10½d. per ounce standard.

Before the war anybody could take as much gold as he pleased to the mint and get it coined. With the commencement of the war this situation changed. Banks and mints in Australia discontinued issuing gold coins to the public and paper money came into general use and has remained so ever since. On July 14, 1915, the Commonwealth prohibited exportation of gold. After this date the only way in which gold could be exported was through the consent of the Commonwealth Treasurer. Through this way gold continued to leave the country until October, 1915. From the beginning of the prohibition until this time £5,943,625 of gold was exported. After October, 1915, export of gold ceased. Early in 1916 Commonwealth authorities allowed a limited export of gold.

With the return of England to the gold standard in 1925 and resumption of free coinage in Australia a curious situation arose. Under the terms of the Gold Standard Act of 1925 in Great Britain the Bank of England was the only party that

could demand coinage of bullion. No free coinage in the pre-war sense existed. A private individual could not demand coinage of bullion. Yet, although Australian mints were branches of the Royal Mint and consequently were under the jurisdiction of the rules governing the central body, they coined gold bullion and redeemed notes for anyone. Australian branches provided this service of their own free will.

The Commonwealth Bank Act of 1929 gave the government bank power to take over any gold in the Commonwealth. Authorities in Australia, however, still allow export of gold. The only restriction placed upon this business is the requirement that permission to ship gold be obtained from the Commonwealth Treasurer. An Act in 1932 made Australian notes inconvertible.

#### *Australian Banks and Law*

Most of the laws on banking in Australia emphasize publicity as a cure for banking ills. The law requires that banks shall from time to time announce their condition. Three important laws have been passed since 1910 interfering with activities of banks. The Bank Notes Tax Act of 1910 by taxing banks ten per cent per annum on the issue of bank notes put a stop to the further issue of notes by banks. The Commonwealth Bank Act of 1924 required banks to settle clearing balances through the Commonwealth Bank. Then also the Commonwealth Bank Act of 1929 gave that bank the right to take over the gold reserves of banks.

Acts under which various banks are incorporated are not all of the same nature, but most of the older banks are established by Special Acts, for example, the Bank of New South Wales by Act of Council, 1817; the Bank of Australasia by Royal Charter; the Bank of Adelaide by Act of the South Australian Parliament. The newer banks are generally regis-

ted under a "Companies Act" or some equivalent Act. Banks which were reconstructed after the crisis of 1893 are also registered under a "Companies Act" of a particular State. The Bank of Victoria, established by Charter in 1852, registered as a limited company in 1889 under the Companies Statute of Victoria in 1864. The only feature of these Bank Acts and Company Acts worth noting is their specification that at regular intervals banks must furnish returns to the Government. As there is, however, a lack of uniformity in the returns furnished and as returns often include items involving transactions in New Zealand and elsewhere, it is very difficult to draw accurate conclusions from them. In this connection the situation in New Zealand is more satisfactory. In the Commonwealth notes and bills discounted are included with all debts due to the bank, but in New Zealand these two items appear under separate headings in bank statements. Discounts represent the movement of commodities as distinct from their production.

If a bank in Australia does not make out a statement setting forth the shares into which the capital of the company is divided, the number issued, the calls made, and the amount received together with details of liabilities and assets twice a year and does not place the statement in the registered office of the bank and in every branch or place where business of the bank occurs, a penalty of five pounds per day for default comes into effect.

In Australia there are three main divisions of banking, commercial, savings, and agricultural. As savings and agricultural banks are the topics of later chapters, there is no need to describe their various activities at this stage.

### *Features of Commercial Banking in Australia*

Australian commercial banks perform many services. They

are banks of issue, although the Bank Notes Tax Act of 1910 handicapped this practice almost out of existence, and banks of deposit. They advance against shipment of produce; they act as agents for the purchase and sale of British and foreign securities and for the receipt of interest and dividends; they sell and buy stocks and shares if required; they will collect bills of exchange and other mercantile paper, such as cheques, left with them for that purpose. Australian commercial banks act as depositories or bailees and accept valuables for safe keeping. They are buyers and sellers of negotiable paper. At times they act as trustees for their customers. Some of the banks issue service bulletins on economic conditions in Australia. As the prosperity of Australia depends almost entirely upon the export trade, banks carry on an important exchange business with countries overseas.

Commercial business of banks is generally mercantile in character, short term "prime paper" predominating in their portfolios. A considerable part of it is based on imports. Occasionally banks take over merchandise on which an importer has defaulted. They are usually careful, however, to avoid this eventuality. Banks make some commodity loans, but special firms finance most of the wheat and wool business. These firms buy and sell as well as make loans on pastoral and agricultural products. They act as agents for growers and are something like the old-time mercantile firms, which were private bankers in addition to being merchants. The best known of these companies are Elder Smith & Company and Dalgety & Company Limited. George Wills is another large firm. These special companies are a very active and strong part of the economic life in Australia.

Individual banking such as exists in the United States today did not appeal to Australians. The only known record of the existence of a private individual bank is in Widowson's

*Present State of Van Dieman's Land* of 1829, where it is stated that the Gellibrands, father and son, had a private bank in Davey Street, Hobart, but apparently it did very little business. Family banking also did not find favour in Australia.

### *Branch-Banking in Australia*

Branch-banking has held the field in Australia from the beginning. A few banks with many branches comprise the Australian system. Perhaps, as the first bankers of Australia were Scotchmen, they naturally would introduce the system with which they were acquainted. On June 30, 1912, just before the opening of the Commonwealth Bank, Australia had twenty-three banks with 2,041 branches. For the Commonwealth there was about one branch for every 2,250 people. Since that date banks in Australia have rapidly decreased through amalgamation until at the present time there only remain ten commercial banks besides the Commonwealth Bank doing business. Australia is following the trend of amalgamation that exists in the United States, Canada, and England.

To carry on exchange business with other countries requires that a bank be well known and established. As a few banks in a community have a better chance than a large number of being widely known, it is likely that this fact gave impetus to the movement in Australia of a few banks with many branches.

The branch-bank system has supplied the surplus funds of the Eastern States in normal times to the development of Western Australia. Between 1908 and 1926 the percentage of advances to total deposits in that State was always, except for 1910, over 100. In 1926 the percentage rose to 132.91. At the same date Eastern States had a percentage ranging from 66.46 in the case of New South Wales to 63.22 in the case of

Queensland. During the period, 1908 to 1926, the percentage for the whole of Australia ranged from 67.04 in 1915 to 88.70 in 1909 as the extremes. Since the depression the figure for Western Australia in 1930 reached 192.96. For the whole of Australia it was in that year 99.68. Since that year the percentage has receded.

The crisis of 1893 illustrated the adverse side of branch-banking. In that crisis, according to Teare, the main trouble was in the cities, but it dragged the country branches into the disaster, and they closed if the city offices collapsed. In this particular instance regions that might have escaped under the independent-unit system became involved.

A. W. Ferrin, however, is probably correct when he summarizes the situation in *Australia—A Commercial and Industrial Handbook* by saying that the

branch-banking system apparently works well as few localities are able to support a local independent bank.

#### *Other Features of Australian Commercial Banks*

An Australian practice which is now forbidden in America is the use of the overdraft. A good customer of an Australian bank may overdraw his account without notice by considerable sums, but it is customary that such overdrafts be arranged for in advance. The overdraft is in effect a loan for which collateral security may or may not be required and on which interest is charged. Overdrafts have tended to displace bills of exchange, especially between wholesalers and retailers. This practice dates back many years and has been growing steadily. The shopkeeper who can, with the help of his banker, pay cash is free to buy where he likes, and in the long run all parties appear to benefit. When a customer arranges for an overdraft of a certain sum, he is charged interest of about two per cent above the rates allowed on fixed deposits. He pays

interest on the average daily balance of the actual advances. He does not pay interest on that portion of his allotted sum that he has not actually drawn. Furthermore, the customer and the bank have the right to pay off or call off the overdraft at any time.

Australian banking institutions naturally bear the stamp of their British origin. Besides the Scottish practice of branch-banking, advancing money on current account, and issuing prior to 1910 their own notes, Australian banks have also embodied the British tradition of refraining from directly investing their funds in commercial or manufacturing enterprises. In this respect Australian banks followed British rather than German practice. Although there have been instances of Australian banks affiliated with land companies, these experiments did not succeed. Attempts in this direction were part of the cause for the trouble in 1893.

There is no open exchange market in Australia. Each bank has its clientele, which it serves in the matter of exchange incidentally to its regular transactions.

Before the advent of the Commonwealth Bank in 1912 state banking, that is government-owned banking, was confined to savings banks with branches throughout each State and to varying systems of credit foncier. Each State had its own system of savings bank credit foncier. States did not engage in general commercial banking.

H. E. Teare in *Australian Banking, Currency and Exchange* calls attention to a difference in Canadian and Australian banking practice. He points out that Canadian banks may not

. . . lend money or make advances upon the security, mortgage, or hypothecation of any lands or of immovable property, or of any ship or other vessels or upon the security of any goods, wares and merchandise. This last provision

is directly contrary to the provisions inserted in the Australian Bank Acts where it is expressly laid down that advances can be made on the security of land, ship, etc. In Canada, the intent seems to be to restrict the field of loans and advances to raw materials, and to the instruments arising out of them, such as warehouse receipts and the like; goods, wares and merchandise are not considered an eligible form of security.

There is practically no Forward Exchange in Australia, and so Australian banking practice differs from British, American, and foreign systems. After the decision of the Commonwealth Bank Board in December, 1931, to announce each week rates of exchange on London, the Board followed up this action on January 7, 1932, with an announcement that with the usual statement on Fridays of exchange rates on London rates on forward exchange up to 28 days would be posted. This step was for the convenience of buyers of Australian exports, chiefly wheat and wool.

There has been up to the present very little "acceptance" business in Australian banking practice. The use of the overdraft has caused this situation. The only important discounting in Australia at present is that of Treasury bills that have resulted from government deficits since the depression in Australia.

At the time of the commencement of the Commonwealth Bank the banks charged, debtors and creditors alike, for a current account ten shillings in Eastern States and twenty-one shillings per annum in Western Australia. Rates on fixed deposits ranged from two to four per cent interest for periods of from six to twenty-four months. The rate of interest paid on a fixed deposit remains the same during the whole currency of the deposit irrespective of any change that might occur in the overseas rate or in the local discount or loan rates. Of the



total deposits<sup>1</sup> in 1912, almost one-half was current accounts. Australian banks were justified in keeping their advances to about eighty per cent of their deposits.

Deposit rates in Australia influence rates for loans. In London and New York rates for loans and discounts influence rates for deposits. Lack of available cash for developmental purposes has created the situation in Australia. To get the quantity of money demanded, banks in Australia have offered high rates on deposits. As a result, banks fix rates for loans according to what they have to pay to get the deposits.

With Australia far removed from financial centres of the world, banks have maintained large cash reserves. The ratio of cash reserves to liabilities at call varied from 1904 to 1919 for all banks from 47 per cent in 1907 to 73.19 per cent in 1916. The average for the period was 54.02 per cent. Reserve funds of Australian banks accrue from a portion of the annual profits. Each bank, as far as possible, establishes a reserve equal at least to the amount of its paid up capital. Banks in Australia usually invest their reserves in British securities.

The cheque is more widely used in Australia than in Europe. It is not as prevalent in Australia, however, as it is in the United States. A tax of twopence in all States curtails the use of the cheque in the Commonwealth. In South Australia cheques under £2 must bear a stamp of one penny. The cheque would be more prevalent in Australia if it were duty free as it was in America till 1933. In Australia banks collect a commission on cheques drawn on places outside the town of deposit. As in Scotland, banks make the charge at the time of each transaction. The rate varies roughly with the distance, but it is usually the same for all places within a State. In Queensland and Western Australia, where great

distances separate branches of banks, no uniform collection rate exists throughout the State. Between Melbourne and Sydney the rate is 2/6 per £100. Between Melbourne and Perth it is 7/6 per £100; while between Sydney and Perth collection costs 10/- per £100. Even though the practice of drawing against cheques not cleared appears to be general in Australia, there is no justification for banks charging for collection any sum greater than the interest lost before the cheque is cleared.

### *Taxes on Bills of Exchange*

Australia levies high duties on bills of exchange. It is this consideration that forms one of the stumbling blocks in developing discounting and rediscounting in the Commonwealth. The British Economic Mission in 1928 advised

. . . a substantial reduction in stamp duties on bills of exchange in Australia with a view to facilitating the circulation of trade bills.

The several States tax bills of exchange. Bills of exchange on demand pay the same tax as cheques. For all other types of bills the rates are *ad valorem* taxes. At the beginning of 1933 the following rates were operative. In Western Australia and Queensland the tax was 1/- for every £50 or fraction thereof. In New South Wales and Victoria the tax was sixpence for every £25 or fraction of this amount. In Victoria, however, if the value of a bill of exchange exceeded £100, then the rate was one shilling for every £50 or fraction of this sum. In New South Wales, if bills of exchange are drawn in a set, one of the set receives a stamp that is the tax that would be required if the whole set was a single bill.

In South Australia bills of exchange payable at any place beyond the limits of the Commonwealth bear an *ad valorem*

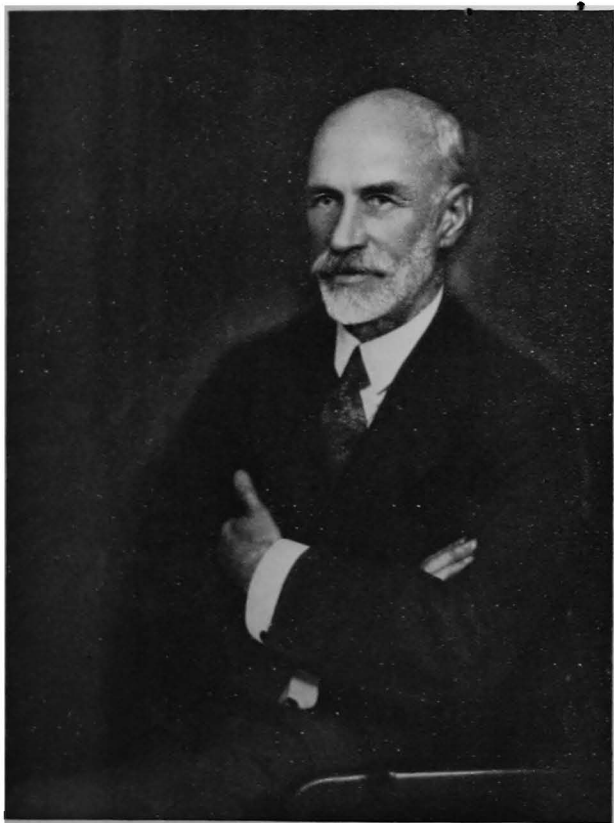
tax of one shilling for every £100 or fraction of this amount. For other bills the rate is sixpence for every £25 or fraction thereof. In Tasmania for bills not exceeding £5 the tax is threepence. If the value of the bill of exchange exceeds £5 but not £25, the tax is sixpence. For every succeeding £25 or fraction thereof the duty is sixpence. In Tasmania if the bills are drawn payable abroad in sets, then each bill bears a stamp that is the tax on the total value of the set divided by the number of bills.

There are exemptions from the cheque and bills of exchange taxes. Government cheques do not pay the tax. Cheques of banks for clearing purposes are exempt. Letters of credit are usually not taxed. Cheques on savings accounts do not come under the tax as they do in England. A few other exemptions exist that vary in the several States.

### *Profits of Banks in Australia*

Undoubtedly the cost of conducting banking in Australia is high. The wide and sparsely settled areas over which operations extend necessarily make expenses great. Yet in spite of this fact Australian banks have prospered. Net profits of banks grew from £1,506,000 in 1901 to £2,954,000 in 1912. Since then they have grown until in 1928 they reached £6,404,418. With the advent of the depression profits fell in 1932 to £2,622,771. Dividends increased from £1,109,845 in 1906 to £1,713,453 in 1912. In 1928 they reached £5,213,456, but in 1932 they fell to £2,937,758, in the latter year being in excess of annual profits.

The twenty-three banks operating in Australia in 1912 had at that time an aggregate capital and reserve fund of £31,606,875. Since that time this item has increased until in 1931 it reached £83,424,367. By 1933 the number of commercial banks besides the three foreign banks, including the Bank



**MR. E. H. WREFORD**  
Chairman of the Associated Banks, Victoria

of New Zealand, had shrunk to nine.<sup>1</sup> As many of the banks that do business in Australia have branches in New Zealand and elsewhere, it is impossible to ascertain the amount of banking capital actually employed in the Commonwealth.

Referring to the period 1910-1912, the *London Economist* on September 13, 1912, observed

. . . that never in the history of Australian banking was the progress so continuous as in the period just named.

Unlike most controversial measures the Commonwealth Bank was fortunate in beginning its career under favourable economic conditions. Clearly the bank was not the result of some immediate economic disturbance. Perhaps the political condition of the Commonwealth at the time will give some clue to the reason for the establishment of the bank.

<sup>1</sup> Commercial banks in Australia in 1933:

The Commercial Banking Company of Sydney,

J. R. Dryhurst, General Manager.

The Bank of New South Wales,

A. C. Davidson, General Manager.

The Bank of Adelaide,

W. J. Masson, General Manager.

The Commercial Bank of Australia,

Charles H. Tranter, General Manager.

The Union Bank of Australia,

W. A. Leitch, General Manager.

English, Scottish and Australian Bank,

C. W. Wren, General Manager.

The Bank of Australasia,

G. D. Healy, Superintendent in Australia.

The National Bank of Australasia,

E. H. Wreford, Chief Manager and Chairman of the Associated Banks, Victoria.

Queensland National Bank,

M. G. Haymen, General Manager.

## CHAPTER THREE

### THE MOVEMENT FOR A NATIONAL BANK

Between 1890 and 1892 three strikes of large proportions occurred in the maritime, shearing, and mining industries of Australia. In all cases the strikers were utterly defeated. As a result unionists decided to change their tactics. Leaders of the Labour movement became convinced that workers needed sympathetic governmental action.

#### *Interest of Labour in a National Bank*

In 1891 Labour leaders in New South Wales nominated men to contest seats in the colonial parliament and drew up a platform of sixteen planks upon which to support candidates. One plank advocated the establishment of a national bank. This proposal was the first pronouncement of any political group in Australia in favour of a national bank. After 1891 the "New Unionism", as unionists called their political activity, spread until in 1904 the first Labour Government obtained office in the Commonwealth Parliament.

#### *King O'Malley's Influence on Labour's Financial Programme*

In the early years of the present century one man had great influence on the banking policy of the Labour Party. Cartoons, editorials, and articles in the Press of the period all



Melbourne "Punch", 21/12/11

### THE MAGNIFICENT BANKER

**BANK MANAGER.**—"I see you're about to open your new place of business. I've been bank-managing in Melbourne for 36 years. Can you give me a job?"

**KING O'MALLEY.**—"Why, yes, come inside. I'm in need of an office boy to do all the work."

bear witness to the activity of King O'Malley in shaping the financial and banking policy of the Labour Party.

King O'Malley was born in Canada but spent his early years in the United States. A relative of King O'Malley in New York had commenced loaning money privately from a small account and after a few years became a banker. As a result King O'Malley early became interested in banking. In his youth he had heard an eminent authority in England state that a bank note in the United States did not need the backing of gold but that of the nation to make it generally acceptable to the public. Working in the bank of his relative, King O'Malley saw the magnitude of banking operations in comparison with private loaning. He discovered that bankers were able to loan artificial capital provided that they could clear their debts and credits at the end of the day. On the other hand, private lenders could only lend the capital they possessed. King O'Malley worked in the banking business in the United States for about ten years. During this time he became increasingly interested in using the knowledge gained in banking for the welfare of the people.

In the "eighties" of last century King O'Malley came to Australia for his health, after he had been given only six months to live. A person in the West of the United States had recommended Queensland as a possible location for restoring his health. After regaining his health in Queensland, King O'Malley remained in Australia and became interested in public life in the Island Continent. During 1896-1899 he was a member for Encounter Bay in the Parliament of South Australia. At that time he advocated a State Commercial Bank in South Australia.

In 1901 King O'Malley appealed to the electors of Tasmania on a platform that included a proposal to establish a national banking system. After the election he approached the Prime



Minister on the matter of setting up a national bank, but he soon saw that anti-Labour forces on account of their business connections with private banks could not establish a national bank. Thereupon King O'Malley joined the Labour Party. Labour leaders were in a position to help him in his effort to obtain a national bank. Labour leaders, however, easily became persuaded through their association with uncompromising opponents of a national bank that a government commercial bank was unnecessary and doomed to failure and would therefore wreck Labour.

In 1904 the Watson Labour Government took office for a few months but refused to place a Commonwealth bank in the Government policy. King O'Malley was not a member of that Cabinet. At the time one of the representatives of Tasmania informed King O'Malley that Labour leaders would never choose him as a Cabinet member because of his advocacy of the bank. This meant that he would never be a Minister of the Crown, for although caucus chose the Prime Minister in the event of a Labour Government being formed the Prime Minister selected his Cabinet.

To obtain the chance to be a Minister King O'Malley caused the Melbourne Conference of the Labour Party in 1905 to adopt a proposal that in future the caucus rather than the Prime Minister would select all Labour Ministers. This action paved the way for the appearance of King O'Malley in a future Labour Ministry. An oversight in the proposal, however, still left to the Prime Minister the distribution of the portfolios. The Melbourne Conference of 1905 also placed the establishment of a State Bank in the general platform of the Labour Party.

#### *Brisbane Conference of Labour Party of 1908*

The next important step towards setting up the Common-

wealth Bank occurred at the Inter-State Conference of the Federal Labour Party at Brisbane in July, 1908. After a prolonged struggle between advocates of a national bank and proponents of an Australian Navy for a place in the "fighting platform" of the party, the conference adopted both. The "fighting platform" of the Labour Party is a concise statement of about a dozen issues taken from the general platform and emphasized at a particular election.

At the Brisbane Conference King O'Malley moved :

That no financial scheme between the Commonwealth and the States can be satisfactorily adjusted without the establishment of a national postal banking system.

The scheme of King O'Malley adopted by the Brisbane Conference suggested a bank with the following provisions :

- (i) That this bank shall be conducted purely as a Government Department, absolutely free from political control.
- (ii) That it shall be so constituted as to possess all the powers and immunities requisite to its security, to the recovery of its debts, and to the disposal of its property.
- (iii) That its capital shall be represented by 12,000 shares, of £100 each, of which at least 6,000 shall be in the hands of the Commonwealth Government, and that of the balance no State Government shall hold more than 1,000 shares.
- (iv) That the shares of the bank shall be transferable only to the Governments of the Commonwealth and the States; that the failure of any or all of the State Governments to subscribe shall not prevent the bank from commencing operations: and that in the event of a State Government desiring to dispose of shares in the bank, the Commonwealth Government shall have the first option of purchase.

- (v) That the Commonwealth and State Governments holding shares shall be jointly and severally liable in respect of all transactions of the bank.
- (vi) That the bank shall act as the agent for the Mint in the purchase of raw gold and silver and the issue of coin.
- (vii) That the bank shall be empowered to issue notes which shall, throughout the Commonwealth, be legal tender at all places except the head office of the bank in each State; and that at such head offices payment of the value of notes presented may be made in gold or Commonwealth Consols, at the option of the Comptroller-General of the bank.
- (viii) That the bank shall become the repository for the payments from time to time in respect of the Consolidated Revenue, Loan, and Trust Funds of the Commonwealth and State Governments, and the funds of municipal bodies, and shall pay interest on the daily balance thereof.
- (ix) That the bank shall provide for temporary advances by way of overdraft to Commonwealth and State Governments and municipal bodies.
- (x) That the bank shall, in other respects, carry on an ordinary banking business, receiving from the public moneys on current account or fixed deposit, and making advances on good security.
- (xi) That the bank shall carry out the inscription of all Commonwealth and State Inscribed Stock, and make all arrangements necessary for the conversion, redemption, renewal or issue of Commonwealth, State, and Municipal Loans.
- (xii) That the Board of Management of the bank shall consist of a Comptroller-General, representing the Commonwealth, and one representative from each of the subscribing States.

- (xiii) That the Treasurer of the Commonwealth shall be entitled to attend all meetings, and inspect all proceedings of the Board of Management.
- (xiv) That all payments to be made in London by Commonwealth or State Governments shall be made through the medium of the bank.
- (xv) That the General Post Office in each capital shall be the head office of the bank in that State, and that any post office within the Commonwealth carrying on the business of a money-order office may be constituted a branch of the bank.
- (xvi) That the bank shall be a bank of reserve for the deposit of reserves of the banking companies operating in the Commonwealth.
- (xvii) That the regulations requisite for controlling the bank reserves shall be drawn up by the Board of Management of the bank and the Council of the Associated Banks of Australia.
- (xviii) That a branch of the bank shall be established in London.
- (xix) That at the London office, and at the head office of the bank in each State, Commonwealth Consols shall be obtained in sums of £10 and upwards.

These proposals of King O'Malley were the fruits of many years' thought. While he saw clearly that Australia needed a central bank, he also saw the advantage of having a Government bank actively compete with the private banks.

The suggested bank was part of a far greater scheme for meeting the Commonwealth's financial situation. In the matter of sinking funds the scheme had the following features:

1. It is proposed that in connection with all Public Debt for which the Commonwealth assumes responsibility, whether by direct flotation or by assumption of liability

- on behalf of a State, there shall be established a sinking fund of  $\frac{1}{2}$  per cent.
2. A sinking fund of this amount would, if invested annually at 3 per cent, provide for the repayment of a loan in the sixty-sixth year.
  3. A sinking fund of 1 per cent, similarly invested would liquidate a loan in the forty-seventh year; one of  $1\frac{1}{2}$  per cent in the thirty-first year.
  4. It is further proposed :
    - (i) That the Sinking Fund shall be placed under the control of a Board of Trustees, and shall not under any circumstances be available for any purposes other than those connected with the conversion, redemption, or renewal of Public Debt.
    - (ii) That the trustees constituting the Board shall be—  
Chairman—The Comptroller-General of the National Postal Bank.  
The Chief Justice of the Commonwealth.  
The President of the Senate.  
The Speaker of the House of Representatives.  
The Auditor-General.  
The Chairman of the Associated Banks.
    - (iii) That all moneys received for Commonwealth Consols sold over the counter by the National Postal Bank shall be placed to the credit of the Sinking Fund Trustees.
    - (iv) That, in so far as they are not required for the purposes of immediate redemption, conversion, or renewal, the sinking fund moneys shall be mainly invested in the purchase of such State securities as the Commonwealth has accepted responsibility for, and as may from time to time come on the market.
    - (v) That temporary advances may be obtained by the Sinking Fund Trustees from the National Postal

Bank for the purpose of facilitating the redemption, conversion, or renewal of loans.

It was not until 1928 through the efforts of Dr. Earle Page, Treasurer of the Commonwealth and Leader of the Country Party, that the Commonwealth Government adopted adequate sinking fund provisions for the retirement of Commonwealth and State loans.

In the matter of Commonwealth debts the scheme of King O'Malley suggested more than the provision of sinking funds. He further suggested :

1. In order to enable the Commonwealth to convert, renew, or redeem loans taken over by it from the States, it is proposed :
  - (i) That the Commonwealth shall, from time to time, issue through the medium of the National Postal Bank inscribed stock, to be known as Commonwealth Consols.
  - (ii) That such stock shall not be redeemable during the first thirty years from date of issue, but shall be redeemable at par at any date thereafter on six calendar months' notice given by the Commonwealth Government.
  - (iii) That such stock shall bear interest at the rate of 3 per cent per annum, payable half-yearly.
  - (iv) That the price payable for Commonwealth Consols over the counter by the National Postal Bank shall be fixed from time to time by the Governor-General in Council on the advice of the Comptroller of the Bank.

This suggestion of issuing Commonwealth Consols has many possibilities and should not be overlooked by Commonwealth authorities in their efforts to meet Australia's floating debt.

Finally, King O'Malley proposed that the various States and the Commonwealth co-operate in borrowing abroad, and that system came into effect in 1928 through the work of Dr. Earle Page, Commonwealth Treasurer at the time.

During a few months in 1908-1909 a second Labour Government occupied the Government benches, but retired from office without placing in the Government policy the creation of a Commonwealth Bank. On September 30, 1909, King O'Malley spoke for five hours in Parliament, explaining his comprehensive financial scheme to the House. In 1909 the Liberal Acting Prime Minister, Sir John Forrest, informed a conference of State premiers in Brisbane that he had had in mind and that it had been urged on the Government, which was supported by Labour, to establish a Postal Savings Bank for all Australia. In 1910 the Political Labour Council of Victoria declared that

(. . . Labour proposes to establish a Commonwealth Bank, with unlimited powers, which will enter into competition, and the general extinction, without compensation, of the present banks will follow as a matter of course.)

### *The Elections of 1910*

The Commonwealth Elections of 1910 are important in the history of Australia. For the first time in Commonwealth politics anti-Labour forces combined, forming the Fusion Party. As usual the Labour Party issued its "fighting platform" but as this one became of far-reaching importance it is given here in toto. Its text was :

- (1) Maintenance of White Australia.
- (2) The New Protection.
- (3) Nationalization of Monopolies.
- (4) Graduated Tax on Unimproved Land Values.
- (5) Citizen Defence Force.

- (6) Commonwealth Bank.
- (7) Restriction of Public Borrowing.
- (8) Navigation Laws.
- (9) Arbitration Act Amendment.
- (10) Insurance, including insurance against unemployment.

The "fighting platform" was a mixture of nationalism and radicalism. Labour believed in the Empire, compulsory military training, and protection, to say nothing of White Australia, and at the same time advocated a progressive land tax, nationalization of monopolies, and the establishment of a national bank. On the liquor controversy the Party in some States had supported local option. Consequently with a programme that appealed to almost everyone in some respect it is no wonder the Party looked formidable to the Fusionists.

The election of 1910 gave the Labour Party complete control of both Houses of Parliament. Many causes led to this result. The stress that Labour placed on unification and centralization as against State rights was a factor in the result. Labour also advocated restriction of borrowing, for according to Labour all expenses of the Government even those of the army and navy, were to be paid out of revenue. Then again fusions and coalitions are frequently not popular with the people. Labour's positive platform, furthermore, appealed to many voters. The strong stand of Labour in favour of protection gained wide approval.

Labour was strongly in favour of building Australian nationalism. The Australian Natives' Association had come out for Labour in spite of the fact that its leader reminded members that the society was barred from dealing in party politics. This organization is composed of people born in the Commonwealth and aims at developing Australian nationalism.



Then again Labour's better organization contributed much to the success of the Party. Labour women polled heavily, while in Conservative families many women even as late as 1910 still felt that voting was a man's task.

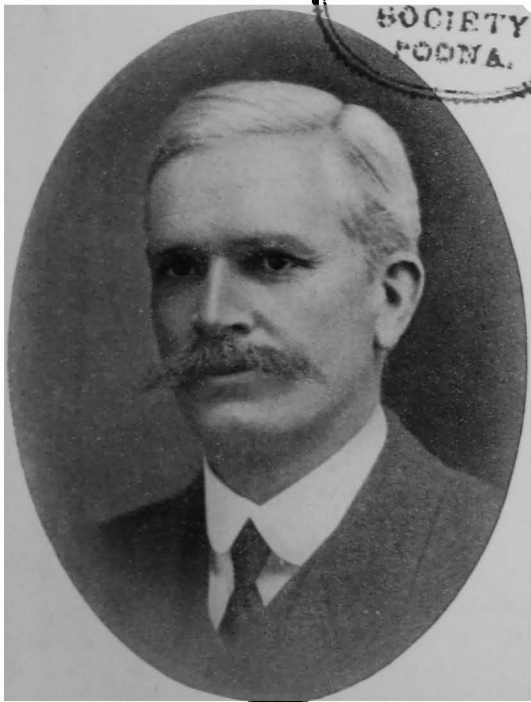
Finally, young Labour candidates took up the battle cry of "Cheap money for traders and producers", and this slogan gained many votes for the party.

When Andrew Fisher distributed the Cabinet portfolios, King O'Malley became not the Commonwealth Treasurer but Minister of State for Home Affairs. Although caucus had voted King O'Malley in the Ministry, it did not have power to specify which portfolio he should assume. The Prime Minister decided that he, Andrew Fisher, would be the Commonwealth Treasurer.

In the Fisher Ministry of 1910 eight members had held Cabinet positions before. Of importance was the fact that only two Ministers were Australian born. The others had come from Scotland, Cornwall, Wales, and the United States. This situation gave Australia the benefit of the observations of men who had lived in many countries. Under these circumstances the outlook for Australia seemed bright. Consequently it is not surprising that legislation passed by the Fisher Government has often been the foundation upon which later Governments, Labour and anti-Labour alike, have built.

Referring to the efforts of King O'Malley to establish a National bank, Dr. Earle Page, Commonwealth Treasurer, quoted in the House of Representatives on October 19, 1927, the following extract from a pamphlet of King O'Malley:

Immediately after the formation of the Labour Government in 1910, a bankers' conference was held in Melbourne, which was attended by the then Prime Minister and Attorney-General, Messrs. Fisher and Hughes. Neither possessed any technical financial banking knowledge, and were easily



**THE RT. HON. A. FISHER**

convinced that there was no profit in banking, so the Treasurer informed us that the note issue would be withdrawn from the trading banks and placed in the Commonwealth Treasury. As the note issue is the fundamental capital of a National bank, this meant the death of the bank.

In accordance with this programme the Fisher Government in July, 1910, placed the note issue in the Treasury. Leaders of the Government dropped the bank from their policy.

As the leaders of the Labour Government opposed the establishment of a national bank, King O'Malley began to organize the rank and file of the party to force the leaders to act in the matter. If King O'Malley had not been a Minister, it would have been impossible for him to organize successfully the rank and file of the party for the bank.

### *The Torpedo Brigade*

It was at this stage that the "Torpedo Brigade" came into being. The purpose of this group was to force the Labour Government to establish a Commonwealth bank. As leaders of the Government threatened to force King O'Malley out of the Ministry if he persisted in his advocacy of the bank, the Founder of the Commonwealth Bank was compelled to work in secret. It was necessary, therefore, to give this secret organization a name that would give no hint of its purpose, hence the designation, "Torpedo Brigade". Members of the "Torpedo Brigade" did not intend to "blow up the Labour Government", as some politicians believed. They were interested solely in forcing the Government to bring down a Bill for a bank. King O'Malley was the moving spirit of this group, but he was actively supported by Dr. William Maloney, chairman, and J. H. Catts, secretary of the organization.

After fifteen months of secret organizing among the Labour caucus, itself a secret group, enough members of the Labour

Party had promised support to make it reasonably safe to bring up the question of a bank in caucus. Members of the "Torpedo Brigade" decided that at the meeting of the caucus on October 5, 1911, whoever was called upon by the Prime Minister for new business would move the adoption of a bank bill by the Government. This honour fell upon J. M. Chanter and Dr. Maloney seconded the motion. After a vigorous fight advocates of the bank defeated the leaders of the Government and forced them to bring down a bill for the bank.<sup>1</sup>

A few favoured the establishment of a Commonwealth bank because of the facilities it would give for taking over the State debts. Since federation the question of the Commonwealth Government taking over State debts had been under consideration. All agreed that some time the Commonwealth Government would take over State debts, but the particular time was undecided. Some people felt that a Commonwealth bank would facilitate the transference of State debts to the Commonwealth and thereby hasten the transaction. It was not until 1928, however, through the efforts of Dr. Earle Page, Commonwealth Treasurer at the time, that the Commonwealth actually assumed the burden of the State debts.

As Andrew Fisher was Commonwealth Treasurer, he had charge of the preparation of the Bill for a bank. He did not confer with the Minister of State for Home Affairs but asked Under-Treasurer Allan to prepare the Bill. Consequently many

<sup>1</sup> The following men in the Labour Party supported King O'Malley in the caucus:—W. G. Higgs, J. K. McDougal, G. Cann, Tom Brown, Dr. W. Maloney, J. H. Catts, J. M. Chanter, W. F. Finlayson, J. M. Fowler, F. J. Foster, J. A. Jensen, A. T. Ozanne, W. Webster, E. Riley, Parker Maloney, J. H. Scullin, W. G. Spence, J. Matthews, Frank Brennan, F. W. Bamford, Frank Anstey, J. E. Fenton, Laird Smith, Hugh De Largie, Arthur Rae, R. K. Ready, Allan McDougal, and S. Barker.

Among the Opposition a few favoured setting up a Commonwealth bank. Agar Wynne, Sydney Sampson, and John Livingston supported the proposal for a national bank. The Opposition in general strongly opposed a government bank.



DR. L. C. JAUNCEY

THE HON.  
KING O'MALLEY

THE HON.  
DR. WILLIAM MALONEY,  
M.H.R.

MRS. KING O'MALLEY

Home of the Torpedo Brigade! Mr. O'Malley held meetings for the Bank in this room of his Melbourne residence.

differences from the scheme of King O'Malley adopted by the Brisbane Conference appeared in the Bill introduced by the Prime Minister.

One fact of the campaign for a Commonwealth bank merits attention. If King O'Malley had continued publicly advocating a national bank, banks would have naturally prepared to block the proposal from going into effect. As it was, however, bankers after the conference with Government leaders in 1910 thought the matter settled. The prolonged silence of King O'Malley seemed to confirm this view. Consequently when caucus in October, 1911, voted for the bank, leaders of private banks were caught unprepared. It is very doubtful if King O'Malley would have succeeded if he had not been silenced.

With thirty years of political controversy upon the matter, the Commonwealth Bank cannot justly be said to be the result of a national political upheaval. The bank is the consequence neither of an economic disturbance nor of hasty political action but is rather the result of calm conjecture in a time of prosperity.

## CHAPTER FOUR

# THE COMMONWEALTH BANK ACT 1911

ON, November 1, 1911, Andrew Fisher, Prime Minister of Australia, introduced the Commonwealth Bank Bill in the Federal Parliament. In moving the second reading of the Bill, the Prime Minister made no reference to any difficulties in the current banking situation, but said that "for over twenty years, to my own personal knowledge, the question of a State bank has been prominently before the people of Australia." Consequently Parliament should act in the matter.

As usual in any discussion of Australian banking, Andrew Fisher referred to all the ills of 1893, but at the same time praised the banks for their part in developing Australia. Mentioning central banking possibilities, the Prime Minister hoped that

. . . while the bank may deal in land securities and other securities, it will in time grow to be rather a bank dealing in ordinary bills of exchange and liquid securities—that it will ultimately become the bank of banks rather than a mere money-lending institution.

Andrew Fisher also asserted that the bank would be the banker of the Government both in Australia and in London. He explained that he was introducing the Bill because

. . . this is the time to legislate—a time of prosperity and financial calm.

After declaring that the bank would belong to the people, the Prime Minister then called for the second reading of the Bill. While the Bill was before the Federal Parliament no important amendment was added.

The Commonwealth Bank Act of 1911 provided that :

The Bank shall in addition to any other powers conferred by this Act have power

- (a) to carry on the general business of banking;
- (b) to acquire and hold land on any tenure;
- (c) to receive money on deposit, either for a fixed term or on account;
- (d) to make advances by way of loan, overdraft, or otherwise;
- (e) to discount bills and drafts;
- (f) to issue bills and drafts, and grant letters of credit;
- (g) to deal in exchanges, specie, bullion, gold dust, gold, and precious metals;
- (h) to borrow money; and
- (i) to do anything incidental to any of its powers.

The powers of the bank are great. The most important omission in the Act of 1911 concerned the issue of bank notes. The bank under that Act could not issue bank notes. The bank had both savings and general banking departments. No other bank in Australia conducted both types of business.

#### *Power of Governor of the Bank*

The Act placed a Governor in charge with a Deputy-Governor to assist in managing the bank. The Governor-General had power to appoint these officials, who received a term of seven years and were eligible for reappointment.

The Act gave the Governor great power. He could establish branches or appoint agencies of the bank in any part of the Commonwealth or in territories of the Commonwealth. He



had sole right to choose the site of the head office of the bank. He could appoint whomever he liked as officers of the bank. In addition the Governor could arrange with the Minister administering any Department of the Commonwealth for any officer of that Department to act as an agent of the savings bank department. With the consent of the Treasurer the Governor could establish a branch in London or in any other place beyond the Commonwealth, and he could also, with the consent of the Treasurer,

make rules, not inconsistent with this Act or the regulations made by the Governor-General thereunder for any of the following purposes :

- (a) the good government of the Bank,
- (b) the classification of the officers of the Bank,
- (c) to provide a superannuation fund, and
- (d) any matter necessary or convenient to be provided for carrying on the business of the Bank.

It was only natural that the Opposition should object to the power of the Governor of the bank. When the Senate discussed this phase of the Bill, Senator Walker moved that a Board of Directors be established to govern the bank, but the amendment failed to pass.

The original plan of King O'Malley that States should be represented on the management did not appear in the Act of 1911. Evidently States did not wish to have a share in the bank, for the Prime Minister said that

When all the States desired to co-operate with us we could easily amend this measure in accordance with their wishes.

As to tenure of office of the Governor, one member of the Opposition asked the Prime Minister who would decide what was good behaviour, for the Governor was to hold office as long as he conducted his office with good behaviour. Fisher replied

that, although it was not explicitly stated in the Act, his interpretation was that the High Court would decide this matter. Under this condition the Federal Parliament would have no control over actions of the Governor except power of amending the Act.

### *Provisions for Capital of Bank*

The Act made provision for capital of one million pounds to be raised by sale and issue of debentures. The capital of the bank was to be available for all purposes of the bank. Under the proposal of the Brisbane conference, both the States and the Commonwealth were to raise the capital of the bank, but with the States not participating in the formation of the bank the Act allowed public subscription of debentures of £10 each.

The Commonwealth guaranteed the payment by the Bank of the Principal and interest due in respect of any debenture issued by the Bank in pursuance of this Act, and the Consolidated Revenue Fund is hereby appropriated for the purpose of this section.

The Prime Minister said of the provision *re* subscribed capital,

In my opinion a capital of £1,000,000 will not be required, but I think it is wise to make ample provision when we are setting out on a scheme of this kind.

Fortunately the opinion of Fisher was correct. The bank has never used this provision, which could be the entering wedge for private control of the bank.

In order to get the bank started the Act authorized that

The Treasurer may, out of the Consolidated Revenue Fund, which is hereby appropriated accordingly, make advances to the Bank for the purpose of enabling it to defray any of the expenses incidental to the establishment of the Bank, the opening of offices thereof for business, and the raising of

sufficient capital for carrying on business. . . . Any moneys advanced in pursuance of this section shall be repaid to the Treasurer by the Bank, together with interest at the rate of  $3\frac{1}{2}$  per centum per annum.

The Governor of the bank used this provision to the extent of £10,000.

The Act allowed the bank to invest any moneys held by it :

- (a) in any Government security approved by the Treasurer,  
or
- (b) in a loan on the security of land, or
- (c) in any other prescribed manner.

Furthermore

. . . nothing in this section shall prevent the Bank in carrying on the business of banking, from making advances to a customer on any security which the Governor thinks sufficient.

Under the Act the Commonwealth became responsible for all moneys due by the bank. Having made this sound provision for security, the Government retracted part of its value by stipulating in the Act that

. . . nothing in this section shall authorize any creditor or other person claiming against the Bank to sue the Commonwealth in respect of his debt or claim.

There has never been any hint, however, that the Government would not support the bank if necessary. The Prime Minister stated during the debate on the Bill in Parliament that

The Commonwealth will stand behind every penny in the bank, but persons having a grievance against the bank must sue it, and not the Commonwealth.

The Commonwealth Bank has never had to go to the Government for assistance but the reverse has happened several times.

As profits of the bank were not to go to the Consolidated

Revenues, the Government would not benefit according to the extent of the profits. Under the Act

- (a) one half shall be placed to the credit of a fund to be called the Bank Reserve Fund, and
- (b) the other half shall be placed to the credit of a fund to be called the Redemption Fund.

The Bank Reserve Fund was to be available for payments of any liabilities of the bank; while the Redemption Fund could be used in repayment of any money advanced to the Bank by the Treasurer, or in the redemption of the debentures or stock issued by the bank, but if the fund exceeded the amount of debentures and stock in circulation the excess could be used for the purpose of the redemption of any Commonwealth or State debts taken over by the Commonwealth.

Under the Act of 1911 officers of the bank could not borrow money from the bank. A member of the Opposition proposed that members of the Commonwealth Parliament should not deposit any money in or borrow any money from the bank, and also moved that no member should receive directly or indirectly any salary or emolument from the bank. Needless to say, members of the Federal Parliament voted down these proposals by an overwhelming vote (23 to 4).

Concerning the position of the Governor-General, the Act provided that

The Governor-General may make regulations, not inconsistent with this Act, prescribing all matters which are required or permitted to be prescribed or which are necessary or convenient to be prescribed for carrying out or giving effect to this Act, and in particular for making provision for the issue, inscription, transfer, transmission, and redemption of inscribed stock of the Bank, and all matters incidental thereto.

Following the Australian tradition that publicity stays many

banking bills the Government inserted three sections dealing with statements and verification. The Governor of the bank had

. . . to furnish to the Treasurer in accordance with the prescribed forms, quarterly statements of the assets and liabilities of the Bank and of the business of the Bank, which statements shall be published in the *Gazette*, and also such other periodical statements as are prescribed.

As a matter of verification the

. . . affairs of the Bank shall be subject to inspection and audit by the Auditor-General for the Commonwealth.

Inspection and audit under the Act had to be conducted not less often than half-yearly, and the Auditor-General had to report to the Treasurer the result of each inspection and audit. Finally, the

Governor, at least twice in each year shall prepare a balance-sheet in accordance with the prescribed form and submit it to the Auditor-General for report as to its correctness or otherwise, and transmit it with the report of the Auditor-General to the Treasurer, and shall also transmit a true copy of the balance-sheet and report to the President of the Senate and to the Speaker of the House of Representatives to be laid before the Senate and House of Representatives respectively.

### *The Savings Bank Department*

Part V of the Bill was the great bone of contention during discussion of the Commonwealth Bank Bill in Parliament. This section called for the establishment of a savings bank department in the bank. As all States possessed State government savings banks, Part V looked like duplication of a service already adequately rendered. All the States protested against this Part. As Labour controlled three of the State Governments at that time, it appeared that the Labour Party was divided in its support of this part of the Bill.

In order that the savings of the people should not be lumped with funds of the general banking department, so that the two businesses might be discriminated from each other, Fisher moved an amendment which stipulated that separate accounts should be kept by the bank in respect of savings bank business of the bank, and for that purpose any receipt or expenditure of the bank referable to both ordinary business and savings bank business should be allotted in such proportions as the Governor desired. Parliament accepted this amendment.

The Federal Government was determined to go ahead with the savings bank department and, as it controlled both Houses, its will became law. The Commonwealth Bank could accept deposits as low as one shilling in the savings bank department. Interest was to be paid once a year. One pound was the minimum sum to receive interest, which was to be reckoned according to the number of months the money was deposited, but a depositor would receive no interest for a fraction of a month nor receive interest of any sum less than a penny. Furthermore no depositor would have any claim on the bank in respect of any savings bank deposit, unless the deposit had been made at the head office, or at some branch or agency of the Bank open for savings bank business, and during the hours in which the office, branch, or agency was open for receipt of deposits. State savings banks had suffered at times from dishonest officials accepting deposits at hours after the office had closed. Very often these deposits had not been entered on the books of the bank. To prevent this situation arising in connection with the savings bank department of the Commonwealth Bank, the Federal Government prohibited business transactions except in office hours.

Another section of the Act announced that

All moneys to the credit of a depositor's Savings Bank account (not being a deposit on behalf of a minor) which has

not been operated upon, either by addition or withdrawal, for a period of seven years and upwards shall be carried to an account to be called the Depositors' Unclaimed Fund, and shall cease to bear interest.

The *Commonwealth Gazette* was to publish annually a list of amounts carried to the Depositors' Unclaimed Fund. If the Governor felt that a claim was legitimate, he could advance the money to the claimant. If, however, no claim occurred in ten years after the first publication of the item in the *Gazette*, the money was to become absolute property of the bank.

An incorporated or unincorporated company or other body engaged in or formed for the purpose of trading or of acquiring pecuniary profit or other gain was not entitled under the Act of 1911 to make any deposit with the bank by way of savings bank deposit or to receive interest on any deposit of that nature, but subject to the rules of the bank the savings bank department could receive deposits from

. . . any local authority, friendly society, co-operative society, of any society or club (not being an incorporated or unincorporated company or other body engaged in or formed for the purpose of trading or of acquiring pecuniary profits or other gain) and the receipt of the treasurer of the local authority, society, or club, or of an officer of the local authority, society, or club authorized in that behalf, shall, in relation to the deposit and any interest thereon, be a discharge to the Bank.

Although the Act did not set up a penny savings bank for school children, as had been the case in South Australia and New South Wales long before federation, it allowed the bank to receive savings bank deposits

. . . from or for the use or benefit of any person under the age of twenty-one years,  
and the bank could pay to an infant, when and after he had

attained the age of twelve years, or appeared to the officer making payment to have attained that age, any moneys standing to his credit in the bank in the manner and upon the condition appointed in the case of other savings bank depositors, and the receipt of the money by the infant would be sufficient discharge to the bank.

The Opposition vigorously objected to the Savings Bank Department of the Commonwealth Bank. Liberals saw no need for a federal bank competing against State savings banks. Opponents of the measure claimed that it was the intention of the Government to obtain control of the £50,000,000 held by State savings banks. The Prime Minister replied that ultimately only one savings bank would operate in Australia. Yet he said that the Commonwealth Bank would not throttle State institutions, but that by voluntary agreement all States would finally hand over their savings banks to the Commonwealth Bank, and so the entire continent would benefit by uniform savings bank legislation.

The Commonwealth Savings Bank performed a national service in 1931 in alleviating the debacle of the Government Savings Bank of New South Wales. The preamble to the Agreement of 1931 amalgamating these two banks recommended one savings bank for the whole of Australia. Consequently the Labour programme of 1911 in this respect has stood the test of time.

On the subject of the bank in general the Opposition in 1911 was not in universal accord. Some felt that Australia needed a central bank. Others thought any sort of a bank unnecessary. A few demanded that a Commission should investigate the problem and report to Parliament. It was unusual for a Government to venture into the field of banking without first appointing a Commission to investigate.

The Opposition as a whole offered no alternative plan to that



of the Government. Furthermore, when discussing the general banking department, Liberals predicted failure because of inefficiency and competition. Yet they predicted success for the savings bank department in its competition with other savings banks of the country. To assume so incongruous a position was very ineffective both for parliamentary debate and for influencing the electorate.

When the Bill was before the Senate, Senator Sayers remarked,

Mr. O'Malley is the father of this Bill,  
to which Senator McGregor replied,

The senator has recognized the parentage of the measure.

Yet during the discussion of the Bill in the House of Representatives King O'Malley made no plea for it, only interjecting occasionally. King O'Malley suggested that the bank should be a bank of rediscount, and so consequently become a steady influence on the price level.

The most significant statement of King O'Malley was his reply to an assertion of a Liberal that people would expect a State bank to be conducted upon philanthropic lines. "That will not be the position so far as this bank is concerned," "the father of the bank" retorted. If the bank at its inception had operated along philanthropic lines with the object of "sovereigns for all", there is little doubt that its life would have been short-lived.

The proposal of King O'Malley that the bank should be a bank of reserve did not find its way into the Act. It was better to see if the bank succeeded before making it a bank of reserve.

Two features of the Act stand out prominently. Both the Governor of the bank and the Treasurer of the Commonwealth had great control over the bank. By placing great power in

the Governor during the early years of the bank, the Labour Government had turned from its democratic ideals. Apparently the party felt that democratic banking would not be successful. In order to get the bank started, it was probably necessary to get an expert with a free hand at work. For six months leaders of the Government combed the country for a suitable man.

*Denison Miller Appointed Governor.*

On May 14, 1912, Denison Miller was formally offered the position of Governor; a few days later he accepted. The London *Economist* on June 29, 1912, stated that "Miller is held in high repute." Referring to the appointment of Denison Miller, Senator Lynch on April 22, 1931, said in the Upper House that

One of the conditions imposed by that gentleman before he would undertake control was that the bank was to be absolutely free from political control.

Denison Miller had been through the banking business from the first stages of a junior clerk, and for several years before his appointment to the Commonwealth Bank he had combined with his work as chief metropolitan inspector of the Bank of New South Wales the duty of personal assistant to the general manager of that bank. At the time he accepted the Commonwealth offer, Denison Miller had just returned from a twelve months' holiday, during which he had studied latest developments in banking abroad.

As Denison Miller and the general manager of the Bank of New South Wales, John Russell French, were on the best of terms, the prospect of receiving co-operation from Australia's largest bank was encouraging. John Russell French helped Denison Miller as much as he could. He early placed the clearance facilities of the Bank of New South Wales at the disposal of the Commonwealth Bank. To have the good will of

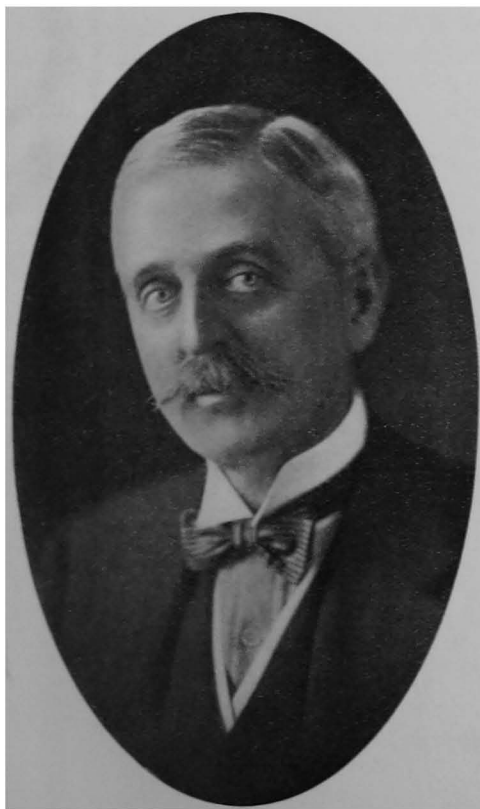
the Bank of New South Wales in a time of almost universal hostility on the part of the banks was a great asset to Governor Miller.

Under the Act Governor Miller was appointed for seven years with reappointment possible. The Prime Minister and Governor Miller agreed to a salary of £4,000 a year, which was the second highest fee in banking circles in Australia, only that of the general manager of the Bank of New South Wales being greater.

On June 1, 1912, Governor Miller officially commenced operations. When he began his new duties, Governor Miller had the assistance of one officer lent temporarily by the Federal Treasury and also the use of one messenger boy. His first effort was to choose a staff. Many people from all over Australia and abroad applied for positions.

The Governor picked his staff cautiously. His theory was that good men were cheap if well paid and that men who were not able and enthusiastic were dear at any price. He did not tolerate men who were slack. Every applicant was expected to believe in the bank. After six weeks the Governor had selected only twelve. As the whole air of the community was one of doubt about the bank, the Governor did well to proceed carefully.

On July 15, 1912, with no subscribed capital and with assets of only £10,000 in the form of a loan from the Commonwealth Government, the bank opened its doors for business. At that date the bank commenced savings bank business in Melbourne with 489 agencies throughout the State. Having set in motion the machinery of the savings bank in Victoria, Governor Miller set out on an organizing tour of the States for the purpose of selecting more officers, choosing sites for bank premises, and preparing for the operation of both the savings and general banking departments. In each State Governor Miller nego-



**SIR DENISON MILLER, K.C.M.G.**  
**First Governor of the Commonwealth Bank**

tiated with State Governments on the future of the State savings banks.

On October 23, 1912, Governor Miller chose the site of the head office in Sydney. After unsuccessful negotiations the Commonwealth Government under the leadership of King O'Malley, Minister of State for Home Affairs, obtained the site by compulsory acquisition. Building offices for the bank, however, was a departure from the original scheme of King O'Malley, who advocated using post offices for the business of the bank.

James Kell, formerly of the Bank of Australasia, on December 1, 1912, became Deputy-Governor of the Commonwealth Bank, and by January 20, 1913, the bank had extended its savings bank department throughout all the States and had commenced general banking business in all Australian capitals and also in Townsville, Queensland and in London. The new bank had begun its career. Governor Miller proceeded cautiously in all directions, for he was intent on making the bank a financial success.

## CHAPTER FIVE

# THE GENERAL BANKING DEPARTMENT

ON January 20, 1913, exactly one hundred and twenty-five years after the landing of the first colonists at Botany Bay, the Commonwealth Bank opened its general banking department in all the capitals of Australia, in London, and in Townsville, Queensland.

### *Reasons for Delay in Opening General Banking Business*

There were four reasons for the action of Governor Miller in waiting for six months after the savings bank department began operations in Melbourne before starting general banking business. First, the absence of the note issue held up the general banking department, for capital had to be obtained from other sources. Second, as the State savings bank in Victoria had vacated the post offices on May 31, 1912, the field was clear for the entrance of the savings bank department. Third, although the Commonwealth Bank Act provided for £1,000,000 subscribed capital, Governor Miller resolved to do without that sum. He felt that the security of the Commonwealth of Australia was sufficient to fortify the bank. Yet in order to transact business in the general banking department he had to have funds. He decided to obtain them from the deposits of the savings bank department. Consequently he had to start that business first. Action of the Tasmanian Government early in

1913 handing over its savings bank to the Commonwealth Bank provided Governor Miller with funds for the general banking department. Finally, it took considerable time to make all the preliminary arrangements for the conduct of general banking. Suitable premises for business had to be found. Agencies in distant parts of the world had to be established and matters of this sort take time. As these operations do not concern the savings bank department, that business could commence before these matters were solved.

On the first day the general banking department received £2,368,126 in deposits. Of this sum, however, £2,327,550 belonged to the account of the Commonwealth Government.

When the Governor opened the general banking department, there was an air of uncertainty as to what would be the effect of the new competitor on the ordinary banks. Bank shares showed a little weakness. Governor Miller, however, did not intend to beat the rates of the ordinary banks, and he announced that interest on fixed deposits would be  $\frac{1}{2}$  per cent below those quoted by leading banks. Interest on overdrafts would be 6 per cent on ordinary current business accounts, and 5 per cent on accounts for social organizations such as churches, trade unions, and charitable institutions. The rate for municipalities and other local governing bodies would be  $4\frac{1}{2}$  per cent. With the rates announced the banking situation became easier. These rates remained in effect even throughout the war, and undoubtedly had the consequence of keeping rates of banks below what they would have been if the Commonwealth Bank had not been present. Not until the depression was it necessary to change the rates of the Commonwealth Bank.

### *Policy of New Bank*

Early in the history of the bank the Governor had to decide whether the bank would become a member of the Associated

Banks in Australia. The Governor decided that in view of its national status the bank should keep outside agreements of the Associated Banks, and it has done so to this day. The Yokohama Specie Bank, the Comptoir National d'Escompte de Paris, and the Bank of New Zealand are also commercial banks not in the Association.

Up to the date of the opening of the general banking department of the Commonwealth Bank the practice of all Australian trading banks involved a half-yearly charge of 5/- (10/6 in Western Australia) for keeping each current account, irrespective of the balance or the course of the account. When the general banking department commenced operations, Governor Miller felt that if the bank had continuous use of a substantial sum belonging to a customer, or if a customer was paying interest on an overdraft, levying a fee for conducting the account was unnecessary. The Governor, therefore, resolved that no charge would be made on accounts that were overdrawn or where the credit balance during the whole of a half-year had not at any time fallen below £50. Accounts of municipal councils and other organizations not trading for profit were also exempted from the charge. Government accounts, both Commonwealth and State, were to pay no charge. Members of the Federal Parliament would not have to pay the fee. Later, during the war members of the Expeditionary Forces and their wives paid no charge for current account.

Desiring to afford every facility to friendly societies, the Governor arranged that funds of such societies could be deposited with the savings bank department while at the same time officers of such groups could draw cheques on the general banking department in respect of such funds. These bodies thus could both earn interest on their funds and operate on their accounts by cheque. The savings bank in Victoria had for years provided this accommodation.



Since federation there had been a feeling that cheques of the Federal Government should not be liable to exchange as between one part of Australia and another any more than the cheques of the State Governments within their own borders. This feeling was enhanced after the passage of the Australian Notes Act of 1910, by which Commonwealth notes could be cashed from one end of the Commonwealth to the other without exchange. A Government cheque and a Government note were sufficiently similar to raise in the minds of some people the question as to why the one should be charged exchange and the other not. As a result Governor Miller arranged with all banks doing business in Australia to negotiate cheques of the Commonwealth free of exchange as far as the presenter was concerned. The Commonwealth Bank subsequently adjusted any exchange claimed by the banks. This arrangement became operative from the day the general banking business department commenced operations. Referring to this situation, C. C. Faulkner in his book on the bank states :

Now that the State Governments of Tasmania, Western Australia, South Australia and Queensland do their banking with the Commonwealth Bank similar arrangements have been made in regard to the cheques of those Governments.

When the Commonwealth Bank first started business, trade unions tended to try to get favours from the new bank. They did not mean to let all the money that they were depositing with the bank go into commercial banking. In 1912 they requested the Labour Prime Minister to move for the advancement of money for building workmen's homes to the extent of four-fifths of the valuation of the properties. As the Governor of the bank had full control and wished to establish the bank on sound lines, the Prime Minister took no action in the matter.

The Premiers' Conference in 1912 resolved that the States

should become partners with the Commonwealth in the Commonwealth Bank by supplying a portion of the capital, not exceeding one-half, by each State becoming responsible for the liabilities of the bank in proportion to the capital subscribed by it, and by each State sharing in the profits in proportion to the capital subscribed by it. The conference further proposed that each State use the bank as far as possible as its banker. No action resulted from this proposal.

When the Labour Party met at Hobart in January, 1912, to formulate a platform for the elections of 1913, the manifesto of the party naturally referred to the establishment of the Commonwealth Bank and then proposed that a general insurance department be added to the bank. The Federal Parliament has not adopted any amendment to put the bank in insurance business.

#### *Early Business of the Bank*

In 1913 the Melbourne and Metropolitan Board of Works, having to arrange for the redemption of the loan of £500,000 falling due on October 1, 1913, as well for a further supply of working capital, received an offer of £1,000,000 from London to bear interest at  $4\frac{1}{2}$  per cent at a price returning about  $97\frac{1}{2}$  net, but decided to accept an offer by the Commonwealth Bank to underwrite £3,000,000 at a net price of 95, the price to the public being  $96\frac{1}{2}$ , and the rate of interest being 4 per cent.

The balance-sheet for the half-year ended June 30, 1913, showed that deposits of the general banking department totalled £2,176,820. Only a small amount of this sum was due to the public, the rest being due to the Commonwealth Government. The bank held £1,712,835 in cash. £1,312,992 was invested in Government securities and the exchange business with London stood at £24,486. The bank also had deposited £730,000

with other banks. Loans and discounts amounted to £458,706. Clearly Governor Miller acted conservatively.

Meanwhile statistics for New South Wales and Victoria showed a marked shrinkage in volume of aggregate liabilities and assets of the private banks. During the twelve months ended June 30, 1913, current accounts showed a decrease of over £3,400,000. Much of the decline was due to the transference of the Commonwealth accounts to the Commonwealth Bank, although there was a decline also in deposits of traders.

Ordinary bankers did not welcome the Commonwealth Bank. The attitude of leaders of the Bank of New South Wales was the exception. These men co-operated with the new bank giving it the use of their facilities in New Zealand and other places. Yet their co-operation was unusual, and for the most part bankers were at least passively hostile, for they feared that the new competitor might interfere with the profits of their institutions. When the elections of 1913 gave Liberals control of the Lower House in the Commonwealth Parliament, bankers felt less anxiety financially.

#### *Premiers' Conference of March, 1914*

The Premiers' Conference in March, 1914, favoured giving the States a share in the control of the bank. The conference also suggested that in return for the banking business of the States the Commonwealth Bank should close its savings bank department. As Labour controlled the Senate and objected to this provision, the proposals of the Premiers did not receive legislative sanction. The Tasmanian Government on June 1, 1914, transferred its Australian account from the Commercial Bank of Tasmania to the Commonwealth Bank, the latter having guaranteed to make advances up to £100,000 at 4½ per cent interest on overdrafts of the Tasmanian Government. The London business of the Tasmanian Government was to

remain with the London County and Westminster Bank for three years more. After that it was to be transferred to the London branch of the Commonwealth Bank.

Before the war the Commonwealth Bank was not a very formidable competitor of ordinary banks. On June 30, 1914, the Commonwealth Bank had £4,559,264 deposited in its general banking department, which included the accounts of the Federal and Tasmanian Governments. At the same date ordinary banks had deposits amounting to £159,209,000.

#### *Early Appearance of Profits in General Banking Business*

On June 30, 1913, the general banking department showed a deficit of £24,329, while during the next year the same department registered a profit of £36,090, thus wiping out the previous deficit and leaving a net profit since commencement of £11,761. No doubt the conservative methods of Governor Miller were largely responsible for so early an appearance of a net profit in the general banking department. The bank did not begin with a flourish but progressed cautiously.

At the outbreak of the war in 1914 Governor Miller in conference with the principal bankers offered support to any bank upon which the stress of the times might impose too great a burden. At the commencement of the war banks suffered a slight rush from depositors, but the Commonwealth Bank met the situation by putting on more tellers. The rush soon subsided.

In September, 1914, the Liberal Government appealed to the country, the election being the only "double dissolution" in the history of Australia. Under the Constitution of Australia, if different parties control the Upper and Lower Houses, the Government, which always controls the Lower House, can arrange for the dissolution of the entire Senate, if the Upper

House rejects at two consecutive sessions the same Bill of the Government. Usually the members of Senate retain office for six years, one-half being elected every three years. The election in 1914 gave Labour a majority in both Houses.

*The Commonwealth Bank Act of 1914*

The fourth Labour Government introduced a Bill in November, 1914, to amend the Commonwealth Bank Act of 1911. In introducing the Bill Andrew Fisher, Commonwealth Treasurer, remarked that :

This proposed amendment of the law is necessary in order to put beyond doubt our power to establish branches in all parts of the Empire, and under it, with the consent of the Treasurer, the business of the bank may be extended to any part of the British Dominions.

The Commonwealth Act of 1914 provided that the bank

. . . may, with the approval of the Treasurer, enter into arrangements with any other corporation carrying on the business of banking, for the purchase by the Bank of all or any of the assets of that corporation and for the transfer to the Bank of the business and liabilities of that corporation or any part thereof. . . . Payment in respect of any such arrangement may be made either by debentures or in cash or in part by debentures and in part in cash or in such other manner as may be agreed upon between the bank and the corporation.

The amount of debentures that the bank could issue increased to £10,000,000. The Government hoped to facilitate transfers by enabling the bank to issue sufficient debentures to cover the cost of amalgamation. The Act also listed any Commonwealth Bank debentures which might be issued as suitable as investments for trust moneys. Furthermore it stipulated that debts due to the Commonwealth Bank by other banks had the same priority as debts due to the Commonwealth.

While the Bill was under discussion Sir William Irvine moved for the Opposition

That questions of (a) the control and development of the Commonwealth Bank; (b) the transfer to the Bank of the management of the note issue; and (c) the relations of the Bank to State and other financial institutions, be referred to a Select Committee of this House for consideration and report.

This amendment of the Opposition failed to pass.

King O'Malley when the Bill was under discussion, criticized the working of the bank.

I do not like the basis of the Commonwealth Bank. The existing bank is neither a bank of reserve nor a bank of issue. He also felt that

The Commonwealth Bank should not be a party machine. I have always thought that there should be a Committee from all sides of the House, comprising men who have devoted some attention to these questions, and that out of that Committee we should be able to devise a scheme, not for party success, but for the benefit of the whole of Australia. . . . If we have federation in politics, is it not possible to have federation in finance? . . . I look upon the Commonwealth Bank, as at present constituted, as a financial autocracy. It was good enough that it should be so at its inception. Yet now that we have full confidence in it we should create a board of management on which the States have equal representation with us!

King O'Malley also advocated making the bank the custodian of the finances of all Australia. The bank was moving in that direction.

As to the attitude of the Liberals on the bank the founder of the bank said:

I cannot see why the Opposition are opposed to the Bank

in its present form. It is the safest Bank in the world to-day for the capitalists. Its deposits are guaranteed . . . by the Government.

King O'Malley urged that the Commonwealth Bank should be a bank of rediscount. He had advocated this course in 1911, but the Act of that year did not carry this provision.

As to the Bill under discussion, King O'Malley suggested that a committee should investigate the securities of a private bank before the Commonwealth Bank took them over, and he objected to going into the market to borrow capital for the bank.

With the war becoming increasingly vital to the community the Government took no action on the Act of 1914. For the second time the Governor did not use the provision for the issue of debentures, and so the bank still remained without subscribed share capital.

At the end of 1914 the High Court of Australia rendered a decision whereby cheques drawn on the Commonwealth Bank were declared equally liable to the State stamp duty with those drawn on any other bank. This action settled a point of law on which there had been conflicting opinions. The Commonwealth Bank as a result did not receive in this connection any advantage over other banks.

Early in 1915 the Melbourne Harbour Trust, a body appointed by the Victorian State Government, arranged to borrow £500,000 at 4 per cent from the Commonwealth Bank at 96 less a commission of 1 per cent. The loan had a currency of ten years, and the yield, including the redemption, was about £4 12s. 10d. per cent. The Commonwealth Bank also received the banking account of the trust. Furthermore, in order to redeem a loan falling due in London on November 1, 1915, the Melbourne City Council borrowed £150,000 from the Commonwealth Bank at 98½. The Commonwealth Bank at the

same time secured the banking account of the Melbourne City Council. Finally on December 10, 1915, the South Australian Parliament passed a Bill legalizing the action of the State Government in allowing the Commonwealth Bank to inscribe Government stock in London and at the same time permanently transferred the work from the control of the Agent-General of South Australia in London to the London branch of the Commonwealth Bank. These three events were representative of the trend of the activities of the Commonwealth Bank, which was becoming the banker of governments, both local and State.

#### *Importance of Commonwealth Bank in War Finance*

War finance made the Commonwealth Bank a leading bank in the world. Besides offering aid to ordinary banks, it granted to the Commonwealth Government an overdraft in London during August, 1914 of £100,000, and in September of the same year loaned £130,000 to the Commonwealth Government. It aided Australians in England and continued uninterruptedly to negotiate in London bills of exchange on Australia. It also redeemed Australian notes and silver. At the request of the Minister for Defence it arranged for the provision of funds for the purchase of horses for the Expeditionary Forces so that departmental officers did not have to wait for passage of a Supply Bill before purchasing and paying for the horses.

It was in connection with the war loans, however, that the Commonwealth Bank became important. The "Bond House", which has become so prominent in the American financial structure, does not exist in Australia. Banks or syndicates of banks generally underwrite large security issues, while groups of capitalists underwrite smaller issues. The Commonwealth Bank handles the issues of the Commonwealth Government. In 1915 the Federal Government for the first



time in its existence appeared before the public as a direct borrower. In a country that had never known a local loan of any size, when Australia's financial resources were practically an unknown and untapped quantity, in six years its people subscribed £257,719,989. The total cost of flotation of the ten loans was only £705,747 or 5/7 per cent, which compares favourably with a possible cost of over £5,000,000 or 40/- per cent had the loans been raised in Britain. At a luncheon in 1918 given by the Royal Colonial Society in London in honour of Governor Miller the guest of honour said that the six war loans issued at that time had been floated by the Commonwealth Bank at 4/6 per cent. Yet loans floated between 1910 and 1915 cost £2 7s. 1d. per cent. These loans were floated by private banks. Governor Miller of the Commonwealth Bank reckoned that the bank had saved Australia £3,266,000 by handling the loans.

When the Fourth War Loan came before the Australian public in 1917, the prospectus stated that the loan would be taken up by instalments, which were at the rate of 10 per cent per month, the final one being due on November 1, 1917. The spreading of instalments was calculated to obviate a repetition of the inflow of large amounts of cash into the Government account with the bank, an inflow which, after the issue of the Third War Loan, proved excessive in comparison with the rate of Government disbursements. The same difficulty arises when the Commonwealth and State Governments receive taxes from the people. Australian notes held by the Commonwealth Bank usually reach a high total at the end of June, when the tendency is for the Commonwealth and State Governments to have substantial balances from taxation receipts. During the war with its huge loans the large deposits at the Commonwealth Bank caused inconvenience.

In 1918 the Commonwealth Government seriously consi-

dered placing some of the funds of the Commonwealth Treasury with the ordinary banks, but the war ended and the matter lapsed.

Besides floating war loans in Australia the Commonwealth Bank on April 15, 1916, opened a branch in German New Guinea and was responsible for all banking business carried on in that territory. The establishment of this branch was the first action of this kind by a British bank on territory captured from the enemy. At the start all the transactions of the bank in the captured territory were made in enemy currency and monetary system. Now the bank uses Australian currency.

In 1917 the Commonwealth Bank acted as agent for the Commonwealth Government in raising loans on behalf of Australian States to the extent of £12,750,000 in three issues.

During the war the Commonwealth Government through the Commonwealth Bank acquired a large part of the gold production of Australia, sales being made on behalf of the Imperial Government to America direct and to the Bank of England. The Commonwealth Bank shipped secretly nearly £2,000,000 of gold to America. (In September, 1917, the Secretary of State for the Colonies in England arranged with the Commonwealth Treasurer for the shipment of gold from the Orient to Australia for minting and subsequent dispatch in the form of sovereigns to India.) The Commonwealth Bank with the aid of authorities in Calcutta shipped £607,500 of gold. (During 1918 and 1919 Australian mints exported £2,000,000 of sovereigns to South Africa, for at that time this country did not possess a branch of the Royal Mint.) Australian authorities in the same period also sent £1,700,000 of gold to Egypt and £263,000 of the same metal to Panama on behalf of the South African Government. The Commonwealth Bank made no charge for these transactions.

Australia for many years was losing its importance in the

production of gold, which decreased in the Commonwealth from 3,075,242 fine ounces in 1908 to 559,291 in 1925. Recently the yield of gold has been increasing until in 1932 it reached 710,420 fine ounces. Reports continually appear in Australia indicating the presence of large deposits of gold yet to be mined, but so far increase in production in recent years has been due to the rise in the price of gold in Australian pounds.

While the war was raging, the Commonwealth Government inaugurated pools for the sale of wheat, wool, and primary produce. The Commonwealth Bank financed these pools and handled on behalf of all pools over £437,000,000.

### *The London Branch*

War finance made the London branch of the Commonwealth Bank important. When this office commenced operations in 1913, it was a big drain on the resources of the bank, for during the first year its business showed a loss of £46,637. It soon got on its feet, however, and in the very next year cleared a profit of £1,547. At the beginning of the war the London branch was the only bank besides the Bank of England that did not observe the moratorium. While all other banks were closed, the Commonwealth Bank of Australia transacted business and came to the rescue of Australians in London in the uncertain days of August, 1914.

As the war progressed, business at the branch flourished, and the branch earned a profit of £226,150 for the year ended June 30, 1917. Besides handling the London end of financing the great export pools of Australia, the London branch raised for Australia £85,572,848 from the British Government. It also handled £1,903,810 collected as patriotic funds.

The London branch since the war has been important on account of its stock department, which manages loans issued for the Commonwealth, South Australia, Queensland, and

Tasmania, together with those of various municipal bodies, and since the Financial Agreement Act of 1928 the London branch is now directly concerned in the loans of all the States.

*Figures of Increased Business during the War*

The deposits of the general banking department increased from £3,619,048 on December 31, 1914, to £52,004,374 on December 31, 1918. Meanwhile deposits of ordinary banks rose from £177,695,435 to £217,841,635. The account of the Federal Treasury with the Commonwealth Bank grew from £789,000 on June 30, 1915, to £18,852,000. Dr. Earle Page, speaking in the House of Representatives on the Commonwealth Bank Bill in 1924 stated that during the war "at one time the bank held over £40,000,000 of the Treasury." Increase in the deposits of the general banking department was largely due to the increased volume of various governmental accounts.

The item that includes both loans and discounts in the general banking department rose from £1,392,084 on June 30, 1914, to £17,857,789 on December 31, 1918. Money at short call in London grew from £1,465,000 on June 30, 1914, to £21,805,000 at June 30, 1918, dropping to £12,215,000 at the end of that year. The decrease during the last six months of 1918 was due to heavy imports at that time. The amount invested in Government securities rose from £2,818,981 on June 30, 1914, to £15,747,293 on December 31, 1918. "Bills Receivable in London and Remittances in Transit" increased during the same period from £321,016 to £1,139,286. These figures show that the Commonwealth Bank was increasing its exchange business with London. The coin, cash, and bullion held by the bank increased from £2,670,446 on June 30, 1914, to £5,832,270 on December 31, 1918, and during the same period holdings of Australian notes rose from £41,026 to

£15,751,256. Governor Miller was developing the bank along conservative financial lines.

### *Growth in Profits of the Bank*

The conservative character of the business of the general banking department produced large profits. Annual profits rose until for the year ending June 30, 1919, they reached £734,497, at which time the sum total profits for the general banking department had reached £1,847,403. Besides the sound banking methods of Governor Miller, other factors caused this profit. The Commonwealth Bank, being a Federal institution, was exempted from taxation in the Commonwealth. The bank, however, had to pay the income tax assessed by Imperial authorities for its business in London. Then again large amounts of deposits in the general banking department did not bear interest, and this fact made the road to profits easier. On June 30, 1918, £27,968,507 of the deposits did not bear interest, the sum bearing interest being only £5,595,483. A good proportion of the non-interest bearing deposits could be loaned at prevailing interest rates, giving the bank a handsome profit. Yet profits of private banks still grew, rising from £2,954,914 in 1912 to £3,576,948 in 1919.

At the end of the war the Commonwealth Bank held £1,979,398 in coin and bullion, while private banks had £20,432,444. As Australia at the time was not on the gold standard, this gold constituted a big liability to the banks. If the £18,500,000 behind the note issue be added, the total idle gold in the Commonwealth was over £40,000,000. As the note issue was never higher than £59,000,000 during the war, Australia always had sufficient gold to establish an adequate reserve for a return to the gold standard.

On June 1, 1919, the Nationalist Government reappointed Governor Miller for a second seven years. It was a tribute to

the Governor of the bank that a Labour Ministry appointed and a Nationalist Government reappointed him. During his first term of office Governor Miller had gained the confidence of the whole community.

#### *Post-war Activities of the Bank*

The War Service Homes Commissioner arranged with the Commonwealth Bank on June 27, 1919, that the bank act as agent for the Commissioner throughout the Commonwealth and:

- (a) Purchase vacant land.
- (b) Purchase land and dwelling houses.
- (c) Erect dwelling houses.
- (d) Sell land and dwelling houses.
- (e) Grant leases of land or land with dwelling houses.
- (f) Advance money.
- (g) Effect insurance.

The Commissioner and the Governor of the bank agreed that the bank should build isolated houses and that the Commissioner should erect houses in groups. As the Commissioner proposed to secure materials in large lots, it was agreed that he should make available materials required by contractors of the bank. The agreement was in effect until April, 1920. At that time it ended on the suggestion of the Governor, who felt that the Commission could continue without his aid. On April 30, 1920, however, the bank under a new agreement continued:

- (a) Selling land and dwelling houses.
- (b) Collecting money.
- (c) Effecting insurance.

Actually the bank built 1,777 houses for returned soldiers at a cost of £1,155,119 and purchased on behalf of soldiers 5,179

houses for £2,874,502. It also provided insurance for war service homes, conducting this business for eighteen months, after which the Governor handed this business over to the War Service Homes Commissioner. Insurance of the bank covered fire, lightning, flood, and tempest, being the only insurance scheme in the Commonwealth that covered all these risks.

In December, 1920, the Government of Queensland handed all the banking business of the State to the Commonwealth Bank, and as a result Governor Miller negotiated a loan for the State Government in New York. This \$22,000,000 borrowed in New York was the first loan floated in the United States on behalf of any governmental body in Australia. Since 1920 governments of the Commonwealth and New South Wales, as well as the councils of Sydney and Brisbane, have followed the example of Queensland. With the return of financial stability it is likely that Australia may borrow more money on the New York money market.

After the war the Commonwealth Bank continued lending money to local governing bodies for developmental works, and on June 30, 1923, the total sum advanced to such bodies amounted to £9,360,000. At that date the bank had made advances to sixty councils in country districts for developments and improvements, besides making loans to Mosman, North Sydney, Brisbane, Melbourne, and St. George City Council for various constructions.

In 1923 the Commonwealth Bank obtained the account of the Government of Western Australia in the Commonwealth. The State continued with the Westminster Banks as its London banker. The Commonwealth Bank in this agreement made another move towards becoming banker of all the States.

In June, 1923, Governor Miller died. For eleven years he had conducted the affairs of the bank with a free hand. He had the difficult task of launching the bank and also of

managing the war and post-war finances of Australia. Yet he won the confidence of all political parties. The success of the Commonwealth Bank is to a large extent due to the leadership of the first Governor of the bank. He set a standard that is an inspiration to all believers in the Commonwealth Bank.

The Acting-Governor, James Kell, became the new Governor of the bank and continued to serve as such until October 9, 1926, at which time he retired, having served the bank for fourteen years, including three years as Governor. E. C. Riddle then became Governor and has continued in this capacity to the present time.

Ever since the establishment of the Commonwealth Bank many critics had felt that the management of the bank should not be placed wholly in the hands of one man but that a board should supervise actions of the bank. Governor Miller's administration was so satisfactory that during his regime well was left alone. After the death of Governor Miller it was certain that the next legislation affecting the bank would provide a board of management to control the bank.

#### *The Commonwealth Bank Act of 1924*

The Commonwealth Bank Act of 1924 provided that the bank should be managed by a board of directors composed of the Governor of the bank and seven others, including the Secretary of the Treasury. Six other members were to be, or to have been connected with agriculture, commerce, finance, or industry. All directors under this Act are appointed by the Governor-General. A director is forbidden to borrow money from the bank, but, of course, may borrow from a bank that in turn borrows from the Commonwealth Bank.

Under the Act of 1924 the capital of the Commonwealth Bank was authorized to reach £20,000,000 in the following





**MR. JAMES KELL**  
Second Governor of the Commonwealth Bank

ways. Four million pounds was transferred to the capital fund from the bank reserve and redemption funds. The bank could also borrow six million pounds from the Commonwealth, and it could issue debentures up to £10,000,000. For the third time Parliament had passed legislation that could only build up the liabilities of the bank without materially adding to its assets. Governor Miller had set a wise precedent in 1912 by not issuing any debentures. He followed the same course in 1914. The second and third Governors of the bank have followed his lead and have not issued debentures and they have not borrowed money from the Commonwealth as was proposed in the Act of 1924. The borrowing during the last few years has been the other way round. It has been the Commonwealth that has borrowed from the bank. There is no need for share capital so long as the bank has the security of the Commonwealth behind it and continues with balanced accounts. The £4,000,000 accumulated profits with the increase since 1924 are now listed as "Capital Fund".

While the measure was under discussion in the Commonwealth Parliament, the Paddington City Council asked for a Royal Commission to investigate the Commonwealth Bank, or failing that the Council requested that a popular referendum on the bank bill be held. There never has been a Royal Commission appointed to investigate the Commonwealth Bank. As for the request to make banking the subject of a popular referendum, it is highly doubtful if banking policy is a fit subject for referenda, although the people of Switzerland have voted on banking measures. The United States National Monetary Commission, Document 405, states that the "people of Switzerland approved in popular referendum the system of one bank of issue".

Under the Act of 1924 J. J. Garven became Chairman of the Board of Directors of the Commonwealth Bank and continued

in this capacity until Sir Robert Gibson superseded him in 1926.

On July 1, 1927, the Commonwealth Bank began to issue weekly returns, somewhat along the lines of those of the Bank of England. The weekly return divides into two portions, one relating to the note issue department and the other to the general banking department, there being no statement of the position of the rural credits department.

### *The New York Agency*

In December, 1927, the Commonwealth Bank opened an agency in New York. This agency was the first direct Australian bank representation in New York. The licence allowed the bank to operate

. . . for the purpose of transacting the business of buying, selling, paying or collecting bills of exchange, of issuing letters of credit or of receiving money for transmission or transmitting the same by draft, cheque, cable, or otherwise, of making sterling or other loans, or any part of such business subject, however, to the prohibitions contained in Section of 1451 of the Banking Law of the State of New York.

The licence had to be renewed every year. The agency could not conduct ordinary banking business such as receiving deposits, for American law does not permit foreign banks to accept deposits. The agency was chiefly concerned with raising loans for Australia. Its secondary purpose was to promote trade between America and Australia. A development in the hardwood trade with America occurred in 1928 through its influence. Yet, although the agency could have operated an extensive exchange business, chief emphasis fell on loan transactions.

Under these conditions it is not surprising that with the advent of an unfavourable loan market in New York the life

of the agency was short. In June, 1929, the New York office of the Commonwealth Bank closed. The official explanation for this move held that there was no business for it to transact which could not be carried through either from Australia or by way of London. Governor Riddle gave as reasons for the closing of the agency :

1. During the last twelve months no loan issue was raised in New York for Australia. This was the most important reason for closing the agency.
2. Arrangements for future loans could be made through London, particularly as the banking house of Pierpont Morgan, which had made the issues of the Commonwealth in New York, had now a branch in London.
3. The Commonwealth Bank paid a tax to the State of New York on a proportion of its total profits. As a matter of fact, the agency had shown a loss on its operations. This, however, was not at all the deciding factor.

It would appear that the loan situation was the cause of the closing of the agency. It was unfortunate that the agency did not enter into the exchange business, when the loan situation became apparent. As to the permanency of the closing of the agency, Sir Robert Gibson, Chairman of the Commonwealth Bank Board, stated in the *Argus* on April 29, 1929, that when conditions in the United States seemed to offer favourable consideration for financial transactions between the Commonwealth and groups in New York the directors of the Commonwealth Bank would not hesitate to reopen the agency, if such could be done with benefit to the Commonwealth. It is to be hoped that with the return of more settled economic conditions the directors will see the need for reopening permanently the agency in New York.

During the first half of 1931 the Commonwealth Government reappointed Sir Robert Gibson as a director of the

Commonwealth Bank. A Nationalist-Country Government appointed Sir Robert Gibson in 1924 and seven years later a Labour Government reappointed him.

### *Internal Debt Conversion Loan of 1931*

On August 1, 1931, the Commonwealth Government floated its Debt Conversion Loan affecting £556,000,000, of which £400,467,000 belonged to the Commonwealth, including £177,537,000 on behalf of the States, and £155,533,000 represented State securities. The average interest on this sum was £5 4s. 3d. Under the 22½ per cent reduction of the Premiers' Plan the average interest of the new loan was £4 os. 9d. per cent. At first the conversion was voluntary. Dissenters had a month in which to notify the authorities. Conversion applications amounted to £510,331,153, dissents to £16,655,769, automatic conversions to £31,011,982. The total was £557,998,904. An Act passed on November 5, 1931, compulsorily converted the entire loan. The Commonwealth Bank with the ordinary banks provided the facilities for the large undertaking. The success of this loan influenced Great Britain to do likewise in 1932.

In November 1931, Professor Leslie G. Melville of Adelaide University became permanent advisor in economics to the Commonwealth Bank Board. Adelaide University authorities had already lent Professor Melville to the bank for a year. This action of the Board of the Commonwealth Bank is the first step in the direction of economic research on the part of the bank.

On June 8, 1932, advices from New York stated that the Australian Government had resumed the purchase of its stocks for sinking fund purposes. In the twelve months of 1928-29 the Commonwealth Government purchased approximately £20,000 worth of its stocks each month for sinking fund pur-

poses. In May 1932 \$59,000 secured \$137,000 bonds. During the months from March to May 1932 the Commonwealth Government bought about £60,000 of bonds on the New York market.

### *Growth of Business of Bank during Recent Years*

After the war deposits in the general banking department of the Commonwealth Bank decreased until at the end of 1921 they were £25,556,692. This total was a considerable drop from £51,939,580 at the middle of 1918. Meanwhile the account of the Commonwealth Government fell from £20,548,000 on June 30, 1919, to £7,323,000 two years later. About one-half of the decline was due to the decrease in the account of the Federal Government. The other half was due chiefly to the winding up of accounts of various patriotic organizations and also to the lack of aggressive action for commercial banking by leaders of the bank. Since 1921 deposits have fluctuated with an upward trend. Deposits accrued interest, and rebate reached £63,080,502 at the end of 1932.

The amount of coin and bullion held by the general banking department reached £10,709,694 at the end of 1925. Since that time the board of the bank has exported surplus bullion and the general banking department at the end of 1932 held as coin, bullion and cash only £739,315. In the matter of Australian notes the bank, owing to tax receipts, usually holds its greatest sum in June. On June 30, 1926, the bank had £12,314,356 in Australian notes. Since that date the sum has varied and during the depression has been much lower, showing the falling off in tax receipts. On June 30, 1932, the bank held £6,785,796 in Australian notes.

The amount of bills discounted and loans advanced on December 31, 1920, was £20,804,849. It declined to £10,054,956 by December 31, 1924; after that date this item showed an

upward trend until it reached £17,871,012 at the end of 1927. The figure for June 30, 1928, declined at £12,670,062. Failure of certain sections of the wheat harvest was probably responsible for much of this decline. Loans advanced and bills discounted remained near to this amount until December 31, 1930, at which time they advanced to £14,626,437, but with the depression in full swing this item fell by the end of 1931 to £9,249,873, the lowest figure since December, 1917. One year later it had improved to £9,963,752.

"Bills receivable in London and remittances in transit" increased from £823,596 at June 30, 1918, to £7,174,175 three years later. During the following six months this item fell to £1,937,197. The large increase in this item at June 30, 1921, reflected the excess of imports over exports for the fiscal year ending at that time, while the reverse situation during the following six months caused the amount to diminish considerably. After that time the trend of this item was slowly upward reaching £4,263,837 at the end of 1927. Excess of imports over exports took the figure to £4,893,514 at June 30, 1929. A balance of exports over imports during the two years ending June 30, 1932, reduced this item to £1,857,660.

The value of various forms of governmental securities held by the bank rose from June 30, 1918, to December 31, 1927, almost without a break from £14,451,513 to £53,114,544. Authorities of the Commonwealth Bank have always invested heavily in Government securities. At June 30, 1928, owing to the separation of the savings bank department from the bank the amount fell to £16,378,294. During the following six months it decreased to £10,256,207. Since then the trend has been upward, being £28,179,534 at June 30, 1932.

The deposits of ordinary banks at June 30, 1932, averaged for that quarter £277,050,577, with £189,935,265 interest bearing and £87,115,292 non-interest bearing. The Commonwealth

Bank figures for the same quarter were £35,216,390, with £26,609,760 interest bearing and non-interest bearing deposits, £13,222,361, less Government set-off accounts £4,615,731, which makes £8,606,030. Deposits in Australia declined from 1928-29 to 1930-31 but in 1931-32 increased from £283,076,000 to £312,267,000. Referring to the increase in deposits during that year A. C. Davidson, General Manager of the Bank of New South Wales remarked in the Fisher Lecture in Adelaide in 1932,

In a time of depression we should expect to find a considerable shrinkage of the total deposits of the trading banks. That deposits have increased during the last nine months is largely due to Treasury Bill finance.

Advances of ordinary banks during the quarter ending June 30, 1932, averaged £229,309,492, while total advances, including those of the Commonwealth Bank averaged £244,136,000. Advances of banks in Australia declined from £279,272,000 in 1929-30 to £244,136,000 in 1931-32. In January, 1933, overdrafts at the Commonwealth Bank bore interest of  $4\frac{3}{4}$  per cent. Ordinary banks do not publish rates on this instrument of credit, the rate being fixed according to the circumstances of each loan. In November, 1932, banks, including the Commonwealth Bank, announced the following rates on deposits:

3 months	—	$2\frac{1}{4}$	per cent.
6 months	—	$2\frac{3}{4}$	per cent.
12 months	—	3	per cent.
24 months	—	$3\frac{1}{4}$	per cent.

#### *Steady Increase in Profits of Department*

For the year ending June 30, 1932, profits of the general banking department reached £441,726. During 1933 the profits of the department have been decreasing in comparison



with 1932. By January, 1933, profits of the department since its inception in 1912 totalled £6,787,987. Half of the profits of the general banking department go to a reserve fund and since 1923 the rest goes to the National Debt Sinking Fund. Ordinary banks on June 30, 1932, showed an annual profit of £3,116,929. This figure includes profits of the two New Zealand banks. Profits of private banks had totalled £6,404,418 in 1928.

### *Need for Aggressive Action in General Banking Department*

In 1932 the ten commercial banks at the middle of the year had 3,169 branches while the general banking department had 250. As yet the general banking department of the Commonwealth Bank has not transacted an active business. It confines itself largely to government accounts. Besides holding the Commonwealth account, the bank also transacts the business of the governments of Queensland, Tasmania, South Australia, and the Australian account of Western Australia, and these accounts together with those of many municipalities and shires constitute the main business of the general banking department. On August 26, 1925, Frank Anstey complained in the House of Representatives that the Commonwealth Bank if offered business gave it away to private banks. Naturally the Labour Party objected to this situation. Matthew Charlton, Leader of the Labour Party, remarked on March 15, 1927, that

If the bank is to function properly, its ramifications must embrace the whole of the Commonwealth, and it must accept business wherever it is offering. I do not think that there is a branch in Maitland, which is a centre of a very big and progressive agricultural district. Endeavours have been made to secure the establishment of branches in different centres, but without success.

Balance-sheets of the banks prove that the general banking department is not actively developing except as a fiscal agent for various governments. This lack of interest in commercial banking is in direct compliance with the policy of the present authorities of the bank who favour making the Commonwealth Bank a central bank and so eliminating as far as possible its competitive features.

## CHAPTER SIX

### THE SAVINGS BANK DEPARTMENT

FROM the establishment of "Campbell's Bank" in Sydney in 1819 savings banks in Australia have grown until in 1929 their deposits amounted to £225,485,704. From 1929 to 1931 deposits shrank to £193,407,000, but by June 30, 1932, had regained the upward trend and had reached £197,926,000.

In 1912 Government savings banks alone had nearly 1,400,000 depositors with funds aggregating approximately £50,000,000. States used these funds in investments in their own bonds, loans to private borrowers or to State enterprises, and in financing agricultural banks of varying organization and scope. Trustee savings banks in 1912 had roughly £10,000,000 in deposits.

The receipt of deposits, usually any amount from 1/- upwards, repayment at the will of the depositor with or without notice as the regulation of each bank may prescribe, and allowing interest on balances, up to certain limits, remaining in the bank for a complete calendar month, may be taken as the normal functions of all Australian savings banks.

A depositor in a savings bank in Australia can take his pass-book to any other savings bank in the country and withdraw sums of money, provided he makes arrangements with his own savings bank before he leaves his State. Savings banks have a clearing system that adjusts debits and credits resulting from this convenience to the public. As the Commonwealth Savings

Bank has branches throughout the continent, it is not a party to this reciprocal agreement.

### *Commonwealth Attempts to Take Over State Savings Banks*

In 1912 Government savings banks existed in all of the six Australian States. Three trustee savings banks also operated in Australia, two in Tasmania and one in New South Wales. The Government banks, however, did five-sixths of the business.

As the State Governments had benefited financially from their savings banks, they feared Commonwealth competition which was threatened by Sections 35 to 52 of the Commonwealth Bank Act of 1911. The fears of the States were justified, for the framers of that Act intended, if possible, not only to compete with, but actually to take over, the State savings banks. The £50,000,000 deposits looked attractive to the promoters of the Commonwealth Bank. This sum would provide adequate capital for launching the general banking department, which had no note issue nor subscribed share capital.

At a conference of State premiers in Melbourne on January 19, 1912, and the following days, the Commonwealth Prime Minister, Andrew Fisher, proposed that the federal authorities take over the savings banks whether government or trustee. After this action the State Government was to have first call on any loan which the Commonwealth Bank should repay to the State bank in redemption of loans existing when it was taken over, and the State Government also was to have first call on three-fourths of the amount of deposits in the State available for investment. The premiers, on the other hand, suggested that the Commonwealth Bank refrain from embarking on savings bank business, and that the States, thereupon, would lend to the bank an amount equal to one-fourth of the excess

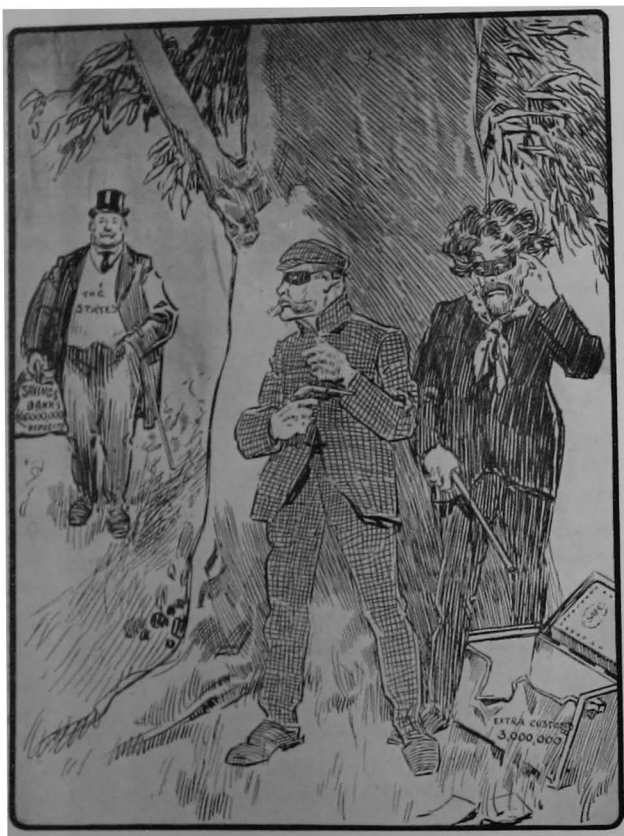
of deposits over withdrawals in their own banks. This arrangement was to come into force June 1, 1913, and last for five years. A deadlock resulted for the time being. On January 23, 1912, with Victoria and Queensland dissenting, the conference of premiers passed the following resolution :

. . . that this conference expresses its readiness to accept the proposals submitted by the Prime Minister, subject to a satisfactory arrangement being arrived at for giving the States an equitable share in the management of the Commonwealth Bank.

The last suggestion was part of King O'Malley's scheme that the Brisbane Conference of the Labour Party adopted in 1908. The proposal of the premiers lapsed.

Commonwealth authorities were determined to engage in savings bank business, even if the States would not yield. Matters were complicated by the fact that previous to federation the various colonies had used post offices as agencies for their savings banks and that since federation the Commonwealth had allowed the States to continue to use these facilities for savings bank business. When the Commonwealth Government decided to enter the savings bank business, States had to find some other means to act as their agents, and this fact caused further friction between the State and Commonwealth authorities.

On July 15, 1912, the Commonwealth Bank commenced savings bank business in Victoria. As the State Savings Bank of Victoria had already arranged for agencies other than post offices, the Commonwealth Bank could enter there without much confusion. After a time other States made arrangements for agencies for their savings banks. They used State Government officials such as Crown land agents, clerks of petty sessions, registrars, police, and also business agents, store-keepers, professional men, and in Victoria and South Australia



Melbourne "Punch", 7/12/12

### THE GRABBERS

(In the Banking Bill the Labour Party propose to take over the State Banks Deposits amounting to £60,000,000.)

FISHER.—"My! What a haul we can get here, O'Malley.  
We must grab this, as we have spent all our last raid."

various trading banks acted as agents of the Government savings banks.

When the Commonwealth Bank commenced its savings bank activities in Melbourne, it also started business in 489 agencies throughout Victoria. The Prime Minister, Andrew Fisher, made the first deposit. On the first day the bank received £8,325 in deposits. On September 16, 1912, the savings bank department opened a branch in Brisbane with agencies throughout Queensland. On October 21, 1912, a branch commenced business in the Northern Territory. Finally, on January 13, 1913, branches and agencies opened in New South Wales, South Australia and Western Australia.

#### *Commonwealth Bank Amalgamates with Tasmanian Savings Bank*

Tasmania, smallest of the States, decided to hand over its savings bank business to the Commonwealth Bank. On January 1, 1913, the State transferred the business of the Government Savings Bank of Tasmania to the Commonwealth Bank under the following terms :

The Commonwealth Bank is to take over all liabilities to depositors, etc., amounting to £788,031, leaving the profit and loss balance, amounting to £5,659, in the hands of the State. The assets, amounting to £793,690, are dealt with as follows: the securities are to be retained by the State Government, and debentures are to be issued to the Commonwealth Bank, Savings Bank Department, in lieu of the same. Three per cent stock totalling £19,000 and 3½ per cent stock totalling £420,961 are to be exchanged for 3½ per cent debentures at 95, and 3¾ per cent stock amounting to £204,000, and 4 per cent stock amounting to £146,700 are to be exchanged for 4 per cent debentures. The total debentures, amounting to £784,133, will mature in twenty yearly instalments of £39,207 per annum, the first payment to be

made at June 30, 1932. The Government will provide a sinking fund of 1 per cent, to be a charge on the consolidated revenue of the State, and to be deposited in the Commonwealth Bank in reduction of debentures in even thousands, in the proportion of  $3\frac{1}{2}$  per cent and 4 per cent debentures issued. The remaining items on the balance-sheet, amounting to £31,299 will be handed over to the Commonwealth Bank as cash. . . . The State is to have first call for State requirements on 75 per cent of the increased deposits at current rates, and should the State at any time not require the amount, the Governor of the Commonwealth Bank will be at liberty to invest the same either in the business of the Bank, or in the Commonwealth, or in municipal securities. The whole of the staff at present exclusively engaged in savings bank business will be retained.

The capture of the Government Savings Bank of Tasmania was a victory for the attempt of the Commonwealth Government to centralize and unify the savings banks. The two trustee savings banks of Tasmania still continued to do business, and so the federal bank did not get a monopoly of the savings bank business in that State.

The savings bank department of the Commonwealth Bank was under the direction of the Governor of the bank, while the State savings banks, except that of Western Australia which was controlled by the State Treasurer with an executive manager, have been directed up to the present time by boards appointed by the State Governments. Between 1924 and 1927 the savings bank department of the Commonwealth Bank was under the direction of the board of the bank.

When Governor Miller opened the savings bank department, he asserted that the Commonwealth Bank did not intend to cut the rates of other savings banks. He announced that the rate on deposits would be 3 per cent for a maximum of £300. Deposits were to be one shilling or more. At that time the



bank made no provision for penny savings banking or school banking as was the case in State savings banks.

States as well as the Commonwealth do not allow companies engaged in profit to make deposits in their savings banks, but friendly societies and charitable organizations, trade and industrial unions, either of employers or of employees, may deposit funds in a savings bank.

After the Act of 1911 the State savings bank in Victoria increased its deposit rate by one-half per cent, but otherwise the presence of the Commonwealth Bank did not materially affect the State savings banks on the mainland. Interest rates on deposits in State savings banks at that time ranged from 3 to 4 per cent up to certain limits, the highest being a £1,000 in Western Australia.

### *The London Branch*

In 1913 Governor Miller opened a branch of the bank in London. The London branch of the savings bank department was to give Australian visitors facilities for drawing on their savings accounts while in England. The branch was also to expedite the passage of emigrants from England by establishing a bank that would collect savings in England and later allow depositors to withdraw money in Australia.

Opening a branch in London could develop into a bid for British savings. Interest rate offered by the Commonwealth Bank was 3 per cent. That of the British Postal Savings Bank was 2½ per cent. The presence of the Commonwealth Bank, however, offering one-half per cent more interest probably was not sufficient to overcome any objection of people to investing their savings in what was practically a foreign bank. Since the war the Commonwealth Bank in its circulars has announced that the savings bank in London operates "On the same terms as the British Post Office Savings Bank".

Setting up a branch of the savings bank in London caused the *Economist* of that city to remark on August 2, 1913, that the

. . . move would resolve itself into an ingenious plan for borrowing money in the United Kingdom without the usual loan charges being incurred.

A branch in England does lend itself to that possibility. If people in England could be induced to lend, or to deposit, their money in the London branch, the Commonwealth Bank could use these deposits for developmental purposes in Australia. If the bank had branches in the more important cities of the United Kingdom, it might be possible under vigorous action to collect considerable sums for use in Australia. The expenses of floating loans would be avoided. The Commonwealth Government has not yet seen fit to take advantage of this situation.

At the Premiers' Conference in Melbourne in March, 1914, the meeting resolved:

That in order to terminate the disadvantages arising from the competition between the State Savings Banks and the Commonwealth Savings Bank, and to secure the advantages which will follow upon an increased recognition of the national character of the Commonwealth Bank, it is resolved that in consideration of the Commonwealth Bank withdrawing from the Savings Bank business, the States are willing to allow the Savings Bank deposits now held by the Commonwealth Bank to remain on fixed deposit with the Commonwealth Bank, for the repayment of such deposits, and will further undertake at their earliest convenience and as far as practicable to transact their State banking business with the Commonwealth Bank.

The meeting also resolved that

. . . with a view to early completion of such an agreement,

the State Treasurers should confer with the Commonwealth Treasurer as early as possible.

As the Liberal Party controlled the House of Representatives and the Labour Party had a majority in the Senate, this suggestion did not become law.

On May 1, 1914, the Savings Bank of New South Wales amalgamated with the Government Savings Bank of that State. With this event trustee savings banks ceased to operate on the mainland of the Commonwealth.

In the General Election of 1914 the Labour Party proposed to continue the savings bank department and to effect an amalgamation between the Commonwealth and State savings banks. Governor Miller supported this proposal. The Liberal Party endorsed the resolutions of the Premiers' Conference of 1914. As the Labour Party received a majority in both Houses, the vote assured the existence of the savings bank department for at least three years. In December, 1914, an Amendment to the Commonwealth Bank Act of 1911 specified that the bank could amalgamate with other commercial or savings banks, and in order to facilitate such transactions the Act enabled the bank to increase its capital to £10,000,000, if necessary.

When the Bill was before the Commonwealth Parliament, the Prime Minister, Andrew Fisher, claimed that the previous Government had practically told Governor Miller to close the London branch of the savings bank department, but that since the Labour Government had taken office, the branch in London was actively engaging in business. The Prime Minister also asserted that the savings bank of Western Australia had been taken over by the Commonwealth Bank, and when he was questioned on the point he said,

Agreements have been entered into for the transfer.

The agreement, however, was not carried out. It was not until 1931 that the Commonwealth Bank, under the exigencies of the depression, took over the savings bank of Western Australia.

As the original purpose of the bank was to make more widespread financial opportunities for the masses, the bank at this early stage had already performed many services in the promotion of saving among the workers.

One of the first acts of the savings department was the establishment of an agency at the camps of the workers constructing the East-West railway between Port Augusta, South Australia and Kalgoorlie, Western Australia. In April, 1914, the bank arranged for the postal official along the line to act as savings bank agent. A police escort accompanied the agent and railway paymaster on the latter's fortnightly trips in the Trans-Continental motor car. In 1915 the bank established an agency at Kalgoorlie for workers on the line. At the completion of the Trans-Continental railway on October 17, 1917, the bank had opened 4,258 accounts with £311,164 deposited along the line.

The bank further made arrangements with the paymaster at Flinders Naval Base, Melbourne, to act as agent of the savings bank department, and this agency commenced business on November 30, 1912. The bank placed an agency on the training-ship *Tingira*, stationed at Sydney, and by December, 1913, it had provided all warships with savings bank facilities. At the end of the bank's first ten years in operation there were 6,487 accounts in the navy with deposits at £402,718 and withdrawals at £252,098.

Later after the war seamen's banks on July 3, 1922, opened in Sydney, Newcastle, Melbourne, Brisbane, Adelaide, Hobart, and Fremantle. During the first year the banks collected 128 accounts with £5,836 on deposit. On the Commonwealth

steamers, before they were sold, pursers acted as agents of the Melbourne branch.

### *Facilities for Soldiers*

With the war in progress the Commonwealth Bank did all it could to be serviceable to the troops. When the men assembled in training camps, officers of the bank visited the camps on pay days to open accounts for the men. The money was available either in Australia or in the United Kingdom. Later, the bank made accounts available in Cairo. The Commonwealth Bank granted facilities to soldiers to open accounts with the bank through the medium of regimental paymasters. Paymasters lodged altogether £5,500,000 to the credit of soldiers. Soldiers paid no service charge.

In 1916 40,000 savings bank accounts were available in London for Australian soldiers, of whom at least a thousand every day called personally to transact their business. Any Australian soldier who had money sent to him could get it from his paymaster merely by presenting the warrant of the bank.

For the half-year ended June, 1917, the bank made 58,000 payments to members of the Australian Imperial Forces on the Western front and in London, the amount aggregating £430,245. Capital cities of Australia sent telegraphic transfers to members of the Australian Imperial Forces abroad amounting in all to £3,560,951.

An Australian soldier rescued from a submarined transport or hospital ship could obtain a temporary advance from the bank to cover immediate needs, irrespective of whether he had any funds in the bank or not. The only security the bank required was an order on the paymaster for the amount advanced. In this way many soldiers became obligated to the bank, but, according to C. C. Faulkner, in not one case did a member of

the Australian Imperial Force fail to make good his liabilities on arrival in Australia, even though cheques had been drawn in some cases on non-existent accounts.

### *Amalgamation with Queensland Government Savings Bank*

After the war the savings bank department again came into prominence. The Labour Party had lost control of all parliaments in Australia except that of Queensland. There the Party resolved to further bank amalgamation. Already in 1917 the Agricultural Bank and the Workers' Dwellings Board had amalgamated with the Queensland Government Savings Bank, which at the same time had been moved from the control of the State Treasurer and had been placed under a commission. Having made this amalgamation, the Queensland Labour Government decided in 1920 to go a step further.

On June 22, 1920, Governor Miller made arrangements to take over the whole savings bank business of the Queensland Government Savings Bank. The State also was to conduct its entire Australian banking business with the Commonwealth Bank. The Queensland Parliament ratified this action on December 6, 1920, and two days later the savings bank business throughout Queensland was in the hands of the Commonwealth Bank.

Under this agreement the bank hands to the State Government up to 70 per cent of the increases in depositors' balances, receiving in exchange State Government securities with a currency up to twenty-five years, and bearing interest at current rates. It is provided that such rate must not be more than 1 per cent above the rate paid on its depositors' balances by the savings bank department. The bank has the right, in the event of a decrease in the amount of depositors' balances, to with-

draw from the Queensland Treasury up to 70 per cent of the excess of withdrawals over deposits.

This amalgamation gave the Commonwealth Bank an increase of 234,587 savings accounts. Except for the Commissioner of the Queensland Savings Bank, who retired when the transfer became operative, the whole staff, numbering 224, received employment in the Commonwealth Bank.

As the Queensland Savings Bank had transacted various schemes for loans to farmers, the State Advances Corporation, which later became the Agricultural Bank, took care of the lending functions of the old savings bank. The State Government owns and operates the Agricultural Bank.

Referring to the amalgamation in April, 1920, the Australian Insurance and Banking Record remarked that :

It has been pointed out that the deposits of the Queensland Savings Bank at the end of the last financial year ran to £14,322,146 and under the Act, the Government must invest in its securities—in other words utilize—two-thirds of the deposits. On taking over, the Commonwealth will become creditor of the State Government to the extent of about £9,548,000 in respect to the expenditure or investment, and the Commonwealth accordingly will become the debtor of depositors. It is understood in connection with the change that the Commonwealth Bank will take over the Government banking business, and will arrange to take up Treasury Bills to the amount of £1,124,750, which fall due at January 1, 1922, as £600,000 at 4 per cent and £524,750 at 3¾ per cent.

With no State savings bank in Queensland, savings banks of other States had to effect new arrangements in that State for the reciprocal agreement, whereby depositors might make withdrawals from their accounts through savings banks, other than the Commonwealth Bank, anywhere in the Common-

wealth. Since 1920 the Queensland National Bank has performed this service in the northern State for depositors in savings banks in other States.

The transference of the Queensland Government Savings Bank left the Commonwealth Bank in that State with no competitor for savings bank business. In the four remaining States on the mainland the Commonwealth Bank competed with a State savings bank. In Tasmania two trustee savings banks competed with the Commonwealth Bank.

In 1923 Queensland passed a Private Savings Bank Act which required registration of savings bank business of private individuals. In 1924 Western Australia passed an Act which stated that

. . . private persons may, under licence, conduct Savings Bank business, if they lodge substantial securities with the State Treasurer.

These States passed these Acts in order to bring all savings business into the Government savings banks.

#### *The Commonwealth Bank Act of 1927*

In 1927 the next move affecting the savings bank department took place. In order to make the Commonwealth Bank a central bank, Sir Ernest Harvey suggested that the bank should cease collecting savings, for this business, according to Sir Ernest, was outside the scope of a central bank.

In September, 1927, Dr. Earle Page, Commonwealth Treasurer, introduced a bill in the Commonwealth Parliament to separate the savings bank business from the Commonwealth Bank. The Labour Opposition fought the measure but to no avail.

The Commonwealth Bank (Savings Bank) Act of 1927, which divorced the savings bank business from the Commonwealth Bank, provided that the new bank should be directed



by three Commissioners, one being a director of the Commonwealth Bank for purpose of liason. As is the case with the Commonwealth Bank, one-half of the profits of the new savings bank goes to the reserve fund of the bank and the other half goes to the National Debt Sinking Fund.

The balance-sheet of December 31, 1927, showed that the deposits of the savings bank department at that time were approximately £46,500,000. The new bank, accordingly, at its opening on June 8, 1928, started with a considerable business.

#### *The Commonwealth Housing Act of 1927*

Complementary to the Commonwealth Bank (Savings Bank) Act of 1927, the Commonwealth Housing Act of the same year went into effect on January 1, 1928. This Act

. . . defines the manner in which the powers of the Savings Bank are to be exercised in respect of advances for building homes.

The fact that the Commonwealth Savings Bank now has its funds connected with the operation of the Commonwealth Housing Act makes amalgamation between the Commonwealth and State savings banks less complicated. When the Queensland Government transferred its savings bank business to the Commonwealth Bank, difficulties arose over the lending functions of the State bank. With the Commonwealth Savings Bank working with the operations of the Commonwealth Housing Act some of the difficulty of providing for the lending functions of State savings banks in amalgamations with the Commonwealth Bank has disappeared. If the rural credits department of the Commonwealth Bank expanded its activities to meet individual farmer's needs, most of the remaining obstacles would vanish.

Under the Commonwealth Housing Act no person in

receipt of more than £12 a week may obtain an advance. The Act allows advances up to ninety per cent of the value of the property with a maximum loan of £1,800. A ninety per cent advance on property valuation is too high. With the possibility of falling prices advances above sixty per cent of property values are dangerous. The Commonwealth Bank, under the housing act, does not make loans directly to applicants, as it should, but makes funds available under certain conditions through State and Territorial administrations, State savings banks, and municipalities.

### *Lending Operations of State Savings Banks*

State savings banks have invested their deposits in advances to farmers and settlers as well as in various Government bonds. In four States savings deposits have been invested in part in State agricultural banks. In New South Wales and Victoria savings banks themselves have lent directly to farmers and settlers. Separate lending departments have performed these transactions.

- ✓ In the Victorian State Savings Bank an advances (credit foncier) department makes loans both to farmers and to home builders. In the Government Savings Bank of New South Wales there were three such departments: (1) rural bank, (2) advances for homes, and (3) government housing. The Government Savings Bank (Rural Bank) Act passed by the Story Government in 1920 converted the advance department of that bank into a rural bank department.

On April 23, 1931, on account of persistent withdrawals from depositors' balances, the Government Savings Bank of New South Wales suspended payments. On June 30, 1931, deposits and other liabilities to customers in the rural bank department amounted to £11,295,245. At the same date advances outstanding totalled £14,421,268, representing 19,336

current loans. Of these 10,076 for £7,928,148 were overdrafts on current accounts; 8,686 for £6,166,523 were long-term loans, and 574 for £326,596 came under the Advances for Settlers Act of 1929. Operations of the department gave a net profit of £61,437 for 1930-31. When the Commonwealth Bank took over the Government Savings Bank of New South Wales at the end of 1931, it did not take the rural bank department, and negotiations are at present underway for the development of that department as a State institution.

Besides the rural bank department the Government Savings Bank of New South Wales also operated advances for homes and general housing departments. Loans outstanding of the advances for homes department on June 30, 1931, amounted to £12,811,018. Stock and debentures of the department were £12,596,883. For the year 1930-31 this department showed a net profit of £19,255. The total liabilities of the general housing department at June 30, 1931, were £535,196, of which £530,428 was due under the Housing Act of 1912. At that date £504,793 was due to the department from loans on mortgages and contracts. The general housing department during 1930-31 made a net profit of £1,293. The agreement amalgamating the State savings bank with the Commonwealth Savings Bank did not include these two departments.

The savings bank of Victoria has financed its advances to farmers and home purchasers by the credit foncière department purchasing debentures of the savings bank department and by public issues. The total amount of credit foncière debentures and inscribed stock current at June 30, 1932, was £25,056,535; of this sum the public held £10,218,435, while the savings department had £14,838,100. At June 30, 1932, the savings bank had built for the housing scheme 7,380 houses and also had purchased 1,408 houses as well. The total debt in this connection outstanding at June 30, 1932, was £5,258,312. The aver-

age capital cost of the 7,380 completed houses was £868 4s. 5d. Borrowers pay instalments, including interest and principal, from 2/3 to 2/9½d. per week for every £100 borrowed. The original interest rate varied from 7¼ to 6 per cent, but has been reduced to 5¾, 5¼, and 5 per cent during the three years following the enactment of the Financial Emergency Act of 1931.

Commissioners in charge of the credit foncier department may also advance money to companies in country districts for erecting works for freezing, packing, or storing any commodities that are included in the Primary Producers and Fruit Acts, provided that shares equal to not less than two-thirds of the value of the proposed expenditure have been taken up, and one-half thereof paid in cash. At June 30, 1932, eight loans to companies were current with a debt of £79,240 outstanding.

At June 30, 1932, the savings bank credit foncier department had since its inception advanced £43,421,108, of which £24,909,952 was outstanding, representing 44,505 current loans. Towards the repayment of this sum borrowers had lodged £228,123, which earned interest at the rate paid under the security. The bank had at that date since its inception advanced £10,940,261 to farmers with £5,525,334 outstanding, representing 5,962 current loans. The average balance of farm loans on June 30, 1932, was £926 18s. 6d. During 1931-32 the credit foncier department advanced £317,264. The average rate of interest during that year on credit foncier debentures and stock was £4 4s. 7d. per cent, and the average rate of interest on loans was £5 1s. 4d. per cent.

#### *Investments of the Commonwealth Savings Bank*

Governor Miller in 1914 wrote to Andrew Fisher, Treasurer of the Commonwealth, that he desired

. . . to give every person in the Commonwealth facility to

have a savings bank account, and to allow a fair rate of interest and to invest that money in gilt-edged securities; such as State Government debentures, municipal, and similar securities, at a rate that will pay interest and expenses.

This policy prevailed in the investment of funds throughout the existence of the savings bank department of the Commonwealth Bank.

The Commonwealth Bank Act of 1927, creating the new Commonwealth Savings Bank, provided that the new bank might invest any moneys held by it:

- (a) in any Government security approved by the Treasurer;
- (b) in loans on the security of land;
- (c) in advancing money, in accordance with the Commonwealth Housing Act, 1927, for the purchase or erection of dwelling houses, and for the discharge of mortgages on dwelling houses;
- (d) in advancing money for the erection of warehouses or storage facilities intended for the warehousing or storage of primary products, including the erection of plant for treatment to ensure their preservation and preparation for marketing;
- (e) in debentures issued by the Commonwealth Bank of Australia for the purpose of its Rural Credits Department;
- (f) on fixed deposit with the Commonwealth Bank of Australia;
- (g) in any other prescribed manner.

So far no change has occurred in the investment policy for savings bank deposits. Over 90 per cent of the investments of the Commonwealth Savings Bank in June, 1933, was in government securities. The Act of 1927, however, did provide added facilities for taking care of the lending functions of the State savings banks in case of future amalgamations.

After the depression had interfered with economic progress in Australia, withdrawals began to be greater than deposits in the savings banks. From June 30, 1929, to June 30, 1931, savings bank deposits decreased from £225,500,000 to £193,407,000. This decline placed a strain on the savings banks, particularly in New South Wales and Western Australia.

*Amalgamation with Government Savings Bank of  
New South Wales*

During 1929-30 withdrawals exceeded deposits in the Government Savings Bank of New South Wales by £6,007,284. After allowing for interest credited to depositors' accounts for the year the net decrease in depositors' accounts was £3,327,335. During the three months ended September 30, 1930, deposits decreased by £3,495,065, of which £1,151,749 went to the Commonwealth Loan of July of that year. In October, 1930, elections in New South Wales disturbed many depositors, and even the announcement of the commissioners of the State savings bank that the institution was not politically controlled failed to arrest materially the withdrawals. During that month balances decreased by £1,472,219. In December, 1930, withdrawals for various purposes, some being for investment in the Commonwealth Cash and Redemption Loan of that month, reached £2,593,662, a record movement. The following month the decrease in deposits was only £603,710. In March, 1931, proposed reductions in interest caused further withdrawals, and with the announcement in April of a proposed amalgamation with the Commonwealth Savings Bank a run commenced on the State bank. On April 22, 1931, cash withdrawals for the day amounted to £1,678,313. Cash resources being exhausted, the State savings bank on the next day suspended further pay-

ments. During April withdrawals exceeded deposits by £4,140,569, making the decrease since July 1, 1930, £16,388,814. At the date of suspension depositors' balances without the year's interest stood at £54,244,530.

On April 21, 1931, Premier Lang of New South Wales asked the Commonwealth Savings Bank to take over the State savings bank, this step being at the request of the savings bank commissioners in New South Wales. The Commonwealth Bank Board replied that it would investigate the matter and that if the transfer were possible would submit its views to Commonwealth Treasurer Theodore, whose approval would be required to validate any such transfer. On April 23, 1931, the savings bank and rural bank departments suspended payments. On April 28, 1931, both houses of the New South Wales Parliament passed a Bill to enable the savings bank commissioners to obtain advances from the Commonwealth Bank to make payments to depositors in necessitous circumstances. The Bill also authorized the commissioners to enter into arrangements for amalgamation of the State savings bank with the Commonwealth Savings Bank. The Bill included a moratorium clause temporarily suspending the right of depositors to receive payment pending amalgamation, this clause also applying to interest on any stock or debentures issued by the State savings bank. The Governor signed the Bill on the following day.

On April 30, 1931, the Press announced that the Commonwealth Bank had made money available to the New South Wales institution for relief of depositors in dire necessity. On May 3, 1931, Sir Robert Gibson, Chairman of the Commonwealth Bank Board, stated over the radio that the Commonwealth Bank and the Commonwealth Government would support the State savings bank. On May 4, 1931, depositors were able to withdraw £1, if their account had £10 at credit,

£2 if it had £20, and £3 if it had £30 or more. The rural bank department on May 15 extended aid to its depositors. On May 29 Sir Robert Gibson announced that his board had advanced proposals for amalgamating the two savings banks but that "the proposals do not embrace, at present, the taking over of either the Rural Bank Department or the Advances for Homes Department".

Premier Lang felt that he could not accept the proposals of the Commonwealth Bank Board, for among other things one provision stated that £12,931,000 of securities should be paid off by the State on their maturing date of September 30, 1931. At a conference of Commonwealth and State premiers in Melbourne a sub-committee investigated the matter. After further negotiations an impasse was reached and on July 30 Governor Riddle of the Commonwealth Bank told Premier Lang that negotiations had terminated. A meeting of depositors in the Sydney Town Hall in August favoured amalgamation with the Commonwealth Savings Bank. State authorities, however, arranged to reopen the savings bank as a State institution. As a result on September 7 the bank under new commissioners opened for new business as a State institution.

The new commissioners then conferred with the Board of the Commonwealth Bank on the amalgamation of the two banks. After considerable negotiations fresh proposals brought about an agreement, which was given effect by a law passed by the New South Wales Parliament enabling the Commonwealth Savings Bank to take charge of the State savings business on December 15.

#### *Agreement of Amalgamation with New South Wales Bank*

A preamble to the agreement with the Government of New South Wales stated that



The Commonwealth Bank Board and the Commissioners of the Government Savings Bank having given the fullest consideration to the Savings Bank position of Australia are agreed that it would be in the interest of Australia as a whole that a National Savings Bank be eventually constituted merging the interest of all States in Savings Bank business into one institution. Holding this view the respective Boards are of the opinion that on the accomplishment of any such merger in addition to Commonwealth representation each State should have one representative upon any Board of Control constituted for the purpose of managing the National Institution.

This proposal is a direct endorsement of the Labour policy of centralization of savings banks. Dr. Maloney on April 22, 1931, in the House of Representatives remarked that he

. . . hoped that the Government Savings Bank of New South Wales, which is in great difficulties to-day, will be taken over by the Commonwealth Bank. Labour members who voted for the original Commonwealth Bank Bill, after having forced Mr. Fisher, against his will, to introduce it, desired that there should be only one savings bank operating throughout Australia.

Governor Miller took the first step in this direction in 1913 by taking over the State savings bank in Tasmania. Since then the federal bank has amalgamated with all State savings banks except those of Victoria and South Australia. The suggestion of State representation is in line with the scheme of King O'Malley adopted by the conference of the Labour Party in 1908 at Brisbane.

The extent of the amalgamation appears in the following clause of the agreement :

This agreement save where otherwise expressly provided shall be read and constructed as applying to the Savings

Bank Department only and not to the Rural Bank Department, the Advances for Homes Department, or the Government Housing Department except in so far as those Departments are debtors or creditors of the Savings Bank Department.

The agreement provided for the transfer to the Commonwealth Savings Bank of the business of the Savings Bank Department, old and new business divisions as at October 31, 1931, and after acquired. Under the agreement Commonwealth inscribed stock was to be issued in lieu of the stock issued to the State savings bank by the rural bank department amounting to £4,187,169 and Commonwealth inscribed stock was also to be issued in lieu of stock issued to the State savings bank department by the homes department amounting to £10,437,048. All moneys received by the rural bank, the homes, and the housing departments in respect of payments by borrowers or the proceeds of realization of assets were credited to the Commonwealth institution. The State Government is to repay to the federal bank the Treasury deposit of £7,112,564 by forty equal half-yearly payments, the first payment to be made on November 30, 1936, with interest at 4 per cent.

At the opening of accounts of the State savings bank on December 15, 1931, in the Commonwealth Savings Bank the federal institution credited each depositor in the old business with £10, or 10 per cent of his balance, whichever was the greater amount at the date of amalgamation, balances less than £10 being credited in full. The balance of the deposits was to be made available as soon as possible with interest continuing in the meantime. The Commonwealth Savings Bank made deposits in the new division available on demand. The deposits in the new division consisted of those accounts opened after the State savings bank re-opened in September, 1931.

The State savings bank commissioners under the agreement have the right for five years to borrow up to 70 per cent of any increase in deposits to a maximum of £500,000 in each year, for the purpose of the rural bank and advances for homes department. The Commonwealth Savings Bank will make and maintain investments in New South Wales to an amount proportionate to savings bank deposits held by it in New South Wales. The profit and loss on State business will be equally divided between the federal bank and the State savings bank commissioners. Premier Lang at the time of the amalgamation told the New South Wales Parliament that the Commonwealth Savings Bank obtained the benefit of the reserve fund and profit and loss account, which totalled £2,018,000. Even during the troublesome year, 1930-31, the savings bank department of the State bank showed a net profit of £264,183.

Other provisions of the agreement were :

The Bank will soon as practicable after this Agreement has been ratified by Act of Parliament make available to each fixed depositor of the Rural Bank Department (Old Business Division) an amount equivalent to 10 per centum of the amount of such Fixed Deposit.

The Bank undertakes that in the event of further amalgamations with or acquisitions of other Savings Banks any differences in the terms of agreement between the Bank and such Savings Banks and the terms of this agreement shall be conveyed to the Commissioners and the Bank hereby agrees that on application by the Commissioners it will concede to them such differences provided always that this shall not apply to the terms of Clauses 6 and 9a hereof.

These clauses referred to the original restrictions placed on depositors for drawing in the Old Division on their balances and to the right of the State commissioners to borrow up to £500,000 a year or 70 per cent of an increase in deposits during

the first five years of the amalgamation. The restrictions on depositors have since been abolished.

The Bank undertakes that in the event of further amalgamations with or acquisitions of other Savings Banks any differences in terms of agreement between the Bank and such Savings Banks so far as they relate to Rural Banking, Agricultural Banking, Advances for Homes or kindred matters and the terms of this agreement shall be conveyed to the Commissioners and the Bank hereby agrees that on application by the Commissioners it will concede to them such differences provided always that this shall not apply to Clause 3 (b) (1),

which deals with fixed depositors' rights of withdrawal now abolished. The Government under the agreement was not to set up a State savings bank in New South Wales and the staff of that time in the State bank was to be employed temporarily for a year.

The Commissioners of the State savings bank transferred to the Commonwealth Savings Bank the following liabilities and assets of the rural bank department as at October 31, 1931, subject to any adjustments necessary by reason of transactions since that date :

- (a) Liabilities of the Commissioners to the Public transferred to the Commonwealth Savings Bank: and against which the Commonwealth Savings Bank indemnifies the Commissioners.
  - (i) Fixed Deposits in the Old Business Division including accrued interest to October 31, 1931, amounting to the sum of £9,871,776 9s. 6d. less amount of advances made to depositors with interest accrued.
  - (ii) Current Account balances in the Old Business Division including accrued interest to October 31, 1931, amounting to £1,295,919 15s. 5d.

(b) Assets of the Commissioners transferred to the Bank.

- (i) Fixed Deposits with other Banks amounting (with accrued interest until October 31, 1931) to £936,280 10s. od., together with all interest accrued since October 31, 1931.
- (ii) Deposit with the New South Wales Treasury amounting (with accrued interest to October 31, 1931) to £506,684 18s. 6d.

Only depositors with balances in the Old Division of the savings bank were prevented at first from transacting business upon their full accounts. Depositors with current accounts in the rural bank department could operate upon these accounts without any limitation from the date of amalgamation.

When the amalgamation took place on December 15, 1931, matters ran so well that Sir Robert Gibson announced on January 6, 1932, that from January 14 depositors in the "old division" could operate with freedom on their credits transferred to the Commonwealth Bank. On the same day Sir Robert Gibson further announced that

It will be remembered that under the State Act reconstructing the administration of the Government Savings Bank, the moneys of the fixed depositors were capitalized, bearing interest at 3 per cent per annum. When the amalgamation of the two banks took place, the Bank Board announced that it would make 10 per cent of these moneys available to depositors. The Bank Board has now decided to reconvert, as from January 14, the remaining balances into fixed deposits with the Commonwealth Bank on the following terms:

50 per cent of each deposit for twelve months, bearing interest at  $3\frac{3}{4}$  per cent per annum. 50 per cent for the twenty-four months, bearing interest at 4 per cent per annum.

In doing this, the Bank Board converts all these deposits into ordinary bank fixed deposits, bearing interest at the same rate as the general deposits now placed with the Commonwealth and Trading Banks.

The announcement that customers of the old Government Savings Bank of New South Wales could from January 14, 1932, operate with freedom on their deposits transferred to the Commonwealth Savings Bank brought relief to the general public. It should not be thought that no depositor lost any money on account of the period of suspension of payments. Traders and brokers during that time announced that they would accept the right of customers' claims on the State savings bank as means of payment at rates upwards from 12/- per £1 of deposits. Many depositors who were forced to realize on their passbooks in this way lost considerable sums through the bank's suspension of payments.

When the doors of the Commonwealth Bank opened for business at 9.30 a.m. on January 14, 1932, there was not the least sign of uneasiness on the part of depositors. For the first time since April 22, 1931, the deferred portion of depositors' balances, amounting to £45,874,588, became available to over a million people. Preparations of the authorities for a run on the bank were not required. A dark chapter in the history of Australian savings banks had ended.

#### *'Amalgamation with Western Australian Savings Bank*

During 1931 the Commonwealth Savings Bank also amalgamated with the Western Australian Government Savings Bank. In contrast to the situation in New South Wales the trouble of the savings bank in Western Australia received little publicity and this fact, together with the smoothness of the negotiations with the Commonwealth Bank Board, prevented the situation

in Western Australia from causing any inconvenience to depositors.

On November 1, 1931, the amalgamation between the two savings banks became effective. The Commonwealth bank assumed almost all the assets and liabilities of the State bank as at October 31, 1931. The Commonwealth Savings Bank at that date became debtor to depositors in the State bank for £7,329,377, which was a big drop in deposits from the £8,488,365 held by the State savings bank on June 30, 1930. At the end of October, 1931, the balance-sheet total was £8,221,174. Most of the assets turned over to the Commonwealth Savings Bank were Government securities. From the time of amalgamation the Government of Western Australia has the right to borrow from time to time from the Commonwealth Savings Bank up to 70 per cent of the increases in depositors' balances in Western Australia. The increases are reckoned on a quarterly basis. Interest is regarded as deposits. In the event of a decrease in deposits subsequent increases shall be set off against the previous decrease before the State Government shall have the right to borrow on the 70 per cent basis. The loans to the State Government are to be secured by Commonwealth stock.

The Commonwealth Savings Bank must keep a separate account of the amalgamated business in Western Australia and the resulting profit or loss on such business at each half-year shall be equally divided between or borne by the Commonwealth Savings Bank and the State Government. Any variation in future agreements with other savings banks must be reported to the Western Australian Government for adoption in the Western Australian agreement if the State Government so desires. The staff of the State bank employed solely in savings bank business has been absorbed in the Commonwealth institution. The agreement lasts for twenty-five years and the

State Government has the option of extending it for another twenty years.

A provision in the agreement looks towards State representation on the Board of the Commonwealth Savings Bank :

The Treasurer for the time being of the State of Western Australia shall become a member of the Savings Bank Advisory Board to advise the Bank in respect of the following matters :

- (a) Rates of interest payable to depositors;
- (b) Maximum amount on which interest shall be paid to depositors;
- (c) Nature of investments and terms and conditions of loans to be made by the Bank out of Savings Bank funds.

These two saving bank amalgamations have left the Commonwealth bank without competition in three States and with no State opposition in Tasmania. The Commonwealth bank is becoming the national savings bank mentioned as desirable in the preamble of the agreement between the Commonwealth Savings Bank and the Commissioners of the State savings bank in New South Wales. The State savings banks in Victoria and South Australia, however, are successfully competing with the Commonwealth Savings Bank and will not in all likelihood amalgamate with the federal bank for some time. In the matter of reciprocity the State savings bank in these two States now use the facilities of the Bank of New South Wales for customers who wish to draw on their deposits while in New South Wales and Western Australia. The Queensland National Bank still performs this service in the northern State, while in Tasmania the two trustee savings banks co-operate in this reciprocal agreement.

#### *Analysis of Savings in Australia*

For the year ending June 30, 1906, Australian savings banks



had 1,185,608 depositors with £38,286,219 to their account. For the year ending June 30, 1912, the last before the appearance of the Commonwealth Bank, the number of depositors had increased to 1,736,004 with £66,959,778 to their account. By June 30, 1914, there were 2,108,496 depositors with £83,541,224 in Australian savings banks. Of this number 143,143 with £4,645,258 did business with the Commonwealth Bank. The State savings banks had scarcely noticed the competition of the Commonwealth Bank.

The commencement of the war altered the situation to such an extent that it is impossible during the years of the conflict to trace the effect of the presence of the Commonwealth Bank on the State savings banks. People bought war bonds and war savings certificates with their savings. The desire to be thrifty was reinforced with the desire to be patriotic.

There were 2,945,839 depositors in the savings banks of Australia at the middle of 1919. The deposits for the year ending at June 30, 1919, totalled £128,524,542. The Commonwealth Bank at the same date had 478,413 depositors in Australia with £17,495,899 deposits. The Commonwealth Bank also had 1,151 depositors with £37,231 in Papua and 9,446 depositors with £256,293 in London. The London branch had collected a loan of over a quarter of a million pounds from the British public to be used as the Commonwealth Bank desired.

Between 1920 and 1926 the number of depositors in the savings bank department of the Commonwealth Bank doubled, being in 1920, 533,922 and in 1926, 1,095,162. Deposits during the same time more than doubled, increasing from £17,792,638 to £45,537,605. The number of depositors in all savings banks in the Commonwealth for the year ending June 30, 1926, was 4,182,566, the Commonwealth Bank having more than a quarter of the total. Savings deposits for all banks at the same

date reached £195,451,540 with the Commonwealth Bank possessing again about a quarter of the total.

The increase in the savings bank business of the Commonwealth Bank undoubtedly was partly the result of the service rendered to the soldiers by the bank during the war. As the men while in service had transacted their savings bank business with the bank, it was only natural that on returning home they should continue to do so. This business, together with that of their wives and families, probably accounted for a great deal of the increase in the business of the savings bank department. No statistics on hand, however, show the exact number of ex-Service men who are depositors of the Commonwealth Savings Bank.

The policy of Governor Miller of not offering higher interest rates on deposits than those of other savings banks has continued. At present the Commonwealth Savings Bank offers  $2\frac{1}{2}$  per cent per annum interest on deposits up to £500 and 2 per cent on deposits £501—£1,300. The State savings bank in Victoria allows interest of  $2\frac{3}{4}$  per cent on current deposits, and that in South Australia at June 30, 1932, was giving  $3\frac{1}{2}$  per cent for accounts not closed during the year and 3 per cent for those wound up in the year.

The savings bank deposit per head of population in Australia increased from £9 9s. 10d. in 1905-06 to £14 8s. 4d. in 1911-12. It was £32 6s. 9d. in 1925-26. The upward trend was apparent before the establishment of the federal bank. As the war stimulated saving the problem of tracing the effect of the Commonwealth Bank on the per capita deposit is difficult. The nominal value of the per capita deposit rose. The purchasing power of money, however, declined. An index number constructed by Sir George Knibbs with a regimen of 47 commodities—retail commodities—based on 1911 as 1,000 showed in 1905-06 an index number of 900. From that time until

1920-21 it rose steadily to 1,902. In 1925-26 it was 1,829. As this index shows the trend of retail prices, it is particularly appropriate for judging the purchasing power of the per capita savings of the community. The value of savings is their command over retail goods in a time of need.

Between 1911-12 and 1925-26 the per capita deposit multiplied almost two and one-quarter times. The purchasing power of the pound during the same time declined to .547 of its value in 1911-12, or better, it required £1,829 in 1925-26 to buy goods that would sell for £1,000 in 1911-12. The per capita deposit of 1925-26 in terms of the purchasing power of the pound of 1911-12 was £17 13s. 9d. This figure is an increase on the £14 8s. 4d. of 1911-12 but not nearly as much as the nominal £32 6s. 9d. The Commonwealth Bank did not cause the people of Australia to save less than formerly. Beyond this fact nothing is certain.

Similarly the effect of the Commonwealth Bank on the number of depositors is hard to disentangle from the other factors. In 1905-06 the continent had 294 depositors per 1,000 population. This figure increased to 380 in 1911-12. During the war it went up and in 1919-20 reached 489. By 1925-26 the number was 692. The impetus given saving by the war continued long after the end of the conflict. The Commonwealth Bank may have helped to push the figure upward, for it had obtained almost a quarter of the depositors of the country. It is impossible to say how many depositors per 1,000 people would have existed if there had been no Commonwealth Bank.

When Parliament passed the Commonwealth Bank Act in 1911, the *London Economist* on February 10, 1912, forecast that

The rivalry of the Postal Savings Department will be most felt by Queensland and Western Australia, where the

Savings Bank deposits have been obtained entirely through the instrumentality of the post offices.

The Government savings banks in both these States have since amalgamated with the Commonwealth Savings Bank for the sake of economy.

Since 1920 the Commonwealth Bank has had a monopoly of the savings bank business in Queensland. In 1919-20 Commonwealth statistics gave Queensland 486 per thousand population in the State with savings deposits. After amalgamation with the Commonwealth Bank the figure in 1920-21 slumped to 426. After that year it rose slowly but did not reach the figure of 1919-20 until 1926-27. The average savings account has been larger in Queensland than in the other States, although the per capita savings has been the lowest of the States. This situation would indicate that before amalgamation many people had accounts in both the State and Federal savings banks. Lack of competition in Queensland has not had any noticeable effect on savings in that State, except possibly giving the State a few less depositors; how few nobody knows.

The highest figure of savings bank depositors per thousand people is that of South Australia. In 1929-30 it was 979, being 76 above Victoria, the second highest. In 1931-32 the per capita deposit stood at the top, being £36 16s. od., while that of the Commonwealth was £30 4s. 7d. It is hard to give the reason for the great amount of saving in South Australia. Although more closely settled than Queensland and Western Australia it is less so than Victoria and New South Wales.

Many factors enter into the situation of South Australia. The State is a wheat farming country and wheat farmers tend to be thrifty. There were no gold discoveries in South Australia to attract the adventurous. The State also has always been a "free" colony. The climate is equable and although hot the humidity is low. The number of home builders in the

population might shed light on the matter. The fact that South Australia has for years fostered saving by school children has probably had a great deal to do with the State's record in savings. At June 30, 1932, the penny bank department of the Government savings bank had 77,621 depositors with £97,739 to their credit. The local savings bank has actively sought business. These and other factors are behind the record of South Australia.

The complexity of such an investigation only goes to show how closely Economics is associated with all phases of human activity. The foundation of that science lies in Philosophy. Qualities and motives play an essential part in Economics. The "dismal science" is not one of quantities alone.

The savings bank department of the Commonwealth Bank passed out of existence at the middle of June, 1928. The new Commonwealth Savings Bank took over the £46,500,000 savings deposits from the Commonwealth Bank. Since that time deposits of the new bank have grown until on January 1, 1933, they reached £116,275,752. Amalgamation with the State savings banks of New South Wales and Western Australia account for most of this increase. The Federal bank now has over 60 per cent of the savings bank business of the Commonwealth. On June 30, 1932, the bank had 2,683 accounts in London with £233,605 deposited. In Papua and New Guinea it had 2,670 accounts with £125,931. Total accounts in the bank then numbered 1,844,435.

In 1912 the Victorian savings bank had 641,736 depositors with £19,662,466 to their account. The same bank on June 30, 1932, had 1,253,434 accounts with £58,581,403 deposited. From 1912 to 1932 the number of depositors in the savings bank of South Australia increased from 192,847 to 334,242, while deposits rose from £8,223,260 to £19,252,198. At June 30, 1932, the Commonwealth Savings Bank had 133,823 depositors with

£7,098,817 in Victoria and 42,678 depositors with £2,127,287 in South Australia. On August 31, 1932, the Launceston Bank for Savings had £1,497,755 in deposits and the Hobart Savings Bank held £2,603,782. The 40,479 depositors of the Commonwealth Savings Bank in Tasmania on June 30, 1932, had £1,581,718 to their credit.

Although the general banking department showed a profit on its operations by June 30, 1914, the savings bank department of the Commonwealth Bank did not show an annual profit until two years later. On June 30, 1916, the savings bank department showed a surplus of £5,927 for the year. At the end of the department's existence in the middle of 1928 the profits for the year reached £249,902. The profits of the old savings bank department totalled at the end of 1927 £1,075,298 and this sum was transferred to the new bank as a reserve fund, which has been augmented by half of the annual profits of the new bank since that time and at December 31, 1932, amounted to £1,720,881. Under the Act of 1927 the profits of the new bank are divided into two portions, one-half going to build up the reserve fund of the bank and one-half going to the National Debt Sinking Fund. Depositors in the new bank had contributed through their business with the Commonwealth Savings Bank by the end of 1932 £645,583 towards the extinction of the national debt during the five years of the bank's existence. Every time a citizen uses the facilities of the Commonwealth Savings Bank he is doing his share to reduce his indebtedness as a citizen. The profits of the bank for 1931-32 amounted to £259,419. By January, 1933, profits of the savings bank business of the Commonwealth Bank and the Commonwealth Savings Bank since 1912 reached £2,366,465.

The Commonwealth Savings Bank now has penny savings accounts for school children, purpose deposit funds that are started with a definite object in view, such as buying a car or

a house, and every effort is made by the bank to increase the habit of saving in the community. The bank sends representatives to factories to explain the benefits of saving to workmen, and unlike the general banking department of the Commonwealth Bank actively courts business. The Commonwealth Savings Bank advertises on the bill-boards of the country, whereas the general banking department does not but should.

When Commonwealth Treasurer Theodore in 1930 introduced his Commonwealth Bank Bill, he provided for the amalgamation of the Commonwealth Savings Bank with the Commonwealth Bank. Events since that time have made it desirable for the two banks to be consolidated. As the savings bank has now taken over two more State savings banks, lending functions of those institutions make it important that the savings bank be in close contact with the general banking and rural credits departments of the Commonwealth Bank. The Commonwealth Savings Bank should once more be a department of the Commonwealth Bank. When the savings bank business of the Commonwealth Bank was placed in the new bank, the capital and balance-sheets of the former bank showed considerable shrinkage and in many cases the situation was misunderstood abroad as a setback to the Commonwealth Bank.

During 1929-31 savings bank deposits decreased throughout Australia. For the year ending June 30, 1932, this trend was reversed and savings in the Commonwealth even under falling prices rose from £193,407,000 to £197,926,000. This upward movement remained firm during 1932-33, for on June 30, 1933, the aggregate savings bank deposits were £201,722,000.

## CHAPTER SEVEN

### THE RURAL CREDITS DEPARTMENT

AS Australia is essentially an agricultural and pastoral country, banking facilities for farmers are particularly important in the Commonwealth. Both the Federal and State Governments have made many attempts to aid agriculturalists and pastoralists. States have provided either agricultural banks or rural departments in State savings banks for this purpose, while the Commonwealth has added a department in the Commonwealth Bank to meet demands of farmers.

Before the discovery of gold the wealth of the community in Australia was largely in sheep and cattle, grazing on land to which the user had often no title, or at best a precarious one. Profits for a time were large, and this situation led to riotous speculation, followed by a collapse in 1823-1830. Having no security to offer, men of considerable wealth were reduced to bankruptcy. To meet the need of the moment the New South Wales Council passed an Act

to give a preferable lien on wool from season to season, and to make mortgages of sheep, cattle, and horses valid without delivery to the mortgagee.

This action caused consternation among the Colonial authorities in London and was objectionable to English commercial interests so that the Act was vetoed several times as it came up for disposition. The Colonial, however, persisted and at last obtained consent. The squatter with a good security to offer could turn part of the only wealth he had into money by pledging the whole and could thus carry on



his business. (It soon became possible in Australia to hear that a grazier had borrowed money from one man on the security of his sheep, and from another on the pledge of his wool while yet on the sheep's back.) The climax occurred when the borrower, if possessed of freehold, obtained money from a third person by mortgaging his land. Crown leases soon became valuable and provision was made to enable mortgages to be given over them, while a registered lien on a growing crop was legalized for the benefit of the agriculturalist, whether freehold or tenant. Australia is probably the pioneer in inventing an effective method of security over chattels that remain in actual possession of the borrower.

As pastoralists under lease from the Crown still hold the greater portion of occupied Australia, the action of the New South Wales Council in the third decade of last century has had considerable bearing on the development of banking in Australia.

#### *The Torrens Act of 1858*

On July 1, 1858, the Torrens Act became law in South Australia. This Act has greatly influenced Australian banking. Many other countries, including at least fifteen States in the United States, have copied the Torrens Act in modified form. Torrens proposed that on each transfer of the fee simple the existing title to land should be surrendered to the Crown and that the Crown should issue a fresh grant to the transferee. He also felt that registration *per se* and alone should give validity to transactions affecting land.

Donald Kerr in *Principles of the Australian Land Titles (Torrens) System* states that the fundamental principle of the Torrens mode of conveyancing is

that title to land and to interest in land depends upon registration and not upon instruments *inter partes*. Such

instruments are merely a means for obtaining registration. They do not affect the land or pass any estate or interest until registered (but nevertheless are capable of creating contractual rights between the parties *inter se*). To enable such registration, a Government register of titles and dealings, and a Government department to control the same is established. This register consists of the Register Book, which is comprised of:

- (a) Certificates of title (the original certificate constitutes a folium thereof and is bound up therein, whilst the duplicate is delivered to the person entitled); and
- (b) Registered instruments.

The certificate of title is the pivot on which the working of the whole system turns. Under the English conveyancing system the title deed is the product of the individual. Under the Torrens System the certificate of title is prepared and issued by the State. On each transfer the State certifies the title afresh. Such certificate of title is indefeasible except in certain specified events, the chief among them being actual fraud (constructive fraud being insufficient). There is no need for an abstract of title.

The term "land" in the Statutes includes in addition to the surface of the soil all buildings or structures of a permanent kind erected upon it, and except where stated in legislation all trees and plants growing in the soil, and all other things permanently affixed to it or to buildings and structures upon it of a permanent nature also all things embedded in it and the space above, and the earth below the area of the surface, including all mines and minerals. Donald Kerr on the definition of "land" under the Torrens System observes that

. . . accretions to the surface of the soil, whether by natural or artificial means, presumptively form part of the soil, is a doctrine applicable to land under the System.

Torrens proposed that land should be brought voluntarily under the System. In 1924 New Zealand departed from this policy. The Dominion passed an Act to bring under the System all land theretofore alienated from the Crown for an estate in fee simple and not held under the System. The Register under the Act had to bring land under the System of his own volition. Where he did not feel justified in issuing the ordinary certificate, he had to issue one limited as to title or parcels, or as to both. The Act expected finalization within five years of its passage.

The most important connection of the Torrens System with banking is its effect on mortgages. Under it a mortgage operates as a charge only upon the land and not as a conveyance of the legal estate in it. As under the general law, the mortgagee may, upon default being made, exercise all his remedies (except foreclosure) concurrently. He may, according to Donald Kerr,

- (1) Enter into possession and receive the rents and profits of the mortgaged land;
- (2) Distrain upon the occupier or tenant for rent due by the occupier or tenant to the mortgagor;
- (3) Let the mortgaged land (the term, except in South Australia, in the absence of expressed power, being determinable on redemption by the mortgagor);
- (4) Bring an action for recovery of the mortgaged land;
- (5) Exercise the power of sale; and
- (6) (If the attempted sale proves abortive) procure a statutory foreclosure.

The Torrens System has strengthened land as a security upon which to base loans. Banks make loans to customers on the security of land by means of overdrafts, the bank having the right to call up, and the customer to pay off, the loan at any time. The security behind the loan is in the form

of a mortgage or of lien and deposit of deeds, according to the laws of the various States of Australia. Furthermore, under the Australian system loans against lands are made against interest-earning properties, capable of being diverted to loan or trust companies and are reviewed annually. The position of the borrower is assessed by scrutiny of his balance-sheet, which is compared with that of preceding years, to ascertain if he is progressing.

### *State Agricultural Banks*

(There are four State-owned agricultural banks in Australia) and with separation of the rural bank department from the savings bank with the transference of the State savings bank in New South Wales to the Commonwealth Savings Bank there is every likelihood that a fifth State-owned agricultural bank will soon be in existence. At present the State Bank of South Australia, the Agricultural Bank of Western Australia, the Agricultural Bank of Queensland, and the Agricultural Bank of Tasmania actively participate in loans to farmers. On February 28, 1923, a privately-owned agricultural bank, the Primary Producers Bank of Australia, commenced operations in the Commonwealth but succumbed on August 24, 1931, to the depression.

The funds of the State agricultural banks come from the State savings banks. In Victoria (and in New South Wales until the amalgamation of the State savings bank with the Commonwealth bank) the savings banks themselves granted rural credits through departments set up for this purpose.

Agricultural banks all operate in much the same manner. They make in every case advances on the security of a first-mortgage over property that is used for agricultural, dairying, grazing, horticultural or viticultural pursuits, poultry or pig raising, or other approved rural activities. Farmers may use

the loans to pay off existing liabilities, to make agricultural improvements, to erect permanent buildings, and to perform other purposes connected with farming. The various agricultural banks allow loans up to maximum amounts, the highest being that under the State Bank Act of South Australia passed in 1925 which allowed an advance up to £5,000. Provisions for repayment all grant an initial period of five years in which interest alone has to be paid. The bank and the customer settle the rate of interest which before the depression was usually between 5 and  $6\frac{1}{4}$  per cent. In Western Australia if interest is over 5 per cent per annum it must not exceed by more than 1 per cent the rate of interest paid by the bank in raising its funds. After the first five years the principal as well as the interest must be repaid. The period of the loan is limited to thirty years in Tasmania and in Western Australia, while it is possible in South Australia to obtain a loan for forty-two years. Besides these provisions for settlers special terms were granted to returned soldiers desiring to farm land. Rates for ex-Service men have always been lower than those granted to other citizens.

The State Bank of South Australia is the only government bank in Australia, besides the Commonwealth Bank, that has a general banking department. The former bank commenced this business in 1926.

In States where the savings bank has amalgamated with the Commonwealth Savings Bank governments have made new provisions for funds for their agricultural banks. For the first time in five years advances of the Queensland Agricultural Bank in 1931-32 increased over those of the previous year, rising from £271,054 to £285,422.

In New South Wales the Government Savings Bank (Rural Bank) Act of 1920 converted the advance department of that bank into a rural bank department. The rural bank operated

through branches of the State savings bank. It opened cheque accounts, accepted fixed deposits, discounted approved bills, and generally afforded banking facilities to customers in both city and country, but it confined its advances to primary producers and those employed in industries immediately associated with primary production. Unlike the State Bank of South Australia, it did not conduct general banking business for all comers. When the Commonwealth Savings Bank took over the savings bank in New South Wales, it assumed only a small portion of the business of the rural bank. The State Government is re-opening this business as an agricultural bank.

The State Savings Bank of Victoria has financed its advances to farmers and home purchasers by buying debentures from the State savings bank department and by public issues. In addition to making advances for the purchase of newly erected homes, the bank builds homes by arrangement with eligible applicants and advances up to 90 per cent of the cost, with certain limits for different styles of construction. All these loans are repayable on the credit foncièr principle extended over long periods. The provision for a loan of 90 per cent of the cost of a home is far too high to provide an adequate security in the case of depreciation in property values. The bank has also erected houses for returned soldiers under agreement with the War Service Home Commission.

Besides the cheque-paying and savings banks there are in Australia about a score of trust companies with an aggregate authorized capital of approximately £4,500,000. These concerns lend on mortgage and make advances on wool and other commodities. Co-operative credit societies have not yet gained any appreciable hold in the Commonwealth, although the Governments of New South Wales and Queensland have contemplated establishing community settlements and rural credit societies.

On February 28, 1923, a private agricultural bank, the Primary Producers Bank of Australia, Limited, started operating in Queensland and later set up branches throughout the Commonwealth, but with the coming of the depression the bank succumbed and on August 24, 1931, closed its doors.

#### *Commonwealth Bank and Rural Credits*

For fourteen years after the establishment of the Commonwealth Bank no legislation made special provision for the bank to assist farmers. Although one of the reasons for establishing the bank was to aid the farmer, it soon became apparent that the bank was not doing very much to transact business with farmers. Governor Miller in 1914 wrote to Andrew Fisher, Leader of the Federal Labour Party:

I do not desire to interfere in the lending out of the money to settle people on the land which seems to me to be a State matter, as they control the land laws.

King O'Malley in 1917 tried to amend the Commonwealth Bank Act to provide a rural credits department in the bank. On March 7 of that year in offering the Bill in the House of Representatives he stated that:

The farmer is the foundation of the nation and yet he pays the highest rate of interest for his requirements, although he has the best security in the world. The reason for that in Australia is that we have not tried to meet the farmers' necessities. I thought to get the Commonwealth Bank to assist him, but that institution is not yet performing what should be its greatest function, that is, operating a Rural Credits Loan Department. . . . The existing Savings Banks, both Commonwealth and States, approved Land Banks and Credit Foncièr institutions, could be utilized by the Governor of the Commonwealth Bank to grant loans to accredited farmers under uniform conditions authorized by the Commonwealth Treasurer.

The attempt of the founder of the Commonwealth Bank failed.

As the Nationalist Government favoured restricting the activities of the Commonwealth Bank, no legislation appeared on rural credits before that party in 1923 coalesced with the Country Party. When the coalition introduced the Bill of 1924, which dealt with central banking, the Government promised to afford facilities for granting rural credits in separate legislation at the earliest possible moment. While the Bill of 1924 was being discussed, the Deputy Leader of the Labour Opposition, Frank Anstey, moved :

That the Government should consider the advisability of extending the function of the Commonwealth Bank to provide for rural credits for the following purposes :

- (1) To advance money on broad acres;
- (2) To assist co-operative finance in primary and secondary production;
- (3) To assist in land settlement and development;
- (4) To establish a grain and fodder reserve against periods of drought.

The Government rejected the amendment.

### *The Commonwealth Bank Act of 1925*

In September, 1925, the Bruce-Page Government passed an Amending Act to the Commonwealth Bank Act 1911-24 establishing a rural credits department distinct from all other departments of the bank. The Act dealt mainly with primary produce, which meant " wool, grain, butter, cheese, fresh, preserved or dried fruits, hops, cotton, sugar and such other produce as is prescribed." Since the passage of the Act, Proclamation has brought wine, spirits, meat, eggs, egg pulp, precious and other metals, broom millet, arrowroot, arrowroot flour,





Melbourne "Punch", 14/9/11

### THE NATIONAL BANK

**THE PEOPLE.**—" But how will you run this bank? What is your banking system? "

**MR. O'MALLEY.**—" Simplicity itself. You put your money in the slot; we do the rest."

superphosphate, timber, canary seed, peanuts, fodder, and jam under the term "primary produce".

The Treasurer may lend to the rural credits department up to £3,000,000. Under the Act 25 per cent of the net annual profits of the note issue department until amounts paid reached £2,000,000 went to build up a Capital Account in the rural credits department. At the end of 1932 contributions from the note issue reached this sum. The bank may also raise by the issue of debentures, an amount not exceeding at any time the sums advanced by the rural credits department on primary produce, or four times the amount of the aggregate of the following sums, namely:

- (1) Sums lent by the Treasurer;
- (2) Moneys paid from the profits of the Note Issue Department;
- (3) Moneys at the credit of the Rural Credits Department Reserve Fund.

The Commonwealth Bank may also make advances to its rural credits department. The profits of the note issue department alone have so far built up the Capital Account of the rural credits department. One-half of the profits of the rural credits department have gone to form a reserve fund for its business.

Advances made by the rural credits department are secured by placing primary produce under the legal control of the bank. In lieu of making advances in this way the department may discount bills secured by produce placed under legal control of the bank. The Act is really a convenience enabling advances to be made on primary produce rather than one dealing with the broader subject of rural credits.

According to the Act advances may be made to:

- (a) the bank or other banks;

- (b) co-operative associations formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth; and
- (c) such corporations or unincorporate bodies, formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth, as are specified by Proclamation.

Advances which are for no longer than one year, are not made to individuals. People have to go collectively for an advance. Referring to this phase of the Act the Australasian Insurance and Banking Record on September 22, 1925, commented that

The object is apparently to promote and facilitate pooling or controlling arrangements in connection with primary produce.

To the objection of the Labour Opposition that an individual could not get an advance Dr. Earle Page, Commonwealth Treasurer, replied that

Any organization that likes to form itself into a body sufficiently substantial will be able to get these advances.

Moses Gabb of South Australia moved during the debate that after clause (a) in the provision dealing with advances the words "or primary producer" be inserted, but the amendment did not pass. Labour felt that the Act allowed those possessing cold storage facilities to corner produce. Unquestionably, the reason for the action of the Government was its desire to make the bank a bankers' bank and so to restrict as much as possible dealings of the bank with individuals.

#### *Policy of the Rural Credits Department*

One-half of the credits of the rural credits department goes to the "Rural Credits Department Reserve Fund" and the

other half to the "Rural Credits Development Fund", which is to be used in such manner as the Board of the Commonwealth Bank directs "for the promotion of primary production". Since the establishment of the department directors of the bank had by 1933 advanced £94,495 to divers bodies conducting inquiries and research into matters pertaining to primary industries. The Board of the Commonwealth Bank closely co-operates with the Council for Scientific and Industrial Research of the Commonwealth Government, which under the guidance of Dr. A. C. D. Rivett has made many useful studies in matters relating to primary produce. The Board of the Commonwealth Bank will provide money from the developmental fund to any project that seems likely to benefit primary production in Australia. The Board has given funds for studies in the improvement of dairying herds. The bank has also aided research in the direction of increasing the production of honey. The presence of a developmental fund in the rural credits department of the bank is one of the most significant features of the institution. It shows that the field of banking is expanding and rapidly becoming concerned in all forms of national and international development. This phase of banking shows that a banker to-day must be actively interested in every economic and social movement.

The aim of the Board of the Commonwealth Bank in connection with the rural credits department is to market the primary produce of Australia in an orderly fashion. Authorities of the bank discountenance any holding of produce for a rise in prices. They favour marketing as supplies come forward, bearing in mind, naturally, any difficulties in transportation. This policy of clearing the market is directly opposed to the plan of recent years of the Government of the United States. No surplus stocks of primary produce exist in Australia. The bank enforces its policy in this matter by

refusing to grant advances to primary producers' groups not getting rid of their product.

Co-operative concerns have freely availed themselves of the assistance of the rural credits department of the Commonwealth Bank. The main principle of the scheme is granting aid to producers pending realization of funds from the sale of their products and the Act accordingly provides for liquidation of advances within one year. The practical application is twofold:

- (a) To provide accommodation to cover processing costs as in the case of canned and dried fruits.
- (b) To provide initial advances to producers and further advances as proceeds of realization of the product are received.

The advance is usually fixed on a percentage basis of the bank's valuation of the product. The initial advance generally provides for a loan to growers at the time of bringing their product to a point of collection. Later farmers receive further amounts to cover processing and transportation costs. A condition of advances is that all proceeds of sales must go in permanent reduction of the debt, but additional accommodation to provide for further advances to producers may be made available when realization from the product warrants it. The bank advances to the co-operative organizations who in turn do business with the individual farmer.

The successful operation of the scheme involves very close examination of the state of the industry concerned. The banker must understand the marketing of primary produce. Rural credits is a dangerous business, as some of the banks in Australia have discovered. It is absolutely essential for co-operation to exist between the bank and the marketing boards and Markets Department of the Commonwealth

Government. Often marketing boards prevent the disposal of produce by a bank by insisting upon certain prices. It is necessary, as a result, for the banks to employ some men who are experts in marketing, for bankers often have to dispose of primary produce that might involve them in serious loss.

Many industries previously financed by State Governments now obtain accommodation from the rural credits department. Dealing with the Commonwealth Bank has saved these industries money in interest on their advances, particularly in industries such as canned fruits, which previously had financed their operations through large commercial houses abroad at high rates of interest.

At the outset the rate of interest of the rural credits department was the same as that charged by the general banking department on overdrafts, namely,  $6\frac{1}{2}$  per cent. The rate on advances from the rural credits department, however, fell to 6 per cent on March 1, 1927, and to  $5\frac{1}{2}$  per cent on January 1, 1929. The rate was increased on July 1, 1930, to 6 per cent, but since the adoption of the Premiers' Plan in June, 1931, the rate has fallen until at the end of 1932 it was  $4\frac{1}{4}$  per cent while rates on overdrafts in the general banking department were 5 per cent, which was changed to  $4\frac{3}{4}$  per cent in January, 1933.

The bank has not utilized to any appreciable extent the provision of the Act of 1925 allowing it to discount bills secured by primary produce placed under legal control of the bank.

The question of effective legal control has often raised difficulties in the rural credits department. In some cases a registered debenture charge may be deemed sufficient, but generally it is preferred that merchandise be stored with a licensed warehouseman and the bonds duly endorsed held by

the bank. Where shipments are made either on account sale or on consignment, the relative shipping documents are handled by the bank and, in the case of consignments, delivery of documents is effected against the agents' trust receipt and undertaking to account for proceeds as the merchandise is realized. This provision has not altogether been a success and the Scullin Government in 1930 proposed to amend it.

The Act creating the rural credits department has not materially affected the marketing of Australia's wool clip. Wool brokers have continued to handle this business. It has played, however, a big part in the marketing of wheat, especially in Victoria. When the farmer in Victoria takes his wheat to the nearest town for shipment, he meets there a representative of the Victorian Wheat Growers Corporation, a co-operative organization of farmers, which during the years 1929-30 to 1932-33 handled from 40 to 58 per cent of the wheat shipped from the State. The representative gives the farmer a temporary certificate for his wheat. Later the farmer receives the final certificate from Melbourne. The agent of the corporation or a private bank will grant at the time of receiving the wheat at the town an initial advance that depends upon the world price of wheat. Usually sixpence a bushel is deducted from the initial advance for transportation and other expenses. Wheat certificates come along to the Commonwealth Bank, which takes them over to the Victorian Wheat Growers Corporation. Advances to the corporation depend upon the extent of the marketing of the product. The bank does not advance money to enable primary producers to hold their products but rather to help them market their commodities.

Many primary industries in Australia have received help from the rural credits department. Besides wheat and to a minor degree wool the department has granted advances to

nearly all other primary industries at various times. The bank has a good opportunity to watch the marketing of produce. It could refuse to make advances unless products were well packed. Canned fruits from Australia have not always been packed attractively. A damaged can or case may cause goods of excellent quality to be graded low. The labels on the cans should depict in an enticing manner the contents within. The bank has an excellent opportunity of helping to maintain and develop the standard of packing and the quality of Australian products.

From the commencement of the rural credits department in 1925 to August, 1932, the Commonwealth Bank through these facilities had advanced to wheat and other pools £45,211,124. The maximum advances in a single year amounted to £8,634,863. To the end of 1932 the bank had suffered no losses on its rural credit advances.

As one of the aftermaths of the general election in Australia in 1928 the Federal Labour Party announced a special country programme. One of the proposals, reported in the *Sydney Morning Herald* of November 27, 1928, advocated

. . . the extension of the functions of the Commonwealth Bank to provide for a rural credit branch for the purpose of assisting land settlement and development, of granting relief to necessitous primary producers against the ravages of drought, fire, flood, and pests, and of establishing a grain and fodder reserve against periods of drought.

Although Labour controlled the House of Representatives during 1929-31, an adverse majority in the Senate prevented the Government from passing amending legislation looking in the direction of expanding the rural credits department of the Commonwealth Bank. The rural credits department should deal with individual farmers.

Profits of the rural credits department have grown from



£37 in the first balance-sheet of the department at the end of 1925 to £62,188 for 1931-32. By January, 1933, total profits since the commencement of the department amounted to £346,528. The capital account of the department, built up from the allotment of 25 per cent of the annual profits of the note issue department, reached the £2,000,000 set in the Act of 1925 at the end of 1932. Part of the profits of the rural credits department goes to a reserve fund, which at December 31, 1932, was £173,264 and the unexpended balance at that time in the developmental fund was £78,769.

With the survey of the general banking, savings bank, and rural credits department completed, there remains only the note issue department that has yet to be considered. As that department involves the practice of central banking, the subject will turn first to a study of central banking before taking up the history of the note issue department. With the ordinary banking features of the Commonwealth Bank surveyed, bankers' banking will from now to the concluding chapter be the central theme.

## CHAPTER EIGHT

### CENTRAL BANKING

**B**EFORE the war the attitude of the Liberal Party towards the Commonwealth Bank was chiefly opposition to any kind of federal bank. When the Federal Parliament passed the Act of 1911, a few Liberals suggested that Australia might need a central bank. Others could see some advantage in establishing a postal savings bank to serve outlying districts, but the party as a whole regarded a federal bank as entirely unnecessary.

#### *Attitude of Nationalist Party Towards Bank*

The discussion of central banking after the war influenced Nationalists to formulate a general policy for the Commonwealth Bank, which proposed to turn the bank into a bankers' bank. Nationalists, however, did not have any definite programme for putting their policy into effect, preferring to move step by step, as individual problems arose. With Nationalists in control of the Senate since 1916 and Labour only in command of the Lower House during the same time for two years, the attitude of the Nationalists has had an important bearing on the operations of the Commonwealth Bank.

The first indication of the new policy occurred in 1920. The Commonwealth Bank Act of that year repealed the Australian Notes Act of 1910-1914, transferring control of the Australian note issue from the Treasury to the Commonwealth Bank. The new law stipulated that

. . . there shall be a Note Issue Department of the Bank, which shall be kept distinct from all other departments of the Bank.

Framers of the Act of 1920 had copied the system of a separate issue department from the Bank of England. The Act of 1920 gave the Commonwealth Bank, through its issue department, a monopoly of note issue in Australia.

In 1922 another event pointed in the direction of central banking. In that year the London manager of the Commonwealth Bank represented Australia on the financial section of the Genoa Economic Conference. Consultation and co-operation of one central bank with another on matters of international finance is a feature of central banking.

In July, 1923, the Commonwealth Government passed the Debt Sinking Fund Act, which contained a provision whereby future accumulations of the redemption fund of the Commonwealth Bank were to be paid into the Sinking Fund of the Commonwealth for the repayment of the national debt. Already the Commonwealth Bank was doing most of the banking business of the Commonwealth Government, and under this Act the connections of the bank with the financial obligations of the Federal Government became greater than ever, thus making the bank more of a central bank. By June 30, 1932, the Commonwealth Bank had contributed £2,570,979 to the Sinking Fund. This sum includes contributions of the Commonwealth Savings Bank. It shows clearly the great contribution made by customers of the bank in extinguishing the national debt. Every time a person takes advantage of the facilities of the Commonwealth Bank, he does a little towards wiping out Australia's debt.

In 1923 the Nationalist Party coalesced with the Country Party, Dr. Earle Page becoming Commonwealth Treasurer. Dr. Page was the leading figure in the Federal Parliament in

the movement to make the Commonwealth Bank a central bank.

*The Commonwealth Bank Act of 1924*

On June 13, 1924, Dr. Earle Page introduced in the House of Representatives a Bill which was to send the Commonwealth Bank further in the direction of central banking. The Bill included a provision for a board of directors for both general and issue departments. It also called for compulsory settling of banks' clearing balances through the Commonwealth Bank. It proposed to set up local boards of advice in the principal Australian cities. Furthermore, the board of directors was to fix and publish the discount rate of the bank.

The board of directors was to displace the Governor of the bank as the sole control of the institution. This action had been contemplated for some time. In 1916 W. G. Higgs, Commonwealth Treasurer of the Labour Government foreshadowed the establishment of a board of advisers or directors to assist the Governor of the bank. Absence of action before 1924 was undoubtedly due to the decision to let well alone during the regime of Governor Miller. When in 1923 Governor Miller passed away, it became certain that the next Commonwealth Bank Act would contain a provision establishing a board of directors.

The board proposed by Dr. Earle Page consisted of the Governor of the bank, whose own position would then be practically that of General Manager but not chairman of the board unless elected by his fellow members, the Secretary of the Treasury, two persons who were or had been associated with manufacturing industries or commerce, two similarly associated with agricultural, pastoral, or other primary industries, two with a knowledge of currency and "declared by the Governor-General to have been chosen because of that knowledge".

The Governor of the Bank and the Secretary of the Treasury together with the two "currency" directors were to form a sort of inner board of four. A decision of the whole board was not to be effective unless the directors voting for it included two out of the four in question. It was felt that by this provision the Governor of the Bank and the Secretary of the Treasury, in conjunction with a sufficient number of commerce and industry directors to form altogether a majority of the whole board, could overrule the two currency directors so that, according to the London *Economist* of August 2, 1924,

. . . purely abstract theory, unconnected with any regard to actual circumstances and figures, need not form an obstacle to business of such primary importance as the financing of export trade.

If the "currency" directors were to be made practically useless, it was pointless to have them on the board. Consequently, they were replaced in the Act by two who were similar to the other four who were, or had been, actively engaged in industry, commerce, finance, or agriculture, and a majority vote was sufficient on all issues except those involving the note issue. On that subject a vote of six was necessary to be effective if the whole board was present, or five if all directors were not present. Nationalists intended to make the board thoroughly representative of all interests in the community. Yet it is possible that a board of varying interests may develop into a conflict rather than a harmony of interests.

At the second reading of the Bill the Labour Opposition in the House of Representatives vigorously attacked the proposed board. Labour felt that the proposal of the Government to appoint persons representing squatting and commercial interests and who were diametrically opposed to national banking was designed more in the interests of private financial institutions than of the people's bank.

The thought of having squatters on the board brought memories of the troubles of unionists at the end of last century. To-day unionists are still suspicious of squatters. It must be said, however, that if employers had representation on the board, employees should have the same as well.

Labour suggested

. . . in order to preserve the Commonwealth Bank as a national institution, and to extend its operations for the purpose of controlling credit and exchange, it is desirable that financial experts, to be fully employed in the service of the bank, should be appointed to its management.

In this proposal Labour was merely continuing its policy of no political interference with the bank. All along Labour had regarded the bank as an economic institution rather than as a political convenience. Governor Miller was not a politician. When the Labour Government in 1916, through the voice of the Commonwealth Treasurer, W. G. Higgs, suggested a board of directors or advisers, it was with the understanding that

. . . such a board of advisers . . . be like judges placed beyond the reach of outside interference.

Labour also recognized the need for central banking by proposing that the operations of the bank be extended for the purpose of controlling credit and exchange. Although still favouring the competitive operations of the bank, the institution might, in Labour's opinion, carry out the essential benefits of central banking, namely, control of credit and foreign exchange.

The suggestion to establish local boards was not included in the Act. This proposal showed the influence of the Federal Reserve System of America upon Australian banking thought.

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Setting up a Board of Advice in London, as the Act proposes, seems rather unnecessary. It would appear that the branch of the bank in England would be sufficient for all affairs concerning the bank. It might have been a step towards closing the London branch in the march away from a competing bank. No statement appeared, however, to this effect. Perhaps the statement of Dr. Earle Page that the Act of 1924 was to change the Commonwealth Bank from a mere

Governmental institution in competition with the private banks into an effective-Central Bank which shall be the keystone of the financial arch of Australia

gives the reason for the proposal of a London Board. One of the attributes of a central bank, according to Sir Ernest Harvey, whom Dr. Page followed closely, is that it may have no branches outside its own country. Yet it may have agencies.

The attempt to make the bank one of rediscount was another move towards central banking. The Act of 1924 stated that:

After a date to be fixed by Proclamation the Board shall fix and publish from time to time the rates at which the Bank will discount and rediscount Bills of Exchange.

Previous to 1924 the bank had not been a bank of rediscount, but Dr. Earle Page felt that

. . . one of the most important functions of a central bank is that of rediscounting.

Rediscounting was to be operated through the note issue department. So far the Proclamation mentioned above has not been issued.

### *Bank Clearings in Australia*

Before the Act of 1924 the staffs of the various banks effected daily clearings of the balances of the banks to one another. In Sydney the Bankers' Exchange Settlement Office, established

in 1894, cleared for the banks. This institution carried £750,000 in a gold pool, consisting of contributions from the banks. It transferred gold from one account to another as the banks directed. In Sydney the balance of any bank with the pool was not allowed to remain below 25 per cent of the fixed contribution to which the bank agreed. In the event of its reaching this margin, the bank had to make up the deficiency with gold or Australian notes. Since September 25, 1914, banks have agreed that Australian notes as well as gold could be used for settlement.

In Melbourne the Associated Banks of Victoria took care of clearing. Decisions of this association were supposed to be binding, but co-operation between the banks was, in general, voluntary. In Melbourne three bank directors had charge of the pool. The directors issued certificates of £500 and £1,000 denomination to the banks for their contributions to the pool. In the other capitals similar arrangements existed for clearing.

Clearing in Australia consists mainly of cheques, but bills and drafts also pass through the clearing centres. The amount cleared at the Settlement Office in Sydney in 1895 was £108,509,860, while in 1932 the total was £732,640,649.

The Commonwealth Bank Act of 1924 provided for the settlement of balances between banks by cheques drawn on and paid into the Commonwealth Bank. Pending the proclamation necessary to make this provision effective, banks inaugurated the system voluntarily as from April 27, 1925. For this purpose they established current accounts with the Commonwealth Bank. The clearing houses still function in the capitals, clearing being made three times daily in those cities. Settlement of balances now is with cheques on the Commonwealth Bank. Each bank in the country towns acts as a clearing house in turn for a week.

Further reliance upon publicity, the traditional Australian

method for banking bills, appeared in the Act of 1924. It provided that

Every bank shall, at the close of business on Monday of every week, prepare and make up a full and correct account and statement in writing, exhibiting details in accordance with the classification of liabilities and assets which is set out in the Schedule.

The distribution of profits of the bank was altered by the Act of 1924 so that one-half now goes to the credit of the Bank Reserve Fund and the other half to the National Debt Sinking Fund. The latter provision carried on the stipulation of the Debt Sinking Fund Act of 1923.

In order that the bank might be strengthened, the Act of 1924 capitalized £4,000,000 from the bank reserve and redemption funds. The Act further provided for an issue of debentures to the extent of a maximum of £10,000,000. So far, however, the bank has not issued any debentures under this provision.

### *Sir Ernest Harvey on Central Banking*

The visit of Sir Ernest Harvey to Australia in 1927 was the next important event in the history of the central banking activities of the Commonwealth Bank. Sir Ernest Harvey, Comptroller of the Bank of England, came to Australia at the request of the Board of the Commonwealth Bank for the purpose of conferring with authorities in Australia on banking matters and, particularly, central banking requisites. While he was in Australia, Sir Ernest Harvey listed the requisites of central banking and applied them to the Commonwealth Bank.

The features of central banking, according to Sir Ernest, are:

- (a) A central bank should possess the exclusive right of note issue, and thus regulate the purchasing power of

the national monetary unit as measured internally by the general level of commodity prices and by the relation of the unit to gold.

- (b) A central bank in its management and policy should be free from government control and the influence of politics. It must have the support of every class of the community.
- (c) A central bank should be entrusted with the entire banking business of its own government.
- (d) A central bank should be the banker of the trading banks and should act as a settling agent for clearing differences between such banks. Centralization of reserves is the main purpose of a central bank.
- (e) A central bank should not ordinarily compete with trading banks for general banking business. The reason for this requisite is that otherwise in times of pressure the central bank, itself, may be involved.
- (f) A central bank should ensure to the public the provision of adequate banking facilities on reasonable terms.
- (g) A central bank should not take moneys at interest on its own account.
- (h) A central bank should quote publicly the rate at which it is prepared to discount approved bills, and should publish at regular and frequent intervals a clear statement of its position.
- (i) The assets of the central bank should be of the most liquid character possible. A central bank should not lend money on mortgages of real estate, nor grant unsecured advances on overdrafts. Its assets should be largely securities of short currency and readily negotiable.

It would seem that the best way to assure "to the public the provision of adequate banking facilities on reasonable terms"

would be to have a central bank either competing or ready to compete at any time with the ordinary banks. This function of a central bank is hampered by the previous section of Sir Ernest Harvey which maintains that a central bank should not compete with ordinary banks.

Besides these features Sir Ernest Harvey gave the following complementary attributes :

- (i) A central bank should not draw or accept bills payable otherwise than on demand.
- (k) A central bank should not engage in a general exchange business on its own account for the purpose of earning profit.
- (l) A central bank should not engage in trade nor have any interest in any commercial, industrial, or other undertaking.
- (m) A central bank should have no branch outside its own country, but may have agencies abroad.

A central bank should be actively interested in foreign exchange, for that operation is essentially external clearing and, as a central bank should concern itself with external as well as internal clearing, it should be interested in exchange transactions.

Finally, Sir Ernest Harvey held it to be a

. . . sound maxim for central banks not to do business in times of financial peace and quietness on lines which they would not be prepared to follow in times of stress and difficulty.

The list given by Sir Ernest Harvey naturally brings to mind the Bank of England. Although these requirements do not actually describe any existing bank, the nearest approach to them is the Bank of England. That bank has served England in many ways satisfactorily, but it might not suit Australian conditions.

*C. H. Kisch and W. A. Elkin on Central Banking*

Others have given their ideas on central banking. C. H. Kisch and W. A. Elkin in "Central Banks" classified the main operations of a central bank as :

- (a) Issue of notes.
- (b) Dealing in precious metals and foreign exchange.
- (c) Discounts, loans, and advances.
- (d) Deposit business, especially in relation to commercial banks, and the organization of arrangements for clearing:
  - (1) Deposit business.
  - (2) Clearing and internal circulation (including token money).
  - (3) Commission business for third parties.

The authors explain that "commission business for third parties", that is, receiving deposits from private customers, includes

. . . execution of purchases and sales on the Stock Exchange, the collection of sums due (*e.g.* interest on securities), the making of payments, the issue of drafts and letters of credit, and the custody of articles of value.

Kisch and Elkin added, however, that it

. . . must be recognized that these functions are not properly within the province of a central bank *quod* bankers' bank, and hence do not figure within the range of duty of the Federal Reserve Banks.

The list of Kisch and Elkin has a broader application than that of Sir Ernest Harvey. All, however, have passed over the open market operations of the Federal Reserve System in the United States. As there is no statement of the open market operations of the Bank of England, investigators of central banking often overlook those transactions of that bank. Open

market operations in securities with a wide market give the central bank a means of enforcing its discount rate.

Acting on the advice of Sir Ernest Harvey, Dr. Earle Page, Commonwealth Treasurer, in 1927 introduced a Bill on the Commonwealth Parliament which became the Commonwealth Bank Act of that year. This Act separated the savings bank department from the Commonwealth Bank, establishing a new bank to take over the business of the old department.

### *The Function of a Central Bank*

In order to understand what methods a central bank should use and what should be its operations, it is necessary to know the purpose of a bankers' bank. While he was at Harvard University during 1928-29, R. G. Hawtrey, British economist, gave the following answer to the question, "What is the function of a central bank?"

The function of a central bank is to supply the competitive banks with cash, whether in the form of coin, or of paper money or bank notes, or of deposits available for meeting obligations at the clearing house. This implies the function of lending or rediscounting for the competitive banks.

Clearing is the main operation of central banking. As Professor John H. Williams of Harvard University asserts, central banking is merely an "extension of the clearance principle", for a bank, as King O'Malley said in the House of Representatives on November 22, 1911, "is only a clearing house".

The problem of central banking is to discover the essential features of external and internal clearing. The first requirement is that all competing banks clear through the central bank. To effect clearing of debits and credits through the central bank, competing banks must maintain reserves with the bankers' bank. In fact the whole point of the clearance



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principle is economy of reserves. To obtain satisfactory clearance it is necessary for credit and monetary conditions to have some stability. Hence greater stability of credit and monetary conditions is one of the advantages of central banking efficiently operated. Power to enforce stability in these matters appears when competing banks desire loans to build up their reserves for clearing. The central bank must have some method of giving loans to the banks. This convenience can be supplied by giving the bankers' bank the ability to discount and rediscount bills of exchange and acceptances. If necessary the central bank should enforce its rediscount rate with open market operations in widely acceptable securities such as Government bonds. For the purpose of controlling the currency the central bank should be the sole authority issuing notes. This provision would give the bank direct control over the note currency. If the note issue is based on gold, the central bank should have control of the gold reserve of the country. In the matter of external clearing the central bank should control the rate of exchange in order to assure satisfactory clearing of external debits and credits.

#### *Commonwealth Bank and Central Banking*

With the attributes of central banking portrayed, the next problem is to apply them to Australian conditions. For particular circumstances there must be variations, at least to some extent. The Commonwealth Bank has all the legislative powers necessary for central banking. Sir Ernest Harvey while in Australia suggested that a bill market should be developed and that acceptances should be encouraged. As the overdraft for many years has been actively in use in Australia, it would be better to work under that assumption. There is no bill market in Australia. To develop one would take years, especially as bills of exchange are subject to a tax.

All Australian banks, however, have branches in England, and so the Commonwealth Bank might well discount and rediscount sterling bills. Advances to competing banks could then be made at the present time under existing banking practice.

The result of the effort to create a business in rediscounts is not available because of the fact that in the statement issued by the Commonwealth Bank discounts, loans, and advances are all placed as one item. Since 1924 this item has decreased from £12,603,882 to £12,034,752 in 1932, both figures being at the middle of the year. In December, 1920, this item amounted to £20,804,849. There is still very little discount business in Australia. The most important business of this kind is the discounting of Treasury bills since the depression.

The rediscount policy works best where banks are not closely associated. Where there is an association, banks can borrow from one another. In the United States with its independent banking system banks of one city may be closely associated, but the matter largely ends there. In Australia, however, the banks with their branches are so closely associated that in reality they are almost a unit. At present the ordinary banks combined are almost as powerful as the Commonwealth Bank. Only the presence of the note issue and Government support give the Commonwealth Bank power over the combined resources of the ordinary banks. The note issue is a more powerful weapon than the use of a discount rate by which the Commonwealth Bank can control credit in Australia.

At present banks in Australia have to clear through the Commonwealth Bank. Internally, then, the bank has the most important feature of central banking. The Commonwealth Bank Act of 1924 is the only law in the world that compels all commercial banks to clear through any particular

bank. In his speech introducing the bank bill in 1924, Dr. Earle Page, Commonwealth Treasurer, claimed that compulsory clearing through the Commonwealth Bank

. . . will necessitate the keeping by each bank of some funds with the Commonwealth Bank, and will tend to strengthen the central system. There is to be no compulsion as to the amount to be kept by any bank at credit with the Commonwealth Bank, but it is hoped that confidence in the new management will bring about voluntary placing of considerable credits with the Commonwealth Bank, just as is the case with the Bank of England, which holds practically all the cash reserves of the ordinary banks, and which in the true sense of the term is a bankers' bank.

The most discussed problem connected with making the Commonwealth Bank a central bank has been the continuance of the competitive functions of the bank. Many people wish to see the Commonwealth Bank retain its competitive functions while acting in the capacity of a central bank. Others find it difficult to get these two features of the bank reconciled. Private bankers express fear that reserves given for clearing may be used by the Commonwealth Bank in making advances in competition with private banks. Private banks may use these reserves at any time and holding them does not give the Commonwealth Bank any advantage that is not counterbalanced by the fact the national bank as lender of last resort has to be especially cautious in its investments. Disinclination to yield reserves has led to an economy of these funds deposited by private banks at the Commonwealth Bank for clearing purposes. The soundness of Australian banks during the depression proves that this economy has not gone too far.

A central bank could also do ordinary banking business, if it were the only bank in the country, that is, if banking

were nationalized. Currency is already nationalized; perhaps at some future date banking may be looked upon as a public utility and nationalized. According to statements of Labour men in Australia, nationalization of banking is the goal that they ultimately hope to attain. Yet this proposal is not at present on the "fighting platform" of the party.

### *Central Reserve Bill of 1930*

In order to divorce the general banking department and the rural credit department from the central bank, E. G. Theodore, Commonwealth Treasurer in the Scullin Labour Government, introduced in the Federal Parliament on April 2, 1930, a Bill to establish a central reserve bank separate from the Commonwealth Bank. The latter was to be reorganized so that it could actively compete with the ordinary banks in general banking business. A Governing-Manager, instead of a board, was to direct the Commonwealth Bank. An executive committee of various officials in the Commonwealth Bank was to advise the Governing-Manager. The Commonwealth Bank was to expand its rural credits department to meet the individual farmer's needs and the savings bank department was to be re-established by placing the Commonwealth Savings Bank back in the bank.

When the Central Reserve Bill came to the Senate, that body, being in the hands of the Opposition, referred the Bill on July 10, 1930, to a select committee, which was to investigate:

- (a) Is the establishment of a Central Reserve Bank in Australia desirable.
- (b) Is the present time the right time to act in the matter.
- (c) Is the bill suitable to Australia.

The Government decided to grant no expenses to this committee.

The committee reported to the Senate after its investigation that the establishment of a Central Reserve Bank in Australia was desirable. It thought, however, that it would be unwise to set up the bank during the depression, for such action would further unsettle the financial situation in the Commonwealth at a time when the finances of the Commonwealth were already under great strain. As the committee belonged to the Opposition, members undoubtedly felt that it would be better to wait until a Government of their supporters could establish the bank. The committee also found the Bill itself unsatisfactory. Among other things the committee wanted a provision for private shareholders in the bank.

After being before the country for a year the Senate on April 23, 1931, rejected the Bill for a central reserve bank. On May 13, 1931, its companion Bill for reorganizing the Commonwealth Bank suffered defeat in the Senate.

There is no need to set up two institutions when one can do the work. Central banking should be concentrated in a department of the Commonwealth Bank, separate from the general banking department.

The Central Reserve Bank Bill stipulated that the Government should appoint the board of directors so that various industrial, commercial, financial, and labour interests should have representation. The central reserve bank, if established, should be controlled by a group that viewed the interests of Australia as a whole rather than by a board that contained a membership of conflicting interests.

One provision of the Bill allowed the central reserve bank to accept money on deposit on current account and to collect money for public corporations and others. This feature gave the proposed bank an opportunity to accept deposits from anyone and could have been used to set up a general banking

department in opposition to the Commonwealth and private banks.

The Bill further provided that each bank carrying on business in Australia should establish with the reserve bank a balance of not less than 10 per cent of its demand liabilities within the Commonwealth and 5 per cent of its time liabilities in Australia. On April 15, 1930, the chairman of the Associated Banks telegraphed to Theodore that the proposed mandatory percentage deposit of banks' funds with the reserve bank would seriously reduce funds available to carry on the banks' business. The chairman further claimed that it would hamper the banks' efforts to assist the Governor. Finally, he asserted in opposition to the Bill that forced deposit of banking reserves had never formed part of British legislation on the matter. To this objection, it might be said that the Commonwealth Bank also was a departure from British banking legislation. There is no force in that objection of the chairman of the Associated Banks. This provision of mandatory percentage deposit of banks' reserves showed the influence of the Federal Reserve Act on the banking thought of the Commonwealth Treasurer.

A most important section proposed that :

The Reserve Bank shall hold, in respect of Australian notes and in respect of its liabilities to depositors, a reserve amounting to not less than—

- (a) twenty-five per centum of the amount of Australian notes issued; together with
- (b) twenty-five per centum of such amount of the liability to depositors as does not exceed £20,000,000, and 50 per centum of such amount of the liability to depositors as exceeds £20,000,000.

The reserve shall consist of gold coin and bullion, or partly of gold coin and bullion and partly of securities of

the Government of Great Britain and first-class Trade Bills, such securities and Trade Bills having a currency not exceeding one hundred and twenty days.

Such portion of the reserve as is held in the Commonwealth of Australia, not being less than fifty per centum of the total reserve, shall consist entirely of gold coin and bullion.

Such portion of the reserve required to be held under this section, as is determined by the Board, but not exceeding fifty per centum, may be held at the Branch or Agency of the Reserve Bank in London in Great Britain.

These sections of the Bill provided a note issue with only a 25 per cent reserve. The rest of the note issue was to circulate merely because it was legal tender. In the matter of reserves in London, the *Australasian Insurance and Banking Record* in April, 1930, observed that :

The effect of these provisions will be that gold stocks in Australia will be smaller than hitherto and that more reliance will be placed on London funds.

This phase of the situation would not necessarily be to Australia's disadvantage. With the great fluctuations during the year and between different years of exports and imports in Australia's trade, the holding of greater reserves in London would be an asset.

Finally, in the Bill there was nothing to prevent the central reserve bank from handing over its bank reserves to be used by the Commonwealth Bank in its general banking business. The note issue was to pass from the Commonwealth Bank to the central reserve bank.

When Theodore moved the second reading of the Bill to create a central reserve bank, he remarked that

Under a central reserve banking system there is hope that the bill market practice may grow in Australia.

Mr. Curtain : What is the value of the rediscounting as against the overdraft system?

Mr. Theodore : I do not know that any tangible value can be precisely stated. The rediscounting of bills is a more facile method of business than the overdraft system. With an overdraft there must be a definite period of repayment, and the transaction is confined to two parties. Under the rediscounting system, bills are accepted as negotiable security, and readily bought and sold on the bill market. It may or may not be of great advantage to us to have this method of dealing freely with commercial paper.

Theodore further stated that :

The trading banks must also give particulars of their balances and their dealings overseas. At present no one can call for a return from the Australian banks showing their dealings in the overseas market; therefore, this provision is very necessary.

At the conference of Australian banks called at Canberra at the suggestion of the Loan Council a couple of months ago, in order to obtain their advice and co-operation in regard to the London exchange position, it was surprising to me to learn that the banks individually were as much in the dark as to what their collective resources were and their capacity to meet the position in London, as was the Loan Council. They were quite ignorant of the exact position.

Banks in future should make clear their individual positions of balances in London.

#### *Central Bank in New South Wales Savings Bank Agreement*

In the agreement in 1931 with the Government of New South Wales for the amalgamation of the State savings bank with the Commonwealth Savings Bank the preamble touched upon central banking. After recommending a national



savings bank for the whole continent, the preamble suggested:

That any legislation enacted to bring about the creation of such National Institution should require that a definite proportion of the deposits of such National Savings Bank should be deposited with the Central Bank so that in the incidence of demands upon deposits at call the National Savings Bank would be in a position at all times to fall back upon the Central Bank for currency requirements to meet such contingencies.

This proposal was the result of the run on the savings bank in New South Wales. It is an extension of the clearance principle of the central bank to the savings bank business of the country and exists in operations of the Bank of France. The Central Reserve Bill of the Scullin Labour Government did not require savings banks to maintain a fixed proportion of their deposits as a reserve with the central bank. A provision of this sort would ensure to savings banks direct aid from the central bank in times of stress.

By giving the Commonwealth Bank power to rediscount sterling bills in London the Commonwealth Bank Act of 1924 provided a means whereby balances of the banks in London could be increased. This Act also permitted Australian notes to be issued against adequate deposits with the Commonwealth Bank in London. On December 2, 1931, the Commonwealth Bank Board stated that it would announce rates of exchange on London every Friday or more frequently, if necessary. In January, 1932, the Board published rates on forward exchange up to twenty-eight days. The Commonwealth Bank now has all facilities necessary for taking care of external clearing, except a clear statement of the London balances of the banks.

During 1929 every possibility existed that the Common-

wealth Bank might shortly become wholly a central bank. Since the depression, and particularly since the debacles of the savings bank in New South Wales and Western Australia, the Commonwealth Bank has become more involved in general banking. There is no reason why the bank should not conduct both general and central banking. A separate department should have charge of bankers' banking. Central banking should be only one phase of the many functions of the Commonwealth Bank.

## CHAPTER NINE

### THE NOTE ISSUE DEPARTMENT

**I**N the early days of the Australian colonies private traders issued notes that circulated throughout the community. In 1826 officials called a halt to this practice and suppressed the right of the individual to issue notes.

When the Bank of New South Wales commenced business in 1817, bank notes began to circulate among the public. Nearly all of the banks established later issued notes, which until 1910 circulated freely in Australia.

Although Australia affords no case of reckless banking based on notes, and even though there never has been a single instance where genuine bank notes have not been retired by their issuers at full face value, Professor Heaton maintains in *Modern Economic History* that over-issue had something to do with the financial collapse of 1893.

As a means of meeting the financial difficulties of 1893 the Queensland Government passed the Treasury Notes Act, which became effective on June 2 of that year. This Act authorized the issue of Treasury notes payable on demand. After 1893 banks in Queensland used State notes exclusively. These notes were legal tender.

New South Wales also acted in 1893 and passed an Act that authorized the Treasury to advance to depositors one-half of the balance that banks certified was standing at their credit at

the time of liquidation. These advances were made in Treasury notes of a five years' maximum currency.<sup>1</sup>

(Bank notes have not been legal tender, except for a period of six months in 1893 in New South Wales) In 1887 bank notes in Victoria were made a first charge on assets. All bank notes have been payable on demand. Although all cheques in Australia bear duty stamps, bank notes do not come under this tax.

Before the Australian Notes Act of 1910 States collected a tax of £2 per annum on every £100 or part thereof of the average annual amount of bank notes in circulation. The tax was payable quarterly.

#### *Australian Notes Act of 1910*

The Australian Notes Act of 1910 prohibited States issuing notes after a proclaimed date, which was May 1, 1911. Under the Act the Governor-General through the Commonwealth Treasury issued, re-issued, and cancelled Australian notes and stamped them with the date of issue. Denominations of notes were 10/-, £1, £5, £10, or any multiple of £10. Notes were legal tender throughout the Commonwealth and the territories under the control of the Commonwealth. They were payable in gold coin at the Treasury. The proceeds of the issue were to be placed to the credit of the Australian Notes Account. The Government inserted this provision at the request of the Opposition. The Bill originally proposed that "the money derived from the issue of Australian Notes may:

- (a) be held by the Treasurer in gold coin; or
- (b) be used in the redemption of Australian Notes; or
- (c) be expended for any purpose that the Parliament directs."

<sup>1</sup> H. E. Teare in *Australian Banking, Currency and Exchange*, states on p. 168 that no other State except Western Australia has issued notes.

The last proposal looked dangerous to the Opposition and the Government yielded and in the Act the proceeds of the issue went to the Australian Notes Account. Under the Act part of the moneys standing to the credit of the Australian Notes Account was held in gold by the Treasurer, and part was placed on deposit in a bank, or invested in securities of the United Kingdom, or of the Commonwealth, or of a State. The Act further provided that moneys standing to the credit of the Australian Notes Account might be expended in the redemption of Australian Notes and in the payment of expenses of the administration of the Act.

The Act furnished the note issue with a gold reserve of not less than 25 per cent of the notes issued up to £7,000,000, and with an amount of gold equal to all the notes issued in excess of that sum. The Treasurer had to publish a statement each month of Australian notes issued and of the reserve held. The Act gave the Treasurer power to issue Treasury bills not exceeding in amount the quantity of Australian notes issued and not redeemed. The proceeds of the Treasury bills were to be applied to the redemption of Australian notes. Referring to this clause allowing the issue of Treasury bills, Andrew Fisher stated during the debate on the Bill in the House of Representatives that

These bills are not to be sold except in case of absolute necessity to meet the notes when presented for gold.

The Opposition objected to the Australian Notes Bills on the ground that bank notes were functioning satisfactorily and that, according to Representative Glynn of South Australia,

. . . if honourable members look at the history of this matter from the inception, they will find that an unregulated currency has succeeded better, on the whole, than a currency which has been governed by the misguided efforts of some statesmen.

Sir John Quick warned the Government that it

. . . is dangerous to confer on a national note issue the attributes of legal tender, because that is a stage towards making the notes an inconvertible currency.

All the dangers of inconvertible paper money came in for vivid description during the debate on the Bill. Liberals also objected to the note issue being under the supervision of the Treasurer instead of being controlled by a commission. Alfred Deakin felt that a gold reserve of 25 per cent on the first £7,000,000 was an inadequate security in gold, and the Opposition also objected to the notes being convertible only in Melbourne.

The Government defended the Australian Notes Bill by stressing the need for a uniform note throughout the Commonwealth. Dr. Maloney on August 23, 1910, remarked in the House of Representatives that

There are in Australia to-day no fewer than 52 banks, 38 of which issue notes. Consequently the difficulty of detecting forgeries is increased 38 times.

The Government reviewed the history of the crisis of 1893 and emphasized the part played by the Treasury note in Queensland in meeting that disaster as a reason for establishing an Australian note issue. In the matter of convertibility the Prime Minister, Andrew Fisher, asserted that, although legally convertible only in Melbourne, notes actually would be convertible at many points. He reminded members that under the bank note system banks were obliged to convert their notes only at their head offices, but that in practice banks readily converted notes at many of their branches. Andrew Fisher claimed that the same would be true of the Australian notes; actually banks did convert Australian notes under the new system.

As the Labour Party had advocated during the election of 1910 restriction of borrowing, many people felt that the Australian note issue might be an ingenious way on the part of Labour of meeting its election pledge and also of raising money. The note issue actually was a loan at no interest by the people to the Government, callable at any time, provided the possessor of the note happened to be in Melbourne. On this matter Andrew Fisher replied

. . . it is one thing to make it appear that we have brought forward this proposal, not to put the currency on a sound basis, but to raise a loan to help a needy Government, and another thing to say that incidentally to the putting of the currency on a sound basis the Government will be able, by the authority of Parliament, to obtain money which will augment the Consolidated Revenue Fund.

One of the main reasons for the Australian note issue appeared in connection with the history at that time of the Commonwealth Bank. With the note issue in the Treasury, opponents of the Commonwealth Bank felt that they had killed that institution for good.

A few Labour men felt that paper money was as good as gold. On September 6, 1910, Senator McDougall claimed

I have said that the stability of the currency is all a matter of confidence, and not of gold or of paper.

On the same matter King O'Malley claimed that

Paper money won the battle of Waterloo for England, and the battle of Gettysburg for Lincoln.

Paper can now claim that financially it won—and lost—the World War. A Liberal from North Sydney, G. B. Edwards, joined the few Labour men in the praise of paper. He boldly asserted

I am a paper man. I believe that paper is the money of

civilization, that the higher the civilization, the more paper it will use, and that the highest civilization will use nothing but paper.

He quoted Gladstone to the effect that all the profits of the bank note issue belonged to the State, and, what is more important than the profits, the responsibility of the issue as well belonged to the State. He believed in nationalization of the currency but not of banking. Paper is "the money of civilization", but normally civilization demands a security behind that paper.

Some of the followers of the Labour Party saw in the note issue a chance to check the profits of the banks. Bank notes actually had been declining. Andrew Fisher, on August 9, 1910, told the House of Representatives that bank notes had decreased from £4,642,454 at the end of 1885 to £3,630,517 at the end of 1909. H. G. Turner in *The First Decade of the Australian Commonwealth* discusses the relation of bank notes to profits:

In the early goldfield days, when banks had not flooded the country with branches and agencies, the note circulation was relatively larger than in 1910, and was undoubtedly a source of considerable profit. In later years with facility of conversion at so many branch offices, the circulation declined, and when the State Governments imposed a tax of 2 per cent per annum on it the business ceased to produce any appreciable profit. The expense of issue, control, carriage to different centres, and cancellation cost fully 1 per cent, and for 3 per cent the banks could obtain an abundant supply of money on fixed deposit, which was a more stable form of resource than was derivable from a fluctuating amount of notes payable on demand.

The Round Table of London in March, 1913, summarized the results of the Australian Notes Act of 1910 as follows:



- (a) To deprive the banks of a certain amount of profit from the issue of notes (approximately £45,000 per annum).
- (b) To deprive the States of a certain amount of revenue (approximately £70,000 per annum).
- (c) To place a large amount of trust funds at the disposal of the Commonwealth Government (approximately £7,000,000).
- (d) To reduce the loanable capital of the banks by somewhat less than £2,000,000.
- (e) To render the bank reserves less elastic than formerly, and consequently to require larger holdings of coin or its equivalent.

In regard to the matter involved in (d) of the above, Round Table asserted that

The aggregate amount of bank notes in the hands of the public before the 1910 Act did not amount to £3,800,000 and against this the banks held gold which may be estimated at about 50 per cent, say £1,900,000 so that the diminution in loanable capital brought about by the abolition could not amount to as much as £2,000,000.

If the statements quoted from Turner and the Round Table are correct, then it would appear that the banks made a good bargain when they agreed to the Commonwealth Government having the note issue on the understanding that there would be no Commonwealth Bank.

The Australian Notes Act deprived the banks of facilities for supplying their numerous branches with till money, and of coping by means of an increased note issue with seasonal fluctuations in the demand for currency due to the marketing of primary products. The Prime Minister admitted this disadvantage, but he felt that control by the Commonwealth would result in an offsetting advantage, for the Government

would be able to prevent any excessive issue of notes, an advantage of doubtful value, as post-war experience has shown.

*Bank Notes Tax<sup>rev</sup> of 1910 of Commonwealth Government*

As a complement of the Australian Notes Act the Commonwealth Parliament in the same year passed the Bank Notes Tax Act, which imposed a federal tax of 10 per cent per annum on all bank notes in circulation. The tax was to be assessed at the end of the year on the average amount issued or re-issued by the banks after the commencement of the Act and not redeemed at the close of business on the several Mondays. The federal tax was in addition to the State tax.

These two Acts made the issue of bank notes impracticable. At the time of the passage of these Acts, State notes to the extent of £755,635 existed in Queensland, and the bank note circulation was £3,718,462. On June 30, 1930, only £22,450 Queensland notes remained in circulation, while during the June quarter of 1932 the average bank note circulation was £197,119. The ordinary citizen almost never sees these notes in circulation. He uses Australian notes of the Commonwealth Bank.

The issue of notes grew from £3,389,476 in 1910 to £7,986,223 on June 30, 1911. Meanwhile the gold reserve increased from £1,140,344 to £3,227,767, in other words from 33.65 to 40.41 per cent. Evidently the Commonwealth Treasurer meant to hold an adequate gold reserve.

*Australian Notes Act of 1911*

In 1911 the Commonwealth Parliament passed an Act amending the Australian Notes Act of 1910, which removed the restriction placed upon the Treasurer requiring him to secure all notes above £7,000,000 with a 100 per cent gold reserve. Under the Act of 1911 the Treasurer was to maintain

a gold reserve of not less than 25 per cent of the total value of the issue. It was intended that this amendment should come into effect on July 1, 1912, but the Treasurer announced that its operation would be deferred until after the Commonwealth elections of 1913. As these elections resulted in the overthrow of the Fisher Government by a majority of one, the new Liberal Treasurer announced his intention of staying with the original reserve requirements. The Act of 1911, however, paved the way for Australia's war finance.

The note issue increased until on June 30, 1914, it had reached £9,573,738 with a gold reserve of 42.90 per cent. The total issue was a big increase on the combined bank and Queensland issues in 1910 of £4,474,097.

#### *Note Issue During the War*

After the war began in August, 1914, gold no longer circulated among the people and Australian notes took its place. Within the first few weeks of the war the Liberal Treasurer offered three notes for every sovereign held by the banks. Two out of every three pound notes so issued were treated as a loan at 4 per cent interest, a loan for not later than twelve months after the end of the war. Banks did not avail themselves largely of this offer, only £2,000,000 being offered, for they feared that gold lodged at the Treasury might be difficult to get back later.

When the new Labour Government took office in 1914, Commonwealth authorities on October 2 of that year borrowed £10,000,000 in gold from the banks, who received the same sum in notes in return. At the end of the war banks were to get their notes redeemed in gold. Upon the basis of the £10,000,000 in gold the Government hoped to issue £18,000,000 in notes for war purposes. The Government, however, also obtained £10,000,000 for war purposes from the British

Government. Consequently the Commonwealth Government handed the £18,000,000, raised by the expansion of the note issue with the assistance of the banks, to the various State governments for expenditure on public works, for which the British Government during the war would not provide money. After the banks had loaned the £10,000,000 in gold, they could get the benefit of the "three to one" provision that the Liberal Treasurer inaugurated.

Dr. Earle Page in his speech on the Commonwealth Bank Bill in 1924 stated of the early days of the war:

For a short period the States were given the right to get advances of notes on depositing twenty-five sovereigns in respect of every £100 of notes. On three-fourths of the amount of notes the States were charged interest at 4 per cent. The right was exercised to a comparatively small extent, the amount on which the States paid interest not exceeding £486,750 at any time, and the whole amount was repaid in 1915.

Minting of gold ceased early in the war. Thereafter the Mints paid for raw gold out of credits established by the issue of notes, and sovereigns, as soon as coined, were transferred to the Australian notes reserve.

In 1915 banks parted with another £5,000,000 of gold for purposes of export. This gold was shipped on behalf of the British Government to the Argentine. The banks received notes in exchange and also had the right to get loans in notes up to the amount of gold given, provided they deposited war bonds as security. Interest on these loans was  $4\frac{1}{2}$  per cent per annum. The Treasury also allowed loans to banks at 4 per cent to the extent of the banks' advances on primary products. In the case of wool and wheat the rate of the Treasury for loans was from 4 to  $5\frac{1}{2}$  per cent up to the advances made by the banks.

When the war loans came before the community, the banks agreed to offer to the public overdrafts up to 90 per cent of the subscription at a rate of 4 per cent. The Treasury on its part undertook to make a loan of notes to any bank up to the amount of overdrafts granted to customers and still outstanding at 3 per cent.

There was little legislation on the note issue during the war. An Act of minor importance in 1914 stipulated that Australian notes were not to bear the date of issue or re-issue. Another Act in 1915 allowed the Treasurer to borrow from the Australian Notes Account without making out or issuing Treasury bills, provided he had authority to make and issue Treasury bills. Such borrowings, however, were not to affect the reserve of the notes.

During the war notes became inconvertible; the export of gold ceased, and the note issue increased to £59,676,000, the peak issue, on October 30, 1918. The gold reserve, however, never fell below 33 per cent. Consequently, it was always well above the legal minimum.

Increased taxation, war loans, and the Australian note issue were the means whereby Australia financed her war demands. Meanwhile Australian prices rose to double their level of 1914, which fact shows that the war policy of Australia involved inflation. The note issue could be used to the extent it was legally because the framers of the Acts of 1910 and 1911 saw that a legal minimum reserve of 25 per cent gold actually meant a reserve of a much higher percentage of gold. On December 19, 1911, Andrew Fisher stated in the House of Representatives that

The margin of 25 per cent, which must not be encroached upon, means that the minimum working is one third, or  $33\frac{1}{3}$  per cent.

*Commonwealth Act of 1920*

After the war the Hughes Government transferred the note issue from the Treasury to the Commonwealth Bank. By this time the bank had proved to be a going concern and it was generally reckoned that the national bank, if stable, should have the note issue. People felt that a Treasury note was too near political control. Australians felt, however, that the note issue was too vital to the community to be under the control of one man. Governor Miller, on the other hand, did not desire to have a board govern the general banking department. As a result it was decided to leave the general banking department in the hands of Governor Miller while placing the note issue under a separate board. Introducing the Bill, the Treasurer, Sir Joseph Cook, said that the transfer was being undertaken because

. . . the Bank is in closer touch than the Treasury could be with the requirements of the community. It has better facilities for operating the note issue, for securing the notes, and seeing that they are placed against bills which are self-liquidating in their character. The Bank also has many branches over the country while the Treasury has none.

The Commonwealth Bank Act of 1920 repealed the Australian Notes Act of 1910-1914. It set up a board of four men to manage the note issue. The Governor of the bank under the Act was an *ex officio* member of the board. The Governor General appointed the three other members, who included a representative of the Treasury. The terms of office for the first appointed men were five, four, and three years. After the expiration of these terms the following appointments were all to be for five years. An officer was eligible for reappointment.

Under the Act of 1920 notes were convertible on demand



MR. J. J. GARVAN

SIR DENISON MILLER  
(Chairman)

MR. H. T. ARMITAGE  
(Secretary)

MR. C. J. CERUTTY

MR. G. SWINBURNE

First Meeting of the Australian Notes Board, December 17, 1920

at the head office of the Commonwealth Bank. Australia at that time, however, had left the gold standard. The moneys derived from the issue of Australian notes were invested in the same way as previously, except that they could also be invested in trade bills with a currency of not more than one hundred and twenty days. This provision was an attempt to establish elasticity in the note issue. When this provision was under discussion in the Upper House, Senator Lynch of Western Australia moved the following clause, which was to be added after that allowing funds to be invested in trade bills:

(d) in approved rural industries, particularly agriculture and mining.

Parliament did not accept this amendment.

Under the Act of 1920 profits of the note issue went for the payment of the working expenses of the note issue department, for the payment of a commission to the bank, with the balance going to the Treasury. A provision of the Act enabled the Governor-General in an emergency to transfer by proclamation the control of the notes from the board of directors to the Treasurer. As the Governor-General acts upon the advice of his Ministers, the Government still had final authority in the matter. The new law established a note issue department, which was separated from the general banking department of the bank. The notes were still Australian notes and did not become Commonwealth Bank notes.

While a Nationalist Government passed this legislation, the Labour Opposition did not seriously object to the measure. For a long time the Labour Party had proposed a Commonwealth Bank of issue.

There were a few differences in the Bill originally introduced and the legislation finally enacted. In the original Bill a provision allowed the note issue department to invest



moneys of the note issue in the ordinary business of the bank, but the Treasurer, Sir Joseph Cook, withdrew this proposal, for he felt that it gave the Commonwealth Bank an unfair advantage over other banks.

Another provision in the Bill not in the Act required every bank except the Commonwealth Bank to hold in the form of Australian notes an amount not less than 20 per cent of the deposits which it held repayable at call or at less than six months' notice and 10 per cent of deposits held by the banks repayable at six months' or longer notice. The Treasurer explained that this provision was for the purpose of protecting the Treasury from the demand which might otherwise be made by the banks for the return of the £10,000,000 in gold that the banks had handed to the Treasury at the beginning of the war. The Treasurer, however, announced that

We do not want to deplete our present stock of gold standing against our notes. As the banks have come forward, and have said that they will not make that demand, it is unnecessary for us to protect ourselves in the way proposed in this clause. We are already protected by the agreement with the banks, and that will do quite as well as the clause inserted in the bill.

The first draft of the Australian Notes Bill in 1910 contained a similar provision requiring banks to hold a certain proportion of notes as reserves for their deposits, but that clause, like the one in 1920, did not appear in the measure finally enacted.

Although the Act of 1910 did not prohibit the Commonwealth Treasury from using its own notes for payments due by it or by the Government, the Act of 1920 made the Note Issue Department of the Commonwealth Bank the only institution in Australia unable to use Australian notes in respect of any payments due by it. It had to pay either by other

money or cheque, by Treasury bills, or by some other form of security, but not by Australian notes.

The Act of 1920 allowed Australian notes to be issued in the denomination of 5/-. The lowest denomination allowable under the Act of 1910 was 10/-. So far the bank has not issued any 5/- notes.

During the two years ending December, 1922, the note issue shrank from £58,713,251 to £51,771,431. The gold reserve in the same time rose from 42.62 to 45.83 per cent. The number of notes held by the banks decreased from £31,747,456 to £24,752,913. Notes in the hands of the public rose from £26,965,795 to £27,018,518. The cash reserves of the banks bore the brunt of the deflation in the monetary issue.

During the period from January 1, 1923, to March 1, 1924, the note issue remained stable, neither increasing nor decreasing more than £200,000. From March 1, 1924, to April 28 of the same year the volume of notes increased from £52,132,621 to £56,940,412. During this time notes held by the ordinary banks increased from £28,954,947 to £32,513,972 and notes in the hands of the public rose from £23,177,674 to £24,426,440. The gold reserve fell from 47.09 to 43.02 per cent.

The reason for this sudden rise appears in the action of the Notes Board in issuing notes for £4,200,000 to the banks, which had the right to demand notes in settlement of the advances made to the Commonwealth Government for the purpose of cashing war gratuity bonds. Nominally the Government cashed the bonds in necessitous cases, but in reality banks cashed them on the understanding that they had the right to obtain notes in exchange for the bonds whenever the banks required currency. Banks received  $5\frac{1}{4}$  per cent interest on the bonds and could treat them as legal tender for

all practical purposes, for they could convert them at will into Australian notes. A similar situation has existed during the depression with Treasury bills.

From April 28 to October 27, 1924, the note issue again remained practically constant, the issue being £56,890,226 at the later date.

At the time of the passage of the Commonwealth Bank Act of 1920 the Commonwealth Treasurer, Sir Joseph Cook, felt that

. . . in the hands of the Board, the amount of the note issue will automatically contract and expand according to business requirements.

As time passed, however, a feeling that the note issue board had not performed its duties satisfactorily gained currency. The fact that the note issue department was free from bank control did not work as well as expected, for the board was out of touch with movements in banking and commerce. There was no satisfactory machinery for linking movements in currency with developments in banking and commerce. The *Review* of Sydney on June 30, 1924, remarked that

Rightly or wrongly, the people find the Bank satisfactory, and the Note Department unsatisfactory.

At the time there were two views in Australia on the policy of the notes board. One proposed stability of the Australian price level irrespective of its effect of London exchange. The other view maintained that the board should keep the English exchange stable and near par, even if this action involved inflation. Dr. Earle Page, Commonwealth Treasurer, held the first view. He felt that

. . . until definite steps can safely be taken towards resumption of gold payments, the proper policy is to aim at issuing just enough paper to maintain stability of the general price level.

On the other hand, Professor Copland of Melbourne in *Currency and Prices in Australia* maintained that the

. . . main function of the Commonwealth Bank as a central bank will be to keep the exchange with London at par. For this purpose, a good distribution of funds in liquid securities between London and Australia is the essential factor.

Professor Copland, however, realized that

What is required is that the general level, the final expression of all individual prices should remain as nearly stable as possible.

The note issue board, from its actions, apparently had no definite policy.

#### *The Commonwealth Bank Act of 1924*

The Commonwealth Bank Act of 1924 was an attempt to make the Commonwealth Bank more of a bankers' bank. As far as the note issue was concerned, the Act of 1924 placed its management under the board of the bank. This move assured better co-operation between the currency authorities and the commercial and banking people. The Act of 1924 also contained two other important features affecting the note issue, one allowing the issue of notes against bills rediscounted at the Commonwealth Bank in Australia, and the other permitting the issue of notes against adequate deposits with the Commonwealth Bank in London.

The provision of the Act of 1920 that allowed the Governor-General in time of emergency to transfer the control of the note issue to the Treasurer was omitted in the Act of 1924. Also members of the board could without check apply to themselves as members of the note issue department for notes to be used in the general banking department. The Senate proposed an amendment that would have allowed the board to issue notes to the general banking department only with

the consent of the Treasurer, but this amendment failed to pass the House of Representatives.

The new board in October, 1924, agreed to issue additional currency up to £15,000,000, if required, to meet seasonal demands of wheat and wool exports. Banks only used this provision to the extent of £2,800,000. This amount was only a small portion of the £15,000,000 promised, but the very fact that banks could obtain more if necessary relieved the tension at the time. Actually there was no need to set a definite limit on the sum that would be advanced. An announcement of the board that it would advance notes necessary to finance the export trade would have been sufficient.

In the period between the establishment of the new board and the return of the United Kingdom and Australia to the gold standard at the end of April, 1925, the note issue remained constant at £56,890,226. The amounts held by the public and by the banks also remained constant except for the usual increase in the holdings of the public and the decrease in the quantity at the banks at the Christmas season. This situation continued after the return of Australia to gold until November 30, 1925, when the total issue dropped to £53,890,226½. Another drop occurred in July and August in 1926, the note issue touching £49,890,226½ on August 30; during 1927 the note issue remained around £50,000,000. With minor variations the note issue shrank until it reached £41,608,226½ on July 29, 1929, with £24,472,561 in the hands of the public and £17,135,665½ with the banks. The gold reserve at June 30, 1929, was 53 per cent. The continuance of deflation after the return of Great Britain and Australia to the gold standard caused this shrinkage of the note issue.

When Australia departed from gold in November, 1929, the Australian pound soon showed a discount in terms of

sterling. Travellers from Australia with Australian notes abroad circumvented the exchange problem by cashing Australian notes abroad at their face value, the Commonwealth Bank taking the loss. To stop this practice the Commonwealth Bank announced on March 8, 1930, that it would no longer cash Australian notes at face value outside Australia. This policy is still in effect in 1933.

*Theodore Fiduciary Bill of 1930*

On April 2, 1930, E. G. Theodore, Commonwealth Treasurer in the Scullin Labour Government, introduced a Bill in the House of Representatives to create a fiduciary issue of £18,000,000. One-third of this sum was to be used to aid wheat growers and the rest was to be applied to relieving unemployment by creating work. After addition of the £18,000,000 the note issue was to remain fixed. The addition of this sum to the note issue at that time would have made a total issue of £60,000,000. The proposal of the Treasurer to extend the note issue without a reserve of gold caused opponents of the Government to object to the measure as purely inflationary. Yet exactly the same thing had been done in 1914 when the Government gave the banks notes for £10,000,000 in gold and issued on that sum another £18,000,000 in notes, which were not used for war purposes but for developmental works in the States. In 1914 prices were rising, whereas in 1930 they were falling rapidly. Governments were already engaged in inflationary finance by the use of Treasury bills to meet budgetary deficits. It would be better for the banks to continue with Treasury bills, for these carried an interest rate of 5 per cent at the time and could be converted into cash at will at the Commonwealth Bank. Under this inflationary practice the public was paying a high rate of interest, while under the fiduciary issue there would

have been no interest charges for the Government, representing the people collectively, to those holding the notes.

The danger in the Bill lay in the possibility of further expansion of the note issue after once having made an addition of this sort. On May 1, 1931, Representative Cameron asked the Prime Minister in the House about this matter:

A newspaper report states that while the Treasurer (Mr. Theodore) was addressing a meeting at Ballarat an interjector asked, "What will happen when your £18,000,000 of fiduciary issue is exhausted?" And the Treasurer replied, "If the world's prices have not recovered we must go on with the process." Does the Prime Minister concur in the Statement?

Mr. Scullin: A well-known rule of Parliament provides that an honourable member basing a question upon a newspaper report must vouch for the accuracy of the report. Does the honourable member for Barker do so in this instance?

It was the possibility that the £18,000,000 might be the entering wedge for further issues that was the danger point to the Opposition in their attack upon the Fiduciary Bill. After being before the country for a year the Senate by a vote of twenty-one to six rejected the measure.

#### *The Commonwealth Bank Act of 1931*

When the Australian Government in 1931 found that it had to meet on June 30 maturing Treasury bills in London, it faced depleted balances in London, no surplus gold in Australia, and little prospect of renewing the Treasury bills. The only exportable gold in Australia was behind the note issue. This reserve totalled £15,000,000, while the London commitments required £5,000,000. After much controversy the Commonwealth Government passed an Act to allow the exportation of £5,000,000 of the gold reserve behind the note issue.

The Commonwealth Bank Act of 1931 provided that the bank could on request of the Commonwealth Treasurer ship £5,000,000 of the gold reserve behind the note issue to discharge indebtedness of the Commonwealth in London in respect of Treasury bills maturing on June 30, 1931. The Treasury for the gold so used issued to the bank Commonwealth securities to an equivalent amount. As shipping £5,000,000 of the gold reserve meant taking the amount of that metal in the reserve below the legal minimum of 25 per cent of the total issue, the Act of 1931 stipulated that the gold reserve behind the total issue had to be 15 per cent during the two years ending June 30, 1933, 18 per cent during the year ending June 30, 1934, 21½ per cent for the year ending June 30, 1935, and 25 per cent thereafter.

*Sir Robert Gibson before the Senate*

While the Bill was under discussion Sir Robert Gibson, Chairman of the Commonwealth Bank Board, appeared on May 6, 1931, before the Senate to testify on various phases of the proposal. Senators, however, did not confine their examination to the content of the Bill but questioned Sir Robert Gibson on other phases of policy of the Commonwealth Bank. Some of these wider inquiries were important.

Senator Pearce: Does your Board consult fully and freely with the Board of the Bank of England on all matters affecting Australian credit overseas?

Sir Robert Gibson: The Bank Board is in continuous communication with the Bank of England on all questions affecting finance in its broadest sense—world finance—and the reaction they may have on Australia.

Senator Foll: Has there been any attempt on the part of the Bank of England to dictate the policy of the Commonwealth Bank?



Sir Robert Gibson : Absolutely on no occasion. Further, the Commonwealth Bank would not accept such dictation.

On the Bill before the Senate Sir Robert Gibson stated that the Commonwealth Bank Board opposed departure from the gold standard, and he gave the following answers on other points :

Senator Barnes : Would you regard the consequences of default overseas as likely to be very serious to Australia?

Sir Robert Gibson : Default on the part of Governments of Australia, wherever made, will be very serious for this country. From the point of view of our credit, I do not think it is material whether the default is made in London or in Australia. As an Australian citizen, if the decision were left to me, I would rather default to my own people than to people overseas, but from the national viewpoint, the effect of default is the same in either case.

Senator Barnes : Sir Robert Gibson, would you regard the shipment of gold from Australia as a better alternative than default?

Sir Robert Gibson : Undoubtedly.

Senator Glasgow : The Leader of the Government (Senator Barnes) asked whether you would regard the shipment of gold as being preferable to default. Are default and the shipment of gold under the provisions of this Bill the only alternatives available?

Sir Robert Gibson : There is another alternative.

Sir Robert Gibson did not explain the other "alternative". The *Financial News* of London commented on April 29, 1931:

. . . if, as Mr. Scullin affirms, default on the June 30 Treasury bills is the only alternative, the use of the gold would be the lesser evil. After all, a gold reserve is primarily accumulated for the purpose of use in emergency. At present the possibility of arranging for the funding or replacing of

the maturing Treasury bills seems remote, so that it may well be that the Senate will pass the Bill, unless, of course, the Commonwealth Bank again undertakes to find the money.

The Commonwealth Bank did not "undertake to find the money" and so £5,000,000 of the gold reserve was shipped to London.

*The Commonwealth Bank Act of 1932*

In 1932 another Act took Australian currency still further from a backing of gold. The Commonwealth Bank Act of that year provided that the gold reserve requirements of the note issue be changed to a reserve of gold or English sterling. According to the Act English sterling means

currency which is legal tender in the United Kingdom, and includes:

- (a) Balances standing to the credit of the Bank at the Bank of England or at any other of its bankers in London.
- (b) Bills of Exchange, or advances secured by Bills of Exchange, which—
  - (i) are payable in the United Kingdom in currency which is legal tender in the United Kingdom;
  - (ii) will mature in not more than three months, and the security for the payment of which Bills is, in the opinion of the Bank, satisfactory; and
- (c) Treasury Bills or other securities of the United Kingdom which will mature in not more than three months.

The Commonwealth Bank Act of 1932 further provided that

in the event of the sale of any of the gold held, at the commencement of this sub-section, in the reserve, the difference between the value of the gold as shown in the books of the Bank and the amount realized on the sale of the gold shall not be deemed to be profits within the meaning of section

sixty J of this Act, but the amount of the difference shall be transferred to a special reserve account and shall be available, from time to time, as the Board determines, for the purpose of stabilizing exchange or for the purpose of the Note Issue Department.

The Act further stipulated that in future the monthly statements of notes issued would give "particulars of the reserve" and leaves to the discretion of the Board its interpretation of this matter. Since the passage of the Act the Board has continued to announce the amount of gold behind the issue. Another section of the Act did away with the clause of the Act of 1920 that prohibited the note issue department from using Australian notes in payment of debts due by it. Finally, the Act made Australian notes inconvertible in gold. In the Director's Report of the Commonwealth Bank for the half-year ending June 30, 1932, Sir Robert Gibson stated that the Board proposed this legislation because

1. That subject to the maintenance of internal confidence in our currency the retention of physical gold reserves was a luxury that Australia could not afford to indulge in under present conditions.
2. That as our settlements for external debts required a sterling basis, the holding of Note Reserves in sterling should not be inimical to our external credit and would also provide more flexibility in dealing with our external financial problems.
3. That the conversion of our gold into sterling would convert a frozen asset into a working asset thereby increasing our national income.

The Act of 1932 is a definite change from a pretence of a gold standard to an actual recognition that Australian currency is based on a sterling standard. It makes the Australian pound more than ever tied to sterling. As Australia's external trade is financed through London, it is, perhaps, well that the London



Melbourne "Punch", 30/11/11

### THE FIRST TEST

(Having some doubt about the utility of the State Bank from the workers' point of view, the latter may be expected to put it to the test at the earliest opportunity.)

**WORKERS.**—"Here we are, Mr. O'Malley, bright and early, eager to be your first customers."

**BANKER O'MALLEY.**—"Certainly, gentlemen; what do you want?"

**WORKERS (unanimously).**—"A nice big overdraft apiece, please."

situation should be the key to the monetary policy of the Commonwealth. Yet Australia should not be too dependent upon London financially. If the trade in the Orient is to be promulgated, Australia should finance that trade directly, without going through London. Australia should prepare for financial as well as political self-government.

With the departure of Australia from the gold standard at the end of 1929 the note issue expanded irregularly from November 25, 1929, to December 28, 1931, from £42,848,226½ to £54,803,426½. Notes in the hands of the public at the first date were £24,504,171 and they increased to £28,606,708. The holdings of the banks showed the effect of the expansion, growing from £18,344,055½ to £26,196,718. During 1932 the note issue contracted and on November 21, 1932, stood at £49,053,426. By the end of 1932 it had slightly expanded to £50,053,526½ with a gold reserve and sterling assets of £11,499,343 and debentures and other securities being £38,088,530. Most of these items are government bonds. The hope expressed by Sir Joseph Cook in 1920 that trade bills would form an increasing part of the security behind the note issue has not yet been rewarded in actualities, although the Act of 1932 looks in that direction.

All the profits of the note issue department before the Commonwealth Bank Act of 1925 went to the Treasury Department. The Act of that year stipulated that one-quarter of the profits of the note issue should go to the rural credits department until the amount so paid reached a total of £2,000,000. This figure was reached at the end of 1932. Portions of the profits of the note issue allotted to the rural credits department have built up a capital account in that department. By January 1, 1933, the profits of the note issue department since its inception were £14,496,890. As all except £2,000,000 of the profits have gone to the Treasury, the note

issue department has been a source of considerable income to the Commonwealth Treasury.

The profits of the note issue have arisen from the portion covered by investments. At June 30, 1932, this portion was £40,748,195. Under the lowered gold reserve requirements more of the note issue was secured by investments with the result that during the year ending June 30, 1932, profits from the note issue amounted to £1,741,273, the largest in annual profits in the history of the department. Although profits of the Commonwealth Bank declined from £956,649 to £916,871, comparing the first half of 1932-33 with that of 1931-32, profits of the note issue department increased slightly from £718,837 to £719,737.

The lower the gold reserve behind the note issue the greater are the profits to the Government. In the meantime, although the gold reserve has fallen and Australia has definitely adopted a sterling standard for its monetary system, Australian notes are just as acceptable to the public as ever.

## CHAPTER TEN

### EXCHANGE ON AUSTRALIA

**T**HE prosperity of Australia depends upon good weather and good markets. When the world prices of wheat and wool are high, the purchasing power of the people of Australia rises and customs receipts increase. During the last normal year, 1927-28, the value of exports from Australia was £141,595,159, while the figure for imports was £148,116,549. These sums were considerable for a country with a little over six million people. In the following year a record wool crop produced nearly 3,000,000 bales in Australasia and sold for over £60,300,000.

#### *Financing Australia's External Trade*

In order to transact so great a business banks in Australia possess elaborate records of the standing of their clients' customers overseas. Banks keep these records up to date by revision every six months or so through their London offices and representatives. In a similar manner British and some American and Continental banks also keep in close touch with Australian banks regarding the standing of individuals, firms, companies, and business connections of customers in Australia.

For three months during the year, from October to January, shipping wool and grain to London is an important feature of Australian life. To finance this trade British and Continental bankers usually establish credits for buyers of Australian pro-

ducts, who draw bills with these credits for purchasing through their agents in Australia that country's exports. This is especially true of the wool sales. Buyers of Australian exports use only in a minor degree bank drafts, London on Australia, for commodity purchases. Australians pay for imports principally by bills drawn abroad on credits established through London; importers only occasionally pay by direct remittance. Travellers from Australia use circular letters of credit, which enable them to obtain foreign money in exchange for drafts on London. H. E. Teare in *Australian Banking and Currency* remarks that

There is a great distinction in the Australian practice of buying bills and discounting bills. The bills which the banks buy are bills drawn on customers abroad, but the bills which they discount are bills drawn on Australia either abroad or locally, and which are payable in Australia. Therefore, the local discount rates of  $5\frac{1}{2}$  to  $6\frac{1}{2}$  per cent per annum, or whatever they may be, apply to the discounting of bills payable in Australia only. On the other hand, the price of bills and drafts on London are governed by British rates, for they must be finally negotiated in London.

#### *Trade with America*

Although trade between Australia and the United States had grown considerably in the years preceding the depression, direct exchange operations between the two countries were infrequent. Most Australian banks now carry balances in New York and will sell dollar exchange to a limited extent. During the depression trade between the two countries decreased. From 1926-27 to 1931-32 imports from America fell from £37,234,257 to £7,016,073 and exports from £12,953,877 to £1,793,333. Imports for the latter year are quoted in sterling.



During 1921 a number of large direct exchanges occurred through wool brokers who created credits in New York by selling wool in the United States. They transferred these credits directly to Australian importers who wished to pay for goods in the United States. In many instances these transactions materialized without the intervention of a bank. Because of the debacle in foreign exchange at the time many banks were unable to offer any form of remittance. The usual way of paying for imports from the United States is by putting up a credit under which the New York bank is authorized to draw on London. The applicant for the credit undertakes to provide funds in Australia in time for them to be remitted, generally by cable, to London to meet the drawing from America under the credit.

American export commission houses handle an important amount of the import business in Australia from the United States. Several of these houses have branches in Australia. These houses will take an order from an Australian customer, place it in America, and attend to all the details of shipment and payment for in normal times a commission of  $2\frac{1}{2}$  per cent on large business and 5 per cent on small business. The commission house does not assume responsibility for payment but acts as the customer's purchasing agent. It has happened since the end of the war that these agents have had to carry goods which the customer refused or could not receive, and serious losses resulted to the agent. With stable exchange risk of loss in this way is small.

#### *Use of Letter of Credit*

It is contended that use of the letter of credit in Australian import trade is the most acceptable to all concerned—to the exporter, because he is taking no chances, to the banks, because they get a better commission, and to the importer, because he

can get nothing else. The letter of credit is usually sent with the order for goods for import, though in urgent instances the credit can be cabled. The letter of credit is frequently for a larger amount than is required for a specific shipment of goods, leaving a balance to be drawn against for future shipments. The letter of credit may be arranged for by the importer by putting up cash, collateral, or, if he is a strong man, against his credit with a bank. This instrument of exchange may be either general or very specific, becoming, if the latter, operative only if a number of requirements on the exporter are complied with to the satisfaction of the bank abroad that pays over the money.

#### *Exchange with London.*

Australia, externally, has for many years been actually on the exchange standard with London. As practically all overseas financial transactions of Australia are conducted through London, and as all Australian banks have branches or head offices in London, banks have for many years held considerable balances there. Payments to and from Australians are added to or subtracted from these balances. The exchange rates of England on Australia and the reverse vary according to the condition of these balances.

As Australia is a gold producing and gold exporting country, it is difficult to disentangle exports of gold for banking purposes from those purely for gold as a commodity. Banks have in the past increased their London balances by shipments of gold to England. The price in normal times for this procedure averaged from  $1\frac{1}{4}$  to  $1\frac{1}{2}$  per cent. It is not always necessary, however, to ship gold to London to replenish the balances of the Australian banks. London may request Australian correspondents to ship gold to India to offset an indebtedness that Londoners have with that country. If Australia's balance of

payments with South Africa is favourable, Australian bankers may increase their London balances by directing that South Africa send gold to London. In this way the cost of shipping gold is reduced. Gold shipments to Australia seldom occur, for Australia is a gold exporting country. At the end of 1924 and early in 1925 gold did come into Australia as a means of payment, but this action was due to unusual circumstances to be described later.

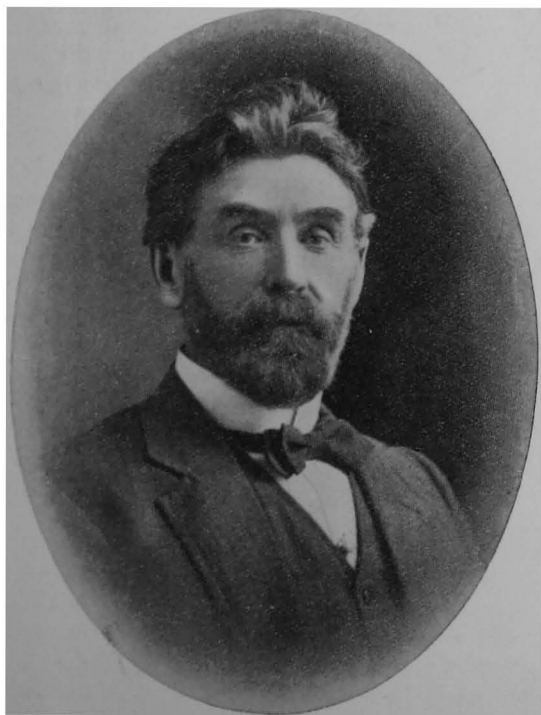
Before the war Australia had no central bank to regulate the exchange rate. Large claims on sterling and shipment of gold kept the exchange rate between London and Australia stable. The smallest gradation in this exchange is  $\frac{1}{16}$  per cent. This gradation is not as fine as that used in the dollar sterling exchange, which is one-hundredth of a cent. Debts due in Australia have to be paid in Australian pounds and those in Britain in English pounds. The two units, although equal in metallic content are seldom identical in value. The same situation occurs in the New Zealand and South African exchanges with London and with each other. Between London and Australia banks quote English and Australian pounds either at a discount or at a premium.

### *Banks' Control of Exchange*

Free competition of commercial men and financiers for bills and drafts regulates the exchange rates between Great Britain and foreign countries, but until 1931 Australian banks regulated the exchange rate between Great Britain and the Commonwealth. On December 2, 1931, the Commonwealth Bank announced that it rather than the Associated Banks would in future set the exchange rate. Before that date private banks had complete control of exchange. In order to retain this control Australian banks for many years would not open an account for an English or foreign bank that proposed to do

exchange business with Australia. This situation was relieved by the decision of the Associated Banks in September, 1928, to open accounts for foreign banks. Previously nearly all attempts of foreign banks to open accounts in Australia failed. There were no legal restrictions preventing outsiders from opening in Australia, but when, as an example, the American Express Company in 1922 set up a branch in Sydney, it found that banks refused to give it credit in their books and also declined to accept its cheques on other banks. Consequently the American Express Company had to withdraw. Besides the Bank of New Zealand two overseas banks operate in Australia. The Yokohama Specie Bank with liabilities at June 30, 1932, of £571,780 and assets of £621,523, and the Comptoir National d'Escompte of Paris with liabilities at the same date of £65,914 and assets of £65,082, are in business to this extent in the Commonwealth. These banks are not members of the Associated Banks, but they help to stimulate the export trade with Japan and France.

There are a few (exporting firms) in Australia sufficiently wealthy to be able to trade with their own money. They send bills of lading to their London branches, which collect the proceeds of the shipments and place them to the credit of shippers in London. This action creates a balance in London against which exchange dealers can sell. Branches in London become sellers of exchange in the open market and just as these firms have beaten banks by sending their free documents to London, so they can beat the banks by selling their telegraphic transfers on London at a better price than that of the banks. (It was this small amount of competition that kept rates of banks lower than they would have been if the monopoly had been complete.) It seems strange that the Commonwealth Bank stood by for years watching this exchange business and made no real effort until 1931 to rectify conditions.



*Photo: Humphrey*

**THE HONOURABLE KING O'MALLEY**  
Founder of the Commonwealth Bank

### *Need of an International Clearing House*

King O'Malley in December, 1914, in the House of Representatives urged

. . . the Prime Minister to get into communication with the Treasurers of the world, other than those of the countries with which we are quarrelling just now, and to try to create a great international gold-clearing house.

The Prime Minister promised to look into the matter, but the war prevented Australia from acting on this important suggestion. King O'Malley always emphasized the principle of clearance in banking all through from the individual bank to international transactions. The ideal would be for central banks of the world to have an international bank clearing for the many nations. Central banks are a step in arranging facilities for clearing. An international bank set above central banks would make clearing facilities complete. The Bank for International Settlements in Switzerland might subsequently develop in this direction. As yet it deals mostly with reparation payments but could become a great international clearing house. This bank opened on May 31, 1930, with a balance-sheet of 300,000,000 Swiss francs and by the end of the first six months in operation the balance-sheet showed 1,800,000,000 Swiss francs. The various central banks of the world are shareholders of the bank, except in the case of the United States; there private banks instead of Federal Reserve Banks have an interest in the international bank.

### *Exchange during the War*

When gold disappeared from circulation at the beginning of the war, Australian notes and subsidiary coinage became the currency of the Commonwealth. A proclamation on July 14, 1915, prohibited exportation of gold specie or bullion from

Australia, except with the consent in writing of the Commonwealth Treasurer. On January 24, 1916, the Associated Banks of Victoria urged the Federal Treasurer to lift the embargo on gold, and the Treasurer finally decided to permit a limited export of gold. Under the arrangement any bank which lodged full-weight sovereigns with the Commonwealth Treasurer or with the Commonwealth Bank as agent for the Treasury, was to receive telegraphic payment in London at the rate of £98 for every hundred full-weight sovereigns lodged. The 2 per cent was to be kept in hand, and after all expenses had been paid, the balance was to be adjusted at the Treasurer's discretion. The intention of the Government in establishing this system was that any profit that might result should be placed to the credit of Commonwealth revenue. The Commonwealth Bank handled these transactions and received a commission of  $\frac{1}{4}$  per cent for its services. Only three banks took advantage of the provision, and when they had shipped £800,000, the arrangement was suspended indefinitely.

With the export of gold prohibited and with gold withdrawn from internal circulation the Australian note issue became the chief part of the currency of Australia. Before the war banks had settled their clearance debts in gold, but in September, 1914, they abandoned gold and settled in Australian notes. As a result gold was no longer a restraining influence on the credit situation in Australia. Power to restrict or expand credit fell squarely on the Treasury officials. The Australian note issue expanded from £9,573,738 in June, 1914, to £56,949,030 in June, 1920. It is true that some of this expansion was due to the displacement of gold in circulation. Yet retail prices rose, according to an index of the Commonwealth Bureau of Census and Statistics, from 100 to 181; meanwhile wholesale prices rose from 1149 to 2480.

The increased amount of note issue expressed itself in increased prices.

During the war sterling was "pegged" to the dollar and so appeared to be "pegged" with gold. Actually the dollar was not always at par with gold, for in 1917 the dollar was at a discount with the currencies of Holland and Switzerland, which at the time were on a gold basis. E. C. Dyason in the *Economic Record* of February, 1928, stated that

. . . Early in 1917 it was well known that in Hong Kong five dollars in American paper could be obtained for four dollars in American gold coin.

Yet for the most part the dollar could be taken as equivalent to gold.

#### *Post-War Exchange*

When sterling was "unpegged" early in 1919, the distance between it and currencies on the gold standard began to widen and, as the Australian pound has always followed the English pound, it went in the same direction as sterling, even though Australia had plenty of gold at its disposal.

In February, 1919, the Gold Producers Association came into being in Melbourne. Although export of gold was in general still prohibited, the Government allowed the association to export as much gold as its members produced. When the association began to export gold, the depreciation of the currency expressed itself in a premium on that metal.

A provision in the War Precautions Act of 1920 allowed the Prime Minister on behalf of the Commonwealth and in conjunction with the representatives of the States, to enter into agreements with banking corporations carrying on business in Australia for providing for the financial requirements of the States to enable them to operate any scheme (for the transportation and marketing of Australian primary products)



The Act also provided that the Prime Minister might give to those banking corporations a guarantee that the State Governments would repay to the banks the advances made by the banks to them under the agreement. This Act cleared the way for the formation of the (great pools) which after the war marketed Australia's primary products. The Commonwealth Bank financed these pools.

While the inflation of the first part of 1920 was in progress the rate of exchange on London remained at the pre-war price of a premium of 17/6 per £100 on telegraphic transfers on London. When deflation commenced in the second half of the year, the premium on sterling increased until it reached 50/- per £100 in January, 1921. This rate continued throughout 1921.

In November, 1920, the London Chamber of Commerce cabled the Chambers of Commerce in Australia requesting them to urge the Commonwealth Government to permit the export of gold to relieve the exchange difficulty. The Federal Government, however, refused to act in the matter because Australian authorities did not wish to act before the United Kingdom. Governor Miller felt that

. . . (it would be suicidal for us to allow free shipment of our gold unless Great Britain did the same.)

It is not clear why free export of gold would have been "suicidal".

#### *Sterling Resources, 1914 to 1924*

From July, 1914, to July, 1921, financial transactions had left a net surplus of £700,000 in London. During the following year sterling resources in London rose to £50,000,000. Items included in the list of factors affecting sterling balances were excess of imports or exports, increase in debt raised in London, dividends of the B.A.W.R.A., interest on debts, and

services rendered abroad. During the first six months of 1922 sterling telegraphic transfers declined from a premium of 50/- per cent to one of 17/6 per cent. By June 30, 1923, sterling resources had fallen to £20,000,000. During the first six months of the years 1922-23 the premium on sterling slumped to 5/- per £100, and this rate held until the end of 1923. (The London rate on Australia started that year at a discount of 2 per cent and ended at a discount of 1 per cent.) At June 30, 1924, sterling resources reached £29,600,000. It was during 1924 that rates of London on Australia reached their highest figure in the period before the restoration of the gold standard, telegraphic transfers selling at a premium of 70/- per £100. In fact there was even doubt as to whether the export trade of Australia would be financed at all until the Commonwealth Bank finally announced that no difficulty would be experienced in future in financing exports.

Just as before the war the vital factor in the exchange rate appeared in the condition of the balances of the banks in London. Prohibition of the export of gold had blocked one means of replenishing those funds. No figures, however, are available depicting the state of the balances, and so the actual exchange rates cannot be checked by the condition of the banks' balances.

#### *Complaint of High Rates of Exchange*

The Imperial Conference of 1923 appointed a committee headed by Sir Charles Addis to investigate the difficulties of the Imperial exchange. Among other things the committee observed that in

. . . some cases the bank charges for buying and selling sterling appear to be unduly high and should be capable of reduction.

A letter to the *London Times Imperial and Foreign Com-*

*mercial and Engineering Supplement* of July 21, 1923, complained of the high rates charged by the *(Associated Banks)* of Australia, alleging that

If the buying of demand drafts and the selling of cable transfers in London are taken, the charge of £2 plus 25/- equals £3 5s. od. per cent, and in this case the bank would be out of its money for the time of transit (thirty days). This charge is 20% per annum. The cost of remitting money to-day by T.T. is 25/-% while the banks charge 5/-% on remittances from those Dominions to London making a charge both ways of 30/-%. Stated broadly the bank charge for remittances to foreign countries does not exceed 1/8 of 1%, 2/6 both ways, yet the combine of banks controlling remittances from Australia charges 30/-%.

The letter further claimed that a group of merchants in London, including the writer, made arrangements with merchants in Australia and during 1922 paid 6/- per cent instead of the banks' 17/6 per cent on remittances to Australia. In 1923 this group paid 12/6 per cent on remittances to Australia instead of 25/- per cent as charged by the banks. The letter finally asserted that

It is useless to camouflage the issue by pleading the incidence of exchange based on daily, weekly or monthly imports or exports, when for the past eight months exports and imports have had no bearing whatever on the charge made.

Later, on October 15, 1923, this correspondent of the paper wrote that

. . . the associated banks made the highest profits ever made in 1921 (£5,732,000).

In answer to the charge of making undue profits banks maintained that during 1922-24 there had been a large surplus of exports over imports for Australia and that large balances had accumulated in London which could not be moved to

Australia without considerable premiums being charged. This reply did not answer the question raised by the correspondent of *The Times*. (It did not deny that a large gap existed between the buying and selling rates of the banks for the same instrument of exchange.) (Actually banks were charging a high commission for business upon which they had a monopoly.)

### *Note Issue Department and Exchange*

During the existence of the Australian Notes Board from 1920 to 1924 authorities did little to relieve the exchange situation. Apparently the board opposed extending the issue and some supporters of the board praised it for its stand against inflation, but as the board existed for the most part in a time of general deflation, it took no courage to stand against inflation. The board did give banks the right during 1922-23 to get additional notes up to £3,000,000 and in the following year up to £5,000,000 to assist in financing exports. The notes were to be returned within a year. Banks in the meantime were to pay 6 per cent interest for the loan.

When the Act of 1924 abolished the board of 1920, the new board created on October 10, 1924, agreed to allow advances up to £15,000,000 in notes. Banks agreed to lodge securities in Australia or in London against any notes issued to them and also to pay interest at the Bank of England discount rate, which was then 4 per cent; banks agreed to repay the notes before the end of August, 1925. Actually during the season 1924-25 banks asked for only £2,800,000.

The Commonwealth Bank Act of 1924 contained important provisions affecting exchange. By giving the bank power to rediscount, the Act enables the bank to rediscount Australian bills to be paid in London and so provides a means whereby balances of banks can be replenished. The Act of 1924 also

permitted Australian notes to be issued against adequate deposits with the Commonwealth Bank in London. These two provisions are ample for taking care of Australia's external clearing. One permits replenishment of funds in London and the other does the same thing in Australia. Finally, on December 2, 1931, the Commonwealth Bank announced that it would in future set the rate of exchange on London. Responsibility in this matter now rests squarely with the Commonwealth Bank.

### *Exchange Pools for Wheat and Wool Exports*

In October, 1924, the Chairman of the Associated Banks announced that the Commonwealth Bank and the Associated Banks had agreed for a partial pooling of the wheat and wool exchange. The basis of the pool was that each bank, including the Commonwealth Bank, would be permitted a quota that allowed for the varying incidence of the business of the several banks. The pool operated through the medium of the Commonwealth Bank, which might buy London securities from any bank that had bought wool or wheat bills in excess of its quota and sell London securities to a bank that did not reach its quota, adjustments being made fortnightly. The pool was originally formed to meet difficulties with the exchange. It continued after the return of Australia to the gold standard, although three banks withdrew after the first year. In the years beginning with October the pool transacted in 1924-25 £88,961,000 in exchange, while the corresponding business in 1926-27 was £52,465,000. Each bank in the pool dealt directly with its own customers in discounting their export bills for wheat and wool. All bills went into the pool, and the distribution to each bank for realization in London was in proportion to its resources. At present a pool exists for wheat in each of the States. There are five banks

in this arrangement, including the Commonwealth Bank. Adjustments are made weekly on a basis similar to those of the pool that was in force throughout the Commonwealth.

During 1914-1924 Australia borrowed £130,000,000 in London. Borrowing was an important factor in enhancing the exchange difficulties previous to England's return to gold in 1925. The Commonwealth and State Governments agreed late in 1924 to limit their borrowing in London. The Commonwealth and States other than Victoria and South Australia agreed not to issue loans overseas in 1924-25, except for conversion purposes, for amounts exceeding the payments to be made by them overseas. Victoria agreed not to raise overseas more than £2,175,000 in excess of its payments abroad. South Australia proposed to raise overseas not more than £600,000 in excess of its payments abroad.

#### *Gold Imports of Australia, 1924-25*

While rates of exchange of Australia on London during the Australian summer of 1924-25 remained at their high level, sterling was rapidly returning to par in dollar exchange. Australian banks, however, did not adjust their sterling rates accordingly. (As a result, during that summer the Australian pound was far above the gold import point.) It became feasible to purchase dollars and ship gold from the United States to Australia as a means of payment. (In Australia under Mint Regulations payment for gold was made by cheque upon assay of the gold.) Hence Australian bankers and arbitrageurs arranged shipments of gold to Australia. The large deposits of gold taxed the capacity of the branches of the Mint and shippers found that they could no longer rely upon obtaining prompt payment despite the regulation. In response, however, to representations of shippers who had gold

assignments actually afloat or arranged for the Mint paid out sovereigns without delay in respect to all gold shipments dispatched by March 23, 1925. Gold arriving by subsequent shipment was paid for in sovereigns that were issued as it was possible to coin them, but as the delay, which was an indefinite one, might have involved serious loss of interest the gold movement to Australia ceased. Between December, 1924, and the return of Australia to the gold standard in 1925 Australian banks had imported from the United States and South Africa £10,500,000 of gold. With this influx of gold the Commonwealth Treasurer, Dr. Earle Page, authorized in February, 1925, the banks to export gold up to the amount imported from January 1, 1925.

(Shipments of gold from New York and South Africa assisted the return of Australia to the gold standard.) At the same time the decline in the price of wool and the tendency of Australians to hold their commodities in the Commonwealth in anticipation of higher prices later helped to diminish the funds in London. When the prohibition of the free export of gold was abolished in April, 1925, gold once more could be used to replenish the balances of the banks in London. With free export of gold restored there was no longer any need for the Gold Producers Association and the organization almost immediately went into liquidation.

#### *Banks Agree to Allow Foreign Banks to Open Accounts in Commonwealth*

In September, 1928, a new development occurred in Australian banking circles. Australian banks, including the Commonwealth Bank, agreed to allow overseas banks to operate within the Commonwealth on open accounts from September 29, 1928. Apparently the Commonwealth Bank had the final decision in the matter, for several banks opposed this

action. Referring to this decision of the banks the Sydney *Morning Herald* on October 6, 1928, remarked that

Eighteen years ago Australian banks closed accounts of foreign banks in their books. To-day accounts for foreign banks are being reopened. The process which led to the reopening of these accounts is so far obscure. It is known that of recent years emissaries of the United States banks and of Canadian banks have on various occasions visited Australia for the purpose of ascertaining whether branches could be opened. It is a fair inference that the opening of accounts is the first step on the way to the opening of branches of foreign banks in Australia.

(Rates of exchange between London and Australia and the rate of interest on fixed deposits are arranged by agreement of the Australian banks.) United States banks which would open here would make a strong bid not only to control the exchange business with the United States, but also would seek a large portion of the exchange with London and probably with the East. . . . In the case of the United States it will be seen that the value of imports from that country exceeded the value of exports by £22,815,183 in 1927-28. By means of exports the United States banks could transfer payment for an equal amount of imports into Australia. Payment for the excess £22,815,183 of imports above exports would be transferred by those banks by way of London. They would buy export bills on London for the purpose and would make a rate to undercut the Australian banks. United States banks have now a strong footing in the Far East. They could compete with the Australian banks for the financing of the Australian trade with the East. Settlement for the payment of excess of imports over exports would again be made by buying export bills on London.

Before the decision of the banks to allow foreign banks to open accounts could bear fruit, the depression overtook the



world. Banks abroad had enough troubles at home to keep them occupied and could not devote time to establishing branches in Australia.

### *Exchange Problems of the Depression*

With the appearance of the depression throughout the world in 1929 exchange once more became a problem for Australian banking. The fall in Australian export prices since 1928 had by October, 1930, been particularly severe, for although general prices in all countries had fallen in this period from 12 to 20 per cent, the prices of wheat, wool, and the base metals had declined over 50 per cent. As these commodities make up over 70 per cent of Australian exports, the decrease in the monetary value of goods shipped from Australia became serious for the Commonwealth. During 1929-30 exports totalled only £97,378,299 compared with £140,923,932 in the previous year. Exports in 1924-25 had reached £159,987,124. The exchange in 1929-30 was under a strain. The balance of payments required £70,000,000 from Australia. During the year the Commonwealth shipped £28,000,000 of gold to London, covered the rest by short term loans in London, while as the exchange was unfavourable funds were kept in Australia and this fact helped to decrease demands for sterling.

In order that the gold holdings of Australia might be mobilized, Sir Robert Gibson, Chairman of the Commonwealth Bank Board, wrote in October, 1929, to the Commonwealth Treasurer, E. G. Theodore, asking for the passage of a Bill that would give the Commonwealth Bank power to control all gold in Australia by whomsoever held. Sir Robert Gibson stated that such action would not prevent export of gold. The Commonwealth Government passed a Bill adopting the proposal.

In the note to the Commonwealth Treasurer the Chairman of the Commonwealth Bank Board stated that

My Board is of the opinion that the last resource which should be adopted would be any course which meant even temporary departure from the operation of the gold standard on the part of Australia.

Like many public utterances declaring that a certain action should be the last thing done the statement of Sir Robert Gibson was shortly followed by Australia's departure from the gold standard. The Australian pound began to sell at a discount with sterling. Selling rates on telegraphic transfers increased on London from a premium of 35/- per cent on October 10 to 42/6 per cent on December 18, 1929. The rate increased on January 27, 1930, to 52/6 and on February 17 to 62/6. Finally on March 14 it reached 130/- per cent.

After June 30, 1930, the exchange problem was further aggravated by the refusal of English investment interests to grant further loans to Australia unless that country placed its financial house in order. Since 1922 Australia had borrowed about £35,000,000 annually, and this sum was about sufficient to offset interest payments overseas. With loans cut off, however, the payment of interest overseas had to be provided in some other way. The Scullin Government passed a prohibitive tariff during 1929-30 that provided for a favourable balance of payments by drastically cutting imports, and so making a surplus of exports over imports to meet interest requirements abroad.

On July 21, 1930, the Loan Council and the banks, including the Commonwealth Bank, agreed to find exchange for governmental interest requirements overseas before taking care of other exchange business. The exchange pool between the Government and the banks provided that the Government was to have a first claim on credits in London to the amount

of £3,000,000 per month at the current rate of exchange; the balance would then be available for imports. This measure was a temporary means of meeting the crisis. Such an arrangement for its success depends upon the banks having complete control of exports, and the rationing of overseas credits for importers. The Minister of Trade could achieve control of exports, but in this case he did not attempt such action. This effort to meet exchange difficulties did not halt the decline in the incomes of the people. With national income still falling Government revenues continued to decline. Concerning the pool Commonwealth Treasurer Theodore on April 15, 1931, explained in the House that

Under the exchange pool arrangements the Commonwealth pays to the pool the actual cost of purchasing London cover plus 7/6 per cent for bank charge. In March, the total remittances by the Commonwealth were £3,274,405, and the cost of exchange was £30 7s. 6d. per cent, or a total of £994,601. Of this amount, 7/6 per cent, or £12,279, represented the bank charges and the balance of £982,322 would go to the benefit of exporters. There was a refund from the pool of £67,375 in respect of transactions prior to March, and the net cost of exchange to the Commonwealth in March was £927,226.

The exchange rate remained at the rate of March 14, 1930, until October 9, 1930, when it rose to £9 per cent. The Australian pound during this time was overvalued and there grew up a large market in exchange outside the banks. The rate in this market was generally higher than that offered by the banks, but at times it was almost impossible to obtain exchange from the banks. The demand for English pounds became so great that under pressure from the Bank of New South Wales banks increased the rate on London on January 17 to £115 10s. od. and on January 29, 1931, to £130 10s. od.

The *Australasian Insurance and Banking Record* of February, 1931, commented on the rate of January 29 that

This was followed by a movement in the outside market to still higher rates, as high as £139 being touched, but a reaction has since taken place, and outside rates have come down to approximately the same level as those of the banks, which lately have been obtaining export bills more freely.

Since the early part of 1931 the business of the outside market in exchange has decreased.

The decreased national income and the tariff reduced imports in 1930-31 to £60,959,633 while exports were £75,857,000. Bullion to the extent of £13,047,000 was shipped during the year. These figures together with a moratorium on the Australian war debt to Britain practically balanced Australia's accounts for the year. The exchange on London remained at the 130 mark until the end of 1931.

During the first half of 1931-32 the surplus of exports over imports continued and the exchange situation was further involved by the departure on September 21, 1931, of Great Britain from the gold standard. As the English pound fell, the margin between the Australian pound and sterling continued to be the same as before. The problem arose as to whether the Australian pound should not appreciate in terms of sterling. Banks, however, decided to adjust the Australian pound according to the condition of their London balances rather than according to its purchasing power in gold. It was felt that as Australian exchange was mostly sterling exchange the position in London was the index to Australian exchange. With the surplus of exports over imports mounting the demand for Australian pounds became so great that a fall in the premium on sterling was imminent. Banks, however, did not want to take any loss that might accrue from any fall in the rate. They wanted the Commonwealth Bank to bear

any loss involved. It might be mentioned in this connection that while exchange had risen banks made no suggestion that the Commonwealth Bank should bear any profit from these transactions.

### *Commonwealth Bank Takes Control of Exchange Rate*

After prolonged discussion the Commonwealth Bank on December 2, 1931, announced that in future it would accept the responsibility of fixing the rate of exchange on sterling. The Commonwealth Bank agreed to purchase the surplus funds of the trading banks in London. (Every Friday evening after all the banks in Australia have closed the Commonwealth Bank announces its rate on sterling.) If necessary the bank will state rates at any time that it sees fit to do so. On December 2, 1931, the Commonwealth Bank set the rate on London at £125 for buying and £125 10s. od. for selling telegraphic transfers.

Owing to inability to reach an agreement with banks and between banks, the Commonwealth Bank was forced to take charge of the exchange rate. Having moved in this direction the federal bank went a step further on January 7, 1932, by stating that with the usual announcements on exchange a price on forward exchange would appear. On that date forward exchange for fourteen days was at current rates and that for fifteen to twenty-eight days would be 5/- per cent less than current rates. The Commonwealth Bank Board explained that the object of providing forward exchange was to meet the convenience of buyers of Australian exports, principally wool and wheat buyers. Being forced into controlling exchange with London the Commonwealth Bank naturally took the next step and offered forward exchange. There is little forward exchange business in Australia. Forward exchange exists in

sterling quotations on the dollar to the extent of three months.) The most important use of this monetary practice occurs in the silver trade of the Orient.

In 1931-32 the balance of bullion, commodity, and specie shipments amounted in Australia's favour to £40,193,000. With imports for two years reduced to an absolute minimum stocks were so low that during the first half of 1932-33 imports began to rise. The exchange rate of December 2, 1931, in spite of efforts to obtain a higher rate, remained in force.

With the exchange in the hands of the Commonwealth Bank the question of political interference arose. Certain sectional interests began to work for rates that would in their opinion be valuable to them rather than to the community as a whole. In a reassuring statement at the Premiers' Conference at Canberra in April, 1932, the Prime Minister, Joseph Lyons, said

The Government very strongly holds the view that the rate of exchange should not be a matter controlled by Governments, nor should Governments be entitled to dictate to those who are controlling exchange what the rate should be. Were such a position allowed to grow up, the exchange would be governed by political and not by economic considerations, and the result would inevitably be disaster to the country.

#### *Effects of Changing Exchange Rates*

In general exporters favour a high and importers a low rate of exchange. Some of the banks have in the past lent money freely to primary producers and in certain cases find that they can make bad debts good, if farmers receive a high value in Australian pounds for their products. The gain in this case finally goes to the banks. Some people claim that as Australia's prosperity depends on high prices for her exports a high rate of exchange is a national asset to the Commonwealth. This view points out that with exporters receiving higher incomes the

Government collects greater tax receipts from them and their customers. It is further maintained that even customers of importers have in many cases higher incomes.

High rates of exchange increase the cost of transmitting interest overseas. The 130 rate of exchange increased the interest burden of Australia by about £10,000,000 annually. On September 16, 1932, the Melbourne *Herald* reported the Prime Minister, Joseph Lyons, as stating that the gold interest paid by Australian Governments to the United States during 1931-32 was £2,373,242, while the cost in Australian money was £3,758,864. The principal of the overseas debt likewise becomes a heavier burden under the higher rate of exchange.

If the monetary unit of a country is overvalued, then a high rate of exchange will give permanent benefit to the people, but if the monetary unit is not overvalued any advantage obtained from a high rate of exchange is temporary, for forces of inflation immediately set about to restore the discrepancy of the internal with the external price level. Before the adjustment is completed, the high rate of exchange will give exporters a higher purchasing power internally, if the effective demand for the commodities exported is elastic. A high rate of exchange will keep the extra-marginal producer of the lower rate of exchange in business. If the demand for the export is elastic, then the product of the former extra-marginal producer will not affect materially the world price of the commodity. On the other hand, if the effective demand for the product is inelastic, then the commodity of this former extra-marginal producer will add to the surplus already on the market and the gold price of the commodity will fall, for it is the marginal producer on no rent land who sets the price of commodities.

As Australian exports are products in many cases in which the effective demand is to a large extent inelastic, the high rate of exchange causes additions to the world surplus of these

commodities and so must necessarily lower the gold prices of these utilities. Wheat in the latter part of 1932 hit the lowest gold price for many years in the world's markets. If the descent of the price of a commodity is sharp, then it may well happen that the increase in local price through a higher rate of exchange is more than counterbalanced by the subsequent fall in the world price of the commodity.

A bounty in this matter has the same effect as an abnormally high rate of exchange. Bounties also tend to aid uneconomic production. With commodities that have an inelastic effective demand bounties produce low gold prices. Any action that lowers gold or world prices merely retards the return to more normal economic conditions.

As there is no free market in gold in Australia, the price of that metal does not actually measure the exact depreciation of Australian currency in terms of the former position with gold. The price of gold, however, has risen in Australia during the depression and does show approximately the depreciation of the Australian pound. The price of gold showed a premium of 78 per cent in January, 1932. At the middle of October, 1932, the premium was 73.68 per cent. (Unlike the period of the war and post-war the depression has not caused authorities in Australia to prohibit the exportation of gold.) (Gold can still be exported from Australia with the permission of the Commonwealth Treasurer.)

The future of the exchange rate should be governed by the condition of the London balances of the banks. Banks should make known the exact position of these balances from time to time so that the exchange rates may be adjusted intelligently. The correctness of the rate can be checked by observing developments in the informal market for exchange that exists outside of the banks.

As the Australian monetary unit is tied to sterling through



the balances in London, any marked fluctuations in sterling prices must affect Australia. Consequently it is important to Australia for price levels in England to be stable. As there has been a tendency to tie other currencies to sterling, the significance of a stable price level in Great Britain is becoming much greater.

The question of establishing the Australian pound in terms of gold will have to wait for its solution until world prices of international goods show some sign of stability, which can be hastened by the scientific use of the exchange rates by various nations. Australia can do its part in this matter by taking the above steps.

## THE BANK AND THE DEPRESSION

AUSTRALIA was one of the first countries to suffer from the depression. For two years before the great decline in prices on Wall Street parts of Australia had suffered from drought. When to the effects of the drought the world depression in 1929 added the burden of low prices for Australia's exports, the position of the Commonwealth became most critical financially. (Wool declined in price from an index of 100 in January, 1926, to 55 in June, 1930, while during the same time wheat fell from 100 to 70)

The result of the decline in world prices found expression in a marked decrease in the monetary value of Australia's exports, which fell from £162,030,159 in 1924-25 to £125,127,000 in 1929-30. Imports during the same period decreased from £157,143,000 to £129,546,000. Wholesale prices with an index of 1,000 in 1911 were 1,822 in 1929 and in the last quarter of 1930 declined to 1,582. The net profits of five leading pastoral companies fell from £1,127,517 in 1927-28 to £453,099 in 1929-30. The value of the output of manufactures in Australia declined from £420,445,288 in 1928-29 to £290,798,564 in 1930-31. Unemployed among 392 unions in the Commonwealth was 39,159 in the first quarter of 1929 and 122,340 in the third quarter of 1932. State and Federal Governments showed deficits totalling £10,057,485 in 1929-30 and £25,389,609 in 1930-31.

*External Causes of Australia's Difficulties*

Causes of Australia's depression were partly external and

partly internal. The external causes expressed themselves in the lowered world prices of commodities, in which Australia's exports particularly suffered. Tariffs have blocked trade throughout the world. The burden of war debts and the difficulty of finding means of payment tended to create economic instability. Yet it must be remembered that war debts are only one factor among many causing the depression. The fact that the Hoover Moratorium made no appreciable improvement in world conditions showed that the trouble was only in part due to war debts.

The continued deflation in Britain after that country's return to the gold standard in 1925 aggravated the situation in Australia on account of the latter country's close connection with British price levels. A stable price level in Britain is essential to Australia, for the Australian pound is on the exchange standard with sterling and reflects fluctuations in the purchasing power in the latter currency.

The unsatisfactory condition of the monetary system is the most important cause of the depression. Money was first introduced to facilitate exchange of goods. As soon as it does not perform this service, the monetary system needs to be overhauled. Current troubles of money arise directly from banking policy.

R. G. Hawtrey in *Trade Depression and the Way Out* observes that the most characteristic symptom of a trade depression is a shortage of demand. As Hawtrey states, "demand comes from people's incomes and incomes are derived from production". If production is enhanced, people's incomes are increased. Banks largely finance production by making advances to producers, but banks, as Hawtrey states, have the power to "create money out of nothing", and so the amount of credit in the community depends upon banking policy. A programme of restriction by banks must result in

consumers' incomes being depleted. On the other hand, if banks are expanding credit operations, consumers benefit by receiving larger monetary incomes. The larger income of the consumer expresses itself in a greater demand for goods. The producer seeing this condition will plan greater output, but in most cases this increase can only be obtained with the co-operation of banks granting producers further credits. If banks will not grant further sums for fear of endangering their reserves, then the wheels of production receive a brake. It is through the release and pressure of the brake of credit on production that banks control production. A national banking policy aiming at price stabilization and human welfare rather than a private banking system working largely on the profit motive would result in a more constant flow of incomes to consumers, leading to more stable demand.

During the war men left productive pursuits to take up arms. Women and machinery took their places. At the conclusion of the war the world found itself with a surplus of labour in the productive fields of the time. The solution of this difficulty does not lie in the abolition of machine work and in displacing women from industry but rather in diversified industries and shorter hours.

Selfishness and greed are another cause of the depression. The war has left the world with a feeling of distrust of our neighbours. The idea has gained currency that a nation's welfare can best be provided by doing something at the expense of other nations. Hence the increase in tariffs throughout the world. The same spirit has found itself in business within nations. Individual as well as national greed has been prevalent since the war. Lack of social education and economic knowledge has led many people to embark on unwise projects. Production should be fundamentally for consumption rather than merely for private profit.

High rates of interest were another cause of the depression. These charges made in many cases a burden that was too heavy for individuals and groups to bear and were too great an item in costs of production.

### *Internal Causes of Australia's Difficulties*

In Australia these world wide forces were working, but they were supplemented by other unsound economic and social tendencies locally. For eight years ending June 30, 1930, Australia had been borrowing about £3,000,000 annually abroad. This borrowed money just about met interest requirements on the overseas debt and kept about 5 per cent of the population of Australia in employment. By June 30, 1930, the public debt of Australia had passed the billion pound mark. The great amount of borrowing found expression in reckless expenditures on the part of governments. Public bodies have spent large sums on railways that show no sign of returning even costs of operation for many years to come. The Federal capital was an unwarranted expense. Furthermore, war and other pensions are a large item in Commonwealth expenditure. These factors and others make expenses of government in Australia too high. There are too many governments in Australia. It would be better if the whole system of government was unified with one Commonwealth government together with local bodies for purely local matters. There should be only one Governor for the whole of Australia as is true of Canada to-day. Economy forced Western Australia and Victoria to do without State Governors during the depression and this item of expense might well be removed in the future. The result of the reckless expenditure on the part of Australian governments was that nearly all governments experienced deficits during the three years ending June 30, 1930.

Sir Otto Niemeyer in 1930 listed labour and industry as less productive in Australia than in England and America, but distance from world markets is a more important factor in Australia's trade. Furthermore, the marketing of Australia's produce has not been efficient. Overseas buyers have made many complaints about the packing and shipments of Australia's products. Australians would do well to study the methods of Californians in packing, shipping, and advertising their fruits.

Australia has been far too dependent upon wheat and wool for her prosperity. If these commodities sell at reduced prices, the Commonwealth has little else upon which to rely.

As about 5 per cent of the population of the Commonwealth had lived on borrowed money, the abrupt cessation of overseas loans on June 30, 1930, brought unemployment to many workers at the worst possible moment and so removed them to a large extent from being buyers in markets that were already depressed.

Another cause of Australia's difficulties lay in the lack of any well-defined monetary policy on the part of the Commonwealth Bank Board. The Commonwealth Bank is not yet the agency for Australia's welfare that it might be. (It has no research department and did not employ an economist before the appointment of Professor Melville in 1930.) The result of this lack of interest in research has shown itself in the absence of any clear monetary policy by the Commonwealth Bank Board. Up to date the bank has insisted on governments balancing their budgets but has not approached the problem of a wider distribution of purchasing power among the public, other than working for lower rates of interest on all forms of loans.

Under the leadership of A. C. Davidson, the Bank of New South Wales has set up an active research department. (Pro-

fessor Edward Shann of the University of Western Australia established the department in 1931 and has collected valuable data for the bank. He also laid the foundation for a valuable bank library with well selected volumes. The department studies prices of many commodities and watches trends of various banking items. The Bank of New South Wales is acting wisely in encouraging its staff to study economics. A research department is of paramount importance in a national bank. The day has passed when banking could be successfully operated simply along the lines of accounting. A bank to-day must follow closely economic trends with their effect on human welfare.

In Australia it is particularly true that the best men and women are too modest and allow themselves to be thrust aside in the march of business advancement by more blatant but less able competitors. The best Australians do not assert themselves enough. By this excessive modesty they not only deprive themselves of their deserts but also rob the nation of their best services.

### *Labour Returned to Power in 1929*

When, as a result of the election of October, 1929, the Scullin Labour Government assumed office in the Commonwealth, it became heir to all the extravagances of previous governments and as well faced a world wide depression. As a first step, the new government enacted legislation giving the Commonwealth Bank power to control the gold of the country. The Labour Government further economized by suspending compulsory military training in Australia.

### *Visit of Sir Otto Niemeyer to Australia*

The presence of Sir Otto Niemeyer in Australia in 1930 arose out of discussions between the Commonwealth's advisers



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**General Manager Bank of New South Wales**



in London and authorities of the Bank of England on Australia's overseas financial obligations.

The Bank of England wanted to send someone to Australia to investigate and the Australian Government said that it would welcome the visit of a representative of the Bank of England. The Commonwealth Government further expressed the desire to confer with the representative of the Bank of England on the whole financial situation of the Commonwealth. Consequently, Sir Otto Niemeyer came to Australia.

While in Melbourne in August, 1930, Sir Otto Niemeyer reviewed economic conditions in Australia. He referred to the increasing governmental deficits and the maturing loans that had to be met internally in the next two years. He spoke of shrinking savings deposits, declining exports, and the falling yield of taxation. He reminded Australians that their public credit had reached a low ebb, that it was even lower than that of some protectorates. Sir Otto Niemeyer referred to the increasing gap between Australian wholesale prices and those of the rest of the world. Furthermore, Sir Otto Niemeyer saw no immediate improvement in the price of wheat and claimed that

Increasing tariffs prejudice the primary producer; rising exchange rates prejudice the whole fabric of national finance.

Then he spoke of another factor in Australia's position :

There is also evidence to show that the standard of living in Australia has reached a point which is economically beyond the capacity of the country to bear without considerable reduction of costs resulting in increased per capita output.

Finally in a warning to Australians Sir Otto Niemeyer told them that

By a series of accidents, chiefly the liberality of lenders and

accidental high prices for Australian exports, Australia has so far been able to remain aside from the general trend of world conditions, and so maintain a standard of costs which the rest of the world has long since found to be impossible.

On the favourable side Sir Otto Niemeyer said that with no external maturing securities in 1930 and 1931 Australia had two years to put her house in order. He also called attention to the fact that Australian stocks had had for years under the Colonial Stock Act a privileged position in London as trustee securities. Sir Otto Niemeyer also stated that a general desire existed in England to assist a Dominion, and he spoke of the co-operation between the Bank of England and the Commonwealth Bank as a favourable factor in Australia's position.

Sir Otto Niemeyer advised Australians to reduce costs of governments, balance governmental budgets, and cut costs of private industry. He felt that it might be necessary to cut wages as an item in costs.

Australian governments did nothing definite after the conference with Sir Otto Niemeyer in Melbourne in August, 1930. Labour Governments looked with disfavour on any plan that called for lower wages and curtailed government expenditures, many of which involved social welfare measures. The election of J. T. Lang to the Premiership of New South Wales in November, 1930, on a platform that opposed the suggestions of Sir Otto Niemeyer added to the difficulties in the way of government retrenchment. And so the governments of the Commonwealth merely drifted financially.

#### *Banks Warn Governments to Economize*

On December 19, 1930, banks warned governments that they should cut costs and balance their budgets if they desired further aid from banks. In the eighteen months from June 30,

1929, to December 31, 1930, advances by banks to Australian governments plus Treasury bills rose from £5,500,000 to £53,000,000.

*Federal Arbitration Court Orders Reduction in Wages*

In January, 1931, the Federal Arbitration Court ordered a wage reduction of 10 per cent in twenty-eight industries governed by Federal awards. This act was the first major move on the part of arbitration authorities in Australia towards lower wages. Financial conditions, however, continued to drift and on January 27, 1931, Commonwealth 5 per cent bonds in London were selling for just under £75, while similar bonds of South Africa and New Zealand sold for £101 and £99 respectively. At the end of January the rate of exchange on London increased to £130 Australian for £100 English.

*(The Lang Plan)*

In February, 1931, at a Premiers' Conference at Canberra, Premier Jack Lang of New South Wales brought forward a plan that became the storm centre of Australian politics. He proposed:

1. That the Governments of Australia decide not to pay any further interest to British bondholders until Britain has dealt with the Australian overseas debts in the same manner as she settled her own foreign debt with America.
2. That in Australia on all Government borrowings interest be reduced to 3 per cent.
3. That immediate steps be taken by the Commonwealth Government to abandon the gold standard of currency and set up in its place a currency based upon the wealth of Australia, to be termed the goods standard.

Supporters of the Lang Plan were rather vague on the details of the "goods standard" that was to displace the gold standard.

The Lang Plan confused Australia's external debt with the British war debt to America. Australia's war debt to Britain was at the time that Premier Lang produced his plan only £82,000,000. At June 30, 1931, Australia's external debt was £600,000,000. Most of the external debt of Australia is money borrowed for developmental works in the Commonwealth. By far the greater portion of Australia's external debt corresponds to the British debts in America for productive purposes and this debt was floated on the New York market at 5½ per cent, not the 3½ per cent of the British war debt to America.

Premier Lang did not wait for the Commonwealth Government to accept his plan. He announced that the State of New South Wales would not pay interest due on State bonds in London on April 1, 1931. At that time he stated that he would continue to pay interest on the State's bonds in New York, for he said that default in America would bring about international complications. Referring to the situation in New South Wales, James Scullin, Prime Minister, stated in the House of Representatives on April 15, 1931, that

The State (New South Wales) declined to pay interest due on the 1st of April, 1931, to bondholders in Great Britain on a loan of 3 per cent of £12,420,113 8s. 6d., and a 5 per cent loan of £21,715,000, the total of which was £729,159 11s. 2d. The Commonwealth arranged for the payment of this interest on the due date and is taking action to recover the moneys from New South Wales. The State arranged payment of interest due on April 1st, 1931, to bondholders in New York of a 5 per cent loan of £4,990,034. It failed to pay interest amounting to £435,756 18s. 5d. due on March 15th and April 1st to the Commonwealth on loans made by the Commonwealth to it. It is understood that since the 1st of April, 1931, the State has paid interest amounting to approximately £29,000 on loans raised by it in Australia and taken over by the Commonwealth. As regards

interest falling due in the future, the State has not advised the Commonwealth of its intentions, but a bill has been introduced into the New South Wales Parliament, *inter alia*, that interest payable by the State in Australia be reduced to 3 per cent.

The interest reduction Bill did not pass the Legislative Council. One of the loans on which Premier Lang defaulted bore the same rate, namely, 3 per cent, as that arranged for in the British war debt agreement with America.

Premier Lang continued to default on overseas interest payments throughout his term of office. In January, 1932, he announced his inability to meet State interest payments in New York. The 1927 loan of 5 per cent raised in New York actually bore Premier Lang's signature as Treasurer of New South Wales. Under the Financial Agreement Act of 1928, however, the Commonwealth Government became financially responsible for these overseas loans and the Federal Government paid the interest due from New South Wales. The Commonwealth Government then instituted legal proceedings to recover the money from the State.

#### *Sir Robert Gibson Warns Governments*

On April 2, 1931, Sir Robert Gibson, Chairman of the Commonwealth Bank Board, warned Commonwealth Treasurer Theodore that the bank was about at its limit in giving financial assistance to governments. (Sir Robert Gibson gave the total finance under all heads provided by the Commonwealth Bank for governments and public bodies at April 2, 1931, as £130,295,000, including £16,215,000 Treasury bills in Australia and £25,125,000 in London upon Treasury bills and debentures.) On April 17, 1931, Commonwealth Treasurer Theodore announced to the House of Representatives that the Commonwealth Bank would advance no more funds to the

Labour Government. The Government already had an overdraft of £25,000,000 in Australia and £25,125,000 in London. In the same month, however, Great Britain granted Australia a two-year moratorium on Australia's war debt sinking fund, giving Australia a reduction of £1,600,000 annually in overseas payments. At that time the debt outstanding was £82,000,000. Furthermore, the price of wool in Australia per average bale rose from £9 5s. 3d. in January, 1931, to £15 in May of the same year.

### *Premiers' Plan of 1931*

In June, 1931, the Premiers' Conference formulated a programme to meet the financial situation. The Premiers' Plan of 1931 proposed:

- (a) A reduction of 20 per cent in all adjustable governmental expenditure, as compared with the year ending June 30, 1930, including all emoluments, wages, salaries, and pensions paid by governments, whether fixed by statute or otherwise, such reduction to be equitably effected.
- (b) Conversion of the internal debts of the governments on the basis of a 22½ per cent reduction of interest.
- (c) Securing of additional revenue by taxation, both Commonwealth and State.
- (d) Reduction of bank and savings bank rates of interest on deposits and advances.
- (e) Relief in respect of private mortgages.

Under the Premiers' Plan deficits of various governments in Australia for 1931-32 were to be limited to a total of £14,650,000; under the Hoover Moratorium this figure was revised to £12,220,000. The Premiers' Plan arranged for Australian governments to balance their budgets by 1933-34.

The Hoover Moratorium saved Australia £4,028,000 for the

year. On August 16, 1931, Sir Robert Gibson supported the Premiers' Plan on the radio and in the same month Australia converted its internal governmental debt to 4 per cent interest.

The banks announced on September 17, 1931, that they had reduced interest rates for advances, representing an average of 1 per cent and that they were taking up Treasury bills at a discount reduction from 6 to 4 per cent, but they stated that they could not see their way clear to grant £16,000,000 requested by the Premiers for governmental expenditures. Banks offered to provide £3,000,000 for the wheat bounty. They claimed that £2,250,000, or a smaller amount, together with the money already provided by the Commonwealth Bank would enable governments to finance until December 31 such public works then in progress as were considered necessary and productive. Banks further announced that

The States are to ascertain the amounts actually required by them up to a combined total approximately £4,250,000 for the six months, and to submit schedules setting out their monthly requirements.

The departure of Great Britain from the gold standard on September 21, 1931, unsettled conditions in Australia. (Bonds of the Commonwealth fell to less than one-half of their face value in New York.)

After struggling along for two more months against opposition both inside and outside the party, the Scullin Government was defeated in the House of Representatives by the votes of the Lang followers with the Opposition.

The election of December, 1931, resulted in the overwhelming defeat of the Scullin Labour Government. The new Ministry under Joseph Lyons proposed to comply fully with the Premiers' Plan while Federal Labour was uncertain in its attitude towards the Plan.

*Conflict between Lyons and Lang Governments*

The first move made by the Lyons Government was directed against the Lang Government. The Commonwealth Government took steps to force the State Ministry in New South Wales to pay interest on overseas bonds. In the course of the conflict the Federal Government passed a law enabling Commonwealth authorities to seize the revenues of the State. The Lang Government meanwhile continued to default on overseas bonds, in February, 1932, announcing its inability to pay interest on American loans. At this time the Lyons Government indicated that the Commonwealth did not intend to pay the interest for New South Wales. Australian bonds in New York quickly showed a marked decline, New South Wales bonds falling to 30. A statement later that the Commonwealth would pay the interest caused a recovery to 40. Yet the uncertainty caused by the first indication of the Lyons Government resulted in many individual holders of Australian bonds in America sacrificing these securities at great loss.

After a series of spectacular crises in the fight between Lyons and the Lang Governments, Sir Phillip Game, Governor of New South Wales, dismissed the Lang Administration from office on the count of violating the Constitution, and the Stevens Government took office in New South Wales. The battle between the Commonwealth and State Governments ceased with the Commonwealth victorious.

The Lang Plan has been put into effect in certain respects in a modified form. The Conversion Loan of August, 1931, cut interest on the internal debt to 4 per cent rather than the proposed 3 per cent of the Lang Plan. Furthermore, various governmental agencies are striving to convert Australia's external debt at a lower rate of interest. Finally, Australia



has definitely departed from the gold standard and many economists favour a standard based on the business and wealth requirements of the community.

### *Treasury Bills Controversy in Australia*

Governments in Australia have met their deficits during the depression largely by the issue of Treasury bills, which the banks accept on the understanding that they may rediscount these bills at the Commonwealth Bank. Treasury bills have carried varying rates of interest but as the depression has continued the rate of interest has become lower. At the end of 1932 Treasury bills were carrying an interest rate of  $3\frac{1}{2}$  per cent. Treasury bills are usually of three months' duration and have been renewed during the depression at the time of their maturity.

This method of financing governments is not new. It is customary for governments to issue Treasury bills during times of greater expenditure in anticipation of retiring them at other periods of the year when revenue exceeds expenditure. This procedure meets the inconvenient fact that revenues often do not accrue at times of greatest expenditure. In Australia this method of financing governments existed long before the depression, although formerly banks usually extended overdrafts to governments requiring temporary assistance.

The issue of Treasury bills increased during the depression, amounting on June 30, 1932, to £82,315,000, an increase from £58,695,000 of the previous year. By June 30, 1933, largely on account of the efforts of Sir Robert Gibson, the rapid increase in the short term debt was halted, and the figure at that date was £83,000,000.

There have been three sources from which Treasury bills have been raised. First, governments used the gold reserves of the ordinary banks and the Commonwealth Bank to meet their

overseas obligations. Governments issued Treasury bills for the gold so received. Second, the Commonwealth Bank increased its advances to the Government by creating central bank credit. Third, ordinary banks out of their deposits have taken up Treasury bills. At June 30, 1932, the first source accounted for about £40,000,000 of the floating debt. It is not easy to disentangle the second from the third, because increase in central bank credit increases deposits at both the Commonwealth Bank and at ordinary banks. At June 30, 1932, Treasury bills to the extent of £45,500,000 existed in Australia and £37,500,000 in London.

On May 6, 1931, before the Senate, Sir Robert Gibson stated:

The total of unfunded debts owed by Australian governments in London to-day is £38,075,000. The sum of £5,000,000 is due to the Westminster Bank; £5,000,000 is due to the bill market; £2,950,000 is due to Australian banks other than the Commonwealth Bank; and £25,150,000 is due to the Commonwealth Bank.

The Prime Minister, James Scullin, announced in the House of Representatives on May 14, 1931, that the total Treasury bills for the States in London at that time were £27,854,840 in London, including £13,117,134 for New South Wales and that in Australia the total Treasury bills of the States amounted to £11,670,000, including £5,920,000 for New South Wales.

In a letter to Joseph Lyons, newly elected Prime Minister of Australia, Sir Robert Gibson, Chairman of the Board of the Commonwealth Bank, stated to the Premiers' Conference and Loan Council meeting, which opened at Melbourne on January 28, 1932:

In September, 1931, the Westminster Bank agreed to accept Treasury bills due on 31st December for the sum of £5,000,000 still owing to the bank, on the understanding

that a reduction of the amount would be made when these bills became due. For the purpose of carrying into effect this arrangement the Commonwealth Bank undertook to provide London funds to the extent of £250,000, plus exchange, against Treasury bills for the amount in Australia, and the balance was renewed by the Westminster Bank till the end of March, on the understanding that a further reduction would be made by the additional payment at that date; the Commonwealth Bank has tentatively agreed to provide another £250,000 in March for this purpose on similar terms. The Westminster Bank, it is understood, was promised participation in the proceeds of any loan raised in London for the purpose of reducing the floating debt due by Australian Governments in London.

On June 30, 1932, the Commonwealth Government announced that of £4,500,000 worth of Treasury bills maturing with the Westminster Bank on that date, £4,250,000 had been renewed for a period of three months at  $4\frac{1}{2}$  per cent, the existing rate of interest. The sum of £250,000 was paid off at that time, making a total of £750,000 paid off during the eight months ending at that date.

During the depression expenditures have always exceeded revenues with the result that most of the Treasury bills have been renewed and have remained unfunded. It is generally agreed that at some time this floating debt will have to be funded. The presence of Treasury bills places a burden upon the Commonwealth Bank. Under the arrangement with the banks these institutions may rediscount Treasury bills at any time at the Commonwealth Bank. This understanding means that banks can at any time go to the Commonwealth Bank and cash these bills. Authorities of the Commonwealth Bank fear this possible drain on the reserves of that bank with its inflationary possibilities. The banks, however, are not at all anxious to inaugurate any move in the direction of inflation

and this fact militates against their making unreasonable demands upon the Commonwealth Bank.

For the ordinary banks Treasury bills provide a secure form of investment. The fact the banks can rediscount Treasury bills makes this investment of the banks as good as cash and at the same time gives a good rate of interest. It is not surprising that the leading private bank in Australia, the Bank of New South Wales, has opposed moves to reduce the amount of Treasury bills outstanding. Leaders of the Bank of New South Wales have frequently claimed that as long as Australian governments are moving in the direction of balancing their budgets it is not necessary yet to fund the floating debt. According to this view it will be time enough to fund these bills when governments have finally balanced their accounts at the expected date of June 30, 1934. Funding these bills before that time would mean that a liquid form of security would leave the market and so would curtail the power of the banks to provide their clients with credit for industrial purposes.

Anxious to reduce the amount of Treasury bills outstanding, Sir Robert Gibson in October, 1932, at the meeting of the Loan Council advocated a loan of £20,000,000 for funding £12,000,000 of Treasury bills and for unemployment relief and other public expenditures. He suggested an interest rate of 4 per cent. Premier B. S. B. Stevens of New South Wales opposed the proposal of Sir Robert Gibson on the ground that as interest rates were falling it would be more advisable to wait until these rates had reached a lower level before commencing to fund part of the floating debt. He suggested a smaller loan for the time being to meet government expenses alone. He felt that a loan of £20,000,000 would take from the money market liquid funds and tie them up in bonds at a time when the money market was beginning to show signs of liquidity. The Premier of New South Wales also felt that 4 per cent

interest was too high. The time of the year was not ripe for a large loan. It would be better to float the loan when Australian exporters had obtained receipts from overseas buyers. These funds collect in the Commonwealth during the first six months of the year. As a result of this difference of opinion in the Loan Council a compromise measure arranged for a loan for ten years of £8,000,000 at  $3\frac{3}{4}$  per cent. Of this amount £4,000,000 was to fund Treasury bills and the remainder was to go to various governmental expenditures. The loan closed early in December and the public took up almost £3,000,000, leaving the banks to take up the remainder. The loan was not a success. The interest rate of the loan was too low. At the time the interest rate for this type of security was from 4 to  $4\frac{1}{4}$  per cent. Interest rates were falling but loans in December must be floated on prevailing interest rates and not on those of the following June, if the loan is to be a success. Probably the larger loan suggested by Sir Robert Gibson would not have been advisable, for it is likely that banks would have been called upon to take up a good quantity of the proposed £20,000,000 loan.

The danger of Treasury bills depends to a large extent on the possibility of Australian governments being unable to balance their budgets within a reasonable time and the threat that Treasury bills involve to the Commonwealth Bank in possible demands on the part of banks for cash. Issuing Treasury bills also increases the national debt. These bills are an inflationary influence and so act as a brake on the dominant deflationary trend of the last few years. It might also be mentioned that former Commonwealth Treasurer Theodore's fiduciary issue was also an inflationary measure that would have in effect placed a brake on deflation in Australia.

The threat that the presence of Treasury bills places upon the Commonwealth Bank depends on the extent to which

private banks hold these bills. Of the £82,500,000 outstanding at June 30, 1932, governments of Australia owed £37,300,000 in London and £45,200,000 in Australia. Of the London debt governments owed all but £4,250,000 to the Commonwealth Bank. Consequently the London floating debt does not involve much of a threat to the Commonwealth Bank. In Australia the situation is different. About two-thirds of the Treasury bills in the Commonwealth are in the hands of the private banks. Banks in Australia could place a serious strain on the resources of the Commonwealth Bank. Yet even if banks decided to rediscount these bills to the full extent, an event not at all likely, it is highly improbable that they would demand Australian notes for the entire sum. It is more likely that the rediscounts would take the form of deposits of banks with the Commonwealth Bank. The only case in which Australian notes would be issued would be in the event that the Commonwealth Bank found at the end of any day that its debits and credits left a clearance that exhausted its holdings of cash to an extent that endangered calls for petty cash during banking hours. It is unlikely that this situation would call for an issue of notes up to the two-thirds of the amount of Treasury bills outstanding in Australia that private banks hold. A large issue of notes might well cause inflation, which banks do not favour except as a last resort. Treasury bills are also a good investment for private banks in a time when attractive offerings are scarce.

On February 4, 1933, the Loan Council and the Commonwealth Bank agreed that the bank should advance £4,000,000 to governments to complete their loan works programme for 1932-33. The Loan Council in turn agreed that beginning with 1933-34 governments would not finance public works with Treasury bills. The Loan Council will approach the open market whenever it requires funds for this purpose. If these

loans are oversubscribed, the surplus will be devoted to funding Treasury bills, which will still be used to finance government deficits.

It would seem best to leave most of the Treasury bills outstanding until governments have balanced their budgets, which will not be before June 30, 1934, at the very earliest. As governments are moving towards balanced budgets, ultimate funding of Treasury bills seems assured. It is certain that by the time that governmental budgets are balanced in Australia economic conditions of the world will have undergone further changes and the case of the Treasury bill will have to be adjusted to the situation at that time. Funding Treasury bills by public loans would have the merit of transferring this item of the national debt from the hands of private banks to those of the public.

#### *Improvement in Australia's Financial Position*

During 1931-32 Australia's position improved. The nation had an excess balance of payments of £40,000,000. The Commonwealth Government turned a deficit of £10,057,485 of the previous year to a surplus of £1,321,000 for 1931-32. The total deficits for the Commonwealth and the States during 1931-32 was reduced from £25,389,609 to £18,826,120, of which New South Wales under Premier Lang provided £13,570,000. The improvement in government finance created better prices for Australian securities abroad, Australian bonds in London touching par and Commonwealth securities in New York climbing from 35 to 70. The financial improvement of the Commonwealth Government continued during 1932-33 and Australian governments seem likely to obtain budgetary equilibrium soon after June 30, 1934. Registered unemployment showed a fractional decrease during 1932 in Australia. Mainly on account of Treasury bills deposits in Australian

banks increased during 1931-32 from £283,076,000 to £312,267,000 and savings deposits from £193,407,000 to £197,926,000. Advances exclusive of government securities, however, declined during 1931-32 from £259,364,000 to £244,136,000.

Interest rates have declined in Australia both on savings and fixed deposits, rates on fixed deposits for three months at the end of 1932 being  $2\frac{1}{4}$  per cent. Interest rate on fixed deposits for twenty-four months at the same date was  $3\frac{1}{4}$  per cent. The Bank of New South Wales has been in the forefront of the movement for lower rates on deposits, while the Commonwealth Bank has led the way in extending lower rates on advances to customers. At the beginning of 1933 the Commonwealth Bank charged  $4\frac{3}{4}$  per cent on advances. Ordinary banks have also reduced their rates on advances, although they do not announce publicly any set rate on advances. Mortgages have been the stumbling block in Australia's plan of rehabilitation. During recent years the problem of mortgages has caused many political crises, particularly in Victoria. The rate on mortgages should be cut to four per cent and allowed to remain so for several years. During 1932 the rate of exchange continued at a premium of 25 per cent for sterling bills of exchange in Australian currency. The longer the rate remains at the present rate, the more difficult it will be to adjust it to a different figure and the less justification for making a change, for every day more contracts are being taken out under the present rate and that fact daily gives more justification for retaining the existing rate. A stable rate even if a little high is to be preferred to a constantly fluctuating exchange.

During 1932-33 imports in Australia began to increase. Australia commenced restocking her depleted holdings of imported goods in the belief that it was a good time to buy. Increased imports brought increased governmental revenues



and contradicted to some extent the claim that the high rate of exchange created higher internal revenue that more than offset any decline in governmental revenues from falling imports. Already talk of less taxation is taking a more realistic tone. Though the price of wheat was low, Australia in 1931-33 had bountiful harvests.

Feeling divides in Australia over the results of the Ottawa Conference. Protectionists see in the agreement a danger to local industries. As Ottawa extends the area of trade, it would appear that this fact should be an advantage to Australia. It is easy to over-emphasize the effect of the Ottawa Conference.

The British Government has extended the provisions of the Hoover Moratorium that affected Australia and so has relieved the Commonwealth for the time being of the burden of war debts. There is little doubt that the world would gain by cancellation of war debts.

### *Trade with the Orient*

As international goodwill is of paramount importance in the present economic situation, it is gratifying to see in the *Melbourne Age* of December 16, 1932, an article on the wool position of Australia stating that

The influence for good of Japan in the market this season has been incalculable. It cannot be measured by purchases alone. Lots bid for but which eventually fell to other buyers must also be taken into consideration.

Likewise the shipment of wheat to China during recent years has been of inestimable value to Australia.

There is little question that Australia should cultivate still further trade with the Orient. A large market for Australian products exists in Asia. There are signs that Australians are beginning to realize this fact. The trip of the chartered ship to the Orient for the purpose of advertising Australian pro-

ducts indicates that Australians are awakening to the trade possibilities of the East. For trade in Asia careful consideration of methods of advertising is essential. Products must be attractively and enticingly presented to the prospective buyers. (In order to facilitate this trade the Commonwealth Bank should establish branches throughout the Orient)

### *Need for an Economic Survey of Australia*

The Commonwealth Government should conduct an economic survey of the possibilities of Australia. With the aptitude of the country to various industries known, the Commonwealth Government could encourage suitable industries or perhaps develop them itself. There should be one general system of transportation for the Commonwealth. Railroads should not be continued indefinitely at a loss, if some other means of transportation, such as buses, is found to be more economical.

In the matter of wool the *Melbourne Age* on December 16, 1932, reported that

It has been noticeable that the wool market has not been so susceptible to sterling fluctuations as other commodity markets. It has been observed also that the revival of the vexed war debts question has not to any perceptible extent affected wool rates, whereas for other commodities markets weakened. Probably the generally-recognized low price of wool, and low stocks in second hands, furnish the explanation. Considering the world-wide anxiety concerning grave international monetary and trade issues, the sustained demand for wool, even though the price be low, gives force to the conviction that the industry is as well placed as any in the world to respond immediately to any indication of permanence in a movement towards improved general conditions.

Australia has done much to meet internally the economic

difficulties of the depression. In this connection it is well to bear in mind that the Scullin Labour Government under great handicap commenced the long march back to better conditions. The future of Australia's position now depends largely on conditions abroad over which she has little control. Internally, there is still the question of the enormous debt. It may be necessary to write down the capital value of the national debt so that it may be expressed in terms of the purchasing power of the portions at the time of their flotation. There is also the more important problem of finding work for the unemployed. It is encouraging that the upward trend of unemployment seems to be halted. The downward movement has been apparent during 1932-33, but as yet no great return of unemployed to work has occurred.

#### *Effect of Depression on Commonwealth Bank*

As the Commonwealth Bank is banker of the Commonwealth Government and of most of the States, the bank has been greatly concerned with the depressed state of governmental incomes. During the past three years the Commonwealth Bank has become the foundation of Australia's financial system. (Since 1929 the Commonwealth Bank has controlled the gold reserves of Australia.) The bank now sets the rate of exchange on London. It also announces rates on forward exchange up to twenty-eight days. Amalgamation of the Commonwealth Savings Bank with the Government Savings Bank of New South Wales gave the Commonwealth Bank more than two hundred and fifty instead of the previous eighty branches of the general banking department. (Amalgamations with savings banks in Western Australia and in New South Wales) have emphasized the need of the return of the Commonwealth Savings Bank to the Commonwealth Bank, for with the savings bank business a department of

the Commonwealth Bank there would be less hindrance to obtaining aid in times of stress. The lending functions of savings bank business require contact with the general banking and rural credits departments of the Commonwealth Bank. The requisites are now present for an expansion of the general banking department. (The depression, in spite of the policy of the authorities of the bank, has forced the Commonwealth Bank to extend its operations in fields other than those usually associated with central banking.) This movement is the most significant development of the Commonwealth Bank during the depression.

## CHAPTER TWELVE

### CONCLUSION

**A**S late as the middle of August, 1910, Sir John Quick maintained in the House of Representatives that

. . . a Commonwealth Bank of deposit and issue is a mere dream on the part of some enthusiastic politician.

Yet less than two years after this statement the Commonwealth Bank was receiving deposits, and ten years later the Leader of the Opposition, Frank Tudor, was able to say without contradiction that

. . . to-day there is not one man who was opposed to the establishment of the Commonwealth Bank in 1911 who would advocate wiping it out.

Frank Tudor made this remark when Sir Joseph Cook was introducing a Bill as Commonwealth Treasurer in the Hughes Government to transfer the control of the Australian note issue to the Commonwealth Bank. Sir Joseph Cook was the very man who, when Andrew Fisher moved the second reading of the Commonwealth Bank Bill in 1911, interjected "Sovereigns for all."

Although the Commonwealth Bank commenced operations with merely a loan of £10,000 from the Commonwealth Treasury, by June 30, 1915, three years after the commencement of the Commonwealth Bank, the initial deficit of the bank was entirely extinguished. Since that time profits of the bank,

excluding those of the note issue department, have grown until the net amount at June 30, 1933, was £7,354,746. The net profits of the note issue department at this date were £14,992,226. Profits of this department, with the exception of £2,000,000 set aside for the capital account of the rural credits department, have gone to the Treasury. Of the profits made by the other departments £4,000,000 was placed in 1924 to the capital account of the bank and £1,075,298 was handed over in 1928 to the Commonwealth Savings Bank. £1,593,822 has been allotted to the reserve fund of the bank, and £370,962 has been placed at the disposal of the rural credits department. Between 1923 and January, 1933, the Commonwealth Bank and the Commonwealth Savings Bank contributed £2,712,818 to the National Debt Sinking Fund. Total profits of the Commonwealth Savings Bank on January 1, 1933, were £1,291,167.

When the Commonwealth Bank began operating in 1912, Governor Miller wished first of all to establish the bank in the community by making it a financial success. In this attempt he had the support of the Fisher Government. If Governor Miller had been hampered at the beginning by a Government demanding "sovereigns for all", there is little doubt that the bank would have collapsed at the latest during the uncertainty of the first few weeks of the war. Under the Fisher Labour Government Governor Miller was able to start the bank along lines that soon led to sound balance-sheets.

Absence of share capital has made the road to profits less difficult. (Although the Commonwealth Parliament has four times provided means for issuing share capital, the policy of Governor Miller in refusing to take advantage of these provisions has continued to the present time.) There is absolutely no need for an issue of debentures. The bank has the security of the whole Commonwealth behind it and has for many

years shown satisfactory balance-sheets. These two factors are sufficient to create confidence in the bank.

The exemption of the bank as a government institution from paying taxes has made the road to profits less difficult. As the bank also is banker of the Commonwealth Government, it always has a large account upon which it does not pay interest, for the bank under the law pays no interest on government accounts. This factor was particularly important during the war. At one stage of the war the current account of the Commonwealth Government was £40,000,000.

#### *Political Independence of the Bank*

Freedom from political interference has been most important in the financial success of the Commonwealth Bank. Federal Treasurers have definitely refrained from intervening in the internal administration of the bank. On October 8, 1914, Austin Chapman asked the Federal Treasurer, Andrew Fisher, in the House of Representatives :

Is the Prime Minister aware that small settlers are charged by the Commonwealth Bank 2 per cent more in the way of interest than is charged to big corporations? If so will he endeavour to arrange with the governor of the bank that the same interest shall be charged to small settlers as is charged to big corporations?

Andrew Fisher replied :

I do not propose to make any investigation into the conduct of the Commonwealth Bank.

During the same year the Liberal Treasurer, Sir John Forrest, intimated that Governor Miller had sole control of the bank. Again in 1918 Dr. Maloney asked the Nationalist Treasurer, William Watt :

Will he request the Commonwealth Bank to pay all women clerks, some of whom, it is stated, are filling the

positions vacated by enlisted soldiers, the same salary as it pays to men clerks?

The Treasurer answered:

(No! This subject relates to the administration of the bank, for which the governor of the bank is responsible.)

On October 9, 1924, Dr. Earle Page, Commonwealth Treasurer at that time, reaffirmed the policy of political independence of the bank. Finally, on July 4, 1932, Joseph Lyons, Commonwealth Treasurer, stated:

As the Constitution places upon the Commonwealth sole responsibility for currency and general banking, the Government considers it desirable to restate its position on those matters in order to allay fear that political dictation is likely to be imposed upon the Commonwealth Bank. . . . While the Commonwealth Government realizes that in the exercise of its own responsibility it is desirable that there should be the closest consultation between the Commonwealth Government and the Commonwealth Bank as to the economic position of Australia, both internally and externally, yet the Commonwealth Government considers it desirable to reaffirm its belief that the Commonwealth Bank must be left to exercise its own peculiar functions absolutely free from the fact or fear of inexperienced political control.

All parties have insisted upon the bank being exempt from political interference. It is of utmost importance that this policy be continued. The connection of political independence with profits is obvious. During the depression the Government has been dependent upon the bank rather than the bank on the Government.

### *The Staff and Unionism*

At a meeting of the Clerks Union in Melbourne on July 5, 1916, members passed the following motion:



That this meeting protests against non-unionists being employed in the Commonwealth Bank and against the influence brought to bear on employees, which makes it almost impossible for any of them to belong to a union.

So far there has been no preference for unionists in the Commonwealth Bank. Although the principles for which unionism stands are for the most part just, it is a fact that "closed shop" establishments have a tendency to object to innovations. The absence of a highly unionized staff has undoubtedly been a factor in the profits of the bank.

#### *Provisions for Welfare of the Staff*

Although the Commonwealth Bank has followed an "open shop" policy, the management of the bank has always been liberal to employees. Section 8 of the Commonwealth Bank Act of 1924, allowing for an Appeal Board to be set up for disputes in the bank, has seldom been used. The Officers' Superannuation Fund makes provision for the staff in a liberal manner. It also makes allowances for widows and dependents of the male staff. The fund was brought into operation on January 1, 1916. The staff contributes 2 per cent of the salaries to the fund, while the bank subsidizes it to the extent of 3 per cent of the total salaries paid.

The Officers' Fidelity Guarantee Fund was established on January 1, 1916. Every officer contributes to the fund at the rate of  $\frac{1}{4}$  per cent upon the amount of his salary; the amount of security provided to the bank by the fund depends upon the rate of salary according to the following scale:

Salaries under	£100 a year	Security	£500
over £100 and under	£200 a year	"	£1,000
" £200 "	£400 a year	"	£1,500
" £400 "	£600 a year	"	£2,500
" £600 and upward			£3,000

Although the bank is not a "closed shop" institution, members of the staff are in no way "oppressed". They actually receive very favourable attention from bank authorities. Adoption of a "closed shop" policy in the bank would give the staff little in the way of added benefits to those already existing but might well lead to interference from the outside in the administration of the affairs of the bank.

If the Commonwealth Bank is to continue as a success, every member of the institution should believe in the progress and expansion of the bank. Belief in the bank should be the first condition for employment in the institution. Employees should be encouraged to study finance and economics, especially in their relation to human welfare. (Establishment of a research department in the bank would do much to encourage study among the staff.) Working in the Commonwealth Bank should be something more than merely a way of obtaining an existence. Members of the staff are taking part in an important social development. Only by making the staff conscious of the significance of their work will the Commonwealth Bank give to the world the full fruits of its possibilities.

In order to develop the potentialities of members of the staff, authorities of the Commonwealth Bank should get in touch with leading bankers of Europe and America for the purpose of interchanging for a year competent young members of the staff with similar officers of banks abroad. This incentive to members of the staff would encourage them to do their best and would give to the bank men and women with the vision of a world-wide outlook that will be necessary in the coming years to solve the difficulties facing humanity. (The action of the Bank of England in employing Professor Sprague of Harvard University as economic adviser to the

bank shows that leaders in world finance are beginning to appreciate the value of men with experience abroad.)

### *A Bank for the People or a Central Bank Only?*

Although the Commonwealth Bank has been a success financially, it has continued to be a matter of controversy. On March 15, 1927, Matthew Charlton, Leader of the Labour Party, stated in the House of Representatives:

I am not satisfied with the condition of affairs at the Commonwealth Bank.

There is a fundamental difference in the attitude of the two sides of the Federal Parliamentary forces on the question of the Commonwealth Bank. The anti-Labour group favours converting the Commonwealth Bank into a bankers' bank, while Labour advocates making the bank a strong competitor in commercial banking. Labour sees the advantages of central banking, but the demand that ultimately the banking system of Australia should be nationalized colours the view of Labour.

It is clear that both sides have their advantages. The effect of an active competitor among the combine of banks could only result in better accommodation to the public. On the other hand, the desirability of sound central banking is apparent more than ever since the depression has overtaken the world.

### *Nationalization of Banking*

The proposal in the general platform of the Labour Party advocating nationalization of the banking system has not been advanced to the fighting platform even though it has been one of the objectives of Labour for many years. Yet recently signs suggest that a definite attempt will soon occur to place nationalization of banking on the fighting platform of the

party. During 1932-33 James Scullin, Leader of the Labour Opposition in the Commonwealth Parliament, made several public addresses in favour of nationalization of banking. He restated his belief in this policy on January 5, 1933, at Richmond, Melbourne. He is the first Leader of the Labour Party in the Commonwealth Parliament to advocate publicly this proposal. His followers in Parliament are also taking keen interest in the question. Senator Kneebone on April 22, 1931, speaking in the Senate on the Central Reserve Bank Bill, remarked that he trusted that

this is a step towards the nationalization of banking. . . .  
Credit should, generally speaking, be 100 per cent nationally controlled.

It is highly probable that when Labour returns to power in the Commonwealth nationalization of banking will become an issue in Australia. (Nationalization of commercial banking would only be another step in a direction Australians have already taken, for governments perform over 98 per cent of the savings bank business of the Commonwealth and own all the agricultural banks of the country.) Taking over the entire commercial banking of the nation, although a great stride, is only another move in the same direction.

One of the difficulties that would likely arise in nationalized banking is that debts to the national bank would be debts to the Government. This situation would not produce as much trouble internally as externally, for overseas bank debts would be obligations between governments that might well cause international friction. Experience since the war with inter-governmental debts demonstrates the danger involved. Default of foreign governments on their bonds during the depression has also tended to cause ill-feeling between nations. If money is not paid to a government by a foreign power, the creditor nation often regards this action as a national affront. It is

easier for international friction to arise from difficulties of inter-governmental debts than from troubles between individual debtors and creditors.

In the case of Australia nationalization of banking there in advance of other nations would not cause serious external problems. Nationalization of banking in the Commonwealth would be almost entirely an internal matter. Australians trading abroad could continue to finance these transactions as at present through private concerns in London or through the branch of the national bank there.

Australia will probably face the issue of nationalized banking before most other nations. Yet the whole world seems likely to face this issue in the not too distant future. Banking is certainly a public utility. According to the policy of banks activities of the entire community can be expanded or contracted. It is essential, therefore, that the primary motive of banking be public welfare rather than profit-making for shareholders.

The *Australasian Insurance and Banking Record* of October, 1932, reported:

Excluding the Commonwealth Bank, there are 71,000 shareholders in the nine large banks in Australia, there being an average of 7,900 shareholders in each bank. The average amount of capital paid up by each shareholder is £528, and a 5 per cent return on this sum would represent £26 8s. od.

(Every one of the more than six and one-half million inhabitants of Australia is a shareholder of the Commonwealth Bank!)

(Under national banking all competent members of the present private banks would be retained. They would work, however, for public welfare rather than for the promotion of dividends for the above 71,000 shareholders, who at the time of nationalization should receive compensation.)

One bank with many branches throughout the country would mean better control of credit than under the present system of nearly a dozen banks acting more or less on their own opinions. Monopoly is injurious to the community when the chief motive of its sponsors is profit. If the idea behind monopoly is service and public welfare, monopoly is not a danger to the happiness of the people.

Since the war central banking theory and practice has shown great development. Most authorities regard central banking as a buttress to private banking. Yet in all cases of bankers' banking governments have some control over the activities of the central bank. Bankers' banking may prove to be the first step towards national banking.

#### *The Bank of France*

As the Commonwealth Bank has to face the problem of being at the same time both a competing and a central bank, Australian authorities should study the Bank of France. King O'Malley expressed the opinion in 1914 that the Commonwealth Bank should be "like the Bank of France".

The Bank of France commenced operations in 1800. In 1848 it became the sole bank of issue in France. The bank, unlike the Commonwealth Bank, started as a central bank but has become increasingly a bank of the people. In Document 405 of the United States Monetary Commission evidence states :

The Bank of France remained for a long time, indeed, the bank for banks, but since it has covered so much territory with its numerous branches; since the minimum amount of all its operations has been lowered; since it has opened deposit accounts to all; since it has tried to simplify and minimize the formalities required by its special charter, the industrial and commercial world has come to use the Bank directly to a much larger degree. At the same time its

credit has come out stronger, firmer, more popular from all the political and financial crises, so much so that to-day one can reply without hesitation that it is already and it tends to become more and more—as you ask—the bank of all the French public.

The Bank of France has carried on a greater discount policy with other banks than with the public. The amount of discounts has always been small in Australia. (Taxes on bill of exchange have been a hindrance to the development of large discount business in the Commonwealth.) Under the overdraft system credit to the full amount of the overdraft is ear-marked, even if not used. The debtor only pays interest on the amount of the overdraft used.

(The Commonwealth Bank, following the example of the bank of France, should extend its activities over the entire continent of Australia.) It should have a branch or agency in every town and should actively court business instead of turning it away as it frequently does at present. To save expense, local (post offices) in outlying districts might well take care of banking business, as King O'Malley originally suggested.

If the Commonwealth Bank were an active competitor in commercial banking, its powerful position with the Commonwealth behind it would place it in the position of setting rates and policies in banking. If the Commonwealth Bank were to become entirely a central bank, then one office with a staff not exceeding one-twentieth of the present force would be sufficient for all requirements of the bank. A bank actively competing for general banking business, on the other hand, would require staff ten times the present number of officers in the bank.

#### *The London Branch*

The London branch of the Commonwealth Bank should engage vigorously in exchange operations, for Australia would

gain if the Commonwealth Bank actively competed in exchange business. The entrance of foreign banks in these transactions would likely be of advantage to Australia. (If the Associated Banks, foreign banks, and the Commonwealth Bank were all vigorously competing for exchange business, the Australian public would benefit.)

### *Trade with the Orient*

To promote trade with the Orient the Commonwealth Bank should establish branches and agencies in the principal cities of the East.

### *The New York Agency*

The New York Agency of the Commonwealth Bank should reopen and stay open. The liking of Americans for Australians makes the road to success in New York less difficult. The agency of the bank should be a publicity house for Australia. The representative of the Commonwealth Bank upon reopening in New York should devote all his time to developing personal contacts with Americans so that he would be a force in developing trade between the two countries. The New York Agency should transact a growing exchange business.

The fact that the law of New York State requires the bank to pay a tax on the profits of the entire business of the Commonwealth Bank would be of sales value in obtaining business from Americans. The agency could be a useful information centre on Australian loans raised in New York. An alert agent could have done much to allay fears of American investors during the period of default in New South Wales. An authoritative statement by an agent on the situation in Australia in February, 1932, would have saved many a poor investor in Australian bonds from loss, for at that time individual bondholders in America who had paid at least ninety dollars for



Australian bonds sold them in too many cases for approximately thirty dollars because of inadequate data on Australian affairs.

The agent in New York should be in constant touch with the Federal Reserve authorities of America. He should report regularly the latest developments in central banking in America. An economist from the proposed research department of the Commonwealth Bank should be at work in the agency studying financial methods and economic developments in the United States.

### *Clearing Reserves of Private Banks*

The Commonwealth Bank Act of 1924 gave the bank the fundamental attribute of central banking when it established it as the clearing centre of private banks, which keep reserves with the national bank for this purpose. Bankers from time to time express the opinion that the Commonwealth Bank has an unfair advantage over private banks through holding these reserves, which it is contended, can be used by the national bank for granting advances to the public in competition with private banks. The feeling that the Commonwealth Bank might therefore have an unfair advantage over private banks caused the Scullin Government to introduce the Central Reserve Bank Bill in 1930 to divorce the central banking features from the Commonwealth Bank. (With bankers' banking placed in the proposed Central Reserve Bank, the Commonwealth Bank was to be given power to expand its general banking department in active competition with private banks without the alleged advantage of holding the clearing reserves of private banks.) The Lyons Government has also considered doing the same.

Holding the clearing reserves of private banks does not give the Commonwealth Bank any important advantage, for a

national bank is the lender of last resort, which means that the bank has to be very careful in the investment of its funds. (Although private banks can borrow from the Commonwealth Bank, the national bank cannot borrow from any bank above it, except perhaps from central banks overseas that are too far away to be important in an emergency.) The responsibility of holding the reserves of the nation more than offsets any advantage that the bank may have in keeping the clearing reserves of private banks. Then again banks have an advantage over the Commonwealth Bank through their large holdings of Treasury bills that may be turned into cash at any time by rediscounting them at the national bank, which always has to be prepared for this contingency. The important competition between banks is not in advances but in deposits. In this matter the Commonwealth Bank and private banks allow the same rate of interest. In advances the Commonwealth Bank is the only institution that announces a set rate. Other banks adjust the rate according to the circumstances of every individual loan. (There is no reason why the Commonwealth Bank should not continue to carry on central banking as well as commercial banking business.) Central banking should be placed in a department of the bank; its place is with the note issue in a central banking department.

### *Exchange on London and the Gold Standard*

As the prosperity of Australia depends largely on the State of the overseas trade, central banking activities of the Commonwealth Bank should in part be directed towards maintaining London balances of banks in a position to meet any emergency. In this respect the Commonwealth Bank Act of 1924 by allowing the national bank to rediscount bills in London is important. The Commonwealth Parliament should enact legislation calling for weekly statements of London funds of

private banks. The rate of exchange should be fixed according to the condition of these resources.

It is unlikely that authorities in Australia will attempt to stabilize the Australian pound in terms of gold before Great Britain acts in this matter. (Except for tradition there is little to support a return to a gold basis for currency.) The amount of gold in the community in no way corresponds to the trade requirements of the public. As King O'Malley said on August 8, 1906, in the House of Representatives, "You always have gold when you do not want it, and you never have it when you want it." He further added that "honest paper money, honestly managed by an honest comptroller of finance, based upon the property and products and revenues of the country, would make it the best medium of exchange, because it could be made available to the people at a low rate of interest." (A well managed currency with constant reference to selected price indexes would lead to far greater stability in the purchasing power of debits and credits.) To make up the balance of payments with nations it would be better to ship commodities from the debtor nation that the creditor country required than send gold which is already redundant in the creditor nation and scarce in the debtor country. During the depression Australia has shipped wool and butter as means of payment for debts abroad.

#### *Need of an International Currency*

[The ideal solution of the currency problem would be an international currency issued by an international bank based upon the productive and commercial services of the world. There are enough trained financiers in the world to conduct one great issuing bank intelligently. It is doubtful if there are enough men of this type for over fifty issuing banks of the various nations.]

In order to obtain a world currency international goodwill is fundamental. Peace is the core of any promising plan looking towards economic reconstruction. The best way to international peace lies in disarmament. King O'Malley correctly remarked in 1906 that

Militarism paralyzes industry, wastes property, and mildews economic progress.

The Second British Note to the United States in December, 1932, requesting a suspension of war debt payments, summarized acutely the economic side of war with the comment :

The shells on which were largely spent these war loans were blown to pieces, and have produced nothing to repay them.

Wiping out war debts would undoubtedly aid international goodwill and so would help economic reconstruction. Tariffs and bounties on uneconomic processes should be abolished.

#### *Further Economic Reconstruction*

It is desirable that prices of commodities rise to their level of 1928, unless the world is to have a devastating readjustment of all items in production so that costs can be brought into line with present prices. The cost of the latter course would be far greater than that required through monetary action to return to prices of 1928.

To ensure better balance between various industries, every nation should set up an economic council at the side of the government. This council should consist of business men, financiers, industrialists, agriculturalists, representatives of labour, and economists. The council should issue authoritative statements on the situation of various industries and in particular should advise young men and women on the opportunities of employment in these industries. It is high time that young

people were able to choose with assurance their lines of employment.

There is little doubt that the time for economic reorganization has arrived. The "bank holiday" in the United States in March, 1933, was a dramatic conclusion to the failure of over five thousand banks in that country during the preceding two years. Furthermore, something is wrong when joy reigns in the Chicago "pit" at the news of drought in some important wheat growing district. The prosperity of one group in the community should not be at the expense of another section. The disturbing news from America indicates that there is need for revision of the economic order. America is to be congratulated on giving Professor Einstein a free hand in research in New Jersey. Yet to-day social sciences lag far behind physical and mechanical studies. It is in the former that the great need for research appears. There is little gain to humanity if the results of physics are to be applied to destructive rather than constructive purposes.

#### *The Commonwealth Savings Bank*

The Commonwealth Savings Bank should again be a department of the Commonwealth Bank. The remaining two State savings banks should amalgamate with the Commonwealth Bank and form the national bank proposed in the Agreement between the State savings bank in New South Wales and the Commonwealth Savings Bank. With the savings bank business a department of the central bank the public would receive help immediately any run commenced on the savings bank department. It is highly improbable, however, that a run would start on the savings bank if it was a department of the central bank.

#### *The Rural Credits Department*

The Commonwealth Bank should expand its rural credits

department to take over all State agricultural banks.) Parliament should enact an amendment to the Commonwealth Bank Act of 1925 to allow individuals as well as groups to receive aid from the department. The rural credits department should keep the farmer on the land in times of trouble. The department should continue its interest in agricultural research.

### *Departments of the Commonwealth Bank*

(There should be six departments in the Commonwealth Bank, general banking, savings bank, rural credits, foreign exchange, central banking, and research departments.) (The research department should be the most important and should not be controlled by any other department of the bank.) It should issue a service bulletin on economic and financial conditions in Australia and abroad. Labour has at times suggested that the Commonwealth Bank should establish an insurance department. It would be better, if government insurance is required, to set up a separate government department for this work as Queensland has done for its insurance scheme. (Inclusion of insurance in the work of the Commonwealth Bank would make that institution's activities too broad.)

### *Management of the Bank*

Probably the task of governing the Commonwealth Bank is too great for one man, although the record of Governor Miller stands strongly in favour of one man control. Yet recently management of the bank has become so important that it seems inadvisable to place so great a responsibility in the hands of one man. There should be no industrial requirements for membership on the Board of Directors. Industrial interests should be represented on the Economic Council of Australia rather than on the Board of Directors of the

Commonwealth Bank. If a person is well versed in finance, he or she should be appointed to the board of directors of the bank. The board should be a group interested in promoting the welfare of Australia through financial measures. The welfare of Australians should be the foundation of the policy of the board of directors. There is no gain in balancing governmental budgets and in making the Australian pound at par with sterling if these attainments are accompanied by want and unemployment.

*When Will the Period of Expansion of the Bank Occur?*

Naturally the question arises as to when these reforms in the Commonwealth Bank are likely to take place. The bank is a product of King O'Malley's efforts in the Labour Party. It is interesting to note, therefore, that very few of the members of the Labour Government of 1910 that legislated for the bank have remained in the Labour Party. (Many men join the Labour Party merely as a stepping stone to the Conservative Party.) Conservatives are conscious of this fact and are constantly on the alert to attract promising Labour men to their party. Others join the Labour Party believing that through Labour they will be able to further their ideals. As the years roll by, many of these idealists see that it will be a long time before their ideals are realized. They desire to see the goal obtained during their lifetime. When this seems impossible, they become cynical. Australia has many ex-Labour cynics. Yet ideals live long after the individual has passed away. It may be many years before the Commonwealth Bank becomes really a people's bank.

The Commonwealth Bank from its very inception has gone forward in spite of the efforts of the authorities. In the days of the fight for the bank if King O'Malley had been allowed

by the leaders of the Labour Government to advocate throughout Australia a national bank after the election of 1910, then there is little doubt that private banks would have organized and effectively blocked the introduction of the Commonwealth Bank Bill. Leaders of the Labour Government forced King O'Malley to keep silent on the bank and so against his will opened to him the only possible way that a successful movement for a national bank could have been organized, that is, secretly. Then the war came and established the Commonwealth Bank in the community. Later, when it appeared that the Commonwealth Bank would be turned solely into a central bank, the depression intervened and forced the authorities to extend the operations of the bank by taking over control of the exchange on London. The debacle of the savings bank in New South Wales ended in the Commonwealth Bank having 250 branches in the general banking department. There is now a suggestion on the part of the Lyons Government that central banking be divorced from the Commonwealth Bank. It may happen that this action would lead to a vigorously trading Commonwealth Bank. James Scullin, Labour leader in the Commonwealth Parliament, is actively proposing nationalization of banking. It seems likely that the Commonwealth Bank will expand its operations throughout Australia in the near future. Yet it may be many years before Australians really gain the full benefit from their bank. Those hoping for these developments should be patient. Too many idealists expect results too soon.

#### *Outstanding Personalities in the History of the Bank*

Four men stand out in the history of the Commonwealth Bank, King O'Malley, Governor Miller, Dr. Earle Page, and Sir Robert Gibson.

King O'Malley played the major part in getting the bank



started. All through the first ten years of the Commonwealth Parliament King O'Malley was the only member of the Federal Parliament that spoke in the House of Representatives in favour of a national bank. Like many moving forces in great achievements King O'Malley has always favoured simplicity. A standard of living is not only a matter of physical commodities but is a question of mental development as well. The community must go forward to a simple mode of life, taking its eyes from greed of material wealth to a desire for comfort amidst intellectual development. King O'Malley has always emphasized the intellectual side of a standard of living.

Governor Miller embodied the rare combination of a humanitarian and a financier. No greater evidence of the human side of Governor Miller appeared than in his dealing in 1921 with the unemployed. On July 7 of that year a deputation of unemployed workers asked Governor Miller if he would make financial arrangements to provide work for the unemployed :

Mr. Scott (member of the deputation) : In your address in London, Sir Denison, you stated that to meet the necessities of war certain things had been done by you, which before the war would not have been dreamed of. You financed Australia for £350,000,000 for war purposes, and had the war continued, you could have financed another £350,000,000. Are you now prepared to finance Australia £350,000,000 for productive purposes?

Sir Denison Miller : Yes, I shall do my best.

Mr. Scott : Ah, that is the point ! Thanks, Sir Denison !

The reply of Governor Miller that he was willing to finance the purposes of peace as fully as those of war showed the human side of the first Governor of the Commonwealth Bank. Unfortunately Governor Miller died before he could make good his promise. Governor Miller was always a strong

believer in the bank. In June, 1920, he was knighted (K.C.M.G.) in recognition of his services to the British Empire during the war.

Dr. Earle Page had an important role in the efforts to make the Commonwealth Bank a central bank. As Federal Treasurer he introduced the Commonwealth Bank Bill of 1924, which gave to the bank the main features of central banking. Acting on the advice of Sir Ernest Harvey, Dr. Page separated the savings bank business from the Commonwealth Bank. (Dr. Page was also instrumental in getting legislation passed to establish a rural credits department to the Commonwealth Bank, and although this department does not yet deal with individual farmers, the Act of 1925 laid the foundation for a more extensive rural credits department in the future.) Further than this, Dr. Page, as Commonwealth Treasurer, introduced legislation for the establishment of the Loan Council and sinking fund provisions for the national debt.

Finally, Sir Robert Gibson, as Chairman of the Board of Directors of the bank, has played an important part in the finances of Australia during the depression. Acting conservatively, he has always had the welfare of Australia at heart. He has kept the bank in sound financial condition. Believing central banking to be the main purpose of the Commonwealth Bank, Sir Robert Gibson has kept in close touch with leaders of the Bank of England. He has shown courage at times in defying banking interests of Australia.

### *Lessons from the Experience of the Commonwealth Bank*

(The Commonwealth Bank is almost unique in being an attempt at national banking, although the former State Bank of Russia and the Riksbank of Sweden at one stage were

also owned by the nation.<sup>1</sup>) The Commonwealth Bank has many lessons to offer the world. It is definitely a case of a government commercial bank being a financial success. This fact is not particularly surprising, for if government banking is doomed to failure then private banks would not choose names of States and nations for their titles. (Many people to-day believe that the British Government owns the Bank of England.) The success of the Commonwealth Bank has been achieved in spite of the fact that abnormal economic conditions have existed almost continually since the bank opened.

To make a government bank a success it should be launched in a conservative fashion. Any unorthodox methods during the first few years of the bank's existence would be fatal to the institution. Experiments along financial lines should be conducted in a minor way after the public has confidence in the bank.

A government bank should be divorced from politics. In Australia to-day governments go to the bank rather than the bank to governments. The Commonwealth Bank has also proved that a national bank does not need privately subscribed capital for its success.

As many government concerns in Australia have failed financially, it is significant that the Commonwealth Bank has been so profitable. (The bank has been more profitable to the government than any other publicly owned utility in Australia.)

A fair amount of discipline must accompany a government institution if it is to be a success. The individual must give up some of his supposed liberty and submit to the decision of

<sup>1</sup> The State Bank of Soviet Russia is owned by the nation but under the Russian system the nation has taken over banking as a part of a great social scheme rather than as a separate act.

those in authority in the institution. He has to take the decisions of private bankers and he should accept the verdict of the government banker. It is in this connection partly that the danger of political interference appears. (The decisions of the national bank should receive the same response as those of the Supreme Court in the United States.)

The Commonwealth Bank has developed at times in spite of its leaders. Circumstances have forced authorities of the bank to act at times against their desires. The history of the Commonwealth Bank shows that there is in this world an impelling force that often works in spite of the desires of mankind.

It is true that one of the accidents that favoured the Commonwealth Bank was that it commenced operations during the prosperous months in Australia just before the war. A new venture should begin during a period of business revival so that it might enjoy favourable surroundings until it is able to stand on its own feet. Private businesses commence when promoters feel that conditions favour their projects. The same should be true of government enterprises. With governments now making plans for business revival the time is ripe for considering national banking as part of the scheme for improved conditions.

(The most convenient way for nations to move towards national banking is through granting depositors in national postal savings banks the right to open chequing accounts in those institutions.) Savings banks are the right hand of national banks and it should be through these concerns that the approach to national commercial banking be made. In the United States early in 1933 Senator Dill of the State of Washington introduced a Bill in Congress that proposed to permit chequing accounts up to \$5,000 in that country's postal savings bank. No interest was to be paid on such accounts



UNITED STATES SENATOR, C. C. DILL

and a charge of two cents a cheque was to be made to cover the cost of service rendered. The Government would guarantee these deposits and so there would be no need for privately subscribed capital.

With conditions in Australia improving, the Commonwealth Bank will continue its progress towards becoming a people's bank. Australia should cease borrowing abroad and ought to live within its income. The Commonwealth Bank can provide the finance for all legitimate requirements of governments as well as those of individuals. Australians should always remember that every time they transact business with their national bank they are helping to wipe out the national debt and so reduce taxation. The continued success of the Commonwealth Bank will lead to the extension of the benefits of national banking throughout the world.

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