# THE COMMONWEALTH BANK OF AUSTRALIA

*ORIGINS AND EARLY HISTORY*

Robin Gollan

The story of the origins of the Commonwealth Bank begins with the influence of English ideas of banking and currency reform on Australian thinking a century ago. It takes the reader through nineteenth-century financial crises, the Labor Party's early determination to control banking, the setting up of *crédit foncier*, and the issue of state notes, to the passing of the Act to establish the Bank in 1911.

Next Dr Gollan examines the role of Denison Miller as first Governor of the Bank, and the impetus given to the Bank by its crucial position during World War I. The book concludes with the creation of the Note Issue Department in 1924, an early step towards the realisation of the Central Bank.

Not least interesting in this account of power politics and conflicting interests is the author's assessment of the part played by King O'Malley in legislating for the Bank.

Apart from its obvious importance to bankers, the book will be of interest not only to students of labour and economic history, but also to the general reader of Australian history.

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THE COMMONWEALTH BANK OF AUSTRALIA

*By the same author*

*Radical and Working Class Politics: A Study of Eastern Australia, 1850-1910* (1960)

*The Coalminers of New South Wales: A History of the Union, 1860-1960* (1963)

# The Commonwealth Bank of Australia

*Origins and Early History*

ROBIN GOLLAN

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# *Preface*

This book has been written for two reasons: to fill a gap left by earlier writers; and to attempt to place the idea, and the policies that flowed from it, of banking and currency reform, in the early history of the labour movement.

A number of books have been written about the history of the Commonwealth Bank. The best of these is L. F. Giblin's *The Growth of a Central Bank*, which is a close analytical study of the Bank between 1924, when it first became formally a central bank, and 1945, when it had become a central bank in fact. Giblin's book is not above criticism but the criticisms would arise from differences of opinion and not from the inadequacy of the scholarship or the seriousness of the analysis. The same cannot be said of two other books which purport to expound the early history of the Bank. *The Commonwealth Bank of Australia*, by C. C. Faulkner, published in 1923, and *Australia's Government Bank*, by L. C. Jauncey, published in 1933, are quite unsatisfactory in different ways. Faulkner's book is a simple narrative of institutional development, which makes no attempt to put the story into either historical or contemporary perspective. While it is generally factually accurate, its purpose imposes limitations. It is the story of the Bank (or of some part of its activities) and not of the functions of the Bank in the economy and the society. The inadequacy of Jauncey's book is of a different kind. He attempts to see the Bank as a political and economic phenomenon but, with all due respect to one whose work has proved useful to the writer of this book, his scholarship fails him badly. His account is both insufficient and inaccurate.

This book is an attempt to build on and correct these earlier writers, but also to extend both the time scale and the political and economic perspective in which the origin and early history of the Bank may be seen. In doing this, recent work in economic and political history in general, and banking history in particular, has proved very helpful.

Many people have helped me write this book. I want to acknowledge the help of John Molony and Joan Lynravn, who have assisted me in finding and checking the facts. May Richardson has typed the text more than once. Her persistence in deciphering my writing has been admirable.

Anyone who wishes to learn, and perhaps to write, about banks and banking in Australia finds that the ground has been well covered by other scholars. I hope that my debt to them is clearly indicated in the body of the book.

The later chapters were made possible by the free access I was granted to the archives of the Reserve Bank. The Archivist, Ken Polden, and his assistants have helped me in every way that I have asked. The final chapter relies heavily on work done by anonymous people in the archives section of the Reserve Bank.

Canberra R.G.
1967

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# *Abbreviations*

| | |
|---|---|
| *Comm. P.D.* | *Commonwealth Parliamentary Debates* |
| *Comm. P.P.* | *Commonwealth Parliamentary Papers* |
| LLS | London letter series, Reserve Bank Archives |
| *N.S.W. V. & P. (L.A.)* | *New South Wales, Votes and Proceedings of the Legislative Assembly* |
| *N.S.W. V. & P. (L.C.)* | *New South Wales, Votes and Proceedings of the Legislative Council* |
| *Qld P.D.* | *Queensland Parliamentary Debates* |
| RBA | Archives of the Reserve Bank |
| *S.A.P.D.* | *South Australian Parliamentary Debates* |
| *S.A.P.P.* | *South Australian Parliamentary Papers* |
| *S.M.H.* | *Sydney Morning Herald* |
| *Vic. P.D.* | *Victorian Parliamentary Debates* |
| *Vic. P.P. (L.A.)* | *Victorian Parliamentary Papers, Legislative Assembly* |

# I

# *The Idea*

*Look into Mr Ricardo's works, and you will find ably and distinctly sketched his idea of a national bank, in which the State should have the profit of the banking operations.*[1]

The Act to establish the Commonwealth Bank of Australia was passed in 1911 by the first Labor government which had a majority in both Houses of the Commonwealth Parliament. Its passage put into effect a plank of the Labor Party platform. It was also a compromise between competing interests and conflicting ideas which had existed for a very long time both within and without the labour movement.

The true origins of the Bank are to be found not in the policies or actions of the men who legislated it into existence but in the ideas of Englishmen who lived before any of them were born. In the first half of the nineteenth century millions of words were written—analytical, polemical, and exhortatory—about problems of banking and currency.

Broadly there are two categories of ideas debated in the early nineteenth century which are relevant to the ultimate establishment of a state bank in Australia; in modern terms they would be classified as ideas about central banking and about socialism. While such a distinction does violence to history because it is too clear-cut, it is a necessary distinction if the significance of the ideas, both analytically and politically, is to be understood.

It is not difficult to see why there should have been a debate about these matters. England, as the first country to experience the industrial revolution and then to find herself at the centre of a world market of unprecedented volume and spread, was faced with financial problems that no nation had ever faced before. This fact alone goes

[1] Sir Archibald Michie, *Readings in Melbourne*, p. 65.

far to explain why men of great intellectual power argued with vehemence for diametrically opposed policies to solve the same problems. But in addition to differences of opinion there were differences of interest. The process by which great wealth was aggregated was not an even-flowing one. It was marked by the enrichment of some and the impoverishment of others; for every new business that succeeded there were a dozen that failed; old wealth often found itself defeated by new; and great businesses, both old and new, flourished for a time and then went down in ruins. Rapid economic development necessarily means uncertainty for those moving up the ladder of wealth no less than for those whose old ways are disrupted without any possibility of reaching even the first rung.

No one has described the uncertainties of the English financial system during the nineteenth century more clearly than its most literate and friendly critic, Walter Bagehot. Writing in 1873, he referred to the collapse seven years before of the great discount house of Overend and Gurney.

> Ten years ago that house stood next to the Bank of England in the city of London; it was better known abroad than any similar firm—known, perhaps, better than any purely English firm. The partners had great estates, which had mostly been made in the business. They still derived an immense income from it. Yet in six years they lost all their own wealth, sold the business to the company, and then lost a very large part of the company's capital.[2]

Bagehot was deeply concerned about the future, and reproved those men of business who panic in a crisis but otherwise comfort themselves with the thought that the system has gone on for a long time; why should it not continue? He replies, 'But the exact point is, that it has *not* gone on a long time'.[3]

The system was new but it was also old. It was new in the enormous quantity of wealth that was concentrated in the banking system; new also to the extent that this wealth was ultimately safeguarded by a single institution, the Bank of England. In Bagehot's view, in this latter fact—the one-reserve system of banking—lay both the strength and weakness of the English system. On the one hand it gave it great flexibility but on the other the collapse of one of the inter-

[2] Mrs Russell Barrington (ed.) *The Works and Life of Walter Bagehot*, Vol. VI, p. 21.

[3] Ibid., pp. 21-2.

dependent units could bring the whole structure crashing. It was old in that the system developed in the nineteenth century was a result of a series of adaptations of earlier practices.

The English financial system, and in particular the Bank of England, was the model that Australians had in mind when they criticised or proposed reforms in Australian currency and banking. Sometimes it was a model to be imitated; sometimes to be criticised; and usually to be misunderstood. Many of the critics had only vague ideas of how it operated, but they picked up ideas from the debate in England and tried to apply them to Australia.

Any full description of the English banking system of the nineteenth century would require a book; indeed many books have been written on it. Here we must be satisfied with the barest outline which will provide a reference point for the English criticisms and proposals and their Australian echoes.

The banking system of industrialised Britain evolved by the adaptation of mechanisms and institutions which had served the needs of the pre-industrial society. The process began in the eighteenth century and continued throughout the nineteenth, although in many respects the system which was to operate for the next century was established by 1825.

By 1825 the banking structure can be seen as consisting of three parts: at the centre was the Bank of England and around it the London and country banks. Linked with the banks were the discount houses, which, as the century advanced, increased in size and importance. The business of the whole was the organisation of credit, which was based ultimately on money borrowed in the form of deposits from the public.

The Bank of England was linked, directly and through the discount houses, with the other two elements of the system, the London and country banks. The most important thing about these banks was that they were unit banks, that is, they operated each in a single locality. Secondly, they were private, owned by an individual or a small partnership. After 1826 joint-stock banks, with full banking powers, including the ability to issue notes, spread in the country as a result of legislation which removed doubts about their legality. Within a radius of sixty-five miles from London joint-stock banks were also permitted, but were not able to issue notes. Thus there was a more gradual development there of joint-stock banking.

The localism of the unit banks, whether of London or the country, created the problem to which the London discount houses provided the pragmatic solution, and in doing so made the discount market a crucial part of the English banking system. In the pre-industrial society the country banks met the credit needs of the localities in which they operated: the development of industrialism created the need to transfer funds between localities, between areas with funds to lend and those which needed to borrow. Broadly this meant a transfer of funds from agricultural areas with accumulated surpluses to the new industrial areas in need of capital for investment.

The instrument of this transfer was the bill of exchange, the main original purpose of which was to serve as an acknowledgement of debt in a mercantile transaction. While it retained this use, it was adapted to purely financial purposes. As the historian of the discount market puts it:

> Financial dealings in bills arise when they are used, not merely as acknowledgements of indebtedness or for payments to trade creditors, but as a means of raising money by the sale of the bills (and the debts which they represent) to third-party financiers. Such a financier is necessarily out of his money until the date when the bill (and the debt) falls due and is paid. He therefore charges interest to the seller of the bill for that part of its life or currency which is still unexpired. Nowadays, this interest is almost invariably paid in advance, so that the sum which the seller of the bill actually receives is the amount of the debt (or bill) *minus* the interest. Interest so paid is known as 'discount', and the rate at which it is calculated is the 'rate' of discount . . . .[4]

The third-party financiers referred to were the London discount houses, the bill dealers; and the borrowers and lenders were the banks. The way in which the discount market operated can best be described by looking at one of them, the house of Overend and Gurney, which, until its collapse in the mid-sixties, transacted about half the discounting business of London.

Towards the middle of the century Samuel Gurney, in answer to questions, described in simple language the operations of the firm of which he was a senior partner.

> My business is usually denominated that of a Bill Broker, in fact a Dealer in Money, taking from those who have a surplus and distributing it to those who require it. . .

[4] W. T. C. King, *History of the London Discount Market*, p. xvii.

> The practice of your business is to visit the different Bankers to take their superfluous capital beyond what they can employ, and then furnish aid to those who want it?—That is the general Tenor of our daily Transactions . . .
> Are your Transactions confined to the City, or do you do Business at the West End?—
> We do Business with the West End bankers occasionally to a large Extent, and transact Business with a large Proportion of the Country Banks.[5]

These functions were summed up by Bagehot when he referred to Lombard Street, the street of the discount houses, as the 'great go-between', linking 'the quiet saving districts of the country and the active employing districts'.[6]

The Bank of England's dominant position derived from three things: its management of the government account, its substantial although not complete control of the currency, and its special rôle in the discount market. In regard to the latter two functions there were considerable changes during the nineteenth century as a result of legislation or changing policy. Major currency changes occurred immediately after the wars with France and in 1844. Changes in discount policy occurred under the pressure of business.

During the wars cash payments had been suspended and Britain had for over twenty years an inconvertible paper currency. However, by a succession of Acts between 1816 and 1821, in Sir John Clapham's words, 'the structure of British currency settled down heavily on the appointed bases from which it was not moved for nearly a century'.[7] The principal appointed base was gold.

By two Acts the Bank of England was ordered to exchange notes for bullion at the rate of £3. 17s. 10½d. per ounce of gold, and to cash all its notes in the gold coin of the realm. Thus Bank of England notes, convertible into gold, and gold and silver coin became the main but not the exclusive currency. Private banks exercised the right of any individual to issue notes, a right restricted, so far as joint-stock companies were concerned, to the Bank of England. None of the London private banks had issued notes for half a century, being satisfied with Bank of England notes and cheques. But it was otherwise with the country banks, the majority of which were note-

[5] Ibid., pp. 122-3.
[6] Barrington (ed.), *Walter Bagehot*, Vol. VI, p. 17.
[7] J. H. Clapham, *An Economic History of Modern Britain*, p. 263.

issuers, thus supplying a circulating medium for the localities in which they operated. The direction of change during the nineteenth century was for the issue of notes by the private banks to decline and for the Bank of England to move more closely to a monopoly of note issue for the whole country.

The management of the government account and government securities, together with its position as the leading issuer of notes and the keeper of the gold reserves, gave the Bank of England significant central banking powers. But there were available to it further ways in which it could operate as the focus of the financial system—these consisted of its relations with the discount market. As a privately owned joint-stock company with pressure from its shareholders to make profits and at the same time a bank with special responsibilities to the government it often found its two kinds of responsibilities in conflict, the sharpest point of conflict being the attitude of the Bank to operations on the discount market.

The general movement of the Bank's discount policy throughout the nineteenth century was for the Bank to become increasingly the lender of last resort, that is to say for it to accept the responsibility, in times of pressure on the market, of re-discounting bills for the other banks or discount houses, or of providing funds in other ways. This was the clear direction of movement between 1825 and 1844. The mechanism used was the Bank rate which was usually above the market rate charged by the commercial banks and discount houses. Thus discounting business would normally come to the Bank only when shortage of cash prevented the other houses from continuing to lend. This policy was summed up by a witness before a Parliamentary Committee of 1832. Horsley Palmer said:

> The Bank, fixing a public rate of interest at which it may be willing to discount all approved bills of a given description, and being the only body issuing money *ad libitum*, within the sphere of circulation of such bills, thereby fixes the *maximum* of the rate of interest during the existence of such notice, and consequently all persons having money already in existence to employ, must necessarily offer to lend it under the Bank's public rate, except in times of actual scarcity or deficiency of money currency.[8]

However, the movement in this direction was not unbroken.

In 1844 the Bank Act was amended with some consequences, in-

[8] King, *London Discount Market*, p. 79.

cluding changes in the Bank's discount policy, which were not clearly foreseen. The Bank Act of 1844 was the culmination of extensive discussion and inquiry into the currency, and was, as Clapham puts it, 'less a Bank Act than a Bank Note Act'.[9] In moving the Bill which was to establish the currency system which lasted until well into the twentieth century, Sir Robert Peel rejected the arguments of those who supported a legal tender paper currency, some of whose arguments are considered later. The effect of the Act was to change the structure of the Bank and to place definite limits on note issue.

The Bank of England was divided into two parts—the issue department and the banking department. The issue department was limited to an issue of £14 million of notes against securities including the government debt of £11 million. In addition it could issue notes against gold coin and gold and silver bullion. This, it was believed, anchored the currency to a secure base and made note issue an automatic process. In practice it introduced a degree of rigidity into the system which prevented the use of note issue to influence abnormal conditions. Thus when there was a run on the Bank it was only saved from suspension of payment by the suspension of the Act to permit, if necessary, a greater issue of notes than was allowed by the Act. In addition to tying the Bank to a note issue formula the 1844 Act restricted the ability of other banks to issue notes. No more new banks of issue were to be established; existing banks of issue were limited to their present number of notes; and any bank which ceased to issue could not put its notes into circulation again.

The second immediate consequence of the Act was temporarily to divert the long-term trend of Bank policy towards the discount market. Freed from the responsibility of the note issue, the banking department felt free to press competitive business.

Between 1844 and 1847 by setting bank rate below market rate the Bank of England competed aggressively with the other banks and discount houses and this resulted in a vast expansion of credit which built up to the crisis of 1847. Although the consequences of this crisis are obscured by the acrimony of the debate about its causes and the failure of Bank Governors to state the conclusions they drew from it, Bank policy settled on the lines which it was to follow thenceforward, namely a bank rate above market rate which effectively made it the lender of last resort. While the motives of the

[9] Clapham, *Modern Britain*, p. 521.

Bank Governors were not those of modern central bankers, but rather of securing their reserves against excessive demands on them, modern notions of central banking grew from the study of Bank practice from 1847; that is to say, it came to be realised that by means of the bank rate the Bank of England could consciously influence the level of credit in the economy.

This brief and simplified description of the English banking system, which necessarily ignores both the detailed mechanisms of the system and the stages of its evolution, has been included here for two reasons. Firstly, the advocates of banking reform in Australia took the English system and in particular the Bank of England as a reference point, even though they often had but hazy ideas of how it functioned. Secondly, advocates of currency reform tended to ignore or at any rate to underestimate the importance of instruments of credit other than bank notes—an importance which is evident from even the most cursory examination of the operations of English banking.

Three aspects of the English banking and currency systems and the debates about them are relevant to the pre-history of the Commonwealth Bank of Australia. First is the role of the Bank of England or of some other institution which would perform part or all of its functions. An alternative to the Bank of England was suggested in 1824 in David Ricardo's *Plan for the Establishment of a National Bank*, which S. J. Butlin refers to as probably the first document in the history of the Commonwealth Bank.[10] Secondly, there was the vexed question of the currency. Broadly the alternatives were a currency based on gold or a legal tender paper currency, but more narrowly there were a multitude of technical questions associated with the alternatives. Thirdly, there was a type of argument of an entirely different kind; a criticism of the banking system as being an expression of capitalist exploitation which must be replaced if social justice was to prevail. This type of criticism, which has a place in the political history of the Commonwealth Bank, is less directly relevant to banking and more to the evolution of socialist ideology.

Ricardo's proposal had no immediate effect but it became the model for most subsequent proposals for state banks of issue. The *Plan* consists of sixteen summary proposals and a commentary on them. Ricardo argued that the Bank of England performed two dis-

[10] S. J. Butlin, *Australia and New Zealand Bank*, p. 350.

tinct banking operations and that they were not necessarily connected with each other. The two operations were the issue of a paper currency and the provision of credit for merchants and others. He proposed that the right to issue should be taken from the Bank and placed in the hands of a national bank, the notes of which would, over a period of time, become the sole paper currency in England. He answered the critics who anticipated that if the note issue were taken from the Bank of England it would cause the Bank to break up and consequently deprive the commercial community of one of its most important sources of credit. According to Ricardo these fears were based on a false assumption, namely that the Bank was an important source of credit for commerce. He pointed out that as compared with the bill brokers the scale of the Bank's discount transactions was very small. In any case, whether the Bank continued to operate as a joint-stock company or the partnership was dissolved, the same funds would be available for borrowing, whether they were managed by the company or by individual proprietors. Ricardo summed up this part of the argument:

> If the joint stock of the company be managed by a few directors, chosen by the general body of proprietors, or, if it be divided amongst the proprietors themselves, and each share be managed by the individual to whom it belongs, will that make any difference in its real amount, or in the efficacy with which it may be employed for commercial purposes?[11]

Ricardo argued that there would be no unfortunate consequences if his proposal was implemented. But what positive advantage did he see in his scheme?

The main aim was to achieve government economies; the government would be relieved of the need to pay the 3 per cent interest on the £15 million, borrowed from the Bank of England, against which that part of the Bank's note issue which was not issued against gold was secured. It was Ricardo's point that the government could issue the notes itself with no need to pay interest. To those who saw danger in the temptation for government to over-issue and so depreciate the currency Ricardo offered a safeguard in the structure of his bank. The bank was to be run by five Commissioners appointed by government but removable only by vote of one or both Houses of

[11] Piero Sraffa (ed.), *The Works and Correspondence of David Ricardo*, Vol. IV, p. 278.

Parliament. Further, he would 'prevent all intercourse between these Commissioners and Ministers, by forbidding every species of money transaction between them'.[12] The result of this, he thought, would be that Ministers would have less influence on the Commissioners than they had long exercised over the Directors of the Bank—'Experience shows how little this latter body have been able to withstand the cajolings of Ministers'.

Ricardo was interested in efficiency and economies of operation. In this he differed from other reformers, who proposed changes in the basis of the currency in the belief that it would have a positive influence on the operation of the economy as a whole. For the purpose of this book the most important of these is Thomas Attwood. A Birmingham banker, Attwood became a national figure in 1830 when he founded the Birmingham Political Union which linked middle and working classes in agitation for parliamentary reform. For the next decade, as a member of the House of Commons and an ally of some of the leading chartists, Attwood preached parliamentary reform. Not himself a democrat, he regarded political reform as necessary to achieve currency reform, which he believed would solve basic social and economic problems. While his views on currency were not shared by the majority of the chartist leaders, his political collaboration with them resulted in currency reform becoming one of the many strains of policy to be found in the chartist movement. If Ricardo's *Plan* was the first document in the history of the Commonwealth Bank, then the interest of the developing labour movement in a paper currency may be dated from Attwood's association with political reform and chartism, the precursors of the modern labour movement—an interest which lay dormant for fifty years and then had more influence in Australia than in Britain.

The circumstances of England after the wars with France were propitious for financial reformers of all kinds. The consequences of the cessation of specie payments during the war were variously interpreted by those who were concerned with the 'condition of England question'. At the one extreme William Cobbett saw in the wartime paper currency one of the causes of Britain's becoming 'a paradise of "stock-jobbers" and "tax eaters" '.[13] At the other extreme was Attwood, who attributed economic ills, in particular the long-

[12] Ibid., p. 282.
[13] Clapham, *Modern Britain*, p. 311.

term fall in the prices of food and raw materials after the war, to the return to gold.

Like most currency reformers Attwood had a mono-causal explanation of all social and economic ills. His views have been succinctly summarised by M. Beer:

> All riches come from labour in agriculture, manufacture, and trade. All labour comes from the population. With the increase of the population the needs multiply, and also the resources and exertions of society to satisfy those needs. Increase of the population means therefore increase of production and wealth. This progress has no limits. But the employment of labour and the production of wealth are only rendered possible through the agency of the circulating medium . . . Hence it follows that if the population increases the quantity of the circulating medium must be increased, else it becomes unequal to its increased duties, and the population becomes redundant, which really means a shortage of the circulating medium. Labour and employment cannot be brought together, goods remain unexchanged, with the result that stagnation and misery overtake society.[14]

Attwood goes on to argue that the government, far from providing an elastic currency, capable of expanding with needs, had by attaching it to gold restricted the possibility of expansion. This may have been to the advantage of the financiers, stock-jobbers, and Jews, but not of the economy as a whole. His solution was the creation of a legal tender paper currency the circulation of which could be varied in amount according to the productive power of the nation. In modern terminology Attwood's proposals amounted to price stabilization by means of a managed currency.

Attwood was only one of many paper money theorists, but the most important historically because of his active political role. His ideas were heard in several inquiries into the financial system but were dismissed by Sir Robert Peel and 'refuted' by J. S. Mill.[15] In retrospect they are significant because other currency reformers followed his argument and because, as Clapham mildly puts it, 'his views might not appear so exclusively nonsensical to all students today as they did to Peel eighty years ago'.[16]

For Attwood, significant economic changes would follow a simple

[14] M. Beer, *A History of British Socialism*, Vol. II, p. 157.
[15] J. S. Mill, *Principles of Political Economy*, Bk III, Ch. 13, Sect. 4.
[16] Clapham, *Modern Britain*, p. 508.

reform of the currency. Other reformers proposed changes in the basis of the currency as a part of fundamental changes in the structure of the economy. Such proposals, made by Robert Owen and developed by John Francis Bray, constitute a thread in the development of socialist theory. It is sufficient here to examine the ideas of Bray, who published his *Labour's Wrongs and Labour's Remedy; or, The Age of Might and the Age of Right* in 1839. Bray's book was not well known in the nineteenth century but it is the clearest exposition of a type of opinion which was widespread.

It is a highly charged denunciation of the social consequences of early capitalism. Bray rejects the purely political explanations of poverty, unemployment, and human suffering, and argues that the causes are to be found in economic relations. Likewise the ills can be cured only by a fundamental restructuring of society, and not by minor reforms.

> What, then, is the secret enemy which devours us? It stands before us as a mighty tree, whose wide-spread roots, deep seated in the soil of Labour, draw up the dew of life and health, and leave the parent and the creator powerless and impoverished. We would remove this enemy; and what are the means recommended and adopted for the purpose? Are we endeavouring to destroy its barrenising influence for ever, by tearing it up? No; some advisers cry out—'Cut off this root'—others, 'Cut off that;' some tell us to tear away a branch which is high up, and others, again point to another branch lower down. (p. 16)

Bray considered that by going to first principles it was possible to show that the whole plant was diseased and must be destroyed.

> By thus going to the origin of the thing, we shall find that every form of government, and every social and governmental wrong, owes its rise to the existing social system—*to the institution of property as it at present exists*—and that, therefore, if we would end our wrongs and our miseries at once and for ever, THE PRESENT ARRANGEMENTS OF SOCIETY MUST BE TOTALLY SUBVERTED, and supplanted by those more in accordance with the principles of justice and the rationality of man. (p. 17)

Looking behind 'the institution of property' he discerned, as the reason why property functioned oppressively, the fact of unequal exchanges. Using the notion that labour is the source of all value, he argued that men who labour are robbed of the fruits of their toil in the process of unequal exchange.

> In all civilized countries, as they are called, society is thus divided into idlers and producers—into those who obtain double allowance for doing nothing, and those who receive only half-allowance for doing double work. (p. 23)

In this process Bray uses a concept of surplus value very like that later developed by Marx. Part only of the value created by the working man is paid to him and the rest goes (in the act of exchange) to the wealthy idlers. The mechanism by which this sleight of hand is performed is money. Here the argument seems to be that because the amount of money in circulation is only a small fraction of the total of the values produced, it is insufficient to permit of equal exchanges.

Bray proposed revolutionary changes in the structure of the economy and in the nature of the monetary system. He assumed the necessity of common ownership of the land and all capital equipment, but as a transitional measure he proposed the organization of all men into a series of joint-stock companies. These companies would be linked with each other by a market—where 'equal exchanges' would occur. To carry out the exchanges a currency of a new kind would be created. The unit would be a unit of labour, and the price of commodities would be determined by the amount of labour they incorporated. The currency itself would be legal tender paper, controlled by a national bank, and its amount determined by the level of production. Pottery coins would serve as the smaller money units.

Karl Marx and Frederick Engels were not primarily concerned with currency or banking, although the uncompleted third volume of *Capital* contains an extensive and critical examination of English banking. However, banking reform finds a place in their programmatic writings. In the *Communist Manifesto* Marx and Engels list ten policy points the implementation of which would, they believed, initiate the transition from capitalism to socialism. Point five reads: 'Centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly'. In a foreword to a centenary edition of the *Communist Manifesto*, written by Harold Laski and published by the executive of the British Labour Party in 1948, the point is made that the recently passed Bank of

England Act had largely achieved the centralisation of credit advocated by Marx exactly a century earlier.[17]

For Marx centralisation of credit by means of a monopolistic state bank was merely one step towards a system of public ownership. For Attwood and Bray currency reform was fundamental to their social critique. Though they differed in both their diagnoses and prescription, they are both links in the long chain of thinkers who have attributed economic ills such as unemployment and the waste of resources to under-consumption. The ideas of the currency reformers, like those of more sophisticated under-consumptionist theorists such as Malthus and later J. A. Hobson, with which they were in some respects akin, were rejected by orthodox political economists. Ricardo had 'refuted' the under-consumptionist aspects of Malthus and he was echoed by later economists such as J. S. Mill. From then on their propositions were simply ignored. The method of their opponents, as J. M. Keynes puts it, 'was to dismiss the problem from the *corpus* of Economics not by solving it but by not mentioning it'.[18] Likewise the currency reformers were excluded from respectable discourse following the Bank Act of 1844 and J. S. Mill's criticism of the advocates of an inconvertible paper currency.[19] They had to wait for partial theoretical rehabilitation until Keynes in the 1930s saw some virtue in the under-consumptionist theorists,

> who, following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency and by easy logic, but on hypotheses inappropriate to the facts.[20]

Completely rejected by the respectable political economists, the basic notions of under-consumption continued an underworld existence in the writings of financial cranks and in working-class and some socialist programs.

Ideas of banking and currency reform of the kind outlined were first heard in Australia in the 1840s. By then the colony of New South Wales had been transformed from a gaol into a burgeoning

[17] *Communist Manifesto: Socialist Landmark. A new appreciation written for the Labour Party by Harold J. Laski together with the original text and prefaces*, p. 7.

[18] J. M. Keynes, *The General Theory of Employment, Interest and Money*, p. 364.

[19] Mill, *Political Economy*, Bk III, Ch. 13, Sect. 4.

[20] Keynes, *General Theory*, p. 371.

capitalist economy. Its monetary and banking system had grown in response to internal needs, to the needs of foreign trade, and to British capital investment. It was modelled on British institutions and influenced by British legislation.

The banks which, multiplying in the 1820s, took over the banking business previously carried on by merchants, shopkeepers, and the government, were similar to the English country banks. Controlled by partnerships, they carried on localised unit banking, accepting deposits, discounting bills, and providing exchange facilities. To these were added in the thirties banks of a different type: joint-stock banks floated in the colony and limited liability companies established by charter in England. The new banks were a response and an encouragement to the pastoral boom of the thirties. As the land was occupied by sheep, and wool poured into the English markets, banking business expanded with it.

In other respects also the Australian banks began in the thirties to take on the characteristics that were to remain with them into the twentieth century. Branch banking on the Scottish pattern was well established by 1840, although this, as Butlin has shown,[21] was less a result of imitation than of competition. During the thirties small banks sprang up or were projected, on local initiative, in country towns. The response of the already established banks was to open branches to compete with and ultimately take over the local banks. Their greater resources, and their ability to grant more favourable terms and to provide exchange both domestic and foreign, gave the victory to the established banks.

The slump of 1841-3, which brought difficulties for the banks, produced a number of financial innovations and also some proposals for state banking institutions and a reform of the currency. The causes of the slump have been variously interpreted but the common ground is that it marked the end of the first period of rapid expansion of the pastoral industry. During the thirties sheep and their shepherds had occupied the greater part of the pastoral lands of eastern Australia. As a direct consequence of the increase in the area occupied and of the numbers of sheep at pasture the wool clip more than doubled in the four years from 1836 to 1840. But by 1840 the possibilities of further expansion of this kind were apparently limited, with a fall

[21] S. J. Butlin, *Foundations of the Australian Monetary System 1788-1851*, pp. 287-8.

in confidence equally as great as the over-confidence which had marked the years of rapid expansion. As Butlin expresses it:

> anticipations so disregardful of the trends in the industry could not but be disappointed severely, and in their disappointment was the immediate occasion for the collapse of [geographical] expansion of sheepfarming, and the chain reaction of credit contraction, private and public economizing, the slump in land sales, and the cumulative spread of falling prices and incomes, leading to insolvency and unemployment on a serious scale for the first time in the country's history.[22]

Associated with the slump went a decline in the British investment which had been a crucial factor in the earlier expansion.

The final manifestation was the pressure for cash all along the line of creditors, a pressure strengthened by an overall fall in prices. Individuals and partnerships who were unable to collect their debts, and unable to obtain support from banks, were forced into insolvency. Between 1842 and 1845 in New South Wales some 1,900 estates were sequestrated, the payments made being only about one-ninth of the debts proved.[23]

No less than seven banks were forced to close and wind up their affairs, in some cases at great loss to the shareholders. They were victims of a too generous lending policy in the boom period, but also of mismanagement and in some cases of fraud. The details of the failures need not detain us here. What is of interest, however, are the various proposals brought forward to deal with the financial crisis. Only one innovation had a permanent effect on the financial system: legislation which permitted the use of livestock and wool on the sheep's back as security for loans. This was of great value to pastoralists who had always had difficulty in finding security on which they could borrow. But there were also other proposals which were either stillborn or refused assent by the Governor or the English authorities.

One proposal put to the Select Committee on Monetary Confusion set up by the Legislative Council was for a Land Board which would issue notes against real estate, the notes to be inconvertible legal tender. A Bill incorporating the proposal was passed by the Legislative Council but was refused assent by Governor Gipps. Another

[22] Ibid., p. 318.
[23] Ibid., p. 323.

proposal to meet the difficulties of the Bank of Australia was to hold a lottery to raise cash and dispose of properties on which the Bank had foreclosed and which under crisis conditions were unsaleable in the ordinary way. The Governor withheld his assent as he was required to do by his Instructions and referred it to England, where it was rejected with horror. In another case a lottery was held without benefit of the law.

In the pre-history of the Commonwealth Bank, however, the important proposals are those for the establishment of a national bank put to the Committee on Monetary Confusion and to the Legislative Council, and canvassed in the press. Although the proposals were not acted upon, they are the first Australian ancestor of the Commonwealth Bank.

In speaking to the proposal to set up the committee the powerful voices of Richard Windeyer and W. C. Wentworth blended in support of state action. Windeyer believed that

> the commercial disease which prevailed was only to be remedied by the government taking upon itself, that which ought to be the business of the state, the sole management and control of the standard of value.

Wentworth agreed:

> the power of issuing circulating medium . . . had been imperceptibly taken away from the hands of Government, to which alone it could be safely entrusted.

But the report of the committee, while taking the proposition seriously, considered that there were more pressing and immediate problems, such as the rate of interest, to be dealt with. The report noted:

> possibly a monetary system . . . might be permanently established in connection with a Colonial State Bank; but your Committee, looking to the urgent wants of the Colony, have thought the more advisable course was, to confine their attention to some practical measure, which would not involve the necessity of erecting a State Bank; a step of vast importance, and only to be taken, after the most extended enquiry and mature deliberation.[24]

In the press, writers calling themselves 'Scrutator', 'F.E.', 'Aristides', and 'A True Briton' put the case very strongly for a legal tender

[24] *N.S.W. V. & P. (L.C.)*, 1843.

paper currency to be issued by a national bank—this bank to have the exclusive privilege of note issue.

The argument for the national bank was based on the proposition that the existing banks were avaricious and incompetent, as shown by the financial crisis. A state bank of issue would be able to force down the interest rate and at the same time achieve financial stability. The most detailed proposal was put by 'A True Briton' who urged a state bank with a capital of £1 million, with the sole right to issue notes which would be legal tender.[25]

There does not appear to be any direct connexion between the advocates in Australia of a national bank and a legal tender paper currency and the English financial reformers, except that the currency debate was part of the intellectual climate of Britain in the 1830s and 1840s. Indeed it would be surprising if there were a direct connexion because the circumstances of the two countries were so different. The problem that Attwood perceived arose from the special circumstances that England was going through the process of industrialisation, and he believed that the circulating medium was insufficient in quantity to sustain the level of business which was possible. Secondly, in Britain the Bank of England existed, and merely needed to be adapted to permit a controlled currency to operate. As for the ideas represented by Bray, Australian society was still far too immature for them to have any relevance.

In Australia it was not until the 1890s that some banking and financial reformers put forward their proposals as a means of achieving fundamental social changes. Until then advocates of a national bank usually had in mind the need for an institution like the Bank of England but modified on the lines suggested by Ricardo. The demand for a paper currency, secured by the credit of the government, arose from three things: the shortage of liquid funds, which it was believed would be relieved by a controlled paper currency; the apparent insecurity of issues by small banking concerns; and the ease with which notes could be carried, a fact of special importance in a nomadic society. In other words a national bank and a paper currency were seen as a means of stabilizing and protecting the financial system, for, as 'A True Briton' had it, 'nothing but Government banks, conducted on steady sound principles' could prevent, in future, crises like that of 1843.

[25] Butlin, *Australian Monetary System*, pp. 541-4.

This note continued to sound from time to time during the next half-century, occasionally in parliaments but also in the pages of journals of opinion and the letter columns of newspapers. The advocates expressed a minority point of view which had no chance of implementation so long as the economy operated reasonably smoothly, for people are reluctant to think about changing institutions which work, and the banking system did work in the generation after the gold rushes. The thirty years from 1860 were years of rapid economic growth sustained by heavy investment from both domestic and British sources in both public and private sectors of the economy. So long as the banks were able to play their part in this expansion there could be no intense pressure for a major change.

However, it is worth while to follow the faint course of reform ideas which became relevant to practical politics in the 1890s when the long boom burst and the crash of financial institutions for a time paralysed the economy. For the fact is that a few people kept alive the ideas which had their first airing in the crisis of 1843. They tended to come to the surface during periods of minor recession; in particular in 1866 and 1878-9, when short-term downturns caused difficulties in public finance in a number of the Australian colonies. When these occurred, protagonists of reform often referred back to the discussions of 1843 or more immediately to proposals made during the fifties by men who had experienced the earlier crisis.

In 1850 the Legislative Council of New South Wales set up a committee to examine the banking system, and W. C. Wentworth, as he had seven years earlier, showed some interest in a government bank of issue.[26] Two years later a further committee of the Council brought down a forthright proposal. This committee of nine which included W. C. Wentworth, two future Premiers, Charles Cowper and James Martin, a future Attorney General, John Darvall, and a future President of the Legislative Council, T. A. Murray, reported in favour of a state bank.

The report, which was probably written by James Martin, argued that since the 1844 Act the Bank of England was on the way to becoming the sole bank of issue, a move which was being retarded but not prevented by 'the supposed vested interests of existing institutions, and the peculiar connexion of the Bank of England with

[26] *N.S.W. V. & P. (L.C.)*, Vol. II, 1850, '*Report from the Select Committee on Banking*', Minutes of Evidence, questions 98-9, p. 10.

the Government of the country'. In New South Wales the committee considered that the position was crystal clear. While not prepared to state that it was necessary to terminate immediately the note issues of existing banks, they were sure 'that their present power of issuing notes is inconsistent with the public welfare', and that 'they should be confined to the only legitimate business of Bankers—the dealing in and not the creation of money'.

The recommendations of the committee were as follows:

1. That a national bank of issue be established in Sydney, with a power to issue notes only in exchange for gold bullion or the gold coin of the realm.

2. That the public accounts be kept in such bank, and all payments to the government be made either in its notes or in the coin of the realm.

3. That the notes of such bank should be made a legal tender everywhere except at the bank.

4. That except as aforesaid the gold coin of the realm be declared the only legal tender in any payments beyond 40s.

5. That the establishment of any new bank of issue be absolutely prohibited.

The committee went on to state its belief that if its recommendations were carried out the country would have a secure currency which would permit it to become 'the centre of operations in this hemisphere rivalling in magnitude those which have given wealth and grandeur to some of the noblest emporiums of the North'.[27] Whether these rosy prospects would ever have been realised we cannot say, because no action was taken on the report.

The most complete proposal for a state bank to be made before the 1890s was made in 1866 by the very able Treasurer of New South Wales, who was later to become permanent head of the Treasury, Geoffrey Eagar. Eagar was bothered by difficulties of government finances, in particular a protracted budget crisis, which he believed could be assisted by a state bank, but he also saw the bank as a means of giving aid to business in time of financial difficulties. What he wanted was an improved Bank of England, on a small scale, which would also incorporate the administrative features of Ricardo's

[27] Ibid., Vol. II, 1852, 'Select Committee on Currency and Banking'.

national bank. He brought down his proposals as an addendum to the Treasurer's financial statement in September 1866.

Eagar's was a sophisticated proposal. His bank was to be the sole bank of issue, its notes being secured, as were those of the Bank of England, against government securities. They were to be limited to £700,000 against long-dated railway debentures; additional notes would be issued on deposit of sovereigns or bullion. However, it was to differ from the Bank of England in regard to note issue in that the bank would be empowered, in case of a commercial crisis, to issue to the proprietary banks notes up to a value of half a million pounds at a low rate of interest. This would overcome the difficulty which had been met in England only by the suspension of the Bank Act, the suspension being, in Eagar's opinion, 'a violent, irregular, illegal Act'. In his bank the provision for the emergency issue, because it would be written into the Act, would constitute a perfectly legal safety-valve.

In two other important ways Eagar's bank would differ from the English model: in regard to short-term government financing, and in its administrative structure. He suggested that the bank should be empowered to advance to the government on the first day of each quarter an amount equal to one-quarter of the estimated annual revenue, the advance to be free of interest. In England the Chancellor of the Exchequer anticipated revenue by the sale of Exchequer bills, which were interest bearing. Eagar's proposal would have meant a saving to the government, by contrast with both the prevailing method in New South Wales of overdraft with the proprietary banks and the English method of Exchequer bills. The administration of the bank proposed by Eagar was of the Ricardo type. It was to be managed by three commissioners, appointed by the executive government but removable only by a vote of the Legislative Assembly.

Eagar listed the advantages to the economy of a national bank; its notes would be free of the risks associated with the notes of private banks; it would bring a degree of equilibrium into the financial system by the provision for emergency note issues; it would also 'secure to the State whatever pecuniary advantages may arise from an extensive note circulation'.[28] His peroration was an urgent plea but also an

[28] *N.S.W. V. & P. (L.A.)*, Vol. II, 1892-3, 'Report of Select Committee on the Post Office Savings Bank—National Bank', Appendix B14, p. 78.

anticipation of what was to occur some half-century later. He said:

> It is high time for the Government to interfere, and to take into its own hands that right of creating and regulating the currency, with which it has improperly parted . . . looking at it on broad and general principles, this Bank must be established, sooner or later, to act as a controlling element and on the ground of a great public necessity I say that the Bank ought to be established.[29]

Eagar was an able man whose reign as permanent head of the Treasury was to make it one of the more efficient branches of government. But the climate of opinion, with its emphasis on support for private enterprise, was not propitious for the establishment of state financial institutions, however much the accumulation of financial powers by the state may have been in conflict with the expressed policies of governments.[30] The *Sydney Morning Herald* editorialised its suspicions of Eagar, whose arguments for the bank were, it said, 'somewhat more foggy than the rest of his statement'.[31] A few days later the *Herald* amplified its suspicions by arguing that control of the paper currency was not the way to control credit. It is not, said the *Herald*, over-issue of notes, but excessive discounting which inflates credit;[32] a statement which effectively begged the question raised by Eagar, but which no doubt brought comfort to those who had been disturbed by his proposals.

Ten years before Eagar's proposals were made the first Victorian Parliament under responsible government was asked to consider a scheme which was less sophisticated than his, but which was on similar lines. H. C. E. Childers, who soon afterwards returned to England to enter the House of Commons and become a member of several of Gladstone's cabinets, gave notice, on behalf of the Treasurer, Charles Sladen, of a lengthy resolution. It proposed a public bank which would be managed by three commissioners appointed by the government, but who should not be under the control of the government, and should be removable only by both Houses of Parliament or by the House of Assembly in two succeeding sessions. The

[29] Cited P. N. Lamb, 'Geoffrey Eagar and the Colonial Treasury of New South Wales', *Australian Economic Papers*, Vol. I, No. 1, Sept. 1962.

[30] See P. N. Lamb, 'The Financing of Government Expenditure in New South Wales, 1856-1900', Ph.D. thesis, Australian National University, 1963.

[31] *S.M.H.*, 28 Sept. 1866.

[32] *S.M.H.*, 1 Oct. 1866.

functions of the bank would be to act as banker for the Treasurer and all public departments. Power to issue bank notes would be vested exclusively in the commissioners, whose notes would be legal tender for all purposes except that they would be exchangeable for gold at the head office of the public bank.[33]

Childers's resolution was allowed to lapse without discussion and soon became lost in the more immediate matters that occupied the Legislature, in particular the settlement of the land question. A few years later Archibald Michie, a leading member of several cabinets, referred regretfully to the fate of the resolution. In a public lecture in 1860 he spoke of the need for a national bank.

> And this brings me to a subject to which the Legislature itself at some time may come—I mean to the consideration of founding in this colony a truly national bank, where the State will be, as it ought to be, the only maker of paper money amongst us, as a legal tender; when the State will have as it ought to have, the whole profit derivable from any credit that State may have in the world . . . The Haines-*cum*-Childers Ministry proposed such a measure as a national bank (now some five years back). The Haines Ministry went out; Mr Childers went home, and the idea became smothered in the land question. Look into Mr Ricardo's works, and you will find ably and distinctly sketched his idea of a national bank, in which the State should have the profit of the banking operations.[34]

Michie continued to advocate the bank but admitted the difficulty of convincing sufficient people of its necessity to get anything done. In reply to a question in the Legislative Assembly in 1870 he said he was still in favour of a national bank, but added:

> in every Executive Government it was frequently exceedingly difficult, if not impossible, to procure anything like uniformity of opinion upon trivial subjects amongst three or four minds; and the difficulty of obtaining practical unity amongst a larger number of minds, upon important subjects, sometimes became absolutely impossible.[35]

The national bank was an idea for discussion but until conditions were ripe it could only be an idea.

The idea of a government paper currency, with which the idea

[33] *Victorian Hansard*, Vols. I and II, 1856, p. 143.
[34] Michie, *Readings in Melbourne*, pp. 64-5.
[35] *Vic. P.D.*, Vol. X, 1870, p. 615.

of a state bank was usually associated, was weakened in the public mind by the fact that it was often urged when a government was in financial difficulties. This was so in 1866 when Eagar brought down his proposals. There was a fear that the government was trying to get out of its difficulties by simple but dangerous expedients. The same was true of Queensland in the same year.

The most severe crisis in public finances during the thirty years after 1860 occurred in Queensland in 1866. The government of the new colony created in 1859 had launched an active development policy of public works and immigration which placed severe strains on its resources. The difficulties came to a head when two London loans, against the expected proceeds of which the government had drawn heavily, were unsuccessful. Simultaneously the Overend-Gurney crisis caused the collapse of two concerns with which the Queensland government was deeply involved. To meet the emergency the government proposed to borrow by the issue of Treasury bills and inconvertible legal tender notes. The proposal met the most determined and almost hysterical opposition, which forced the government's resignation.[36] Nevertheless, the succeeding government, for want of any alternative, adopted the idea in part with an issue of Treasury bills and a small issue of government notes, which were, however, convertible into gold. This had no long-term significance except that Queensland later showed a greater readiness than other colonies to employ such expedients to cope with difficulties.

A national bank of issue again came up for serious discussion during the recession of 1878, this time in the columns of the *Melbourne Review*. This was an influential journal of opinion which from the mid-seventies to the mid-eighties provided a vehicle of expression for informed discussion about important current questions of society and politics. James Mirams, who was later, as secretary of the Premier Permanent Building Society, to gain great notoriety in the financial crisis of 1893, put a well argued case for a national bank. His argument was rebutted by R. Murray Smith, a director of the National Bank, and given some support in the following year by Edward Pratt.

Mirams based his argument for an inconvertible paper currency on the Attwood-type view that there was insufficient currency in circulation, and that an increase would stimulate trade and manufac-

[36] *Qld P.D.*, Vol. III, 1866, p. 507-17.

tures. To those who saw dangers of depreciation he claimed that England had not suffered from the lack of convertibility during the suspension of the Bank Act; that the Bank of France had issued inconvertible notes since 1870 and so also had the Central Bank of Prussia. However, his courage seems to have been not great enough for him to urge a completely inconvertible issue of notes, so he compromised with 50 per cent convertible and 50 per cent inconvertible. This he thought would mean that part of the cost of the public debt would be paid by an interest-free loan from the public. He quoted Ricardo in support. He also sketched his bank from the Ricardo model; or rather he referred to Charles Sladen's proposal, which he noted was a variation on Ricardo.[37] Murray Smith's reply was a restatement of J. S. Mill's criticism of an inconvertible paper currency.[38] Edward Pratt varied the usual argument by speaking up for an inconvertible currency, the amount to be limited by law and to be less than the average of convertible notes circulating over a period of years past.[39]

During the 1880s advocates of a national bank continued to crop up in several colonies.[40] In Victoria J. H. Brooke proposed to the government the establishment of a national bank of deposit and issue; the circulation to be limited to a proportion of the annual revenue, and the notes to be payable on demand but able to be declared legal tender at short notice. South Australia gave the idea of a state bank serious consideration for the first time in 1889. A Royal Commission took evidence from witnesses from South Australia and Victoria and also from an American and a German, who were visiting Australia for the Melbourne Centennial Exhibition. In South Australia the possibility that a state bank would provide cheap credit for farmers was a major theme of the investigation with witnesses affirming and denying the practicability of this. Cheap credit was generally accepted as desirable but there were fears of its inflationary effects. A state bank note issue was discussed as a means of raising an interest-free loan

[37] James Mirams, 'A National Bank of Issue for Victoria', *Melbourne Review*, Vol. III, 1878, pp. 288-303.

[38] R. Murray Smith, 'Paper Money', *Melbourne Review*, Vol. III, 1878, pp. 418-25.

[39] Edward Pratt, 'Money in its Relation to the State', *Melbourne Review*, Vol. IV, 1879, pp. 77-85.

[40] For details of proposals see Craufurd D. W. Goodwin, *Economic Enquiry in Australia*, Ch. 5.

from the public. But the Commission—in which a leading part was taken by Patrick McMahon Glynn, who later carried his opposition to state banking into the Federal Parliament—reported against the establishment of a state bank. However, with some dissentients, the Commission favoured a direct note issue by the Treasury, the notes to be in denominations of 5s. to £10; they were to be convertible and to be accepted for the discharge of all obligations by and to the government.[41]

Thus by 1890 the question of a state note issue had been discussed by Parliament or one of its committees in four colonies. In three of them it had been linked with the idea of a state bank. Events of the early 1890s were to make banking reform a matter for eager public discussion and for more detailed examination by governments.

[41] *S.A.P.P.*, 1889, Vol. II, 'Report of Royal Commission appointed to consider the desirability of establishing a State Bank and Royal Mint'.

# 2

# *The Crisis*

*Suspicion of financial institutions had long been endemic in Australian thinking, becoming active at times of economic stress; but a tradition of unscrupulous motives and maleficent policy as the normal characteristics of 'the banks', which was to be a major strand in twentieth century Australian politics, owes much to this apparently obvious deduction: in the 'nineties the banks' escape by reconstruction was made at the expense of their customers.*[1]

The financial crisis of the 1890s was the most severe shock ever experienced by the Australian banking system. One of the responses to it was a demand for a national bank and reform of banking and currency, more emphatic, more extensive, and somewhat more precise than heretofore. For those who lost their money as well as for those who feared that they might, the bank crashes of 1893 were a searing experience. The confirmed critics saw the crisis as proof of their point. Thus experience and ideas came together to produce an atmosphere favourable to impassioned, if not always well informed, debate about what should be done.

The discussion took place at two levels. For some the problem was simply to find a means of preventing similar catastrophes in the future; for others it was an opportunity to point a moral of a labour, populist, or socialist complexion. In the fevered days of the mid-nineties these two reactions, although distinct, were not always kept separate.

What happened is perfectly clear. Why it happened is more complicated, since any explanation must take into account a number of factors: the policies pursued by the banks themselves individually and

[1] S. J. Butlin, *Australia and New Zealand Bank*, p. 302.

collectively; the actions of the public and governments; and, more profoundly, the state of the economy as a whole. Here most attention will be given to what happened and the role of the banks in the crisis. But there will also be some mention of the economic circumstances in which the actions of the banks were both a positive thing and a symptom of more deep-rooted causes.

The scope of the banking crisis has been summed up by S. J. Butlin.[2] In aggregate between mid-1891 and mid-1893, of sixty-four institutions which called themselves 'banks' only ten were not forced to close or refuse payment for longer or shorter periods. The record of the para-banking institutions, such as the land and mortgage companies and building societies, was even worse; only one out of thirty-six was not forced to close, 'most of them permanently and most in discreditable circumstances'.

The failure of the banks followed a common course: the loss of deposits due to a loss of confidence or to the cash needs of customers; the depreciation of the value of real estate; and the inability of the banks' debtors to meet their commitments. The 'banks' most vulnerable to these pressures were naturally those whose reserve ratios were weakest and whose assets were in the least liquid form. So the first 'banks' to collapse were the building societies and mortgage companies, most of which were operating on dangerous reserve ratios and some of which were conducted fraudulently. In either case their credit transactions were largely secured against land and buildings.

The collapse occurred in two stages. From 1889 to 1892 the building, land, and mortgage companies failed one after another. It began with the Premier Permanent Building Association of Melbourne in December 1889. Further failures occurred in 1890 and reached a peak in the second half of 1891. In July and August a number of leading houses went down in Melbourne, to be followed by a spate of failures in Sydney. The failures continued throughout 1892. According to Butlin's count, in the seven months between August 1891 and February 1892 twenty-two building societies and mortgage and land banks, which accepted deposits, failed in Sydney. In Melbourne and Brisbane there was a similar story.

The well established banks were not greatly disturbed by the early failures of their weaker relations. It was possible to attribute the failure of the land and mortgage companies to inefficient manage-

[2] Ibid., pp. 279-80.

ment, in some cases to fraudulent practices, and in all to inadequate cash reserves. So far as it went this was a correct interpretation of the position but it left out of account both the cumulative effects of the failures on the banks themselves, and the fact that the economic boom of the eighties had burst.

The failure of the land companies had two effects on the banks. Firstly, some of them had funds invested in these companies which were at the worst wiped off by insolvency or at the best locked up for a period. Secondly, there was the effect on public confidence. The failure of any financial institution causes unease and a tendency for depositors to withdraw their cash, a process which, if it proceeds far enough, makes the whole practice of banking impossible. Something approximating to this occurred at the peak of the crisis in 1893.

The root economic cause, which lay beneath the financial crisis and which in turn was strengthened by the financial failures, was the fact that the boom of the eighties was characterised by over-investment in the pastoral industry, in land, and in building. Pastoralists who had gone heavily into debt to finance improvements in their properties were, owing to the steadily falling price of wool, unable to meet their commitments, with consequent difficulties for themselves and their creditors. The building boom collapsed when construction outstripped demand. As Butlin puts it:

> There the simple explanation was that a boom, which had disregarded all caution, had out-built conceivable demand, and, stoked as it had been by blind assumption of continually rising prices, it crumpled when that assumption was first clearly falsified in 1888.[3]

The price of land fell steeply, thus paring away the base on which the credit structure was erected—a process which was amplified by the fact that, in the case of some finance companies, credit had been extended far beyond even the inflated values of the land which was supposed to secure it.

The failure of confidence by depositors, resulting in the large-scale withdrawal of deposits which was the immediate cause of the banks' suspension of payment, gathered momentum over the two years from 1891 and reached an acute stage in April and May 1893. A number of small banks closed their doors late in 1891 and there were further failures during 1892. But it was not until the major banks, in

[3] Ibid., p. 280.

particular those which were members of the Associated Banks of Victoria, themselves the victims of panic, began to fail, that the remnants of public confidence turned to water.

What were the possible reactions of the banks to the pressure on them individually and collectively? At one extreme the Directors of any bank could look with satisfaction on the elimination of a competitor. At the other the banks collectively might see in the collapse of any one of them a threat to the banking structure as a whole. If their response was the former they would set out to gain that part of the failing bank's business which they considered worth while, or perhaps take over the institution as a whole on the best terms possible. If it was the latter the banks could provide a mutual guarantee which, if extensive enough, could prevent the failure of any single bank so long as its affairs had been conducted without fraud or gross mismanagement. In the early days of the crisis the dilemma inherent in these opposed responses was not of any serious consequence. It was only the weakest and most improvident that were in difficulties and the more solid concerns could watch their demise with little worry about their own welfare. For example the Bank of South Australia, one of the early casualties, had been in difficulties for some years. Despite optimistic statements by the Board of Directors, and the payment of dividends which were later revealed to be based on fictitious profits, other bankers knew that its position was very shaky. When the Bank of South Australia was forced to reveal the true position—that a large proportion of its advances were secured against property the market value of which was only a fraction of the book value, and that it had lost heavily from bad debts—other banks became interested. In the end the Union Bank took possession of its business under terms which resulted later in protracted negotiations and litigation.

However, early in 1892, following the failure of two banks in Melbourne and the threatened failure of a third, the Associated Banks considered what might be done to provide mutual support. One proposal was that the Associated Banks should give one another an unqualified mutual guarantee, but since this was put forward by the weakest members of the Association it was received coldly by the others. No guarantee was agreed on, but a public statement was made early in 1892 which was interpreted by the press and public as a guarantee, but the unpublished conditions on which aid would be given were such as to make the aid much weaker than the public statement implied. It was a deliberate attempt by the Associated Banks, for a time successful, to establish confidence without committing the individual banks irrevocably. The Superintendent of the Bank of Australasia, one of the soundest of the Associated Banks, in a letter cited by Butlin, summed up his own dilemma: how to prevent a complete collapse of confidence without at the same time giving undue aid to competitors.

> I am very sensible to some of the obvious objections to the arrangement [the public statement], chief of which, to my mind, is the levelling of all the Associated Banks down to one common platform, by which we lose some of the benefits to which our past conservative policy entitles us. But, on the other hand, so great was the distrust then prevailing, that, had not some action been taken, a run was imminent at any time upon the Federal, Commercial, and City of Melbourne Banks. Had these banks closed their doors, especially the Commercial with its ramifications in other Colonies, there is no saying where the crash would have stopped, and in any case the depreciation in values would have been so great as to entirely throw into the shade any benefits which we would have derived from acquiring new accounts from the failed institutions.[4]

The first of the Associated Banks to fail was the Federal Bank, which closed its doors in January 1893. Support for the Federal, or take-over, was considered by several of the other Associated Banks and by the Association itself, but nothing came of it. Thus when the Federal closed, a run on other banks followed. Once again the Associated Banks issued a statement which could be construed as a mutual guarantee and was so construed by the press. Since no such guarantee existed, the Associated Banks, frightened by the public reaction, were forced to make a further statement.

> This opportunity is taken, in view of articles which appeared in yesterday's newspapers, to define accurately to what extent the Associated Banks accept the obligation in question, namely: that they will in the future, as in the past, be willing to render financial assistance to each other on such terms, and to such an extent as may seem justifiable to each of them, if, and when the occasion arises.[5]

[4] Ibid., p. 289.
[5] Ibid., p. 297.

This statement made it clear to all who could read that there would be no general supporting action. This was borne out by the fact that the Association had already allowed one of its members to fail without raising a finger to help.

The next bank under threat was the Commercial Bank of Australia. Heavy investment in land and building society business left it peculiarly vulnerable to the public fears which followed the closing of the Federal. The Associated Banks offered assistance but it was not on a scale considered sufficient by H. G. Turner, the General Manager. When the drain on deposits became severe—approximately £1 million was withdrawn in four months—he chose instead to close the bank and offer a scheme of reconstruction. Since the scheme was adopted fully or in a modified form by other banks, and because it also came to symbolise in the popular mind the method by which the banks had saved themselves at the expense of the public, it will be described in some detail.

The scheme provided for a new bank with the same name as the old; a substantial part of the capital of the new company was provided by the depositors in the old bank, who were required to accept one-third of their claims in shares, while payment on the other two-thirds of deposits was deferred for five years, with the bank retaining the right to repay earlier if it chose. Under legislation passed not long before, the proposal could be made binding if two-thirds of the creditors accepted it. Faced by the alternatives of an investment and deferred payment or the possible permanent loss of their money, depositors chose the former, with the result that the 'new' bank opened for business just thirty days after the 'old' had suspended payment. In the meantime the new bank had opened for a limited class of business by which people could make deposits and withdrawals without the cash concerned being involved in the affairs of the old bank.

The Commercial demonstrated to the other banks a method by which they could escape from their pressing difficulties with the acquiescence of their creditors. So between 4 April 1893, when the Commercial suspended, and 17 May, thirteen banks with head offices in Melbourne, Sydney, Brisbane, and London suspended and went through a process of reconstruction. Only nine banks were able to resist the pressures and temptations of suspension and reconstruction to remain open continuously. Butlin sums up the effects: 'In the weeks of April-May, at least half of all bank deposits in the country had been frozen and at least half the note circulation ceased to be freely negotiable'.[6] The loss of available purchasing power paralysed business and brought personal hardship to thousands who gathered in panic outside the closed banks or swamped those remaining open, fighting for entry to retrieve their savings. The measures adopted by the banks and governments prevented complete chaos but also left a residue in the community of suspicion and hostility towards the banks.

Governments were not idle under the falling financial skies. As we have seen the Victorian government passed a law to facilitate reconstruction and to make it legally binding. In April-May 1893 it took further emergency action. After hurried consultations over a week-end in the last days of April it declared the following week a bank holiday. All banks did not take advantage of the respite offered by the government—three of the largest remained open for business—but the others were able temporarily to stop the drain on deposits. However, it provided no permanent solution.

The New South Wales government acted differently and more effectively. Two Acts were rushed through in May to try to dam the flood of the crisis. The first[7] made bank notes a first charge on assets and empowered the government to declare bank notes legal tender. The second,[8] which followed three weeks later, was intended to bring relief to depositors in suspended banks. It empowered the Treasury to pay depositors in Treasury notes on the security of certificates issued by the suspended banks stating the amount of the depositor's credit balance. The Treasury notes themselves were backed by a deferred obligation to pay in gold within five years. In Queensland legal tender Treasury notes were forced on the banks by means of a heavy tax on bank notes, the Treasury notes being supplied to the banks which paid 25 per cent in gold for them. In South Australia there was talk but no action.

The reactions of people to the bank crashes were naturally not uniform. They varied according to the way in which individuals were affected, and were influenced by interpretations of the causes and judgments of the methods adopted by the banks and governments in

[6] Ibid., p. 302.

[7] 56 Vic. No. 15, assented to 3 May 1893.

[8] 56 Vic. No. 17, assented to 26 May 1893.

dealing with the crisis. The political response is dealt with in the next chapter. Here the more diffuse community response as reflected by the newspapers is considered.

Editorially the major newspapers were generally in sympathy with the banks in their difficulties and were ready to applaud any actions by the banks or governments which seemed to promise that the crisis would not become a catastrophe. Thus when the banks made their statement, which seemed to mean that they had agreed to a mutual guarantee, the *Argus* (14 March 1893) called it a 'notable agreement' and in its editorial comment asserted:

> Throughout Victoria, and indeed throughout Australia, this statement will be received with great satisfaction . . . The corporate safety of the banks being assured, confidence should rapidly recover.

The *Age*, which was generally more critical of the banks, was no less satisfied with the agreement. It anticipated that

> in self defence shareholders and others interested in our banks will be relieved from all apprehensions as to the future, and allow things to assume their normal condition.

As the confidence of March was dissipated by the events of April and May the leading papers took up somewhat different stances.

During these months of crisis the *Argus* maintained its policy of sympathy for the banks and blamed the public as the main offender for giving way to panic. It tried to retain an air of confidence which it was hoped would damp down fears and lessen the drain on deposits. It also tried to divert attention from the banks and lay the blame at the door of the government. Typical of the *Argus*'s attitude was its commendation of the Commercial's scheme of reconstruction. It reported that the motion to reconstruct was passed by a meeting of creditors 'with a mighty cheering and waving of hats'. On the suspension of payment by the English Scottish and Australian Bank it reported that it had 'caused comparatively little excitement in Melbourne yesterday'. And as late as 19 April, when admittedly no bank had suspended for six days, it reported that 'the outlook is substantially more reassuring than was recently the case'. When it is remembered that this was followed by the closing of eleven banks in less than a month it is evident that the *Argus* was either rash in its optimism or desperate to buoy up public confidence.

The *Age* was somewhat more forthright in that it at least drew attention to the failure of the banks to support one another. It noted that 'it would have been quite easy for the "Associated Banks", had their association been anything but a deceptive name, to have saved both the Federal and Commercial Banks'. Instead of co-operation the *Age* reported in the finance and trade columns that the manager of a rival bank had made a house-to-house canvass of Commercial Bank customers, offering to take over their accounts. The *Age* also drew support from London for its view that the Associated Banks could have prevented the wholesale collapse. It quoted the London *Financial Times* of 13 April:

> We are at a loss to understand the policy of the Victorian Associated Banks, but it seems to us to lie between the two alternatives of absolute idiocy and criminal selfishness.

But, like the *Argus*, the *Age* was enthusiastic about the reconstruction and urged shareholders and depositors to accept the proposals. Perhaps the greatest difference between the two leading Melbourne papers was the *Age*'s prescription for the future. It lamented the absence of any 'institution analogous to the Bank of England', but hoped that the present troubles might produce one. On 9 May the *Age* had an article on a national bank of issue. It said in part:

> Nothing has been more clearly proved by the course of events than the fact that the people have absolute and complete confidence in the state as a banker.

The evidence for this, it was argued, could be seen in the rush of people to put their money in the Post Office Savings Bank and also in the widespread demand that the state should act as guarantor of the customers of the private banks. It continued to emphasise this theme and linked it with the need for federation of the colonies to make possible uniform banking legislation.

The *Sydney Morning Herald* took a position similar to that of the *Age*. It castigated the banks for not supporting each other. It spoke of the failure to produce 'a bold policy of financial statesmanship' and lamented that 'there has been and there can be no good excuse offered by the banks for their want of co-operation at a time when they and they only were capable of averting disaster'. It, too, spoke of a national bank but considered that because it must be federal in its operations and control it was useless to talk about it at present.

What of the causes of the crisis? The causes as seen by the newspapers are implied by what has already been said about their responses. The *Argus*, consistent with its policy of sympathy with the banks, made no serious attempt to get at the causes; public panic was for it a sufficient explanation. The *Age* did make some attempt to come to grips with the problem. It mentioned the failure of the building societies, the high rates of interest, and the English press which scared English shareholders into selling their stock, and depositors into withdrawing their fixed deposits when they became due. It criticised the banks for failure to support one another and tended to focus the blame on Sawers of the Australasia—a blame which was not, as Butlin has shown, peculiarly his, but which was shared by the policy makers of all the banks. As befitted the leading newspaper of New South Wales, the *Sydney Morning Herald* found the main causes in Victoria, but with some responsibility also in London. It referred to the land boom, over-investment in Melbourne building, loss of confidence, lack of solidarity amongst the banks, and the British press.

An examination of the newspapers provides some hint of the effect of the crisis on the lives of tens of thousands of people. Before the failure of the large banks many people were already suffering acutely. On 22 June 1892, the *Age* began a series of telling articles, 'Among the Workless', which described the widespread distress; the first was a general survey of the 'bitter sufferings in the suburbs':

> In scores and scores of families the rooms have been stripped of everything that makes them habitable, and the people, living in many cases in a single room, live on, expiating the dreadful times in hunger, cold and every kind of wretchedness. In not a few cases the little homes have been left bare, and there are cases where widows have had to dispose of their clothing even, in order to provide their children with sustenance.

Most of the relief work was in the hands of four societies, the Ladies' Benevolent Society, the Salvation Army, the Charity Organisation Society, and the Neglected Children's Aid Society, but many of the destitute preferred to die from starvation in homes completely denuded of furniture because they were too proud to accept charity. Others not so proud besieged the refuges:

> Much has been done to provide the hungry with a meal or two, but the soup kitchens and the orders for meat given by the charit-

able cannot cope with such streams of hollow eyed applicants as clamor for succor.

The *Age* reporter found that a great number managed to survive on one meal a day, procured either by scavenging amongst the rubbish or doing odd jobs for a meal; some even thought themselves really lucky if they received not only a free meal but a shilling or two as well. At the Labour Bureau, he talked to groups of men engaged in the hopeless business of registering for work:

> There were many other men about the bureau who were willing, when judiciously approached, to give their experiences of their thankless lots. There was a surprising and unpleasant monotony about their stories. The single ones had been carrying on a sort of guerilla warfare with their stomachs for many weeks past, varied occasionally by a retreat to depots where benevolence radiates from, whilst the married men had been receiving aid in their homes, partaking sparingly and as seldom as possible of such bounty with their children and wives.

In the year that followed these articles, the plight of many became worse.

The effects of the bank closures were most drastic for the small businessmen, particularly in country towns, who conducted their day-to-day operations through the banks. Hardest hit personally were the small depositors whose cash was frozen in current accounts and who, owing to unemployment, had no current income. Letters to the press urged that current accounts be distinguished from fixed deposits at interest, and that the current accounts be released. The position was less severe in New South Wales than in Victoria following the decision of the New South Wales government to meet part of the banks' obligations to depositors in Treasury notes.

The state of business in the country towns was reported by a man who had just returned from a business tour (*Argus*, 16 May 1893).

> I found the financial part of business in a most deplorable, indeed I may say demoralised state, the result of the present suspended banks' action in impounding old current accounts. It should not be allowed to continue.

The *Age* on 12 May reported that the lock-up of traders' current accounts had resulted in business being brought almost to a standstill. It estimated that £4½ million was inaccessible to its owners. On the same day it stated that in country areas mines had closed, public works of municipal bodies had ceased, sawmills had stopped work and that country workers generally were in a bad way, with consequent effects on tradesmen.

The plight of individuals shows through in such letters as this, from a labourer (*Argus*, 22 May 1893):

> Kindly allow me space in your valuable paper to explain the hardship I and my fellow labourers are about to experience through the suspension of the bank. I am a labouring man, and have worked hard to save money for the winter months, when work is not obtainable. My money is in one of the banks and they propose to keep it for five and seven years, and one third of it, for shares. Surely no judge with any humanity will sanction that and leave me and my family starve for bread. I am out of work now, and can't find any. Why not insert a clause in the reconstruction scheme and pay all small current account holders their full amount, and not cast thousands more, thrown amongst the unemployed, to starve, and their money in the bank?

Not only individuals were made destitute. The secretary of the Carlton Refuge stated (*Argus*, 3 June 1893) that he was faced with the prospect of having to turn out into the streets thirty unfortunate and destitute girls and twenty-five babies. The reason: 'we are in sore straits for money, our current account is locked up in one of the suspended banks, and from the same cause we are not receiving payment for our laundry work'. There were reports which, whether true or not, clearly reflect the agonies of the time. In Ballarat two brothers suicided, one by jumping down a mine, 'owing, it is stated, to the impounding of their current accounts'. An old lady living near Ballan withdrew her life savings of £2,000 and buried them. Being unable to find the money again, 'the woman is now almost demented'. Perhaps nothing demonstrates more clearly that the times were out of joint than the advertisements which proliferated in the newspapers, of which the following (*S.M.H.*, 13 May 1893) is typical:

> Deposit £1150 for Sale, cheap, E.S. and A.C. Bank.
> A.J.S. Deposit £600 for £450.
> Fixed Deposit A.J.S. Bank £203 for Sale.

Small depositors often could not wait for deferred payment and were glad to cash their accounts even at a big loss; 15s. in the £1 seems to have been a common rate. One commentator compared the banks in their attempt to take advantage of their competitors' difficulties with a wounded shark. In a letter to the *Sydney Morning Herald* (25 April 1893) he wrote: 'I once saw off the Queensland coast a wounded shark attacked, torn to pieces, and devoured piecemeal by another shark . . . it seems, that a wounded bank may look for similar noble treatment'. The banks savaged each other and individuals with liquid funds did the same to men who were forced to sell.

The banks sought to protect their own interests by means which, however inconsiderate of the difficulties of their customers they may have been, were normally within the law. However, in addition to the land and mortgage banks, whose collapse was often clouded with the suspicion of fraud, there was at least one case of a bank in which criminal actions were suspected; this was the more noteworthy because the Chairman of Directors was a member of Parliament and had been Speaker of the Legislative Assembly between 1887 and 1892.

The Mercantile Bank of Australia suspended payment on 5 March 1892 and later went into liquidation. A month after suspension Sir Matthew Davies, the Chairman of Directors, retired from Parliament. Public suspicion of the bank's conduct of its affairs was heightened when an investigator appointed by the liquidators designated the statements and balance sheets published in February as 'false and deceitful'. That the speaker of the Parliament seemed to be implicated made the situation worse and aroused suspicions of corruption extending into government circles, a suspicion which the recent book of Michael Cannon, *The Land Boomers*, shows was not without foundation.

During 1892 there was considerable agitation for a prosecution against the responsible parties, but the Shiels government refused to take action. The government fell in January 1893 and was replaced by a government led by J. B. Patterson. On 8 May, Davies and the manager, Frederick Milledge, were committed to stand trial on the instructions of the Solicitor-General, Isaac Isaacs. However, the Attorney-General, Sir Bryan O'Loghlen, then stepped in, investigated the evidence and ordered that the prosecution be withdrawn. On 24 May, Isaacs resigned his office and his seat in Parliament.

Public feeling was high, especially in the country districts. It was summed up in a notice of motion of the Fitzroy Council reported in the *Argus* of 26 May:

> That, in the opinion of this Council the late action of the Attorney-General is subversive of, and an abridgement of, the rights of the people, and, tends to a belief in the existence of two laws—'rich and poor'—and to the weakening of the confidence of other countries in the safety of investments in Victoria.

At a public meeting in Melbourne on 29 May, the trade union leader and Liberal member of Parliament, W. A. Trenwith, as reported in the *Argus*, declared that 'the Government had been zealously and carefully guarding the interests of the banks and the banks' shareholders', and J. Hancock, another unionist, spoke of the common knowledge 'that the Government were not in earnest in the prosecutions'.

Isaacs recontested his seat and was elected unopposed, returning to Parliament a little over a month after he had resigned. Further agitation resulted in the appointment of a Grand Jury to determine whether there was a case to answer. It decided that there was, but to no effect, as Chief Justice Madden dismissed the case when it came before the Criminal Court on the grounds that the Grand Jury was invalid. The *Bulletin* (26 August 1893) commented:

> For something over a year past the beginning, middle and end of Victorian politics have been Matthew Davies. . . . [It] has already wrecked one Government, and has disrupted another which will almost certainly be wrecked also at a very early date.

The *Bulletin* concluded, with no doubt some lack of gravity, 'the only remedy for the Mercantile Bank leprosy seems to be revolution'. The matter was kept alive throughout 1893 and well into the next year. In August summonses taken out on private initiative resulted in the committal of Davies, Milledge, and the auditor, T. B. Muntz, to appear at the Supreme Court. At the trial held in February and March 1894 the jury, with the approval of the trial judge, acquitted the accused. This ended the legal proceedings but did not erase the widely held belief that powerful and corrupt men had been saved by their powerful friends.

The depression and financial crisis was the result of deep-seated economic causes aggravated by the policies of the banks and other financial institutions. All sections of the community were touched by it, the majority adversely, but a few did well from the fish they netted in the troubled waters. Big firms were forced into reconstruction, the deferment of obligations, and loss of profits. Some never recovered, but others, who did, ultimately took their place, stronger by the elimination of their competitors. But the crisis itself was fertile soil for the growth of the belief that something must be done to modify or control the financial system. One answer, which is discussed later, was for voluntary co-operation between the banks: another, which had its greatest appeal amongst the small men in general and the labour movement in particular, was for government control through a government bank.

# 3
# *Labour and the Money Power*

*The 'Money Power' is something more than Capitalism. It is its product, and yet its master. 'Capitalism', in its control of the great agencies of production, is observable and understandable. The other lurks in vaults and banking chambers, masquerading its operations in language that mystifies or dazzles.*[1]

The banking crisis was only the most dramatic event in a decade the experience of which was different in a number of ways from anything that had occurred before. The long grinding depression with its bankruptcies, impoverishment of farmers, and extended unemployment for thousands of wage workers was a new and unpleasant experience for a society which had known thirty years of rapid economic growth and expanding prosperity. With the nineties came a reappraisal of the facts and possibilities of Australia. The optimism which had characterised the late eighties was qualified by a more sombre and critical outlook in the nineties.

The structure of politics, too, underwent rapid changes, of which the most important and most lasting was the emergence of political parties to replace the factional alliances which had provided governing majorities before 1891. The formation of political parties by the trade unions first in New South Wales and then in the other colonies was the most dynamic factor in this change. Other parliamentary groups, such as free traders and protectionists in New South Wales, had been moving towards more permanent organisation of parliamentary members supported by extra-parliamentary bodies. The appearance of the Labor Parties forced the speed of change towards a party system of parliamentary government, the speed in different colonies varying according to a range of local circumstances.

It would be a mistake, however, to imagine that the Labor

[1] Frank Anstey, *The Kingdom of Shylock*, p. 2.

Parties were completely unified groups of people with a coherent policy backed by a common ideology. As well as differences within any one party there were also differences between the colonies. In Queensland the Labor Party was most tightly organised and at least in its early years professed the most explicit doctrine; its aim was the socialist organisation of society. The Victorian and South Australian parties were less tightly organised and more innocent of any common doctrine. New South Wales in both respects lay somewhere between Brisbane and Melbourne. Western Australia and Tasmania, despite some stirrings, were later in the field with Labor Parties. The Labor Party in New South Wales entered Parliament in 1891 with a fourteen-point program, which was itself the common denominator of competing ideas amongst the individuals and organisations that had banded together to secure the election of members to speak and legislate for the workers and 'small men' generally. It took with it also some ideas about caucus control of members and responsibility of members to the extra-parliamentary organisation: the labour electoral leagues in the constituencies and the central organs of the Party. Ideas about responsibility and control were modified by experience to give the Party the unity which enabled it in successive stages to influence legislation, to become the opposition and finally the government. Policy, too, evolved under the pressure of circumstances and ideas. In the other colonies, and after 1901 in the Commonwealth, the evolution of the Labor Parties was similar to that of New South Wales with considerable differences in timing, in the detail of organisation, and in the priorities given to points of policy.

Reform of banking had a place in labour platforms from the beginning: the crisis of 1893 gave it a higher priority. In New South Wales the establishment of a national bank was a plank of the first platform adopted in 1891. In later platforms it varied only in the increased emphasis given to it. In 1891 it was part of a plank in the sixteen-plank platform which linked it with the establishment of a Department of Labour and a national system of water conservation and irrigation. In 1893 it had become plank five in a six-plank platform; it also spelt out the purpose of the bank more fully. It read:

> National Bank—To secure State control of the national currency to transact all ordinary banking business.

By 1897 it had become plank two, second only to a proposal to abolish the Legislative Council and to introduce a referendum. In Queensland there was no specific reference to a state bank, but plank one on the platform of the Australian Labor Federation adopted in 1890—the nationalisation of all sources of wealth and all means of producing and distributing wealth—may be assumed to include the nationalisation of banking. As the nationalisation objective disappeared from Queensland Party platforms, which it did after the first flush of early enthusiasm cooled off, a state bank appeared. A state bank was included in the first South Australian Labor platform in 1892 and early found a place in those of Victoria, Western Australia, and Tasmania.

It is unclear what the early Labor Parties thought the function of a state bank would be. This arises less from a lack of evidence than from their own uncertainty about what they wanted and how to achieve it. Individuals in the labour movement had definite opinions; the ideas of one of them, W. A. Holman, is discussed below. But what was general was a feeling that the existing banks operated against the interests of the workers and that their operations should be controlled by state action. In its most extreme form the private banks were seen as a conspiracy of a minority against the welfare of the majority.

This Australian labour belief in conspiracy was similar to, and drew sustenance from the contemporary populist movement in the United States of America. This movement, or at any rate part of its ideology, for a few years in the mid-nineties set the terms of American political controversy. William Jennings Bryan as the Democratic presidential candidate made reform of the currency the central issue in the election of 1896.

Populist ideology[2] appealed primarily to farmers but also to some of the industrial workers. According to it, in the last quarter of the nineteenth century the farmers and workers of America became the victims of a conspiracy—a conspiracy of the Money Power. Farmers had direct and painful experience of the activities of various powerful business interests: railroad companies, fertiliser and agricultural machinery companies, and bankers. They were also acutely aware of the long-term decline of agricultural prices, a world-wide phenomenon, but one not easy to explain. Thus they were ready for

[2] See J. D. Hicks, *The Populist Revolt;* R. Hofstadter, *The Age of Reform* and *The Paranoid Style in American Politics.*

the explanation in terms of conspiracy which the populist writers gave them.

The conspiracy centred on money. The unquestionable facts with which the populists started were that in 1873 silver was demonetised (the crime of '73 in populist parlance). Then followed twenty years of declining prices; or, seen another way, the gold-based dollar increased in value. Farmers who had borrowed heavily on their properties after the civil war found themselves paying both principal and interest in a constantly appreciating currency. The populist explanation was a variant of the standard quantity theory: because silver was not being coined (or some alternative currency provided) there was a shortage of money, which led to an increase in its value.

One type of writing about the financial problem is best represented by a book which sold hundreds of thousands of copies: *Coin's Financial School* by W. H. Harvey. In what purports to be a series of lectures, a fresh-faced young financier named Coin attributes all America's financial ills to the fact that she was on the gold standard. In the course of his lectures he confounds all his critics, leaving them confused and silent. To add verisimilitude the critics are supposed to be men, mentioned by name, who were well known for their defence of the gold standard and the demonetisation of silver. The solution he triumphantly demonstrates is a return to bi-metallism and the free coinage of silver. There is not much conspiracy in *Coin's Financial School* but plenty in other books.

In books such as S. E. V. Emery's *Seven Financial Conspiracies which have Enslaved the American People* or Gordon Clark's *Shylock: as Banker, Bondholder, Corruptionist, Conspirator*, and in Harvey's other important book, *A Tale of Two Nations*, the full-blooded conspiracy theory is developed. The hard core of the conspiracy is that the London bankers, who were also Jewish, decided to destroy the United States by the manipulation of the currency. In *A Tale of Two Nations* the story is cast in the form of a melodramatic novel in which the spider at the centre of the web is Baron Rothe, a name the significance of which was not lost on a generation which had heard a great deal about the doings of the Rothschilds. Rothe decides that for personal gain and to prevent America becoming strong financially he must bring about the demonetisation of silver. So he sends a relative named Rogasner, a dark, subtle, and sophisticated caricature of an English-Jewish banker, to the United States to carry out the plans. With British gold he buys senators and congressmen to vote for the demonetisation of silver, and suborns professors of economics, bankers, and newspaper editors to defend the action. This explains the crime of 1873. Having achieved his aim, Rogasner remains in Washington to make sure that by a regular application of gold to key persons the United States remains on the gold standard. He suffers only one setback. He seeks the hand in marriage of a lady who embodies all that is beautiful in American womanhood. His original aim was to secure his position in Washington society by the marriage but when his advances are rebuffed even his cold blood is heated by lust for the lady and hatred for the handsome but rough-hewn congressman from Nebraska (a 100 per cent silver man) who stands between him and the object of his desire. The Nebraskan is a thinly disguised but idealised version of William Jennings Bryan. The high emotional charge carried by the populist ideology was due to the fact that the conspiracy in which populists believed brought together a number of elements each of which separately was the object of suspicion, fear, and hostility. The conspiracy was English, Jewish, and foreign; the American plotters were bankers, city men, and easterners; the sufferers were the honest working men of country and city. Therefore the populists could see themselves not only as the defenders of the virtues of country life (the hard-working city artisan could also be included), but also as defenders of their country against an external aggressor who had corrupted some American traitors to his side. In addition to this they believed that the means of defeating the enemy were so simple. By 1896 the means had been virtually reduced to the single policy—currency reform by either a legal tender paper currency or more popularly by the free coinage of silver. That it was silver rather than paper was largely due to the pressure of the silver-producing interests.

Within the Australian labour movement populist notions were strong. The full program of the People's Party was similar in many respects to the early policies of the Labor Parties; a greater emphasis in the former on policies of interest to farmers, and in the latter to trade unionists, reflected the differences in their main sources of strength. The Labor Parties never went so far as the Americans in accepting a mono-causal explanation of the injustices that they apprehended. But the idea of the Money Power as the enemy was present in Australia in the nineties and continued as an important theme into the twentieth century: for example Frank Anstey, left-wing Labor member of the Commonwealth Parliament and member of several ministries, in 1917 published *The Kingdom of Shylock*, a pamphlet which contained the pure milk of the doctrine of the Money Power. Still later in the depression of the 1930s populist assumptions prepared many Australians to accept the current nostrums of credit manipulation, of which the most popular were the doctrines of Major Douglas.

In the nineties the populist books so far mentioned seem to have had little influence in Australia. But there was one powerful populist work which did: *Caesar's Column*,[3] written by Ignatius Donnelly, one of the leaders of the People's Party. Like Bellamy's *Looking Backward*, with which it was often compared, it was a utopian novel. However, it was the reverse side of Bellamy's coin: the America of the future is not a rational, egalitarian, and peaceful socialist society, but a ruthless dictatorship of the financial oligarchs.

The story is set in the United States a hundred years in the future. The narrator is a Swiss, Gabriel Weltstein, visiting America from the new African state of Uganda, which is a simple society of herdsmen and cultivators who embody what the populists believed were the ancient virtues of the farmer. This is in sharp contrast with what the traveller finds in New York.

Gabriel reports to his brother at home in Uganda: at first the wonders of this great city of ten million people; and then the pestiferous horror that lies only a little below the surface of ostentatious wealth and technical wonders. For the secret of the marvels of material splendour lies in the desperate poverty of seven-tenths of the people. America, indeed the civilised world, has become a brutal dictatorship ruled by a handful of fabulously wealthy men who have reduced the mass of the people to cruel and debasing slavery.

In a melodramatic story, carried along by two saccharine love affairs which rise to great sentimental heights above the sordid life which surrounds them, we are shown first the plutocrats, then the revolutionary movement which is preparing the overthrow of the brutal masters.

The plutocracy meet in the palace—palace, because no other word

[3] Ignatius Donnelly (pseud. Edmund Boisgilbert, M.D.), *Caesar's Column: A Story of the Twentieth Century*.

adequately conveys its immensity and splendour—of Prince Cabano, who signs his name Jacob Isaacs but who has acquired an Italian Princedom and its title. Deep within the palace is the council chamber where the real rulers meet.

> This is the real center of government of the American continent; all the rest is sham and form. The men who meet here determine the condition of all the hundreds of millions who dwell on the great land revealed to the world by Columbus. Here political parties, courts, juries, governors, legislatures, congresses, presidents are made and unmade; and from this spot they are controlled and directed in the discharge of their multiform functions. The decrees formulated here are echoed by a hundred thousand newspapers, and many thousands of orators; and they are enforced by an uncountable army of soldiers, servants, tools, spies, and even assassins. (p. 67)

In Europe the plutocracy also rules, but there is a subtle difference between the European and American rulers.

In Europe, consistent with the populist picture of the role of Lombard Street, the rulers are not the wealthy in general but the bankers in particular.

> There, you know, the real government is now a coterie of bankers, mostly Israelites; and the kings and queens, and so-called presidents, are mere toys and puppets in their hands. All idea of national glory, all chivalry, all pride, all battles for territory or supremacy have long since ceased. Europe is a banking association conducted exclusively for the benefit of bankers. Bonds take the place of national aspirations. To squeeze the wretched is the great end of government; to toil and submit, the destiny of the peoples. (p. 100)

The wretched slaves submit because the oligarchs have control of powerful military forces.

The armies are highly paid mercenaries equipped with weapons superior to anything available to a potential revolutionary force. The key to their superiority is a flight, some thousands strong, of dirigible air-ships, armour-plated with that 'light but strong metal, aluminium'. Armed with two types of bombs, high explosive and poisonous gas, these Demons, as they are popularly known, are immune to attack from the ground and capable of destroying completely any hostile ground force. The only hope of successful insurrection is for the air force to be won to the side of the revolution.

The main action of *Caesar's Column* is centred on the insurrection which ultimately occurs. A world-wide revolutionary organisation, the Brotherhood of Destruction, with a hundred million members, has been quietly preparing for the day when a revolt could succeed. By skilful planning every man has been armed with a powerful automatic rifle. With principles of organisation that look back to Auguste Blanqui and forward to Lenin, no member of the Brotherhood knows more than nine others, thus preventing exposure by treachery or torture. At the centre of the conspiracy are three men: an enormous, brutalised Italian-American of great ability and courage, named Caesar Lomellini; a Russian Jew distinguished by his bitterness, his cunning, and his crooked neck; and an idealistic and wealthy American lawyer who has been driven to revolution by the injustices to which his family has been subjected.

In the course of events which had made Caesar a revolutionary many Americans and some Australians could see themselves. He was a peaceable industrious farmer who got into difficulties with a mortgage he had taken to buy horses. The exorbitant interest demanded by the banking ring, together with bad seasons, forced him further into debt, until finally the crash came: 'he was driven out of his home; the farm and all had been lost for the price of a pair of horses'.

As if this were not enough it was immediately followed by personal tragedy of a different kind; but again the simple, honest, clean-living farmer was the victim of city corruption.

> Caesar learned that his eldest daughter—a beautiful, dark-eyed girl—had been seduced by a lawyer—the agent of the money-lender—and would in a few months become a mother. Then all the devil that lay hid in the depths of the man's nature broke forth. That night the lawyer was attacked in his bed and literally hewed to pieces: the same fate overtook the money-lender. Before morning Caesar and his family had fled to the inhospitable mountain regions north of the settlement. There he gathered around him a band of men as desperate as himself, and waged bloody and incessant war on society. (p. 129)

So, according to Donnelly, are revolutionaries made.

Successful revolt by the Brotherhood of Destruction finally becomes possible as a result of its own careful organisation and the treacherous miscalculations of the oligarchs. By a series of highly unlikely moves the Brotherhood succeeds in buying the air force to the side of the revolution, fifty million dollars in gold being the price. Street fighting starts, the Demons are called in to bomb the insurrectionaries, but they turn their weapons against the army of the oligarchs. With the army destroyed the mob take their revenge for a century of oppression: the world explodes into an indescribable chaos of plunder, torture, and murder. The symbol of the revolution, erected as the killing proceeds, was a pile of bodies held together by cement and reaching to the sky, the child of the leader's twisted imagination, and appropriately called Caesar's Column. The column becomes a memorial to the destruction of civilisation, for, having destroyed their enemies in a massive reign of terror, the revolutionaries turned to rending one another.

Three-fourths of the people of the civilised world are destroyed and the survivors are thrown back thousands of years to a state of barbarism. Yet a seed from which a new civilisation may grow is saved. The two heroes with their wives, families, and friends escape to the security of Uganda. There they set up a society which enshrined in its constitution many of the policy points which were the common coin of populist ideology. Bribery and corruption become high treason and punishable by death. Interest on money is abolished, and imprisonment the penalty for receiving it.

How many people in the 1890s accepted *Caesar's Column* as a real picture of the future it is impossible to say. But it is evident that it was read with passion by many people in America and also Australia. The reason for this is that it merely extended into the future features which people believed existed in their own society, and deepened the apocalyptic quality of their interpretation of present events. If the monopolists, the financiers, and the bankers were not curbed society would go down in ruin.

The evidence of the Australian reception of *Caesar's Column* is to be found in the columns of the labour and radical press, both in the direct references to it and in the images employed in political commentary. Within a few months of its publication in Chicago the Brisbane *Worker* (3 October 1891) included *Caesar's Column* in its list of Labor books, together with Bellamy's *Looking Backward*, Gronlund's *Co-operative Commonwealth*, and a number of others. To emphasise the importance that the editor, William Lane, attached to it, its title was printed in bold type. Shortly afterwards it appeared in the *Hummer* in the list of books headed 'Knowledge is Power'. It was described as paper-covered and priced at eightpence.

The first reference to it by a correspondent (Brisbane *Worker*, 31 October 1891) links it with *Looking Backward*, in a seriously intended but grotesque proposal, to adapt them both for the stage and present them in Brisbane. 'Veritas' wrote:

> The capitalists sneered and laughed at Bellamy when he produced his immortal work but they are not laughing at 'Caesar's Column'; and some of them are beginning to think that, after all, Bellamy's fate would be preferable.

He also thought that to brighten proceedings a female operatic star might be included in the performance to sing to a suitable tune the recently published verses of Henry Lawson: 'And we will wear the blue my boys, as Ireland wore the Green'. Lane replies that in his opinion *Looking Backward* did not lend itself to dramatic rendering, but the dramatic sequences of *Caesar's Column* were more adaptable. Fortunately the proposal was never acted upon.

By 1893 contributors to both the Sydney and Brisbane *Worker* were writing in Donnelly's language. Typical of this was the comment by the Sydney *Worker* (21 January 1893) on a report that a South Australian farmer had hanged himself.

> Cause—mortgage. By the way, mortgage means 'death pledge', and to the plundered settler of Australia it is in literal fact a graveyard grip. The farmer hangs himself, but the banker laughs and grows fat. The yeomen—'their country's pride'—are systematically ruined that the city usurers, speculators, and commission sharks may thrive and subscribe to that brotherhood of destruction, the National Assassins [National Association].

In his 'Leader of the Future' (Sydney *Worker*, 10 June 1893), Henry Lawson feared that unless something were done to deal with the depression, future leaders would be cast in the mould of Caesar.

> The leader of the future will not reason calmly and well, he'll not stop to reason at all, even if he can—he'll feel too mad. He'll think of his starved wife and children and the old folks—of the few pounds he saved out of his miserable wages and was swindled out of by 'financial institutions' at the beginning of winter—and of his mates, shot down in the streets like dogs or stuck like pigs behind the barricade . . .
>
> The Parliament of Labor and the Parliament of Greed will go down alike before him—and all the little parliaments that flourish

> for a day—for his revolution will rise from beneath them all—even the lowest and most extreme . . .
>
> If he drinks, he will celebrate victory with a howling spree, and want to set up as a King on his own account, after the fashion of the Yankee Caesar (he of the 'column'), and then his followers will cut off his head and put it on a pole before he sobers up.
>
> Such a man will lead the people yet, and again at intervals.

The *Bulletin*, the most important journal of opinion of the time, on 5 September 1891 hailed *Caesar's Column* as the book of the hour. From then on for the next few years there are frequent references to it, many of them of a kind to suggest that *Bulletin* writers assumed a knowledge of *Caesar's Column* amongst their readers. Labour ideals are referred to as the 'dream of Caesar' and the party is warned that it is 'the expression of a movement which must proceed to "Caesar's Column", if it does not reach Pisgah'—it must reach the promised land or go down to destruction.

*Caesar's Column*, with its atmosphere of menace, gave form to fears, suspicions, and hatreds already present in the Australian mind. The Money Power was the enemy, and was made more dangerous by its Jewish overtones. Populism was not anti-Semitic in the twentieth-century sense. It called for no pogroms or final solutions, but its image of the financier was a caricature of the Jew. Like the populists, Australian labour publicists disclaimed anti-Semitism. The Sydney *Worker* (4 March 1893) claimed that it condemned the Jews for their deeds.

> The Russian Jews, like their Australian brothers, are principally bankers, loan mongers, pedlars and pawn brokers. They are hated and hunted for their deeds, not for their religion.

But it was thought that the Australian situation was worse than the Russian:

> In Russia, the Government is still strong enough to tax the Jews. In Australia the Jews are powerful enough to tax the Government.

The Jews were seen as pampered drones living off the labour of others.

> They dress in purple and fine linen, and they fare sumptuously every day—but who knows one of them that could not be spared? Did anyone ever see a Jew work? At manual labour, no. It doesn't pay to work when others are so anxious to do it.

A conspiracy of the Money Power and the Jews was interpreted in light of the events of the nineties. It seems to explain the catastrophe which had struck so many; but, more than that, it made the financial crisis the result of conscious acts of a ruthless minority who had saved themselves at the expense of the majority. This gave a sharp emotional edge to the hostility towards the banks and the bankers. It also confirmed the belief that unless their power was controlled, the financiers would dominate society, with consequences that *Caesar's Column* pictured in its most extreme form.

Reconstruction was seen as a fraud perpetuated on the public by bankers and governments. 'As a means of robbery it is much simpler than burglary', said the Sydney *Worker* (29 April 1893). 'There is no danger whatever attached to this sort of plundering the mob, especially when the reconstructors run the Government.' Pawnbroking and banking were often referred to as synonymous. William McMillan, New South Wales businessman, banker, and member of several governments, who had earned the hostility of unionists by his handling of the Maritime Strike, was a favourite object of attack. The *Worker* (6 May 1893) spoke of him:

> Gatling-gun McMillan is a local director of the National Bank of Australia. He talks everlastingly about the Mede-like laws of 'demand and supply' when applied to grinding down wages, but when it is a question of 'restoring confidence' in his own three ball business the laws of political economy are thrown to the winds.

In the same number of the *Worker* Arthur Desmond, a militant socialist and poet of the left wing of the movement, rhymed angrily about 'that blessed word'.

> If you want to work a swindle that will roll the lucre in . . .
> If you do not care for risking what the loaded dice may win . . .
> If you're really in a corner, and have failed to live on suction,
> Do your duty like a Trojan, and prepare for 'Reconstruction'.

These were surface evidences of a conviction that there was a plot directed against the public. W. A. Holman, who was just beginning the political career which was to take him to leadership of the Labor Party and the Premiership of New South Wales, was more explicit. Speaking to what the Sydney *Worker* (3 June 1893) described as a large and enthusiastic meeting, he declared that the real government of the country was in 'the parlors of our financial institutions' and that the government must either control land and capital or be controlled by it.

The fears, suspicions, and resentments present in the Australian community and in particular amongst the rank and file of the labour movement did not issue in any clear-cut financial policies of the American type. Currency reformers quoted Leland Stanford, a wealthy Californian Senator who argued that shortage of currency was the root cause of the economic difficulties of the nineties. In a speech made in the United States Senate in 1890 and reprinted in Melbourne three years later,[4] Stanford proposed an increase in the quantity of currency by issuing paper secured on land. In the New South Wales Select Committee on a national bank, in which labour was strongly represented, Stanford's opinions were canvassed. In 1893 another pamphlet based on an interview with Stanford was published in Melbourne. In this Stanford argued for a sufficient supply of currency; whether it was paper, silver, or gold was unimportant, so long as it was measured against some standard. The principal test to which it should be subjected, he considered, was whether or not it would satisfy debt. Some Australian pamphleteers expressed similar views but their emphasis was usually on the need for a state bank to control note issues.

Australia, too, had its bi-metallists who drew their arguments from the United Kingdom as well as the United States.[5] In most of the colonies champions of bi-metallism emerged during the nineties: David Murray in South Australia, William Alison, later joined by Professor Walter Scott, in New South Wales, F. A. Keating in Victoria, and Dr Benjafield in Tasmania. As might be expected the strongest support was expressed in the colonies directly interested in the production of silver, namely South Australia, which was in close trading contact with silver-producing Broken Hill, and Tasmania, which was also a producer of silver. Sophisticated arguments for bi-metallism were presented to chambers of commerce, to meetings of the Australian Association for the Advancement of Science, and to the Australian Economic Association. Articles in support were published by a number of journals including the *Australian Pastoralists'*

[4] *Government Loans on Real Estate: Speech of Hon. Leland Stanford of California in the United States Senate*, Melbourne, 1893.

[5] For a full discussion and documentation see Craufurd D. W. Goodwin, *Economic Enquiry in Australia*, pp. 199-209.

*Review*, the *Australian Economist* and the *Bankers' Magazine and Journal of the Bankers' Institute of Australasia.*

The argument of the Australian bi-metallists was essentially the one we have already noticed. As put by David Murray to the Adelaide Chamber of Commerce in 1893, there was a shortage of money throughout the world following the demonetisation of silver in the 1870s. This was the cause of the long-term fall in prices resulting in declining standards of living and increased unemployment. In support of his argument he quoted such authorities as Soetbeer, Seyd, Laveleye, and J. S. Mill. He applied the argument to Australian conditions.

> At present the farmer, the woolgrower, the mineowner, has to give twice the quantity of his produce for the labour he employs that he required twenty years ago. One might suppose that the labourer is thereby enriched, but such is not the case. Although the necessaries of life have fallen somewhat in price the reduction is small, when purchases are made in retail quantities, compared with that to which the producers have to submit, while, on the other hand, as a consequence, we find in some industries efforts are made to reduce wages, in others labour is curtailed and labourers are discharged, who swell the ranks of the unemployed that resort to Government in their extremity.[6]

This was the diagnosis: the remedy was given most graphically by Professor Walter Scott, by an analogy popular at the time.

> At present, the values of gold and silver may be represented by the height of the water in two unconnected tanks, each having an irregular and intermittent inflow and outflow. Open a connection between the two tanks, and any increased inflow into one of them will slightly raise the level in both, instead of more largely raising the level in one. The bimetallic law would serve the purpose of a connecting pipe.[7]

In other words the monetisation of silver would keep down the price of both gold and silver, thus raising the price level of other commodities.

The appeal of bi-metallism in Australia was felt most strongly by middle-class people and some farmers, as is evident from the opinions of witnesses before the Victorian Royal Commission on State Banking. Goodwin correctly explains the appeal thus:

[6] Cited ibid., pp. 199-200.
[7] Cited ibid., p. 203.



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Adoption by radicals in the labor movement of land reform, tariffs, and a government bank as panaceas for depression encouraged more cautious reformers to accept bimetallism as an alternative answer to economic problems. Liberals turned to bimetallism as a solution to recession which could be defended on a lofty theoretical plane with plausible arguments and with assistance from respectable allies in other countries.[8]

The controversy about bi-metallism was noticed by the labour press, but usually with the intention of explaining its significance in American politics. The Sydney *Worker* (9 February 1895) reported that Catherine Spence, the South Australian feminist leader, had been converted to bi-metallism by a visit to the United States. Some workers placed their faith in it, but more characteristic of attitudes in the labour movement was the opinion of Arthur Rae, militant leader of pastoral workers and later a long-lived senator in the Commonwealth Parliament. He considered that it provided an insufficient explanation of the problems of the workers. He commented wryly (*Worker*, 31 October 1896):

> even if bimetallism is a sound principle, it is all nonsense to imagine that it is going to cure all the economic ills from which we are suffering. We might as well expect Holloways ointment to cure toothache and prevent wooden legs from breaking.

The practical contribution of the Labor Party to the threat of the Money Power was advocacy of the state bank. But what its structure and function were to be was left very vague, not as a matter of tactics, but because few labour men had any clear idea of how it would operate. W. A. Holman attempted to state a labour position in evidence to the New South Wales Select Committee formed to examine the question of a national bank.[9]

Holman saw banking as a branch of industry, but a non-productive branch.

> The Banks are practically the middle men of finance, and whatever sum they take from the aggregate production of the country is really a burden upon industry. Now, I imagine, that a State Bank would minimise that sum very largely. If such a Bank were established, the sum would depend upon the regulations of the

[8] Ibid., p. 199.

[9] *N.S.W. V. & P. (L.A.)*, Vol. II, 1892-3, 'Minutes of Evidence taken before the Select Committee on the Post Office Savings Bank—National Bank'.

> Government, whereas today, it of course depends upon whatever amount the Banks are able to screw out of the necessities of those engaged in industry. That would be an advantage to the industrial public. On the other hand, the State itself would secure whatever sum was actually extorted from industry—whatever sum it might be necessary to extort—instead of that money going to private individuals as it does today.

In other words, a national bank would secure banking profits for the state.

Holman looked forward to a state monopoly of banking—to be secured, not by nationalisation, but by competitive trading, which he believed would drive the private banks out of business. It would be necessary for the national bank to make a profit but it would not need to secure as high a rate of profit as private institutions. This, in conjunction with 'more skilful management', would result in the national bank eliminating its competitors.

The policy of the bank, according to Holman, would be guided by the 'national interest', which would be placed above profit. For example, it would make loans on easy terms in case of natural disasters such as floods, droughts, and bushfires. But its relationship to private enterprise presented Holman with the dilemma which confronts all socialists who argue for state control of a sector of the economy or of one of the important economic institutions. Should a national bank provide funds to encourage private enterprise? His answer was contradictory and ended in a quibble. He took refuge first in a simple-minded liberalism: no class of individuals should receive a particular advantage; and the best way to encourage private enterprise was to leave it alone. He then agreed that his bank would lend to private enterprise, but that that would not be the purpose for which the bank was established.

Holman's ideas on the way to make his bank more efficient than the private banks were little more convincing than his solution of the problem of the bank's relations with private enterprise. It consisted mainly of getting the best possible man as manager. Such a man he thought could be obtained if sufficiently large financial inducements were held out; he did not know what salary should be offered but he thought that £5,000 a year might not be too much.

Holman's ideas were those of a young man trying to equip himself as a socialist theoretician. He was reading widely and intensively but there was very little in socialist literature to help him with a national bank. He claimed Böhm-Bawerk, the Austrian economist, whose two major works, *Capital and Interest* and *The Positive Theory of Capital*, had recently been translated into English, and Marx as the two important writers on economic questions. Given the fundamental disagreement between them, together with the fact that neither of them had written about banking in a manner which could answer his questions, it is quite understandable that Holman's ideas were still very vague. Nor was there much to be obtained from Britain. Even the Fabians who might have been expected to have views on this matter did not produce a tract on banking until 1918. It seems that Holman was working from some elementary socialist assumptions and finding it difficult to answer all the questions that arose from them. In the long run the Labor Party found pragmatic answers on how to implement its program on banking. These answers owed more to the need for compromise between the competing pressures within the movement and the electorate than to socialist theory.

While the labour movement was settling into a mood and individual labour men were beginning to think about its implications for policy, Commissions and Select Committees in several colonies were examining the idea of a state bank and making recommendations on it.

# 4
# *State Banks and Easy Credit*

*. . . it would be desirable in the interests of the country that a State Bank should be established in Victoria.*[1]

*In the opinion of your Committee these facts emphasise the necessity for Parliamentary action to reform serious abuses, and the first step towards this would be the establishment of a National Bank of Issue.*[2]

In the mid-1890s state banking was on the parliamentary agenda in four colonies. In New South Wales and Victoria a Select Committee and a Royal Commission reported in favour of a state bank. In Victoria the recommendations of the Commission were incorporated in a Bill, and part of it was passed as an Act. In South Australia state banking legislation was extensively debated, and again a fragment became law. In Queensland a state note issue was adopted.

The New South Wales Committee reported in the midst of the bank crashes of 1893. The Victorian Royal Commission carried on its extensive investigations after the crashes, during 1895 and 1896. Queensland adopted its state note issue in 1893 and South Australia debated its state bank in 1895. While the Victorian Commission was sitting a conference of bankers met in Sydney under the chairmanship of J. R. French, General Manager of the Bank of New South Wales, and agreed on proposals for reform of the note issue. The idea of the direct intervention of government in banking was in the air.

What the parliamentary bodies investigated and the bankers discussed were the same only in part. The bankers were concerned

[1] *Vic. P.P. (L.A.)*, Vol. IV, 1895-6, 'Report of the Royal Commission on State Banking', p. vi.

[2] *N.S.W. V. & P. (L.A.)*, Vol. II, 1892-3, 'Report of Select Committee on the Post Office Savings Bank—National Bank', p. 1389.

with a number of technical banking matters, such as which financial institutions should be permitted to call themselves banks, but primarily they applied themselves to the problem of note issue. In the parliamentary inquiries there were discussions and recommendations on the note issue, but a range of other matters was also examined. Amongst these were the function and structure of a projected state bank, and how to provide farmers with long-term loans at low rates of interest.

Much the same ground was covered by the inquiries in New South Wales and Victoria and by the debate in the South Australian Parliament on the State Advances Bill. But, because the Victorian Royal Commission was the most exhaustive in its scope and resulted in a Bill which was extensively debated in the Legislative Assembly and the press, it will be looked at in some detail.

The Victorian Commission had before it a report of the bankers' conference held in Sydney in June 1895, which had agreed to relinquish the right to issue notes if certain conditions were met. They proposed a Commission to control issues on an Australia-wide basis, the members of which would represent both governments and banks. The Commission would be empowered in the first instance to issue a quantity of notes equal to the present circulation and to supply them to the banks in return for coin in proportions based on existing note issues. Special issues of notes would be available to banks by way of a loan on deposit of 20 per cent of coin, the balance being covered by approved government securities, or in certain circumstances by approved securities alone. The notes would be 'good legal tender of money', except for the Commissioners, who would be required to pay their notes in coin 'at their duly appointed offices'.[3]

The banks were prepared to surrender the note issue under these terms for three reasons. Firstly, they had found that there was virtually no profit in it; secondly, they considered that a centralised system would provide some protection for them in the case of a run; and thirdly, their proposed Notes Commission, which included bankers, was preferable to what might otherwise occur—the control of note issue by a state bank or some other government instrumentality. The Royal Commission noted the bankers' report but made recommendations which went far beyond it.

[3] 'Report of the Royal Commission on State Banking', Appendix E3, pp. 461-2.

It decided in favour of a state bank which would have four departments: savings, note issue, mortgage, and banking. It proposed that the bank be formed by amalgamating the two existing savings banks, the Post Office Savings Bank which was owned by the government, and the Commissioners' Savings Bank, a private concern but with strong government connexions, its deposits being guaranteed by the government. The bank would be administered by a Governor, who would act under the supervision of a Commission. Unlike the recommendation of the bankers, the Commission would consist solely of public officials: the Chief Justice, the Speaker of the Legislative Assembly, the Treasurer, the Attorney-General, and the Chairman of the Committee of Public Accounts. The Governor could be removed only by Parliament on the recommendation of the Commissioners. These proposals were, of course, very similar to many others which had stemmed from Ricardo.

The savings department would continue to provide the same kind of service that had been provided by its predecessors: deposit facilities with interest paid on deposits up to £250. In recommending the issue department the Royal Commission referred to the bankers' proposals. They stated as a principle that the state should have the sole right to issue paper as well as metallic money and that such a right was inconsistent with the representation of private interests on the issuing authority. In other respects the Royal Commission's proposals on note issue were similar to those of the bankers. The notes would be legal tender except at the issue department, which would be required to exchange notes for gold. They would be distributed to proprietary banks in return for gold. In case of emergency extra notes could be lent to the banks at a rate of 5 per cent interest. As for the number of notes to be issued: this, the Royal Commission believed, would regulate itself. For example, if notes were at a discount they would be exchanged for gold, and so long as no further notes were printed, equilibrium would soon be restored. The Royal Commission believed that what they were proposing was in accord with the practice of the Bank of England.

Normal banking business would be conducted by the banking department with special emphasis on its role as the government's banker. It would hold the accounts of the colonial and municipal governments, would manage all future government loans, and would provide special facilities for friendly, charitable, and non-trading societies.

It would also take private customers. In its proposals for the banking department the Victorian Royal Commission foreshadowed what would later be implemented by the Commonwealth Bank.

In the proceedings of the Royal Commission the evidence on which the recommendations for the savings, issue, and banking departments were based occupied relatively little of the time of the Commissioners. The weight of the evidence was directed towards the plight of farmers and the kind of provision that could be made to meet their credit needs. Of some 200 witnesses, 73 were farmers, 15 were farmers and graziers, 15 were graziers, and 14 were storekeepers, the majority of them from country towns. Thus more than half of the witnesses testified on the difficulties with which farmers were attempting to cope.

*Crédit foncier* were the magic words. As more than one writer[4] has pointed out, the idea of low-interest loans on mortgage security had been advocated from early times. Thomas Holt, who had lived for nine years in Germany as a wool buyer for an English firm, in 1843 urged on the Committee on Monetary Confusion the Prussian system of *pfandbriefs*. These pledge certificates were issued against land, guaranteed by the government, and sold in the open market. The scheme did not commend itself to the Colonial Office, but, as with other proposals made to the Committee on Monetary Confusion, it, or a variant of it, tended to crop up again at intervals. Goodwin cites Robert Torrens's suggestion made in 1858, that a *crédit foncier* be set up in South Australia to make loans against land registered under his Real Property Act. He also mentions Charles H. Pearson's 'Liberal Program' for Victoria in 1880, which included a bank which would be

> something like the Banks of Agriculture that have been established for many years in Prussia and other European countries. Deriving their funds partly from a State loan, partly from trust money on deposit, and partly from shares, these banks are administered by local men under Government inspection, and advance money on land, on timber, and on stock. (pp. 212-13)

Torrens, as a South Australian political leader, and Pearson, one of the most creative political thinkers in Victoria, were the two most influential men to advocate *crédit foncier* before the 1890s. There

[4] S. J. Butlin, *Foundations of the Australian Monetary System*; Craufurd D. W. Goodwin, *Economic Enquiry in Australia*, pp. 209-16.

were also others who did not command the same respect or exert the same influence.

With the bank failures of the nineties an audience eager for prescriptions found two men ready to provide them. In Queensland H. L. E. Ruthning, a solicitor, and President of the Queensland Farmers' and Graziers' Alliance, expounded the Prussian system that had been urged half a century earlier by Thomas Holt. In Victoria Carl Pinschof, Consul for Austria-Hungary, was prepared to tell anyone who would listen, and some who would not, of the virtues of *crédit foncier*. He expounded his views in articles, by word of mouth, and by lengthy evidence to the Royal Commission.

To the Royal Commission Pinschof explained that *crédit foncier* societies obtain their funds, which they lend out on mortgage, not from deposits but by the issue of bonds. The bonds are then either floated on the open market or used to pay the loans granted to borrowers. An essential feature of the system is that the total amount of mortgage bonds in circulation must never exceed the total amount of money outstanding on mortgage. One of the Commissioners, Robert Murray Smith, after hearing Pinschof's exposition, summed up the essence of *crédit foncier*.[5]

> As I understand the Crédit Foncier system, the principle is not so much the gradual repayment because that is a principle very well known, but it is the suiting the borrowing to the lending so exactly that the lender need keep no reserve, and therefore he has never any idle money, so the whole of the money is employed continually, for which reason it can be lent at a cheaper rate.

The Commission favoured the *crédit foncier* principle and recommended the establishment of a mortgage department of the state bank, which would raise funds by the issue of bonds 'to an amount equal to the money to be loaned the bonds to be reduced from time to time as the principal is repaid'.

The Liberal government, led by George Turner, who was later to be the first Commonwealth Treasurer, accepted the Commission's recommendations and introduced a State Bank Bill, which incorporated them with some variations in detail. In a three-hour speech the Premier set out the main features of the Bill.[6] It provided for a

[5] *Vic. P.P. (L.A.)*, 'Report of the Royal Commission on State Banking', p. 6945.

[6] *Vic. P.D.*, Vol. LXXXIII, pp. 2656-87.

complex institution containing three related but independent parts. The savings department was to be formed by amalgamating the two existing savings banks. There would also be a mortgage department and a state bank. The function of the former would be to raise funds by the issue of mortgage bonds and of the latter to issue state notes and to keep the accounts of government, quasi-government charitable bodies, and private individuals. The paper issued by the mortgage department and the state bank would all be guaranteed by the government.

In the administration of the bank the Bill departed from the Commission's recommendations. Instead of the public officials suggested, the bank was to be controlled for the first five years by the existing commissioners of the savings bank, who would be replaced by nominees of the Governor in Council. Commissioners were removable by what had become the accepted method in such schemes, addresses from both Houses of Parliament. One departure from the normal which probably reflected the long-standing conflict between the Houses in Victoria was the provision that the Legislative Assembly alone might remove a Commissioner by addresses in two consecutive sessions. Under the Commissioners the executive head of the bank was to be the Inspector-General, who would receive two salaries of £1,000 each as head of the savings branch and of the state bank—a provision intended to emphasise the separateness of departments within the unity of the institution as a whole.

The State Bank Bill of 1896, in addition to attempting the implementation of the report of the Royal Commission, carried over some parts of the Savings Bank Act Amendment Bill of 1894, and was also modelled in part on the South Australian State Advances Bill of 1895. The earlier Victorian Bill was debated but was lost in the dissolution of the Legislative Assembly. The South Australian Bill had provided for a savings bank, for a *crédit foncier* and for 'the issue of State notes'. Its administration was very similar to that contained in the later Victorian Bill. After the Bill was debated on the second reading it was withdrawn and a truncated measure to set up a *crédit foncier* bank was adopted, becoming law at the end of 1895.

The fate of the Victorian Bill was to be very similar to that of its South Australian counterpart. In presenting it George Turner was faint-hearted about its prospects. He ended his second reading speech:

> It may not be passed in the identical terms in which I have introduced it to the House, but before many years elapse I feel certain that we shall see in operation in the colony a State Bank somewhat on the lines proposed in this Bill.[7]

His fears were justified in that it was soon apparent that some of his support in the House was uncertain and out of doors one of the leading papers, the *Argus*, was bitterly hostile while the *Age*, which normally supported his government, was cool in its support.

The opposition to the Bill was broadly of three kinds. Firstly, financial interests including the banks were afraid that the new institution would be a powerful competitor, and also, through its control of the note issue and the government accounts, that it would occupy a key position in the banking system. Secondly, there was a general conservative opposition which was opposed to such sweeping innovations as were contemplated in the Bill. Uncertainty about how the bank would work and fears that bank policy might become a political football combined to unite disinterested critics with those who felt that their interests were threatened. Thirdly, there was a doctrinaire opposition just as there were doctrinaire supporters; to some it appeared as a socialist measure.

Bankers were not reluctant to express their opposition. A week after the Bill was introduced the *Argus* reported (29 October 1896) that F. C. Grimwade, a member of the Legislative Council and Chairman of the Royal Bank of Australia, was heartily applauded when he told a meeting of shareholders that he was not 'sympathetic with it [state bank scheme] in any way'. Another bank Chairman, John Grice of the National, was even more forthright—he urged (*Argus*, 5 November 1896) the banks to 'fight for their rights'. The *Argus* expressed most clearly the interested and conservative opposition. It criticised the Bill on the grounds that it mixed unlike things which should be kept separate. 'The *Crédit Foncier* scheme is one thing and a state bank is another', it said even before the Bill was debated. The main line of attack, however, was to concentrate on the alleged inefficiency of state enterprise. In an editorial on the day of Turner's second reading speech (20 October) the *Argus* attacked the banking portion of the State Bank Bill, and asked rhetorically:

> What call is there for the State, which has failed in every other

[7] Ibid., p. 2687.

> department of business, and has dismally failed, undertaking these new responsibilities, and this with the knowledge of the evil fortune that has followed such ventures elsewhere?

Inefficiency was emphasised and there were gloomy prognostications of the future under a state bank. An article on the Bill (26 October) concluded that it would 'plunge the whole of the private and public financial affairs of the colony into utter confusion'. In unrestrained language the *Argus* (27 October) referred to the proposed state note issue as 'essentially vicious and unsound as compared with the existing system'.

There was little criticism of the *crédit foncier* section of the Bill. In part this was due to a genuine belief in the need for the facilities it could provide: in part support for it may have been a tactical means of opposing the other sections of the Bill without appearing to be against all reform. In the Legislative Assembly the leading critics, G. D. Carter, who, as Treasurer, two years earlier had introduced the Savings Bank Amendment Bill, William Shiels, and Theodore Fink, all excepted the mortgage department from their criticisms. Likewise the *Argus* was prepared to except it from its general strictures. For the *Age*[8] the *crédit foncier* proposals were so important that although it was mildly favourable to the Bill as a whole it was willing to abandon all other sections if they stood in the way of the mortgage department.

The third type of criticism focused on the bank's supposed socialist implications. John Hancock, a leader of the Melbourne Typographical Society and a member of the Labor corner in Parliament, gave some colour to the opinion that it was a socialist measure. He spoke of the inevitable and desirable extension of the activities of the state, and he regarded the establishment of a state bank as a crucial incident in this process.[9] William Shiels saw it the same way but drew different conclusions.

> . . . this control of the whole of the currency, according to the language used by the Treasurer, is in accord with and involved in the claims of the socialists that the State shall monopolize the land, mines, all the means of production, manufacture and transfer. When production, manufacture, and means of transfer are taken over, of course, the Government must also take over the whole of the currency in its widest meaning. Then we shall have reached

[8] *Age*, 20, 21 Oct., 9 Nov. 1896.
[9] *Vic. P.D.*, Vol. LXXXIII, p. 3188.

> the position which is described in Bellamy's *Looking Backward*, in which a man presents a ticket given by a State department when he wants to obtain goods and food for his consumption.[10]

Theodore Fink, a lawyer and businessman, who in the collapse of the land boom in 1892 had paid his creditors 6d. in the pound on £21,900 and 3s. in the pound on a further £14,132,[11] treated the Legislative Assembly to a harrowing description of the government extravagance that would inevitably follow the establishment of the bank.

> With the amount of money at its credit by the State notes and the current accounts, it will necessarily be impelled, by the very force of circumstances, to spend. There is no corporation, no Government, that ever had a store of available capital that was not compelled to use it perforce, and I am quite sure that this will be the prelude to a wild saturnalia of public works and of reckless Government expenditure unchecked by Parliament, calculated to aid in no permanent development, and that will transcend in folly the worst excesses of Government expenditure in the past.[12]

The *Argus* (29 October) spoke of the 'Turner-Trades Hall banking scheme' and castigated 'ministers who allow themselves to be utilised as tools by senseless socialists'.

The pressure of criticism, and the threat by a number of members that they would withdraw their support from the government, persuaded Turner, who had never really expected to pass the whole measure, to abandon all sections of the Bill other than those setting up the mortgage department. G. D. Carter greeted the decision: 'There is an armistice, both sides are satisfied, and the State Bank will not jump up again for years—perhaps never'.[13] Under the title of 'The Savings Bank Act Amendment Bill' the truncated measure became law on 23 December 1896. The other parts of the Bill were not to 'jump up again' for fifteen years, and then it would be in the Commonwealth Parliament.

The Victorian State Bank Bill was the last attempt made in colonial parliaments to legislate for a state bank. It was to come alive again as an issue in Commonwealth parliamentary politics, but in the meantime in some parts of the labour movement still more

[10] Ibid., p. 3159.
[11] M. Cannon, *The Land Boomers*, p. 212.
[12] *Vic. P.D.*, Vol. LXXXIII, p. 3183.
[13] Ibid., p. 3219.

novel ideas were being canvassed—amongst them ideas which harked back to the chartists and to the notions of J. F. Bray. In the crisis of the nineties and its depressed aftermath any ideas which seemed to dig deep into the social structure and promise some radical solution to evident economic problems found a hearing. Amongst these were the idea of equal exchanges to be effected by institutions appropriate to the purpose.

As early as 1893 the Sydney *Worker* (3 June 1893) recalled that James Bronterre O'Brien had moved at a chartist meeting in London:

> That the National Currency should be based on real, consumable wealth, or on the bona fide credit of the State, and not upon the variable and uncertain amount of scarce metals, because a currency depending on such a basis, however suitable in past times or as a measure of value in present international commerce, has now become by the increase of population and wealth wholly inadequate to perform the functions of equitably representing and distributing that wealth.

Later in the decade and early in the twentieth century in labour journals, in pamphlets, and even in practice, the idea of equal exchanges was discussed and experimented. While never a practical scheme, the idea of labour exchanges reflected the belief that banking was a swindle and that the workers needed to find some method other than the use of existing currency to exchange goods, by which they would get the full product of their labour.

The idea of labour exchanges came directly to Australia from the United States where, it was reported, there were 300 of them by 1898, the first having been formed nine years earlier. In journals such as the Melbourne *Tocsin* and the Sydney *Worker* the idea was warmly debated from 1897 onwards. Although the immediate inspiration came from America the exchanges were an attempt to implement the main ideas of J. F. Bray. The currency proposed was to consist of certificates which represented the value of goods determined by the amount of work which had gone into their production. The exchanges themselves would be warehouses in which goods could be bought and sold, the currency medium being tokens representing work time. The *Tocsin* (9 December 1897) noted the American example and published a letter calling for a study of the American institutions which were doing away with the 'whole currency question'. This was followed by correspondence (16 December) from the secretary of the Brotherhood trust who called for the adoption of labour exchange certificates. In Sydney the *Worker* (18 December 1897) spoke enthusiastically of a variation of a system of government warehouses where goods could be exchanged directly for goods. The interest was heightened by the appearance of Edward Bellamy's *Equality*, which assumed, as did his earlier book *Looking Backward*, that in the ideal socialist society money and banks would be rendered superfluous by a system of direct exchanges. The 'Socialistic Book of the Day' was how *Equality* was greeted by the *Tocsin* on 2 December 1897. However, the greatest encouragement to the replacement of conventional currency by certificates which recorded work performed was given by the arrival from New Zealand of a writer and lecturer named Michael Flürscheim.

In his book, *The Real History of Money Island*, in a journal which he founded, and in articles in the *New Zealand Illustrated Magazine* (August 1901, October 1902) as well as in the Australian labour press, Flürscheim argued a case in terms of his understanding of the quantity theory of money. The labour press was more interested in his conclusions than in his argument. His main conclusion was that money supply should always correspond to the demand of the market in such a way as to keep the average prices of goods constant. This he believed could be done by the adoption of a currency consisting of certificates entitling holders to an equivalent in goods and services to the goods and services they had contributed to the community.

The work certificate and labour exchange was never more than a wild idea reflecting a deep dissatisfaction with existing economic relations and a naïve belief that they could be changed by modifications in the currency. The idea flourished for a few years but by the end of the century little was to be heard of it, except that it may have contributed to two abortive schemes proposed in 1902. These were the National Wealth Association and the Workman's Bank.

The National Wealth Association, the flamboyant name of which was never to be equalled by its performance, took an office at Forest Lodge in Sydney. From there it issued a prospectus which proposed as its first object the improvement of the conditions of all workers. This was to be achieved by setting up goods exchanges in Sydney and all important country towns. The medium of exchange was to be Association scrip, 'which will be used as money for all purposes of exchange of goods or labor'.[14] This it was believed would save all interest 'and the heavy expenses incurred under the present system'.

The Workman's Bank was also a proposal of the National Wealth Association. The Association appealed to the Trades and Labour Council to set up a bank which would hold the accounts of all the trade unions. Deposits of £25,000 a year would permit the issue of notes against coin up to that amount and the notes could be used to finance housing and other needs of workmen.[15]

Such absurd ideas have little connexion with the establishment of a Commonwealth Bank. But they are relevant to the atmosphere of opinion at the time. There was a widespread feeling that reform of currency and banking could bring about profound social changes to the advantage of the workers. The National Wealth Association was but the lunatic fringe which thought that by acts of financial legerdemain incalculable benefits could be spun from the air.

[14] National Wealth Association, Prospectus.

[15] *The Workman's Bank, a suggestion for the Trades Hall Council issued by the National Wealth Association.*

# 5

# *From State Bank to Commonwealth Bank*

*It therefore seems an absolute necessity that the creation of a Federal Bank of Issue, on the lines wisely laid down by the Sydney conference of Bankers, with some such modifications as are herein suggested should, next to the settlement of the tariff, be amongst the very first measures to engage the attention of the Federal Parliament; and that each State should take steps to establish a State Bank in touch with the Federal Bank of Issue, in order to enable it economically to carry out its land purchase and land settlement operations; to aid municipalities, county councils and Credit Foncier societies for the better housing of suburban and rural populations. The rapid and solid progress of the nation and the expansion and permanent safety of our commerce depend upon the elastic and stable currency which such institutions would provide.*[1]

Before the federation of the colonies banking business refused to recognise colonial frontiers. The leading proprietary banks, whether their head office was in Melbourne, Sydney, or London, had branches in more than one colony, in some cases in all colonies and New Zealand. This fact of economic and financial interdependence between the colonies constituted an implicit difficulty for all state bank proposals made during the nineteenth century. Thus during the discussions of the mid-nineties one of the arguments against state banks was that the matter should be left until federation. Sometimes this was a tactic of delay, but at others it was a recognition of genuine difficulties.

In the draft constitution Bill before the National Australasian Convention in 1891, 'Banking, the Incorporation of Banks, and the Issue of Paper Money' was included amongst the powers to be

[1] John Ross, *Federal and State Banks and Currency Reform*, p. 8.

granted to the proposed federal Parliament. It received little critical comment apart from a question whether it would permit the establishment of a Commonwealth Bank, and an assertion by one member that each state should retain 'full and complete control over all questions of civil rights in property'. Probably Thomas Macdonald Paterson of Queensland was expressing the more generally held view when he spoke of the need for uniformity throughout Australia on a number of matters including banking.

> The laws relating to bankruptcy, to banking, to bills of exchange and promissory-notes, are laws which we would all be happy to see upon a level footing all over Australia. I unhesitatingly say that the absence of uniformity as to these several matters has tended very much, especially within the last fifteen or twenty years, to clog the wheels of commerce and finance.[2]

At the second federal convention held in three sessions at Adelaide, Sydney, and Melbourne during 1897-8 there was no opposition to the inclusion of a banking power. Debate turned simply on what limits if any should be placed on the ability of the Commonwealth to legislate with regard to banks. The parliaments of four colonies recommended in slightly different words that state banks, that is to say banks set up by state governments, should be excluded from the general power. As J. H. Carruthers put it,

> We know that state banking is coming into favour in the Australasian colonies. It is not proposed to interfere with federal control of state banking when it goes beyond the limits of the state concerned. It seems to me to be purely a matter of state concern when the banking is limited to the state.[3]

P. M. Glynn, whose opposition to state banking proposals in South Australia has already been noticed, asked for a definition of 'state bank'. He argued that there was no exclusively state bank anywhere in the world, although there were banks, such as the Bank of England, which had a special relationship with governments.[4] He felt that lack of clear definition would cause all kinds of difficulties. However, his misgivings were not shared by others and the clause as adopted gave the Commonwealth Parliament power to legislate on:

[2] *Official Report of the National Australasian Convention Debates*, 1891, p. 685.

[3] *Official Record of the Debates of the Australasian Federal Convention* (second session), 1897-8, p. 1074.

[4] Ibid., p. 1075.

> Banking, other than State banking; also State banking extending beyond the limits of the State concerned, the incorporation of banks, and the issue of paper money.

These were clearly powers sufficient for the Commonwealth to establish its own bank in appropriate political circumstances, as well as to make laws regulating general banking operations throughout the country.

From the abandonment of George Turner's Bill in 1896 there were no further concrete proposals for the creation of state banks presented to state parliaments. But the idea, though quiescent, was not allowed to die. In Labor Party programs and in pamphlets, lectures and articles, the case for a government note issue and a government bank were proclaimed and argued, but often with the assumption that nothing should be done until federation of the colonies.

As measured by the platform, the demand for a state bank was stronger in the Labor Party in 1897 than at any previous time. In New South Wales the Annual Report of the Political Labor League (*Worker*, 30 January 1897) commented sadly on recent legislation to amalgamate the savings banks.

> The Labor Party hoped that it would contain at least some of the features of the National Bank; but it proved a colorless concern, introduced apparently with the hope of placating the Labor Party and others who have been demanding a State Bank for year[s] past.

Later in the year, as was noted in an earlier chapter, the conference of 1897 made the establishment of a national bank point two of its fighting platform.

Pamphleteers, publicists, and simple souls with a single idea continued to put their cases. The ideas ranged from a managed currency to be issued and controlled by a federal bank of issue to be created when federation made it possible, to more exotic doctrines.

The most consistent advocate of a controlled currency was John Ross. His articles in the *Age*, one of which was included in the papers of the Victorian Royal Commission, culminated in an article in 1901 which was later produced as a pamphlet. The pamphlet, *Federal and State Banks and Currency Reform*, contained a good deal of conventional monetary theory leading up to a proposal for a federal bank of issue.

In brief, his argument was that currency consists of a maximum of credit resting on a base of a minimum of legal tender metallic currency. An increase of commerce caused by an increase in population is financed by an extension of credit through the banking system. So long as exchanges are effected at steady prices and obligations are met regularly, commerce is in a healthy condition. But when something happens to disturb the regularity of the flow, extra notes may be needed. In Britain the Bank of England with government approval makes such emergency issues but always does so too late—after many people have been ruined and financial panic prevails. Experience shows, he argued, that instead of the dilatory action of the Bank of England, extra issues should be made, 'not tardily and spasmodically, but continuously and judiciously, as occasion might demand'. This would mean that sound businesses faced by temporary liquidity problems would survive and only those which were hopelessly over-extended would fail, thus 'rotten branches could be cut off without creating serious public alarm'.

He proposed a federal bank of issue which would incorporate the principles laid down by the Sydney Conference of Bankers but with some modifications. The establishment of the bank, he considered, should, next to the settlement of the tariff, be amongst the very first measures dealt with by the Commonwealth Parliament. Linked to the federal bank there should be state banks which would finance land purchase and housing operations, and do the banking business of municipalities and county councils. Ross added nothing new to currency and banking theory, relying heavily as he did on Walter Bagehot's *Lombard Street*. But he made a contribution to the understanding of the problem by adapting Bagehot's criticisms of the Bank of England to Australian conditions. For Bagehot the problem was to strengthen what would now be called the central banking functions of the Bank of England. In Australia there was no similar institution to strengthen; therefore it seemed obvious to Ross that improvements suggested for the Bank of England by its critics should be incorporated from the beginning in the institution proposed for Australia. Further, Ross had to overcome the difficulties inherent in the division of powers within a federation. Hence he proposed a federal bank to work in harness with state banks, thus making a national banking structure.

From the establishment of the Commonwealth there are two main strands to the story which leads up to the establishment of the bank. One is concerned with the recognition by bankers and poliicians of the need for a bank which would have some central banking functions. Associated with this was the question of the note issue. The other strand is in the labour movement in general and the Labor Party in particular.

S. J. Butlin has told succinctly the story of the Commonwealth's interest in the note issue.[5] From the beginning the banks accepted as inevitable some direct intervention by the federal government in the note issue. Their interest was to make the intervention of a kind most acceptable to themselves. Equally all of the seven governments between 1901 and 1910 had a note issue plan. The first Treasurer, Sir George Turner, moved very quickly. Within less than two months of the inauguration of the Commonwealth he had invited the banks to give their opinion on a Banking Act and in particular on note issue control. This opinion was given by an all-Australian conference of bankers.

The conference considered a number of proposals. The first was an adaptation of the Canadian system, known to be favoured by Edmund Barton, the Prime Minister. Under this system the banks would be required to hold 40 per cent of their cash reserves in government notes. This would have resulted in some control of the note issue by forcing the banks to hold very high reserves. It would also have been an interest-free loan to the government. The scheme was rejected by the conference. A second proposal which was also rejected after an initially favourable response was put by the Queensland National Bank. It was for a federal government issue similar to that adopted by Queensland in 1893. The banks were afraid of political control and the scheme that they finally recommended excluded the government. The banks were to retain their own issues, the notes being convertible into gold in the capital cities and being accepted at par by all banks. A guarantee fund was to be set up with each bank contributing 5 per cent of its circulation, the fund being invested in federal government securities. They also offered an annual tax of 2 per cent on average circulation to be paid to the Commonwealth.

This remained the banks' official position on note issue for a decade but they failed to implement it and successive governments failed to act. In mid-1902 the government again toyed with the idea of the 'Canadian' system and the short-lived Labor government of 1904

[5] *Australia and New Zealand Bank*, pp. 340-6.

announced its intention to adopt it. But note issue was pushed aside by the short lives of governments and by their preoccupation with the creation of an administrative apparatus, judicial institutions, and legislation to put into effect a number of broad national policies of which the most important were immigration, fiscal, and defence policies. The most positive steps were taken by Sir John Forrest, Treasurer in 1907, who circulated amongst the banks draft bills providing for a uniform banking law and for a federal note issue which would replace all bank issues. Forrest resigned before he could move but returned to it again in 1909 as Treasurer in the Fusion government. But the election of the Labor Party with a majority in 1910 frustrated his intentions once again.

As Butlin points out it had become perfectly clear to the banks that whatever government was in power a federal note issue was certain to be adopted. The reasons for Forrest's intentions were perfectly clear—a federal note issue would be a free loan to the government for that part of the issue not covered by gold. The same motive was strong in the Labor Party. However, the banks made one last attempt to avoid government control by proposing a variant of their 1901 scheme. It had more in it for the government, but still left note issue in the hands of the banks. The Labor government resolved the matter.

Within the labour movement note issue was linked with the idea of a Commonwealth Bank, although in the outcome it was separated from it. At the grass roots of the movement a government bank, government note issue, and the nationalisation of banking were consistently under discussion. There were broadly two views. One held that reform of the banking system, whether by a government bank and a government note issue or by the nationalisation of banking, would in itself cause major changes in the capitalist system in the interests of the workers; the other, more left-wing position, held that while bank nationalisation was desirable it would not cause any fundamental changes in the society or economy.

Articles and letters in the Melbourne labour journal, the *Tocsin*, from 1901 to 1905 generally supported the first position. T. J. McBride in a long piece published on 24 January 1901 urged a national legal tender paper money to be issued by the federal government through a federal Commonwealth Bank. There are frequent references to the idea during the next few years and by 1905 it had become one of the popular subjects for discussion in the labour leagues. This discussion was encouraged by a 33-page pamphlet, *The Circulating Sovereign*, written by J. M. Scott and published with the support of the Political Labor League of the small northern New South Wales country town of Moree. During 1905 Scott reduced his argument to a series of questions and answers in the form of a catechism, published in the *Tocsin* during June and July, which stimulated letters of applause and criticism.

In *The Circulating Sovereign*, which went through four editions between 1903 and 1947, Scott argued the case for bank nationalisation in forceful language, supported by statistics of banking profits from T. A. Coghlan. The argument was simple and direct: nationalise the whole banking system and the national bank would then have the resources to finance all kinds of capital works, railways, mines, ships, state factories, and so on. The national bank would control the currency, 'the bridle that controls us'. Such a bank he thought would be able to raise all necessary capital internally, thus removing the need for expensive foreign loans.

The banking and currency debate was serious but not so serious as to restrain the *Tocsin* from quoting Mr Dooley, the fictional bartender, created by Finley Peter Dunne, whose whimsical Irish comments on events of the day entertained his friends Hinnessy and Donohue, and also the readers of the Chicago *Journal*, the Chicago *Evening Post*, and the Australian labour press around the turn of the century. Mr Dooley had novel ideas on most things; banking and currency were no exceptions. Mr Dooley explained the mystery of banking (*Tocsin*, 30 November 1905).

> Bankin' is a sthrange business, anyhow. I build a brick house, put iron gratings on th' window, an' ye an' Donohue fight each other to see who'll get his money first to me. I accept it very reluctantly an' as a great favour to ye. Says I, 'Hinnissy an' Donohue,' says I, 'ye ar-re rayspictable wurrukin' men, an' I will keep ye'er money f'r ye rather than see ye spind it in riochous living,' says I. 'As a gr-reat favour to ye, I will take care iv these lithographs be lendin' thim to my friend,' says I. 'If ye want th' money back ye can have it anny time between nine in the mornin' an' three in th' afternoon, except Sundays an' holidays,' says I, 'but don't both come at wanst,' says I, 'or nayther iv ye'll get it,' says I. 'Ye sleep better at nights because ye feel that ye'er money is where no wan can reach it except over me dead body. If ye on'y knew ye'd not

> turned ye'er back before I'd chased those hard-earned dollars off the premises. With yer money I build a house an' rent it to you. I start a railroad with it, an' ye wurruk on th' railroad at two dollars a day. Ye'er money makes me a prominent citizen. Th' newspapers intherview me on what shud be done with th' toilin' masses, manin ye an' Donohue; I construcht the foreign policy iv th' Government; I tell ye how ye shud vote. Ye've got to vote th' way I say or I won't give ye back ye'er money. An' all this time ye think I've that little bundle iv pitchers nestlin' in th' safe in me brick house with me sittin' at th' dure with a shotgun acrost me knees. But wan day ye need th' money to bury some wan, an' ye hurry down to see me. 'Sorry', says I, 'but I've just lint it all to a lady who come out iv th' Chinese laundhry nex' dure an' said she was an illegitimate aunt iv Jawn D. Rockefellar.' An' there ye ar-re.

He also solved the problem of the currency in a novel way. 'Whisky is the standard iv value', he said.

> It niver fluctuates; an' that's funny, too, seein' that so much iv it goes down. It was th same price—fifteen cints a slug, two f'r a quarther—durin' th' war; and it was the same price afther the war. The day befure th' crime iv sivinty-three it was worth fifteen cints: it was worth th same th day afther. Goold and silver fluctuates, up wan day, down another; but whisky stands firm and strong, unchangeable as th' skies, immovable as a rock at fifteen or two f'r a quarther.

The view that money and the banks were not the main enemy of the working class was put in a series of articles in the *Socialist* (6 June 1906-9 March 1907) by W. H. Emmett. His title suggests his answer: 'The Root of all evil: Money? or Capitalism?' Emmett traces the history of coinage from early times to the present and decides that money is plentiful enough and cheap enough, therefore it cannot be the main cause of evil. He then discusses credit as the predominant medium of exchange and decides that banking is commercially useful, but only so long as the capitalist economy persists. This leads on to the fact that capitalism is the monster which cannot be tamed by reform of banking but must be destroyed. The banks are only one of the evil institutions that sustain the capitalist system and not the most important. Emmett summed up his position (*Socialist*, 7 December 1907):

> To my mind, the most misleading and mischievous pile of rubbish

> which occasionally obscures this clear issue between the workers and their bosses is the stew, the hash, the bad mental meat, known as the currency and money question, or finance.

He believed that 'it would make no beneficial difference to this wage-slavery if you had a national paper currency'.

The *Socialist*, journal of the Victorian Socialist Party, expressed the most advanced socialist thought of the time, and Emmett's views were probably those of a majority of adherents. They were impatient of monetary solutions to what were believed to be more complicated questions. Yet even the *Socialist* found it desirable to present the dissenting views of people who focused on money as the central problem. Letters urged that the government be the sole banker and at least one well argued case against Emmett was presented by 'Nemo'. For the writers of the *Socialist* the monetary solution was a false god which diverted the minds of the workers from the true Satan, capitalism. That they felt they had to combat it is evidence of the strength of the idea in the labour movement.

The ideas working through the movement reached the platform of the federal Party in 1902. At the federal conference in Sydney in December 1902 Senator Higgs of Queensland and F. W. Coneybeer of South Australia moved successfully 'that a Commonwealth Bank of Deposit and issue be established, the directors of which shall be appointed and dismissed by Act of Parliament'. J. C. Watson, the parliamentary leader of the Party, worried that this formulation might be interpreted as opening the way to political manipulation of bank policy to favour individuals or groups, had the wording, as it appeared in the platform, changed. It was also weakened by combining it with another item. It entered the platform as 'Commonwealth Bank of Deposit and Issue and Life and Fire Insurance Department, the management of each to be free from political influence'. So far as the platform was concerned this remained the policy of the party until the federal conference of 1908.

In the meantime a more extreme policy was being expounded in New South Wales. At the state conference of the Political Labor League in January 1905 the Moree branch of the Political Labor League, which had supported the publication of J. M. Scott's pamphlet, moved for nationalisation. The resolution carried read:

> That sub-section (C) of plank 1 of the fighting platform be ex-

tended and made to read as follows, and to form a distinct plank: 'The nationalisation of the whole of the banking business.'[6]

A week before the conference the secretary of the Moree branch was reported as saying (*Tocsin*, 26 January 1905) that *The Circulating Sovereign* had had a great influence in New South Wales. 'New South Wales', he said, 'is permeated by the idea, and I think that it almost goes without saying that it will be placed on our fighting platform at the ensuing conference.' His forecast proved right but whether or not this was a result of the Party being permeated with the idea of nationalisation it is impossible to say. There were clearly strong advocates but the attitude of the majority may have been merely permissive. All that can be said with certainty is that bank nationalisation had some strong support and that it did not arouse strong opposition in the Labor Party in New South Wales.

The federal conference in Brisbane in July 1908 had before it the most elaborate proposal so far presented to any labour body. More than a banking proposal, it was intended to deal with the whole problem of the financial relations between the Commonwealth and the states. Its author was King O'Malley. He was attempting to deal with a number of matters that arose from the temporary federal-state relations established by the Constitution.

The Constitution gave powers and made short-term arrangements about revenue and state debts. It provided that for ten years from the establishment of the Commonwealth and thereafter until Parliament otherwise decided, revenue obtained from customs and excise was to be divided between the Commonwealth and states, one-quarter to the Commonwealth and three-quarters to the states, the amounts payable to each state being determined, with minor qualifications, by the amount collected in it. Known as the book-keeping method, this arrangement was due to terminate if Parliament wished at the end of 1910. The Commonwealth was also given power to deal with state debts. Under section 105 it could take over the state debts in whole or in part and pay the interest charges on the debts from money due to the states.

What to do about the revenue at the end of the ten-year period and the arrangements for the state debts was studied by all governments from 1901 onward. Definite plans were made by Forrest and Lyne. O'Malley's proposals, while they incorporated some elements

[6] *S.M.H.*, 31 Jan. 1905.

of Forrest's and Lyne's thinking, were unique in the inclusion of a Commonwealth Bank which would, in addition to carrying on normal banking business, provide the necessary mechanism for Commonwealth-state financial dealings.

O'Malley suggested that the Commonwealth should take over the states' debts or that part of them which could be serviced from the revenue collected by the Commonwealth but due to the states. This would take effect as soon as it was constitutionally possible. To facilitate the financial transactions of Commonwealth and states he proposed a national bank of deposit, issue, exchange, and reserve. The structure and function of the bank were set out in twenty paragraphs in a paper also presented to Parliament.[7]

The bank was to be conducted as a government department free of political control. The management was to consist of a Comptroller-General representing the Commonwealth and a Board with representatives of each of the states participating. The Commonwealth Treasurer would be entitled to attend all meetings of the Board of Management. The capital of the bank would consist of 12,000 shares of £100 each, of which 6,000 would be held by the Commonwealth and no more than 1,000 by each of the states, the Commonwealth having first option on any shares not taken by the states. The bank would be associated with the Post Office. In each state the General Post Office would be the head office and all branch post offices which issued money orders would be branches of the bank.

The proposed functions of the bank were outlined. It would issue notes which would be legal tender throughout the Commonwealth except at the head offices, where they would be paid in gold or consols. It would hold the accounts of Commonwealth and state governments. It would handle all aspects of Commonwealth and state loans: inscribing stock and making arrangements for the conversion, redemption, renewal, or issue of Commonwealth, state, and municipal loans. It would also hold the reserves of the proprietary banks under terms and conditions to be decided by the Board of Management and the Associated Banks of Australia and approved by the government. In addition it would carry on ordinary banking, accepting deposits and making advances.

At the conference O'Malley spoke on the proposed bank and Hol-

[7] *Comm. P.P.* (General), Vol. II, 1907-8.

man reported for a committee set up to examine the financial relations of the Commonwealth and states. O'Malley moved 'that no financial scheme between the Commonwealth and states can be satisfactorily adjusted without the establishment of a national postal banking system'. He expounded some of the points of his paper and foresaw that his scheme would produce economies in brokerage, underwriting and exchange. Further advantages would flow from the consolidation of the national credit which would give both resources and flexibility to the financing of state ventures.

The O'Malley scheme was given the general approval of conference, but the details were not seriously discussed. The conference contented itself with placing 'A Commonwealth Bank' on the fighting platform and specifying by resolution that it should be a bank of issue, deposit, exchange, and reserve. The conference also decided that the basis of payments to the states from revenue should be changed to one of fixed amounts per head of population.[8] O'Malley's ideas were not discussed in detail because few members had the technical knowledge to do so. He was the expert, possessor of obscure knowledge the technicalities of which were beyond the understanding of ordinary men. The banks were a symbol of capitalism and O'Malley, a man with banking experience, had a means of transforming the banking system which would make it the servant and not the master of the working man. If there was uneasiness it was because it all appeared too simple.

O'Malley further expounded his views on the nature of his bank in a five-hour speech in the House of Representatives in 1909. Essentially it was a plan for a central bank which would have the functions if not the structure of an improved Bank of England. It would consolidate the national credit by manufacturing 'an endless cable of indestructible mutual dependencies, supplied by a financial reservoir of inexhaustible power'.[9] It would hold the gold reserves of all banks and in time of crisis would sustain credit by rediscounting the securities of other banks. In the past, the banks had accentuated crises by tightening credit at the wrong time. Their practice, he said, 'reminds us of our experience as children, when they used to shove us to

[8] *Official Report of the Fourth Commonwealth Political Labor Conference*, Brisbane, July 1908.
[9] *Comm. P.D.*, Vol. LII, p. 3996.

bed in the evening when we were not sleepy, and pull us out in the morning when we were'.

O'Malley's role in the establishment of the Commonwealth Bank is considered in detail in a later chapter. Here it is sufficient to say that the blue-print of 1908 and his exposition in Parliament demonstrated that he had more than a superficial knowledge of banking. Furthermore, his ideas on central banking were neither visionary nor impractical. In fact they must be regarded as advanced for the time, and anticipated a central banking function assumed by the Commonwealth Bank long after its foundation.

# 6
# *Australian Notes*

*Wae worth thy power, thou cursed leaf!*
*Fell source of a' my woe and grief;*
*For lack o' thee I've lost my lass,*
*For lack o' thee I scrimp my glass.*[1]

There may have been a naïvely optimistic few who thought that if the government took over the note issue there would be bank notes for all. But most likely the assumption that such a belief was current was the creation of political and journalistic opponents of labour. Throughout the public and parliamentary discussions of the note issue and later of the Commonwealth Bank one line of criticism was that by their inexperience Labor men were unfitted to deal with matters of high finance. It was the proper province of bankers and businessmen, whose business was money; working men, whether in the factory or in Parliament, could scarcely be expected to master its mysteries.

If there was a general feeling in the community as expressed in public discussion and parliamentary debate it derived from the experience of 1893. Many people believed that Commonwealth notes, guaranteed by the resources of the nation, would prevent notes ever again becoming what the Sydney *Worker* had referred to during the crisis as 'shin plasters'—notes the value of which was made doubtful by the uncertainties of the crisis. There was a further more vague feeling that it would be an attack on the banks, the unpopularity of which was greatly increased by the crisis of 1893. In addition there was, as we have seen, a more sophisticated case some part of which had rubbed off on public opinion.

As a result of the Fusion of 1909 which had brought together the three non-labour parties the election campaign of 1910 was the first

[1] W. S. Douglas (ed.), *The Kilmarnock Edition of the Poetical Works of Robert Burns*, p. 301.

time that two parties, Labor and non-labour, faced each other squarely in the federal arena. While there were innumerable issues raised in the campaign by individual members of the still fluid Fusion and to a lesser extent by members of the Labor Party, the leaders, Alfred Deakin and Andrew Fisher, confined themselves to a limited number of questions.

In his policy speech for Labor Andrew Fisher promised more innovations than Deakin, who, as outgoing Prime Minister, concentrated on matters arising from his previous administration. Fisher promised a land tax which would raise revenue and which, it was hoped, would also encourage the breaking up of large holdings; fair conditions of employment to be secured by fiscal policy and arbitration tribunals; and a military and naval defence system which would be equipped as far as possible by the development of an Australian defence industry. He also proposed a settlement of Commonwealth-state financial relations by a system of *per capita* payments to the states. There was no mention of notes or Commonwealth Bank. Nevertheless they were present in the campaign. Plank six of the fighting platform was a Commonwealth Bank and, as we have seen, this had been amplified at the 1908 conference as being a bank of issue, deposit, exchange, and reserve. Furthermore, individual members of the Party, according to their own special interests, placed different emphases on the planks of the platform, including a few who saw plank six as the most important proposal. But even for these the emphasis was less on note issue than on the Bank, for the former was seen as subsidiary to the latter. Because this was so the place of plank six in the election will be considered at greater length in the next chapter.

The election was a decisive victory for Labor, being the first time that any single party had won a majority of seats in the Commonwealth Parliament. In the new House of Representatives Labor held forty-one seats, the Fusion thirty-one, and independents three. In the Senate Labor won all eighteen seats, giving it a majority of eight over the Fusion. Thus Labor, by contrast with all previous governments, which had depended on the support or acquiescence of more than one party, was in a commanding position to carry through its program. In fact the Parliament which ran from April 1910 to April 1913 implemented much of the platform, but not always in the exact form that might have been expected from the wording of its policy statements. Plank six was a case in point. How and why this happened is examined in the remainder of this and in the next chapter.

The platform was clear: a Commonwealth Bank would have note issue as one of its functions. Yet one of the early acts of the new government was to introduce legislation which would, while providing government notes, separate note issue from any projected bank. Apart from a Supply Bill and five amending Bills, the Australian Notes Bill was the third to be brought forward. Introduced on 26 July 1910, it was assented to on 16 September (Act No. 11 of 1910).

By the Australian Notes Act the government was empowered to issue notes in denominations of 10s., £1, £5, £10, or any multiple of £10. The notes were to be legal tender in all parts of Australia except that, if presented to the Commonwealth Treasury, they were exchangeable for gold. The banks were to be the first recipients of notes in exchange for gold. Against the issue the Treasury was to hold a 25 per cent gold reserve up to an issue of £7 million with 100 per cent gold cover on any issue above that amount. Under the Act the banks were not prohibited from continuing to issue their own notes but the Bank Notes Tax Act (14 of 1910) imposed a tax of 10 per cent on all bank notes in circulation, and this, in conjunction with a 2 per cent tax on the issue of notes, rendered them impracticable.

Andrew Fisher introduced the Bill in a short speech in which he commented on its main provisions, and, under pressure of comments and interjections from members of the Opposition, gave his reasons for its introduction.[2] His justification of the Bill contained no sophisticated case for a national currency which could be used as an instrument of financial policy. His reasons were proximate ones. He pointed out that the Queensland government note issue had proved a success; that he had advocated Commonwealth notes from his first address to the electors onwards; and that it was contained in the party platform. He referred to 1893 and claimed that the Bill would prevent notes ever again being sold at a discount. In reply to the criticism that the banks were now strong, that their notes were a first charge on assets, and that 1893 could not occur again, he argued that this was the appropriate time to carry the reform. He said that this was

[2] *Comm. P.D.*, Vol. LV, pp. 1226-43.

> one of the reasons why I desire to have this question brought forward at a time when there is calm, at a time when we can consider it apart from crisis, apart from panic, apart from any of those disturbances which have occurred in several countries and at various times, affecting banking institutions. The best time to carry through Parliament a measure like that under consideration is one like the present. We seek to make provision early, and in advance of necessities. That is the additional reason why we bring the matter forward and deal with it now.[3]

Finally Fisher denied that the real reason for the early introduction of the measure was the financial need of the government which would be relieved by a note issue. He agreed that there would be a financial gain to the government but denied that this was the primary incentive. In his least diffuse statement on this point he said:

> But it is one thing to make it appear that we have brought forward the 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.[4]

Thus in his address to Parliament Fisher insisted that it was purely a practical proposal to fulfil the promises of the party and to create a stable national currency; that there would be a gain to the government was secondary.

The Opposition, or at any rate a part of it, which had itself considered similar proposals, was hard put to it to find a consistent basis on which to oppose the Bill. However, Patrick McMahon Glynn, who was, despite his close friendship with King O'Malley, a lifetime opponent of government intervention in matters of banking and currency, was able to argue strongly that Fisher had failed to explain adequately why the Bill was necessary. He accepted the fact that the government had a mandate for the measure and that Fisher had long held convictions in favour of it, but this, he considered, was not enough. What was the substantive case for it? He would regard evidence that the banks were a monopoly which operated against the public interest as establishing a case for action.

If it could have been shown that control of the currency by the

[3] Ibid., p. 1231.
[4] Ibid., p. 1235.

banks meant a monopoly detrimental to the public interest, that it meant a privilege and a profit that was beyond the reach of the taxation powers of either the Commonwealth or the States; that it meant inflation or undue contraction of the currency, commercial embarrassment, private inconvenience, or any of the many effects or concomitants of an ill-regulated paper currency, or a badly managed medium of exchange, I, for one, should welcome this Bill. But throughout the whole of the Prime Minister's speech I failed to hear anything more than a casual assertion here and there that there was, in the present arrangement with the banks, something that necessitated this proposed interference with the currency.[5]

He mentioned the fact that Herbert Spencer had referred to the power of great joint-stock companies which dwarfed the power of the state and made it 'no longer master but slave'. But he considered that the conditions referred to by Spencer had been overcome by widening the basis of representation in Parliament. Because all classes were now represented Parliament could control monopolies. In any case the banks were not a monopoly.

Turning to the profits made by the banks from the note issue and assuming that it ought to go to the government, he argued that this could easily be achieved by taxation, by the imposition of a royalty. However, he was not prepared to accept the view that profits should go to the government and felt that if any change were to be made they should go to those who use the banks, the banking public. As for the note issue being used by the government as a means of acquiring a loan, he thought the method surreptitious. Loans, if they are necessary, should be sought directly. In support of the view he quoted Edmund Burke as saying that if necessity obliges anyone to seek credit it should be done with clearness and candour. Having disposed of several possible cases for the government notes, Glynn turned to Britain for examples.

He pointed out that in the City of London notes were a quite insignificant part of the currency in use, and that 'cheques and bills of exchange seem to be the modern currency'. Then from a thumbnail sketch of the history of English banking from the suspension of specie payments in 1797 through the 1844 Act and the crises of 1847 and 1859 he concluded that difficulties for the banking system only occurred when the government interfered with free banking.

[5] Ibid., p. 1243.

In a meandering debate, supporters and opponents of the Bill, which Fisher had made a non-party matter, belaboured one another with authorities and ill-prepared and ill-digested histories. Both sides called on the authority of J. S. Mill, Ricardo, Lord Overstone, and H. D. MacLeod, all of whom could, by quotation in or out of context, be made to support or oppose government note issues. Similarly the historical excursions which ranged from early Greece to nineteenth-century Europe were, by appropriate selection, used to the same end. In most cases the historical references, whether they were to the paper currency of Britain during the Napoleonic wars, the state banks of Kentucky and Alabama in 1820, or the greenbacks of the American civil war, were, because of the entirely different circumstances, irrelevant to the question under discussion.

The most genuine fear was that a paper currency could easily become inflated. But government supporters were able to dismiss this argument by pointing to the safeguards contained in the Bill; a 25 per cent gold reserve and an absolute limit on the amount of the issue. Had they known what lay in the immediate future, the opponents may have felt on firmer ground. For, little over a year after the Notes Act became law, the reserve provisions were amended to permit an issue of any size against a reserve of 25 per cent. This is what the banks had feared, although the outcome was not as they had anticipated; a heavy issue of notes did not have the drastic consequences that conservative bankers assumed in 1910.

Apart from Glynn the opponents of the Bill were not deeply committed to their opposition to the particular measure. What lay behind the opposition was a political stance which was pinpointed by W. M. Hughes, who said:

> Throughout this debate those who do not believe in the extension of the functions of the State will be found, no doubt, taking the same position in regard to this proposal that they do in respect of all others. If, for the sake of example, we proposed to nationalise the sugar or any other industry, most of the reasons that have been urged against a Commonwealth note issue would be urged against that proposition by the critics of this Bill.[6]

It was a doctrinaire opposition which balanced the doctrinaire support.

The criticisms of the Bill by members of the Opposition were a political ritual rather than the expression of deeply felt opinions. The

[6] Ibid., Vol. LVI, p. 1513.

same was true of the opposition newspapers. Having denounced the Bill as being of the same kind as the reckless expedients of autocrats throughout history, the *Argus* (29 July 1910) resigned itself to accepting the fact that the Bill would pass into law; the problem it saw was to amend the least acceptable parts. These boiled down to reducing the size of the issue below the proposed £7 million and raising the gold reserve above 25 per cent. Probably the most genuine misgivings were felt by some members of the Labor Party, who were concerned about the effect that the note issue might have on the larger proposal for a Commonwealth Bank.

It is notable that King O'Malley—who had never before shown any reluctance, given even the slightest pretext of relevance, to speak at length on his ideas about banks and currency—sat mute throughout the debate, except for occasional interjections. W. H. Laird Smith made a point of emphasising the supposed connexion with the bank-to-be. 'I am glad', he said, 'that it is the forerunner of a State Bank. I obtained a majority of 2,000 upon my election because, from the start to finish of my campaign, I advocated the establishment of a national bank.'[7] Senator Arthur Rae, who throughout a long parliamentary career was always on the left wing of the party, went further. He spoke of the note issue as a preliminary to establishment of the Bank; and the Bank he regarded as a step towards socialism.

> I contend that the trend of events the whole world over is in the direction of Socialism. That trend is inevitable. Nothing can avert it because it is the result of economic conditions. I hold that the Labour Movement is the practical expression of so much of that Socialism as the community is ripe for.[8]

However, it must be acknowledged that the opinions of Laird Smith and Rae were expressions of wishful thought rather than statements of evident fact.

Butlin sees the decision to place the note issue in the Treasury as a natural one which flowed directly from the policies of previous governments, which had been frustrated in their moves to launch a note issue simply by government instability. He says:

> Labour's legislation might well have come from any of the early governments, for all saw in the note issue—Fisher's government

[7] Ibid., Vol. LV, p. 153.
[8] Ibid., p. 315.

> most frankly of all—not a matter of high principle but a cheap source of funds. Note issue, whether government or bank, was in effect an interest-free loan from the general public.[9]

He also points out, and in this he is supported by Blainey,[10] that the banks were not seriously opposed to the government issue. Although they would have preferred to retain private issues, they were prepared to offer co-operation in return for minor concessions. The gold reserve, which in the original Bill was ambiguous, was fixed at 25 per cent, and the date for the application of the tax on private notes was, in response to the Bank's request, put back to 1 July 1911. Despite Fisher's denial that his motive was to obtain a loan from the public there is no reason to doubt the correctness of Butlin's interpretation. Hughes was less circumspect when he declared:

> If we are getting a loan without paying for it, we are getting it on exactly the same terms as are the banks; and if it is right for them, it is right for the State.[11]

Wrong in detail, since the government would be getting the loan on better terms than the banks, profits of which from the note issue had been reduced by taxation, the statement was at least more frank than Fisher's. Yet the note issue could still be seen by both Fisher and Hughes as primarily the implementation of a long-standing Labor policy.

There remains a further question, however. Why did Fisher not wait for the Bank to be formed and place the note issue there? The answer to this must remain speculative because there is no evidence on which to base a definitive answer. But the answer seems to be that note issue was a simple matter which could be presented as meeting the demands of the platform in part, and which had two added advantages; it was not seriously opposed by the banks and it would yield an immediate profit. The establishment of a bank was a much more complicated process and one about which—at least in the form in which it existed in the platform—neither Fisher nor Hughes was particularly enthusiastic.

To modern eyes perhaps the most peculiar kind of opposition to the new notes was that directed against the 10s. note. There had

[9] *Australia and New Zealand Bank*, p. 341.

[10] Geoffrey Blainey, *Gold and Paper: A History of the National Bank of Australasia Limited*, pp. 266-7.

[11] *Comm. P.D.*, Vol. LVI, p. 1523.

always been an argument that notes should not be issued for small amounts—the smallest Bank of England note was for £5—because of the rapid circulation of small units of currency. Passing through many hands the notes became mutilated and were not so efficient as gold or silver coin. To this was added the argument of hygiene which, according to the *Age* (12 July 1913), applied most strongly to the 10s. note. In a fine imaginative excursion the *Age* writer managed to state the dangers and also introduce the tones of snobbery and interstate rivalry.

> One can imagine the sordid history of a ten-shilling note first cashed in some vile den in the slums. What a filthy experience it may have gone through. How depraved and disease stricken may be the hands that have caressed it tenderly and parted from it with reluctance and regret. Every doctor has had cases of sore hands and mouths which were suspected as contacts of contaminated paper. The risk of pollution from this source will be accentuated by the advent of the ten shilling denomination. What provision is being made, also, to quarantine notes that have passed through the fingers of Sydney people now stricken down with small-pox? Notes alive with infection may be coming through the post . . . the exchange of money may be a certain means of introducing small-pox to this State.

Servicing the note issue was (and is) a big task but it scarcely warranted the fears that appear to have been seriously entertained in 1913.

The practical problem of launching the new state notes was considerable. The employment of skilled staff, the designing of the notes, and the organisation of their production could not be done in a day. So the Treasury sought and obtained the co-operation of the trading banks who sold to the government supplies of their note forms which were over-printed with the words 'Australian Note'. Having exhausted the supply of note forms before the Treasury was ready to go ahead on its own, two banks had a fresh supply printed in London and shipped to Melbourne. The first notes printed by the Treasury began to circulate in 1913, including the new 10s. notes which were looked on with such suspicion. Notes were soon to become a much more important part of the currency than was anticipated in 1913.

# 7
# O'Malley Pasteurised: A Bank is Approved

*A National Bank is a necessity. It will do the Government's business here and in London better than any other bank could do it. Time and experience will show how its functions for usefulness may be extended. We can rest assured that if this proposal, which is new in many important features, is a success all parties will ultimately lay claim to a share of the honour of having brought it into existence.*[1]

The Bill to establish the Commonwealth Bank was introduced by Andrew Fisher on 1 November 1911. It was greeted by W. H. Irvine, a leading member of the Opposition, with the words: 'This is O'Malley pasteurised'. And so began the debate about who was the real founder of the Commonwealth Bank; a debate which has often been bitter and emotional, attracting to it partisans and polemicists. To Australians of the 1960s, for whom the Commonwealth Bank in its several parts and its ubiquitous physical presence in grey stone, white marble, or red brick is one of the facts of Australian life, the acrimony of the debate may be difficult to understand. But for Australians of the 1910s the Bank was an innovation which aroused intense partisan feelings which are reflected in the debate about its origins.

As was seen in the last chapter the Bank was not made an important issue in the 1910 election campaign by the leading members of either party. Individual Labor members, such as Laird Smith, Frank Brennan, and others, made something of it. But in some parts of the broader labour movement the proposed bank was seen as a keen weapon with which labour could attack the entrenched positions of capital. The strongest expression of this feeling was contained in

[1] Andrew Fisher, *Comm. P.D.*, Vol. LXII, p. 2662.

the manifesto of the Political Labour Council of Victoria addressed to the federal electors and reported in the *Argus* of 21 March 1910. In a foreword it stated that the election would be the

> greatest struggle that has ever taken place in the world-wide war between labour and capital. The Labour parties throughout civilisation regard land monopoly, manufacturing combines, commercial trusts, and financial institutions as their chief enemies, and against these powerful classes every labour attack is directed.

Regarding the banking proposals the manifesto went on:

> Banking is one of the frauds by which capitalism bleeds the people. There are 21 privately-owned banks in the Commonwealth, which virtually control the industry and commerce of Australia, and make £1,500,000 a year profit out of their operations. The Labour proposal is not to nationalise the existing banks, but to establish a Commonwealth bank, with unlimited powers, which will have a branch in every considerable centre in Australia, and will enter into competition with the company-owned banks. The proposed bank would be one of the strongest in the world, and would of course manage the public debt of the Commonwealth. The gradual extinction, without compensation, of the present banks would follow as a matter of course. In 1893, before the rise of the Labour party to considerable power, a number of these banks swindled the thrifty classes out of an immense part of their savings. The deposits commandeered by the banks amounted to over forty millions. The smash arrested Australian industry, and caused widespread suffering and distress among the people for years, but did little or no harm to the perpetrators. Such a catastrophe could not happen under the Commonwealth bank.

Some candidates struck the same note; for example Frank Brennan, in an election address reported in the *Argus* on 30 March:

> The position was that if the Commonwealth bank were established, and worked on socialistic lines, its rate of interest would be so reasonable that it would attract to it the customers of the Commonwealth, and would become the predominant bank, and the other banks would sink into relative inferiority. Let the banks return the £40,000,000 taken from the people before the other side talked about confiscation. [Loud applause]. The banks had robbed the widow and the orphan, and they charged the Labour party with desolating the home. [Applause]. These arguments were the very last ditch of the conservative reactionary in politics.

The *Argus* naturally regarded such sentiments as completely destructive. It referred (23 May 1910) to Labor's intention to 'reconstruct society with a charge of dynamite' and forecast that if the banks were extinguished without compensation the financial skies would 'rain foreclosures and evictions'.

The Victorian manifesto expressed the continuing hostility to the Money Power which had become a part of the outlook of the labour movement in the nineties. For the Sydney *Worker*, the capitalist class was personalised as 'John Fat'. It considered that while 'John Fat' was reconciled to Labor's attack on him in a number of his guises, such as 'freedom of contract' and 'the rights of property', he felt secure as the Money Power. In a leading article (30 November 1911) the *Worker* warned that even in this role he was not secure:

> But there was still one sphere of activity left to John Fat Esq.—one hallowed domain within which no labour man, he thought, would dare to plant his plebeian boots. Finance—the banking business, the manipulation of the currency, the profound yet delicate operations of the money market—'With these', said John Fat unctuously, 'the Labor Party will never, never, presume to meddle.' What a shock has his complacency received.

Thus for a section of the labour movement who inherited the ideas which had first become widespread in the nineties the Bank was to be an institution through which the class war would be carried into the heart of the enemy stronghold. It was this opinion which gave an emotional tone to the demand for a Bank which any purely institutional innovation could not have. But how far was this view shared by the men who legislated the Bank into existence?

First we must examine the role of King O'Malley, the eccentric North American—it is uncertain whether he was born on the Canadian or United States side of the Canadian-Washington state border—who arrived in Australia in the 1880s and entered Australian politics through the South Australian House of Assembly in 1896, and who transferred to the Commonwealth by entering the first federal Parliament as a representative for Tasmania. He continued to represent a Tasmanian electorate until his defeat in 1917 following the split in the Labor Party on the issue of conscription for military service.

According to himself and his partisans O'Malley almost single-handed established the Commonwealth Bank. From what has already been said in this book such a claim is obviously absurd; the slow movement towards a Bank was present long before O'Malley and continued under the pressure of events after he came on the scene. But the question of how far he participated in the process still requires examination.

There are two parts to the O'Malley story: his policy-making and publicising role; and the tactical moves that he is supposed to have made to force a reluctant Fisher to bring down the Commonwealth Bank Bill. Since the latter has been the subject of the most intense controversy, it will be considered first.

Kim Beazley has shown[2] that in the thirty-six years between his electoral defeat and his death in 1953 at the age of ninety-nine, O'Malley gave five different and conflicting versions of how he forced Fisher's hand. The versions are set out fully in Beazley's article; they differ in detail but the hard core of the story is that O'Malley, realising that the Prime Minister was reluctant to implement plank six, organised in caucus to get a majority for the Bank and thus force Fisher to act. To do this he formed a faction called the 'torpedo brigade', the most active members of which, in addition to O'Malley, were Dr William Maloney and J. H. Catts. In the more mature versions of the story the activities of this ginger group came to a head at a caucus meeting on 5 October 1911. At this meeting according to one account the motion for the Bank was moved by J. M. Chanter and seconded by Dr Maloney. In another account O'Malley himself proposed the motion, having overcome the technicality that a notice of motion was required, by using the signature of the assistant secretary of the Party, which he had obtained by subterfuge and in return for a loan of £100. In a further version O'Malley forced the motion through caucus by one vote, the crucial vote being a proxy to which he had forged the signature of an absent member.

The O'Malley legend, which had been largely created by himself, was accepted in full by two of the people who have written extensively about the foundation of the Bank. To the eyes of his gushing and uncritical biographer, Dorothy Catts, wife of J. H. Catts, the story of the foundation was an epic in which the King slays one after another the dragons of ignorance, indifference, and calculated ob-

[2] 'The Labor Party and the Origin of the Commonwealth Bank', *Australian Journal of Politics and History*, Vol. IX, No. 1, May 1963, pp. 27-38.

struction.[3] Even if there were no other evidence to show that the O'Malley legend does not fit the facts, doubts about the biographer's objectivity would be raised from the first page of the biography; doubts which would be strengthened by the rest of the book. Dorothy Catts tells of her first sight of O'Malley.

> A tall, bearded figure strode on to the platform, head erect, unruly hair a tawny mass above his high forehead. 'He looks like a lion,' I whispered to my mother; 'like an eagle, too,' I added as I watched him.

Ecstatic hero worship is hardly the stuff from which careful biography is made. More might have been expected from L. C. Jauncey, an American-educated scholar whose *Australia's Government Bank* was published in 1933. But he, too, came under the spell of O'Malley's undoubtedly powerful personality; a twenty-year correspondence between the two (now held by the National Library of Australia) makes clear the extent to which Jauncey was under O'Malley's influence. His book, too, accepts uncritically O'Malley's recollections.

There will always be some doubt about the exact part that O'Malley played in the caucus meetings in 1910 and 1911. The minutes are brief and there is no certainty that they are complete. However, one thing that the minutes in conjunction with other evidence do show is that none of O'Malley's several stories could be true. On 5 October, the day on which O'Malley was supposed to have forced the issue on the Bank, the caucus already had before it the text of the Commonwealth Bank Bill. Five weeks earlier (30 August) at the caucus which considered the policy to be implemented in the coming session, Fisher had moved eighteen proposals, including one for a national bank. On 5 September the Governor-General's speech contained substantially the proposals agreed on at the caucus, including the proposal for a bank. Beazley concludes his examination of the evidence of the caucus minutes:

> The Government thus publicly committed itself to the establishment of the Commonwealth Bank on the basis of Caucus decisions initiated by Fisher. There was no motion from the floor forced on him. There was no action by a 'Torpedo Brigade'. There was no division. There was no resolution of Chanter and

[3] *King O'Malley, Man and Statesman.*

> Maloney. There was no cabinet resistance—the bank was a cabinet recommendation.

The recollections of two members of the cabinet support this finding. Hughes and Pearce, who both lived nearly as long as O'Malley, denied the truth of O'Malley's story—Hughes indignantly. In a letter of which a carbon copy is in the Hughes papers (National Library of Australia) he likens O'Malley's story to the tale told by Bill Adams—'How I won the Battle of Waterloo'. He goes on:

> As a flight of imagination it has its points, but as contribution to history it is not worth a moment's serious consideration. No doubt Mr O'Malley has told this story so often that he has come, as did George IV with his apocryphal story of the part he played at the Battle of Waterloo, to believe that things really did happen as he says.

Why O'Malley should have concocted these patently false stories must remain a mystery on which light may one day be thrown by a biographer using the insights of psychology. At the simple historical level the mystery is deepened by two further facts. Firstly, O'Malley could have taken credit for the leading part he undoubtedly played in having the idea of a bank accepted in the community and actively adopted by the labour movement. Secondly, the bank which was established was not the bank that he wanted; it was but a faint shadow of it.

From his earliest political days in Australia O'Malley had talked of the need for Australian notes and a national bank. In the South Australian Parliament he spoke of Australian notes which would be 'in the position of the American greenback, which said "I know that my redeemer liveth." They would do away with exchange between the colonies'.[4] From his entry to federal politics he harped on currency and a government bank: thus his speech reported by the *Mount Lyell Standard* of 21 January 1901:

> The Commonwealth should issue all paper money, making it a legal tender for all debts public and private, then when a bank bursts the owner of a note troubles not, knowing that Government its redeemer, liveth. A national banking system, under strict Government supervision, should be founded.

For the next ten years this was his constant theme and in the mind of the press and public the name O'Malley was identified with the idea

[4] *S.A.P.D.*, 1897, p. 400.

of the Bank. That this was so was clearly recognised by Fisher, who testified to it in the debate on the Commonwealth Bank Bill.[5] It was equally clear to W. G. Higgs, Treasurer in Hughes's first government, who urged that O'Malley's influence should be recognised by the inscription of his name on the Head Office building of the Bank.[6] This side of O'Malley's activities is justly summarised by Butlin:

> From early in the century, in season and out, he had preached the desirability of a bank, and within the party he was accepted as the leading spokesman for it. . . .[7]

How he preached and what he preached were as important as the consistency of his advocacy.

Eccentric and flamboyant are the words most commonly attached to O'Malley. With beard, frock coat, and broad brimmed hat, the man who had founded and become the first and only 'bishop' of the 'Water-lily Rockbound Church, Redskin Temple of the Cayuse Nation'; with a flow of colourful oratory to match his appearance; O'Malley was always certain of an audience. The appeal of his demagogic oratory lay in his rough wit and irreverence for the wealthy and dignified. In his language they were profiteers, racketeers, boodlers, and Brahma-pootra roosters. A political opponent 'was hopping around like a Mexican bob-tail bull in clover trying to keep blowflies off him'. At a time before the distractions of the instruments of mass communication audiences flocked to him to be entertained and were incidentally instructed. 'The jagged thorn in the buttocks of fossildom' was how the *Tasmanian Clipper* described him on 6 April 1901. No doubt his audiences enjoyed his clowning; O'Malley certainly did. But there was a serious man behind the clown. As *Punch* (13 June 1901) rightly remarked, 'his eccentricities are merely part of his capital', a judgment that is borne out by people who knew him.

He was serious enough to make a lot of money from various business enterprises, including the ownership of houses for rent, and money-lending—amongst others he lent money at interest to his less affluent parliamentary colleagues. He was serious also in his ideas on banking. What got over to the general public was his de-

[5] *Comm. P.D.*, Vol. LXII, pp. 3262-3.
[6] RBA, C2.59.8, Higgs to Miller, 1 June 1920.
[7] *Australia and New Zealand Bank*, p. 349.

nunciation of the wealthy and a threat to clip their wings with his bank. This was meat to those who were suspicious of or hostile to the banks: to those who were not he was a dangerous purveyor of poison. But in his more deliberate statements he demonstrated considerable knowledge of banking practice and ideas about central banking which were far in advance of his time.

There can be disagreement about the control and organisation of the bank that he proposed. It may have been difficult if not impossible to get sufficient agreement amongst the states to establish a representative Board. His proposal that it should be a government department and at the same time free of government control may have been impossible. But so far as function was concerned—the control of all Commonwealth and state banking and loan business, holding the reserves of the proprietary banks, control of a legal tender paper currency, and the conduct of ordinary banking business—it was a practical proposition. It anticipated the direction in which the Commonwealth Bank would evolve after its establishment and under the pressure of economic and financial changes. This was recognised later by Earle Page when as Treasurer he introduced his amendment to the Act in 1924. He referred approvingly to O'Malley's ideas.

> . . . ever since the inception of Federation, the honorable gentleman named [King O'Malley] has urged the establishment of a national bank. When the question of a Commonwealth Bank was first mooted, it was generally expected that a truly national bank would be established—a bank of deposit, issue, discount, exchange and reserve.[8]

Fisher's bank did not meet this prescription.

It had already been deprived of the possibility of being a bank of issue by Treasury control of notes under the Australian Notes Act. In other respects Fisher's bank was to be a conventional bank differing from the proprietary banks mainly in its administration and in the fact that it was publicly owned. In introducing the Bill, Fisher outlined the proposed structure of the Bank and almost as an afterthought set out what he claimed to be the reasons for establishing it. It was to carry on general banking but also savings bank business. Section 7 of the Bill gave the Bank power to

> carry on the general business of banking; to acquire and hold land

[8] *Comm. P.D.*, Vol. CVI, p. 1264.

on any tenure; to receive money on deposit, either for a fixed term or on current account; to make advances by way of loan, overdraft or otherwise; to discount bills and drafts; to issue bills and drafts, and grant letters of credit; to deal in exchanges, specie, bullion, gold-dust, assayed gold, and precious metals; to borrow money; and to do anything incidental to any of its powers.

The Bank was to be a body corporate with perpetual succession and a common seal, able to hold land and to sue and be sued in its corporate name. Capital was to be £1 million, to be raised by debentures (although these were never issued), the costs of establishment being met by the Treasury, which would be reimbursed later by the Bank.

The government of the Bank was a departure from existing practice. Fisher wanted strong direction and to avoid any appearance of direct political control. In the hope of achieving this he relied on a chief executive with extensive powers. Thus the Bill stated baldly, 'the Bank shall be managed by the Governor of the Bank'. The Bill provided also for a Deputy Governor, whose duties, with one exception, were unspecified. The exception was that in the absence of the Governor from Australia or when the Governor was unable to perform his duties by reason of illness or other cause, the Deputy Governor would exercise the powers of the Governor. In the debate much was made of the importance of having a Bank Board to advise and if necessary control the Governor, but the government stuck firm to the conviction that the Bank was most likely to achieve independence if authority were vested in one man. Fisher admitted that they were legislating for an autocrat but he put his faith in being able to find an able and benevolent despot. Strengthened by a caucus decision, Fisher would not be moved. 'In some respects', he said, 'he will have an autocrat's position, and if we get the right man, I have no doubt that we are pursuing a right course in that regard.'[9]

The main limitation placed on the Governor's power was the requirement that certain information be made available to the government and Parliament. The Bill specified a half-yearly audit by the Commonwealth Auditor-General who would report to the Treasurer, and the Governor was to provide a half-yearly balance sheet for the Treasurer and both Houses of Parliament. In addition to information, certain acts of the Governor required Treasury approval,

[9] Ibid., Vol. LXII, p. 2464. All references to the debate on the Bill are to this volume.

namely: the establishment of branches outside Australia; the appointment of an attorney to the Bank; the making of rules for the classification of staff and for the general running of the Bank; and the establishment of a superannuation fund.

It was assumed that the Bank would be a profitable enterprise and the profits over and above those necessary to maintain stability would go to the government. Of the net profits, half was to be put to the Bank reserve fund and half to a redemption fund. The Bank reserve was to be available to meet the liabilities of the Bank. The redemption fund was to be used in the repayment of money advanced by the Treasurer or in the redemption of stock or debentures issued by the Bank. Any excess could be used in connexion with debts of the Commonwealth or state debts taken over by the Commonwealth.

The second part of the Bill provided for the establishment of a savings bank. There was nothing new in the proposal (state savings banks existed in all states) except that it was to be a Commonwealth concern and a branch of a general bank. It was to be an ordinary savings bank receiving deposits of one shilling or more and paying interest at a rate to be decided by the Governor. The savings bank would make banking easy for minors, secure the savings of married women, and make moneys readily available to the relatives of deceased depositors. It could receive deposits from persons under the age of twenty-one, could pay out to children of twelve years or over money standing to their credit, and could pay out sums of up to £100 towards the funeral expenses of a depositor.

Fisher was at pains to explain that the government's motives in establishing the Bank were such as would be understood by businessmen, and would do no violence to the established institutions of a capitalist economy. Its purpose was to do the government's banking business and to make a profit for the government. He hinted darkly that in the long run it might develop certain functions that would make it a bank of banks—in modern times, a central bank.

He pointed out that in 1910 four leading banks, the Bank of Australasia, the Bank of New South Wales, the Commercial Banking Company of Sydney and the Union Bank, with a total paid up capital of £7,100,000 and reserves of £6,130,000, had made a profit of £1,170,000, of which £850,000 was paid in dividends and £230,000 to reserves. This represented a rate of 16 per cent on paid-up capital and nearly 9 per cent on combined capital and reserves.

From this evidence he deduced two things: that a higher rate of interest on fixed deposits would have spread the profits wider and more equitably, and that banking was a lucrative business from which the government should get its cut. He summed up this part of the argument:

> I am not making an attack on the banks. The question was put from that side, 'Is there a necessity for this bank?' My reply is, 'There is the evidence'; and surely the public, as a whole, as well as private institutions, have a right to be heard in this matter. Surely those people who are always thundering in favour of private enterprise and private competition, and deprecating the coddling and protecting and sheltering of persons or institutions, can have no objection to a Commonwealth bank being brought into existence, especially when that bank has to pay back the whole of its capital and pay interest on it also. (p. 2651)

In Fisher's opinion his bank was no revolutionary departure. It was not to be a substitute for, or a threat to, the existing banks. 'In a country like our own', he said (p. 2650) with disarming simplicity, 'which is growing in wealth and population, there is ample room for the establishment of another bank. A new bank has not been established in Australia for a long time.'

While Fisher believed that in the fullness of time the Bank would become 'the bank of banks rather than a mere money-lending institution', he was immediately concerned to give assurances that its own credit would be secure. For this he relied on the wisdom of the Governor, who, while he would lend on the security of land, would do nothing to stimulate a land boom and would concentrate on business in bills of exchange and other liquid securities.

In Parliament and the press, criticism of the Bill was along similar lines to that of the Notes Act. In its simplest form the argument was: since the government is not claiming that the Bank will achieve any major social or economic objective, why have a bank at all? This criticism was in part disingenuous and Hughes was right when he said:

> The Opposition bitterly regrets that the Bill is a practical measure, gives no hint of a millennium, no suggestion of printing presses working overtime manufacturing paper money throughout the twenty-four hours for the happiness of the people. It is a plain business-like and practical measure. (p. 3047)



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Joseph Cook, shortly to succeed Deakin as Leader of the Opposition, and with the bile of a one-time member of the Labor Party, twitted Labor with being false to the movement of which it was a part.

> I have always understood that this was one of the Labour party's proposals for raising up what Robert Blatchford calls the 'bottom dog', and making him equal in every way with his fellows. This was to be a measure of radical social reform, and as such has been advocated on every platform on which my honorable friends have appeared for the last twenty years. (p. 3107)

Instead of that, he argued, it would have a very different effect. If it were successful the people whom it would benefit would be the traditional opponents of labour. He went on:

> Those who will benefit from the proposed bank will be the capitalists who are engaged in trading concerns and as speculators; while the small workmen who have placed their little earnings in Savings Banks have the prospect of finding their interest reduced. In New South Wales the Labour party is competing with private enterprise by starting brickworks and other industries. The New South Wales Labour party is supplying cheap bricks for the speculative builders of Sydney, but the rents paid by working men are not being reduced. The people ask for bread, and the Labour party gives them bricks and banks, but does nothing to increase their welfare. (p. 3109)

In this statement Cook's sharp probing fingers found one of the most sensitive spots in the Labor anatomy; within a capitalist economy reforms intended to benefit the workers may give a greater benefit to employers; or in broader terms the creation of government institutions in the name of advance to socialism may strengthen capitalism.

Deakin also made capital from the contradictions in Labor policy. He stated what he believed were the two main seminal ideas in Labor thinking about banking. Firstly, there was the view that the enormous wealth which exists could be more equitably divided by means of a state bank. Secondly, there was the view that a powerful bank in the hands of a Labor government could be used against the great business institutions which were the direct exploiters of the masses. Deakin considered that neither of these views had much to recommend it. The case, if there was a case, for the creation of a Commonwealth Bank, he believed, rested on the possible need for an institution which would carry out the financial operations of the Commonwealth government, and which would also help to maintain the stability of the banking system. Such a bank, if the essence of federalism were to be preserved, would need to be established in co-operation with the states. For these reasons some parts of O'Malley's scheme appealed to him. He attacked the government for abandoning 'several of the most brilliantly original features' of O'Malley's proposals without having made useful substitutes for them.

Apart from the general intention of the government's bank, the two features of the scheme which came under the most adverse criticism by the Opposition were the extensive powers with which the Governor was to be endowed, and the proposal for a savings bank. It was generally agreed that the Bank must be secured against direct political influence. For the Labor Party, in addition to the dangers from parliamentary or government influence, there was the danger of the less readily identifiable influence of the private banks and big business in general. Complete authority in the hands of one man, with the safeguard that he could be removed by Parliament in exceptional circumstances, was accepted by caucus as the best answer. The criticism was simply that it placed too much power in the hands of one man. The Bank of England, the Bank of France, and the Reichsbank were cited as all having Boards, likewise all the leading banks in Australia. Why should the Commonwealth Bank depart from this well established system of bank government? Friendly critics such as S. Sampson favoured an Advisory Board: hostile critics such as Bruce Smith urged a Board of three or four men, 'eminent in commerce', a proposal which, he said, quoting the *Journal of the Institute of Bankers*, would have the effect of making the Bank 'more acceptable to bankers'.

The government's reply to these criticisms was not unconvincing. Hughes bluntly claimed that in reality all businesses are run by one man. There may be a Board but if the manager is competent he can carry the Board with him. Fisher argued that the inspection by the Auditor-General and the statements to the Treasurer and Parliament were sufficient limitations on the authority of the Governor, with the further possibility that Parliament could debate the conduct of the Bank's business, in this capacity assuming the functions of a Board of Directors.

The savings bank branch came under the most intense and continuous criticism. It was clear to everyone that savings bank deposits were a rich source for government borrowing. Thus the argument turned on the point that it was unfair to the state governments to invade territory already occupied by them. It was stated that the needs of the public for savings banks were already being met and also that the Commonwealth Savings Bank would at least reduce the business and at most replace the state savings banks. This would whittle down the financial resources available to the states, and perhaps deprive the states of this source entirely.

Fisher made it clear that the Commonwealth Savings Bank would be in competition with the state banks and would use the advantages available to it in this competition. The first of these was that it could use the post offices and their staff to carry on the Bank's business. Further, he foresaw that there would be economies of scale which would permit the Commonwealth to offer better terms than the states could afford to match. In the event the state banks proved more durable than Fisher anticipated. In 1911 he believed that they would not resist the competition for long. He said:

> I desire to say quite frankly that I think that the passing of this Bill will mean that there will be ultimately only one Savings Bank in Australia. Let me add, however, that no citizen of the Commonwealth will be a penny the worse off on that account. On the contrary, he will be better off. This Government will provide, so far as it can possibly do so, for taking over the liabilities and responsibilities of the State Savings Banks if the State banks so desire after this Bill comes into operation. (p. 2648)

Amongst the Opposition there were some who were genuinely concerned about states' rights. For example, Deakin referred to the proposal as 'absolutely antagonistic both to Federal principles and practice'. But there were also some, whose complaints became louder after the Bill was passed, who saw it as an opportunity to raise opposition to the government by playing on vague fears. The *Sydney Morning Herald* (17 November 1911) referred to the Savings Bank as 'a little bit of the gingerbread with the gilt off'. It saw an ulterior design which constituted a serious threat to the existing banking system, and even to personal savings.

> . . . the bank is to be pitted against all other banks, with intent to displace them, and the better it succeeds the sooner may private and State concerns be invited to put up their shutters. This is really little better than a species of wholesale confiscation, and it should be resisted to the last ditch.

If, as some of its opponents asserted, the Labor Party had aroused unjustifiable expectations of benefits to be received, they were more than balanced by the disreputable innuendos of those who beat out the refrain that the Savings Bank was designed to 'grab' the people's savings.

Despite the ritualistic opposition and the vague fears aroused by the less responsible critics, the Bank was not a threat to the existing banks or to established financial procedures. On the other hand it was not an institution which in its original form could perform the functions of the Bank of England. It was not O'Malley's bank occupying a central position in the banking system, uniting the several parts to produce, in his words, 'an endless cable of indestructible mutual dependencies, supplied by a financial reservoir of inexhaustible power'.[10] Nor was it a bank that would puncture the 'fat men' and bring about a redistribution of income to the advantage of the poor. It was an ordinary bank the only special function of which was that it would carry out the financial transactions of the Commonwealth government. What it might become under the pressure of events lay in the future.

The Bank was established in this form for very simple reasons. A bank was on the fighting platform of the Labor Party and the government was under two types of pressure: one from the left wing of the labour movement demanding a bank which would lead an attack on the Money Power; at the other extreme were those who were opposed to any government intervention. Fisher's bank was a compromise; it met the requirements of the fighting platform, although it skated around the fuller description contained in the resolution of 1908; at the same time it created no serious apprehension in the minds of bankers or the conservative public in general. Many years later, in denying one of O'Malley's claims to have established the Bank, Hughes incidentally made clear what was in his and Fisher's minds (letter in Hughes's Papers, N.L.A.).

> The facts are that between O'Malley's fantastic scheme . . . rejected by an overwhelming majority of the Party . . . and that adopted by Mr Andrew Fisher there was an unbridgeable gulf; that it was because Mr Fisher set his face resolutely against Mr O'Malley's scheme and insisted on the Bank being established on sound banking principles that succeeded so magnificently. and

[10] Ibid., Vol. LII, p. 3996.

earned those thirty eight millions of profit for the people of the Commonwealth.

The mountain had laboured and brought forth a mouse; but it was a mouse capable of growth far beyond the limits normally imposed by nature on its kind.

# 8

# *The First Year and A Half, 1913-1914*

*The opening of the Commonwealth Bank of Australia today in the centres of the Commonwealth and in London for the transaction of all general banking business marks the accomplishment of the provisions of the Commonwealth Bank Act of 1911, all the requirements of which have now been given effect to, and is an important event in the history of the Commonwealth of Australia, and, in fact, of the whole banking and financial world.*[1]

To establish the Bank on sound banking principles was the declared aim of the government: to realise the aim a sound banker was required to preside over its establishment. After consultation with leading bankers, Fisher offered the post to Denison S. K. Miller, who, after only slight hesitation, accepted.

Miller, christened Samuel Denison King, the son of a schoolmaster, was born on 8 March 1860 at Fairy Meadow, a hamlet near Wollongong, about fifty miles south of Sydney. His banking career began at the age of sixteen when he was appointed a probationer in the Bank of New South Wales at Deniliquin, a small western town where his father was headmaster of the public school. Six years later he was transferred to Head Office in Sydney as a clerk. There he remained, being promoted accountant in 1895, General Manager's assistant five years later, General Manager's inspector in 1907 and inspector of the metropolitan branches in 1909. When approached by Fisher he had just returned from a world tour on which he had studied modern banking practices in other countries.

The uncertainty of the Bank's future and the aura of disrepute with which its opponents surrounded it had cast doubt on the possibility of obtaining a really able and experienced banker. But the

[1] Denison Miller, *Evening News*, 20 Jan. 1913.

government was prepared to pay—up to £10,000 per year, Fisher said later—and some of the leading bankers to co-operate. On 6 May 1912 C. W. Wren, Chairman of the Associated Banks of Victoria, wrote to Denison Miller:

> I recommended you [to Fisher] as being absolutely the best qualified man I knew for the position though I told him I did not think you would accept it.[2]

On the same day Fisher wrote to Miller inviting him to enter into negotiations, 'with a view to your taking an important position in the service of the Commonwealth of Australia'. Less than a fortnight later Miller had accepted the Governorship.[3]

The terms of appointment were financially generous: a salary of £4,000 per year and the same travelling expenses as were allowed to judges of the High Court, namely three guineas a day and first class rail and steamer berths. The appointment was for seven years with the further provision that, should the Bank for any reason cease to exist within that period, the salary and expenses would continue until the end of the term of appointment. In his letter to Fisher, Miller specified as a condition of his acceptance that the Governor should be free from any political control or interference of any kind. The Order in Council (19 of 1912, approved 22 May) appointed Miller as Governor from 1 June. It was silent on the question of independence from political control; a concept which was only to be worked out in the early years of the Bank's operations.

Miller went to his new post with the good wishes of some of his banking colleagues, a dinner presided over by John Russell French, General Manager of the Bank of New South Wales, and a letter from French expressing confidence that his experience in the Wales had fitted him for his new responsibilities.

> The work you are taking up is very important,—with your experience and training in this Bank it ought not to be new or strange,—I am quite sure that it will be your aim to keep that experience and training always before you in your new sphere of action.[4]

From an office in Melbourne, which he occupied on 1 June, Denison Miller began immediately to select staff and make arrange-

[2] RBA, C2.59.1.
[3] Ibid., D. Miller to A. Fisher, 17 May 1912.
[4] Ibid., J. Russell French to Denison Miller, 27 May 1912.

ments to open the Bank at the earliest possible moment. He started with the Savings Bank, for which there was ready-made machinery in the Post Office. State savings banks were forced to vacate the post offices to make way for the Commonwealth, the first offices vacated being in Victoria, where the Commonwealth opened with a branch office in Melbourne and 489 agencies in post offices throughout the state on 15 July 1912. The first depositors in Melbourne were the Prime Minister, the Chairman of the Associated Banks, present in a personal capacity, and King O'Malley. The other states followed: Queensland on 16 September with agencies in 194 post offices; the Northern Territory a few days later with agencies at Darwin and three outposts; Tasmania opened for business at 147 post offices on 1 January 1913; and in New South Wales, South Australia, and Western Australia savings bank business started twelve days later.

The Governor could not devote himself exclusively to the Savings Bank. While it was being launched he was also preparing the general banking division. Between July and October he travelled from one end of the continent to the other appointing staff, selecting sites, and leasing or buying premises. In July and August he was in Brisbane, Townsville, and Cairns; in September he was off to Adelaide, Kalgoorlie, and Perth; and in October he was in Hobart.

The appointment of suitable senior officers involved decisions of critical importance. From long experience in the Bank of New South Wales Miller knew many of the senior and second ranking officers of the existing banks, and in his travels around Australia recruitment was one of his main objects. The two most senior positions under the Governor were that of Deputy Governor, and, because of the importance of London to the Bank, the manager of the London branch. James Kell, an inspector of the Bank of Australasia, was appointed Deputy Governor at a salary of £1,500 per year. As measured by the salary of £2,000 per year the London managership was more important. It was filled by C. A. B. Campion, a man well acquainted with London banking from his years as the London manager of the Australian Bank of Commerce. Other senior officers appointed before the opening of the general banking division were E. W. Hulle and H. T. Armitage. In addition to the senior men more than one hundred other officers were recruited, mostly from the existing proprietary banks and savings banks—only fifteen being drawn from other sources.

Before the Bank could open there were numerous practical matters to arrange. Premises had to be acquired and suitably fitted to carry on the business of banking. Regulations for the conduct of the Bank had to be drawn up and incorporated in books of instructions for the staff. Agencies had to be established throughout Australia, and arrangements made to provide exchange facilities in the world's major cities. So far as it could the Bank of New South Wales gave generous assistance. Many of its procedures were taken over by Miller. It agreed to act for the Commonwealth Bank in the settlement of daily exchanges, and made its branches in Australia, New Zealand, and Fiji available as agencies. The Queensland National Bank, the Bank of Adelaide, the Western Australian Bank, and the Bank of Tasmania also agreed to act as agencies. The Bank of New South Wales gave further assistance by allowing the Commonwealth to make use of all its foreign agents and correspondents.

The Bank opened, with the Head Office in Sydney and branches in all state capitals, Canberra, Townsville, and London, on 20 January 1913, some seven and a half months after Miller took up his appointment. It ended the first day's business with deposits totalling £2,368,126, most of which came from the transfer of the Commonwealth government's accounts to the new Bank.

By the time the Bank opened, most of the vocal criticism had died down. The appointment of Denison Miller confirmed the implications of the Act itself that there was no intention to make any startling departures from customary practices. But some of the press could not forbear from sniping at the new institution. The Sydney *Sun* (20 May 1912) commented peevishly on the appointment of Denison Miller:

> Mr Fisher has given the manager of the Commonwealth Bank a salary of £4,000 a year, and an order to make bricks without straw. Mr Denison Miller, the new manager, has a reputation for high ability, and is no doubt a sound and capable banker, but he was scarcely at the top of his profession when Mr Fisher doubled or trebled his salary in order to induce him to undertake a Herculean task.

The *Argus* (9 June 1912) chose heavy irony in an article published a week after the Governor took up his post.

> At first the Director himself opened the letters and sorted the

applications, but by the end of a week he had found it necessary to engage a staff of 100 clerks. Still the applications flooded in. A special Cabinet meeting was held, and it was decided to place the whole of the employees in the Home Affairs, Unfinancial Affairs, Mess-of-Affairs, and Preference to Strikers' departments at the chief officer's disposal.

The *Argus* (2 July 1912) was relieved at the appointment of Miller as Governor but amused itself by contrasting him with some of the expectations that the Bank had aroused.

> We remember that the Political Labour Council of Victoria issued a manifesto stating that the Commonwealth Bank when established would 'squeeze out the vampire banks', and assured the electors that no housewife would in future be short of a few pounds in her pocket. Mr Miller—trained in the principles of sound banking—has no intention to open a 'Housewife's Advances Department—Empty pockets replenished. Weekly bills promptly settled'. Nor is it likely that he regards the institution in which he gained his experience as a 'vampire bank', to be as speedily as possible squeezed out of existence by the tremendous and relentless force of the Commonwealth.

The myth of the government stroke—the idea that all public servants are slothful and inefficient—was employed by the *Sydney Morning Herald* (13 January 1913) to qualify its approval of the Bank.

> The existing banks will welcome their new competitor with no ill-feeling. They believe that, given an open field, they will be well able to hold their own against the Government stroke. Of course, the newly appointed officers, drawn from practically every bank in the Commonwealth, at present feel that they will never be smitten by the sleeping sickness that so insidiously worms its way into the efficiency of all Government institutions. But in this, as in other matters, we can only take our cue from the experience of the past. Still there is a field for the new bank.

The most pained criticism of the Bank came from sections of the labour movement which saw as weaknesses what to conservatives were strengths. The left-wing *Labor Call* (13 June 1912) reported:

> During the last week Labourites have been permitted to pick up some precious gems of knowledge and reasoning regarding the use to which the Commonwealth Bank is to be put. Interviewed by the plute press on 4th inst., Mr D. S. K. Miller, the £4,000 Governor, unburdened himself as follows:
> 'I want the bank to be like the Bank of England. It should grow

> so strong that should there be a crisis we will be able to stand behind other banks and help them. From my varied banking experience I know that the Commonwealth Bank can and will be a great strength to other banks'.

The paper commented bitterly:

> The Bank of England is governed by a board of grasping capitalists, drawn largely from the directorates of the large London clearing banks and the partners of private banking firms....

The Western Australian *Truth* (26 October 1912) was even more scandalised:

> A fine thing, indeed the Labor Party has done with its great majority: it has contracted to pay a man £4,000 a year and £22 a week expenses to make the Commonwealth Bank, among other things, a source of strength to the private banks! What has become of the Social Democratic ideal of the absorption by a national bank of 'all institutions that derive a profit from operations in money or credit'. The ideal of Andrew Fisher's nominee is, he says above, to make the bank 'like the Bank of England'. The ideal in our opinion, is not an admirable one. The Bank of England has done much harm to the English people; its history should be written in letters of blood.

Whether in blood or gold, for many in the labour movement the Bank of England was the symbol of grasping capitalism.

As in the debates in Parliament, the most severe press criticism was directed at the Savings Bank. Moderate critics saw it as a Commonwealth instrument which would by competition deprive the states of important sources of funds otherwise available to them. At the time of the Commonwealth Bank's opening almost £60 million of deposits were in the hands of the state savings banks and were largely at the disposal of the state governments. It was assumed that the inroads made by the Commonwealth on future savings would reduce greatly the money in the hands of the states' banks. More extreme critics denounced the Savings Bank as a scheme which not only invaded states' rights but also could be used to finance extravagant policies of the Labor government. Thus the *Australasian Insurance and Banking Record* of January 1912 warned of the dangers as it saw them.

> In itself the desire to obtain control over the savings of the Australian people, amounting now to over £60,000,000, for the

> purposes of a Commonwealth Bank and a huge public expenditure by a Labour Government hopelessly incapable in administration, bodes mischief. That the States should retain the fullest possible control over their own financial arrangements is unquestionable.

Conservatives have always been predisposed to believe that Labor governments are likely to launch into reckless expenditure; a belief that has scarcely been born out by the history of Labor in office.

The particular criticisms of the Commonwealth Savings Bank were accurate in only one respect: that it was the policy of the government, as stated by Fisher and later by Denison Miller, gradually to work towards a single savings bank. The case for a single bank was that uniformity of administration throughout Australia had advantages, in particular for migratory workers. It was also expected that there would be economies of scale which would permit the payment of higher rates of interest to depositors. The case against it was that it was a step towards unification with a decrease in the financial resources available to the states. In fact the proposals for amalgamation put forward by the Commonwealth would not have cut into the states' resources.

The Commonwealth Bank made an offer to each state to take over the business of their savings banks. The proposed terms of the amalgamation were intended to leave with the states access to as high a proportion of the funds deposited as they had before amalgamation. The Commonwealth Bank proposed that it take over the savings bank business, accepting the liabilities to depositors and receiving as assets an equal amount represented by cash in hand, fixed deposits, and government stock, with currencies of from twenty to forty years with interest at $3\frac{3}{4}$ and 4 per cent. The state governments were to have first call on 75 per cent of the deposits made in their respective states, giving in exchange debentures and stock, bearing interest at current rates, but not more than 1 per cent above the rate being paid by the Commonwealth Savings Bank to depositors. The other part of the business being carried on by the state banks, such as agricultural banking, *crédit foncier*, and advances to settlers, was to be retained by the states, the Commonwealth Bank simply acting as agents to collect deposits and handing over the 75 per cent to the state governments and receiving state debentures in return.

The policy pursued by Denison Miller in building up the Savings Bank was far from aggressive. The rate of interest on deposits was fixed at 3 per cent with a limit on which interest was paid of £300. These were less attractive terms than those offered by most of the state banks. The New South Wales Government Savings Bank paid 3 per cent up to a maximum of £500; the Victorian Bank 3½ per cent for the first £100 and 3 per cent from £101 to £350; Queensland 3 per cent to a maximum of £500; South Australia 3½ per cent to £250, and Western Australia 3 per cent to £1,000. Yet the business of the Commonwealth Bank grew steadily. By August 1913 it held over ninety thousand accounts, with balances totalling £2·8 million. On the other hand there was no appreciable slackening in the rate of increase of the other savings banks.

The proposals for amalgamation received a hearing in two states, Tasmania and Western Australia. The state savings bank in Tasmania was a small concern with deposits of less than £1 million, the responsibility for which the government was quite anxious to be rid of. The amalgamation was empowered by the State Savings Bank Transfer Act of 1912 and effected by agreement dated 19 June 1913. Western Australia entered into extended negotiations, but these ultimately broke down. Although negotiations were reopened later, it was not until the great depression in 1931 that the Western Australian Bank was amalgamated with the Commonwealth.

In the wealthiest and most populous states, New South Wales and Victoria, the state savings banks presented the most determined opposition to Denison Miller's offer and entered into the most active competition with the Commonwealth Savings Bank. The New South Wales Savings Bank Commissioners early made clear their determination to resist competition from the Commonwealth. In a statement to the Legislative Assembly as reported in the *Australasian Insurance and Banking Record* (March 1912), the Commissioners were

> fully seized with the importance of meeting its prospective opposition. In their opinion, this competition has to be met by freely opening new branches, and by establishing in the 619 centres in which there is at present a post-office agency a competing office under new management.

The Commissioners carried their fight to the length of pettishly refusing a request from Denison Miller for copies of books and forms used by the Bank. The Victorian Bank raised its interest rate by ½ per cent and lifted the limit on which interest was paid, thus offering better terms than the Commonwealth. At the same time it launched a vigorous advertising campaign lauding the advantages of the state Bank.

In New South Wales opposition to the Savings Bank was strengthened by a complex political struggle in the labour movement, centring on W. A. Holman and W. M. Hughes, the point at issue being a proposed extension of Commonwealth powers. The 1908 interstate conference of the Labor Party—the same conference which had adopted O'Malley's banking proposals—had decided to seek additional powers for the Commonwealth. To implement this, but also going beyond the specific powers considered necessary in 1908, Hughes, as Attorney-General in the Fisher government, early in 1911 prepared proposals to put to the people by referendum. The constitutional amendments drafted by Hughes would, if adopted, have increased greatly the powers of the Commonwealth over the economic life of the country: to an equal degree they would have reduced the powers of the states.[5]

Within the labour movement Holman led the opposition to the amendments. In public statements he made it clear that he opposed the amendments and his opposition, whether openly declared or merely deduced from his later silence, was given great play by the press. It was brought fully into the open, some time before the referendum, at the conference of the New South Wales Labor Party. Holman argued forcefully that the proposals went beyond the existing platform. The opposition to him was led by H. Lamond, editor of the *Worker*, organ of the powerful Australian Workers' Union (A.W.U.), who insisted that Holman was inspired by nothing more principled than jealousy of Commonwealth ministers. The conference voted for Lamond. So strong was the feeling that the conference of the A.W.U., which met immediately after the Labor Party conference, recorded that 'Mr Holman should at once retire from the labour movement and fight it from outside and not from within'.

Following the conference Holman refrained from direct participation in the referendum debate but made it clear by oblique references where his sympathies lay. He went even further four days before the referendum, in a pre-sessional address to a Labor rally at Cootamundra. There he outlined a program for the coming session of the

[5] See H. V. Evatt, *Australian Labour Leader*, p. 193.

New South Wales Parliament. It was a program of industrial reform, partly in areas over which the Commonwealth would claim jurisdiction if the referendum was carried. It even included a proposal for a state bank.

Hughes's amendments were heavily defeated in the referendum and Holman did not refrain from underscoring the humiliation of his rival. The animosities generated by the campaign strengthened Holman's determination to resist any pressure towards the aggrandisement of federal institutions. Thus the Commonwealth Bank could not expect any encouragement from the New South Wales government, Labor though it was, so long as Holman remained its most influential member.

In Victoria there was no need for a division in the labour movement as the Labor Party was still far from the Treasury benches. A non-labour government firmly committed to the defence of states' rights looked coldly on anything which was likely to increase the influence of the Commonwealth. Hence it followed that they were quite unprepared to surrender their savings bank or make use of the general banking division of the Commonwealth Bank. The remaining states, South Australia and Queensland, were not so resistant to the Savings Bank proposals of the Commonwealth as were New South Wales and Victoria, but there was also no particular pressure for them to come within the ambit of the new Bank. As it turned out the Queensland Savings Bank was the second to amalgamate, but this occurred under circumstances which could not be anticipated in 1912 or 1913.

The political opposition to the Bank arose not only from those concerned to protect existing institutions or states' rights from Commonwealth encroachment. As we have seen, the Bank was subject to general political criticism from both left and right. The criticism from the left expressed a disappointment that the Bank was not setting out to change fundamentally the banking institutions of the country. The criticism from the right was based on a complex of motives of which the most weighty was a doctrinal opposition to the creation of government instrumentalities and a desire to make party political capital from the way in which the Bank operated or was considered likely to operate.

The political capital was made but the fears were without foundation. In regard to both savings and general banking divisions Denison

Miller's policy was conservative. Men in established positions in the state savings bank had some reason to feel apprehensive about their future, but so far as funds available for state use were concerned there was no threat in the Bank's policy. The same was true of the general bank. Some twelve months after the Bank opened Denison Miller set out his policy and perspectives in a letter to Sir John Forrest, Treasurer in the Liberal government which replaced Labor following the 1913 general election. His aim was to build a bank which would not interfere with the existing banks, which would do the banking business of the Commonwealth government and such of the state governments as might elect to do business with it, and to meet the needs, when it could be done safely, of those members of the public who could not be accommodated by their own bankers. In addition he hoped to receive a share of the new business which would naturally arise from the growth of the economy. In regard to private business Miller was at pains to emphasise that he was not competing aggressively with the private banks; the interest rate for overdrafts was a uniform 6 per cent with 5 per cent for charities and churches; the fixed deposit rate was $\frac{1}{2}$ per cent less than the other banks; and business was declined if it was discovered that it was offered to secure a lower rate than was being charged by the applicant's own bank.

Miller had ambitious plans for the future but they were not of a kind to cause any worry to the other banks. He proposed to continue his conservative policy with private accounts but hoped for an increasingly important role as the government banker. He thought that a majority of the state governments would in due course bank with the Commonwealth. He hoped that his Bank would become the medium for the consolidation of all state debts, and would also, with appropriate amending legislation, take over the Australian note issue. The latter function, he considered, could be of positive advantage to the other banks which could be assisted with notes 'in time of trouble'.

These were things for the future and were to be influenced very strongly by the outbreak of war in 1914. In its first year Denison Miller and his colleagues were to be mainly preoccupied with the problems, administrative, personal, and political, in getting the Bank working.

As we have seen, one of the points of criticism made during the



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debates on the Bank Bill was that too much power was to be placed in the hands of the Governor. Ten years later, when reform of the Bank became a political issue, the fact of the Governor's autocratic powers—exercised during the previous ten years—was even more warmly debated. There can be no doubt that in the administration of the Bank the powers of the Governor were absolute; it is equally beyond dispute that he exercised them to the full. In building the administrative structure Miller kept all the reins firmly in his own hands.

Under the Act all responsibility was placed in the hands of the Governor but under the regulations he was permitted to delegate. How he did this is the key to the way in which the Governor maintained his close personal control. Next to him in the hierarchy was the Deputy Governor, who was given no specific powers under the Act, except that he could assume the powers of the Governor, if, for any reason, such as illness or absence, the Governor was unable to perform his duties. However, the Governor could delegate full authority to him over as many matters as he wished. In practice the powers delegated were very few, and always remained conditional on Miller's final approval. Kell was not happy with this position and after ten years of experience he sought a definitive statement of his duties and responsibilities from the Attorney-General, R. R. Garran. He explained that the Governor consulted him on general policy matters: investment of the Bank's funds, purchase of sites and acceptance of tenders, the appointment, promotion and payment of staff, and so on. But his advice was often rejected and the Governor made it clear that decisions were his concern and that Kell's responsibility ended with giving an opinion.[6]

In the day-to-day working of the Bank the Deputy Governor had some authority but it was always closely subject to the Governor's approval. The main business of banking is the lending of money and over this the Governor established and maintained a close personal control. He not only laid down general policy about advances, but required that all advances should have his approval. In a memorandum for the guidance of branch managers, issued at the inception of the Bank and which was unchanged throughout Miller's rule, managers were required to submit all proposals for advances, with their recommendation, to the Governor. In practice these went to Kell,

[6] RBA, C2.26.9.

who seems to have had authority from the Governor to approve small amounts. However, at least until 1918, Kell, except in a few rare instances, did not approve any advance exceeding £2,000, these, too, being scrutinised and approved formally by the Governor.

For the physical equipment of the Bank the Governor made the decisions. In the early years, in addition to deciding what sites and buildings should be purchased, he also authorised the purchase of all fittings and furniture. This was later modified to permit the manager at Head Office to buy furniture without specific authority, but the branch managers were still required to obtain the Governor's approval for the purchase of anything. It was not until 1921 that there was any significant delegation of authority, and then only to permit the inspector and secretary, third and fourth in the hierarchy, to approve branch purchases of furniture. Even then the Governor instructed that he should be kept informed of what was being bought.[7]

Staff matters were a particular concern of the Governor. All of the original staff were interviewed and appointed by him personally. Later a staff committee consisting of the chief accountant and the actuary were empowered to deal with a limited number of matters such as appointment of probationers and other temporary employees, recommendations for increased pay for officers on salaries of less than £300 per year, and resignations of 'Officers on salaries not exceeding £300 per annum, all Typistes and other Employees, Messengers, Cleaners, Luncheon Room Staff and other Temporary Employees'. But recommendations for transfer and the permanent appointment of junior members of the staff required the approval of the Deputy Governor.[8] As late as 1919 the Governor minuted a document reporting staff changes of cleaners: 'No person must be employed in the Bank's service without a full report on him or her and the Governor's authority, nor must anyone be discharged or granted leave without the same authority'.[9] Even cleaners were the personal concern of the Governor.

The Governor too, not always directly but sometimes through Kell, kept a firm hand on all correspondence issuing from the Head Office. All important correspondence required the approval of the

[7] Ibid., H. T. Armitage—Staff files.
[8] Ibid., Staff Department Authority Book.
[9] Ibid.

Governor or Deputy Governor before it was sent. Duplicates of all less important correspondence from the more important departments were submitted to the Deputy Governor on every second day. Thus all levels of the Bank's activities were kept under the closest scrutiny.

In the early years of the Bank the Governor kept his finger firmly on everything. After a few years the Deputy Governor handled a great number of non-policy matters, but always on behalf of the Governor. If there was any official to whom Miller delegated real authority, other than the little which went to Kell, it was H. T. Armitage, who successively occupied the positions of accountant, chief accountant, and secretary (and finally Deputy Governor and Governor). He worked very closely with Miller—his desk was immediately outside Miller's door—and Miller appears to have had a high opinion of his ability. However, this arose from confidence in a person rather than delegation to an office.

The development of the London branch, the operations of which from the beginning constituted a significant part of the Bank's total activities because of the importance of the London money market, could not in the nature of things be so directly under the control of the Governor. However, lines of policy were firmly stated by Miller, and the London manager reported to him regularly and in detail. Immediately after his appointment as London manager, Campion outlined what he thought the function of the London branch should be. He foresaw that, as with all Australian banks in London, the main business would be exchange in the form of telegraphic and postal transfers and the negotiation of bills. Current accounts, apart from the Commonwealth government, and the accounts of such of the state governments as might transfer part or the whole of their business, would be limited and largely confined to Australian customers. Savings bank business would be restricted to travellers, particularly migrants, who could make deposits in London and draw on their passbooks when they reached Australia. In the lending of funds in London the Commonwealth Bank would naturally follow the practice of other London banks. They would lend for short terms to the large discount houses or private banks such as the Union Discount Company, the National Discount Company, Brightwen and Company, and Rothschild's, Parr's, and Barclay's Banks.[10] To main-

[10] Ibid., LLS, London manager to Governor, 1 Nov. 1912, 10 Jan. 1913.

tain the highest possible liquidity Miller instructed that investment should be concentrated on best bank bills and current paper; and that the Bank should not buy British government securities so long as other avenues of investment were open.

As in Australia, the policy of the Bank in London was to get itself established with as little friction as possible. The possible points of friction were the Bank of England, which had held the Commonwealth account until it was transferred to the Commonwealth Bank; the Commonwealth High Commissioner's Office in London, which had carried out financial transactions for the government; other banks which did business with Australia and were afraid of the new competitor; and Agents-General of states, who were threatened by a reduction of their status if the Commonwealth Bank were to manage loan floatation on behalf of all state governments as well as the Commonwealth. These possible sources of friction were accentuated by the fact that in less than six months from its foundation the Bank found itself having to deal with a new Commonwealth Treasurer, whose policy in regard to the Bank was uncertain. In the federal elections of 31 May 1913 the Liberals (previously Fusion), led by Joseph Cook, gained a majority of one in the House of Representatives but were in a large minority in the Senate. In the new government, which from its inception faced a well nigh impossible parliamentary situation, Sir John Forrest was appointed Treasurer, taking office on 24 June.

The terms under which Denison Miller accepted the Commonwealth account in London were the same as those previously accepted by the Bank of England. The Bank made no charge for keeping the account. When there were Commonwealth funds beyond immediate requirements they were lent to the market. Depending on the rate of interest obtained, the Bank took a commission at the rate of $\frac{1}{2}$ or $\frac{1}{4}$ per cent; if the rate of interest was $2\frac{1}{2}$ per cent or more the higher commission applied, if under $2\frac{1}{2}$ per cent the lower.[11] There appears to have been no bad feeling on the Bank of England's part when the account was transferred but what the attitude of the new Treasurer to the Bank of England would be was a matter for some doubt when he first took office.

In the early years the Commonwealth office was, according to Campion's testimony, unco-operative and jealous of the upstart

[11] Ibid., LLS, Miller to Secretary of Treasury, 29 Nov. 1912.

institution. He reported in December 1914:

> From our experience throughout I am afraid it is of no use our expecting the Commonwealth Office in London to act in conjunction with the Commonwealth Bank even in any technical banking matters, so long as the officials think they can deal with them direct themselves. Their attitude appears to be one of tacit opposition to the Commonwealth Bank which they evidently regard as trespassing on their exclusive province of dealing with all financial matters on behalf of Australia. The officials are personally most friendly but the Bank receives no support from them their attitude being, as expressed by the High Commissioner himself [Sir George Reid], that the Commonwealth Bank is only an ordinary banking institution with no privileges or functions beyond those of the other Australian banks.[12]

The lack of co-operation showed up in many ways. For example, Sir George Reid refused to include a reference to the Commonwealth Bank in advertisements about Australia to encourage migrants; he thought it might create bad feeling on the part of the other banks. Relations were to improve later under the influence of the needs of war and the presence of Fisher, who resigned the Prime Ministership in 1915 to become High Commissioner in London.

The suspicion of the other London banks was reduced by the same means as were employed in Australia itself. Existing banks already had firm arrangements amongst themselves for the exchange of business. By pursuing a policy of offering less advantageous terms for the negotiation and collection of bills, and for telegraphic and mail transfers, the Commonwealth ensured that it neither won business from them nor aroused their fears of aggressive competition. Nevertheless, this did not prevent a Director of the National Provincial Bank, with which business was growing, from referring to the Commonwealth Bank as 'a socialistic concern', thus damaging its reputation in the ultra-conservative London banking circles.

The state representatives in London were generally not anxious to co-operate with the new bank. In the first year of the Bank Campion wrote to Miller (19 December 1913):

> I may say that the various Agents General are all very friendly, but, with the exception of Mr Kirkpatrick of South Australia, they all seem afraid that any advance towards the Commonwealth or the Commonwealth Bank, would lessen the distinctiveness of their

12 Ibid., LLS, London manager to Governor, 11 Dec. 1914.

> Office and lead to their absorption. Therefore, they keep aloof from the Commonwealth in London, and conduct their banking business with an English Bank when it could be done just as efficiently and less expensively, by the Commonwealth Bank.

This attitude of the state representatives persisted and seven years later, in 1920, Campion referred to

> the natural disposition of each Agent General to attach more importance to his own individual State and to the exaltation of his own Office, also to his desire to handle exclusively himself the loan and financial business of his Government.[13]

The difficulties in London were mere pinpricks and to be expected when a new institution appears to threaten either the business of established institutions or the careers and self-importance of their officers. What Sir John Forrest might do was more significant.

When in opposition the new government had opposed the Bank and in particular the Savings Bank. Early statements of the new government were unclear as to its intentions but there were rumblings of changes to come. Prime Minister Cook referred to the need for a bank 'for purely national purposes' but not one which would compete with the private banks. The *Age* (1 August 1913) reported him as hoping 'to show that duplication of business was wicked', a clear reference to the Savings Bank. But Miller was not greatly worried. He wrote to Campion:

> This change of Government may [affect] the Commonwealth Bank in this regard: the Liberal Government will probably hand over as soon as possible the Notes Issue, they will also want to extend the operations of the Bank in the direction of taking over all State Government Banking business, and make use of the Bank for the consolidation and floating of loans of all the States in the Commonwealth. On the other hand, they may wish to restrict the operations of the Savings Bank Department, but I do not anticipate much change in this direction.[14]

In other words Miller believed that any changes would be likely to strengthen the Bank.

But fears were expressed by Campion. He felt that there was a danger, from the Commonwealth Bank's point of view, that Forrest would place Commonwealth loan floatation in the hands of the Bank

[13] Ibid., LLS, London manager to Governor, 26 Aug. 1920.
[14] Ibid., LLS, Governor to London manager, 3 June 1913.

of England, because on a previous visit he had been charmed and flattered by the solicitous attentions of Bank of England officials.

> The Members of the Court of Directors were most assiduous in looking after him, particularly Lord Revelstoke, Sir John being much impressed by the charm of these able men, and by all they claimed the Bank of England could do.
>
> Sir George Reid, I understand, has also been impressed with the prestige of the Bank of England, the Directors of which are not slow to use all their interests, personal and otherwise for their institution. The pomp and circumstance of the parlour of the Court of Directors, with attendants in scarlet liveries and the environment generally of the institution, would impress most people.[15]

Cook made a statement of the government's intentions on 12 August.

The statement of 12 August referred to the duplication of savings banks arising from the entry of the Commonwealth Bank into the field and expressed the intention of dealing with the matter.[16] This intention was implemented in a Bill to prohibit the Bank from carrying on savings bank business, which was introduced, but failed to pass, because there was insufficient time to deal with it before the Parliament ended in the dissolution of both Houses less than a year after the government had been formed. In the meantime the government had made one move against the Savings Bank, the significance of which lies not in its effect on the Bank, but in the firmness and ingenuity with which Miller countered it.

One of Forrest's earliest acts as Treasurer was to ask the Governor for a report on the negotiations under way for the amalgamation of the state savings banks. A little later he sought the opinion of the Attorney-General on whether the Commonwealth had power under the Act to establish a branch of the Savings Bank in London. The Attorney-General answered in the negative and his opinion was reported to Miller who, despite a contrary opinion by the Bank's own lawyers, agreed to take some action.

The Treasurer's motives were made clear in a letter written in August. He was committed to a scheme for the conversion of state debts and considered that this would be jeopardised by anything that might look like Commonwealth Bank competition with London banks and financial houses. In particular he felt that the transfer of

[15] Ibid., LLS, London manager to Governor, 1 Aug. 1913.
[16] *Comm. P.P.*, Vol. II, 1913.

the Commonwealth account from the Bank of England and the opening of the London branch of the Savings Bank would be so interpreted.

Despite the Attorney-General's opinion and pressure from the Treasurer, Denison Miller was not much moved. He reported to Forrest the London manager's opinion that the Bank's operations were not having the effect that Forrest claimed to fear. Furthermore he found a way to continue the London business. He instructed the London manager to drop the use of the words 'savings bank department', but to carry on savings bank business. Instead of issuing pass books to depositors he was to issue a form of deposit receipt which would have the same function. He was also to vary the method of reporting by including savings bank transactions in the aggregate figures for the whole branch. But for internal purposes savings bank business was to be kept separate. This was an interim measure which was rendered no longer necessary by the return of the Labor government in 1914 and the passage of an amending Act which, amongst other things, removed doubts about the legality of the London branch of the Savings Bank.

In its first year and a half the main endeavour of the Governor and his staff was to overcome teething troubles in administration, to allay suspicions and calm fears, and to ride any storms which the appointment of the Liberal government might have stirred up.

By 1914 the Bank was firmly established, although still a small concern by comparison with the old established private banks. Five new branches had been opened in New South Wales, Victoria, and Queensland. In addition, during the financial year 1913/14 savings bank agencies had been increased by 153 to a total of 2,048, and the number of depositors rose from 83,558 to 143,143. Assets and liabilities had almost doubled, from £5·1 million in June 1913 to £9·8 million in June 1914. Deposits in the general banking division stood at £4·5 million and in the savings bank department at £4·6 million. The main assets were £2·7 million in coin, bullion and cash balances, £1·5 million at short call in London, £2·8 million in British, colonial, and government securities, and £1·4 million in advances and discounts.

The next few years were to see important changes. The war, while not making it a very important bank as measured by the volume of business, was to give it a crucial position in the banking system.

# 9
# *The Bank and World War I*

*In the financial machinery of Australia throughout the war the Commonwealth Bank played a part second only to that of the Treasury.*[1]

Australia went to war with Germany on 5 August 1914. It went to war with an embryo army and embryonic ideas on how the war was to be fought, supplied, and financed. It was almost without a government, since the war caught Australia with Parliament dissolved and an election campaign for both Houses of Parliament under way, a position which was resolved in September when Fisher, with a majority in both Houses, formed his third Labor government. Four years later Australia could look back on a war effort which had cost 60,000 Australian lives and £460 million Australian.[2] In the raising and spending of the latter the Commonwealth Bank played a leading part.

Australia entered the war with no experts in war finance. Even England had to look back a hundred years to the Napoleonic wars to find even faintly comparable precedents for the problems created by a European war, one of the first effects of which was to throw out of gear the complicated machinery of world finance situated in London. Two days after the war started Campion reported that the banking and monetary system had for the moment collapsed. The withdrawal from the London money market of the funds of European, especially German, banks, together with the forced sales of their securities, put an intolerable strain on the banks. They were saved by a month's moratorium which enabled them to prepare for the new circum-

[1] Ernest Scott, *The Official History of Australia in the War of 1914-1918*, Vol. XI, *Australia During the War*, p. 507.

[2] Ibid., p. 804. This is a rough figure and represents the amount demanded by Australia from Germany in reparations.

stances. Australian bankers, too, were afraid of panic withdrawals, but were relieved to find that the public reacted calmly.

The three broad problems with which the war confronted the Australian government and the banking system were: how to raise the necessary funds to pay for the country's part in the war; how to maintain civil production in competition with war needs; and how to finance Australian international trade under war conditions. In 1914 the scope of these problems could only dimly be seen and the first expedients adopted proved quite inadequate to the needs generated as the war progressed.

In solving these problems large areas of banking business were brought under direct government supervision: in Butlin's words, were 'brought within a framework in which the conditions of business were the result of negotiations between governments and banks collectively'.[3] In this process the Commonwealth Bank, as the government's banker, soon acquired a key position in the banking structure. It did this as a result of the great increase in the volume of government business resulting from the war, and, more specifically, by its control of war loans and the organisation of war finance. It also came to have a greater say in the circulation of the currency.

Early in the war the Bank took over note distribution from the Bank of New South Wales and the Queensland National Bank in all states except Victoria. This did not carry with it control of the note issue, being merely the practical task of exchanging various denominations of notes for others, giving new notes in return for old, and supplying notes in exchange for gold. But it was seen by the Governor as a step towards ultimate control of issue by the Bank. He wrote to London:

> Though the handling of the Note Agency under these circumstances is not a source of very great profit, still it gives the Commonwealth Bank of Australia a certain prestige and is also very useful in the way of giving our officers experience, with a view to the Australian Note Issue ultimately being controlled by us.[4]

Miller did not wait inactive for the note issue to fall into the lap of his bank. Within a month of taking over note distribution he was writing to London to instruct the manager to make discreet inquiries—in particular he was not to mention it to Commonwealth government

[3] *Australia and New Zealand Bank*, p. 355.
[4] RBA, LLS, Governor to London manager, 26 Sept. 1914.

officials—about suitable paper for the printing of notes. He wished to have the information available 'when the issue comes into our hands'.[5]

The war made notes a much more important part of the currency than hitherto; indeed for all practical purposes gold went out of circulation. This did not result from any single decision but by a series of simultaneous moves during the first year of the war. An emergency issue of notes was made to meet the cash needs both of the government and of the banks, the notes being made available to the banks in exchange for one-third of gold, the remaining two-thirds being treated as an interest-bearing loan. This arrangement, which lasted until the immediate post-war years, became known as the 'three-for-one'. The government also took steps to achieve the suspension of convertibility without any formal notification of suspension. Overcoming the reluctance of the banks by assuming that they agreed with the policy, and by making it extremely difficult to exchange notes for gold, Fisher succeeded in effectively taking gold out of circulation. In 1915 notes had taken the place of gold in inter-bank clearings and customers presenting cheques were given no alternative to accepting notes. The third move was to prevent the export of gold: by July 1915 it could only be exported with Treasury approval; by January 1916 gold export, except by the government, was prohibited.[6]

Naturally under these circumstances note circulation increased greatly. In June 1914 it amounted to £9,600,000, a year later it had more than trebled, rising to £32,100,000. The increase was a result of the transfer of gold from the trading banks and of heavy loans of notes to the state governments. The note issue was to remain high throughout the war, reaching a peak in October 1918 of £59·7 million. Despite the great increase in notes, because of the flood of gold into the Treasury and the Commonwealth Bank, the gold reserve never fell below 33 per cent, which was well above the legal minimum of 25 per cent. As the note distributor the increased use of notes in itself gave the Commonwealth Bank a significance which it had previously lacked.

As Blainey points out, the departure from gold had its greatest

[5] Ibid., 25 Nov. 1914.

[6] Ibid., Deputy Governor to London manager, 29 March 1916.

effect in connexion with London funds.[7] While gold was free it acted as a stabilizer in international trade. A bank which was short of London funds and unable to buy them in exchange for Australian currency in Australia could export gold to London. When this avenue was closed serious difficulties were anticipated, but they proved to be groundless. Heavy exports and high prices kept London funds at a high level, thus practically removing the need for gold export from Australia. But one device was adopted by agreement between the Commonwealth Bank and the Bank of England which removed the necessity of physically transferring gold. Gold was held in Australia against advances made by the Bank of England in London. It was locked in a separate safe with the keys under the control of two senior officers, and certificates placed in the safe, indicating that the contents were the property of the Bank of England. Gold was shipped during the war, the greater part of it to the United States and India on behalf of the Bank of England.

Note issue proved a useful method of credit provision but was not capable of unlimited extension. The central problem remained: was the war to be financed from current income or from loans, and if from loans where were they to be raised? Increased taxation was part of the answer but loan funds became increasingly necessary.

Until the war the Commonwealth had financed its capital expenditure without resort to public loans. The Commonwealth debt at 30 June 1914 stood at £19·2 million, but this represented obligations assumed when taking over certain state properties and loans obtained from a Commonwealth Loan Fund and the Commonwealth Notes Fund. On the other hand, the aggregate public debts of the states amounted to the considerable sum of £317·6 million, of which more than two-thirds had been raised in London. At the outbreak of war the states had extensive public works in progress for which they proposed to pay by loans raised in London.

Fisher hoped to meet war expenditure from revenue but recognised the states' need for loan funds. He was also interested in having the states agree, and the British Treasury accept, that all borrowing on the London market be done by the Commonwealth on behalf of itself and the states. This was to result in protracted and complicated negotiations, but in the meantime the Prime Minister, on the advice

[7] *Gold and Paper*, p. 275.

of Denison Miller,[8] commenced negotiations on behalf of the states. He applied to the British government for permission to float a loan in London for £20 million to meet the states' needs for the financial year. Without refusing directly, the British government made it clear that it would be embarrassed if Australia persisted with the request, since it was refusing permission for loans for similar purposes within Britain. However, there was a way out—Britain was prepared to include an amount of £18 million in the Imperial War Loan to be spent on war purposes in Australia. Fisher accepted gratefully and then went on to offer a loan of £18 million to be divided amongst all the states except Queensland, which was not in need of money, to carry on their public works. The subterfuge met the immediate need but obviously could not provide a solution to the longer-term problems.

In March 1915 the British Treasury made a general rule to apply to all the dominions in regard to their likely claims on London money. The dominions were asked to set out their needs for the rest of the year under three heads: war expenditure; money required for loan conversions; and money required for new works and other services. The British government agreed to provide the finance needed in London for war expenditure. Secondly, it agreed that the dominions should be permitted to borrow in London to complete works under construction and also to renew loans falling due. But it refused permission to borrow for new works.

These principles brought some order into loan applications but did not resolve the difficulties between the states and the Commonwealth. Despite Fisher's urging that to avoid competition all borrowing should be consolidated in the hands of the Commonwealth, the British Treasury continued to treat states and Commonwealth on a basis of equality. When Britain refused to deal with the Commonwealth government exclusively, action was taken in Australia. At a conference held in November 1915 an agreement was reached between the Commonwealth and all states except New South Wales. It was agreed that the Commonwealth would be the sole overseas borrower for itself and the states; that £12 million should be borrowed on behalf of the states up to the end of 1916, and £10 million per year until one year after the end of the war. A further agreement on

[8] RBA, LLS, Governor to London manager, 19 Oct. 1914.

borrowing within Australia gave the Commonwealth a prior claim on the resources of the local market.[9]

The first Commonwealth loan on the London market was floated by the Commonwealth Bank in mid-1916, and £4 million was raised at $5\frac{1}{4}$ per cent, an interest rate which was criticised by the *Daily Mail* and the criticism echoed by some of the Australian press. In a pained explanation Campion pointed out that the rate, which was higher than had usually been paid in the past, was made necessary by the increased prices being paid for money by the British government. For example, British War Certificates were being issued at £90 per cent to be payable in two years at par, this representing an interest rate of $5\frac{7}{10}$ per cent. In the past, Dominion loans had usually been $\frac{1}{2}$ per cent higher than the rate on British government securities, therefore the rate obtained must, in the circumstances, be regarded as favourable. Further loans were raised in London on behalf of the Commonwealth and South Australian governments, amounting in all during the war to £15,400,000. But the main source of loan funds proved to be not London but Australia itself.

The expectation that London would be the main source of loan money was soon shown to be ill-founded. It was seen that the war was going to be vastly more expensive in men, money, and materials than had been anticipated. Thus Australia was thrown back on its own resources. The Commonwealth had never raised a loan in Australia and nobody had any clear idea of what could be expected from that source. In the event loans raised in Australia provided more than half the total spent on the war. Following a conference consisting of the Prime Minister, the Governor of the Commonwealth Bank, and representatives of the trading banks, the Commonwealth Bank was entrusted with the floatation and management of the first Australian war loan. It was announced in Parliament on 1 July 1915 in a speech in which Fisher appealed to Australians' spirit of patriotism as well as their self-interest—the greater part of it would be spent in Australia. The reasons for the uncertainty about how the loan would be received were stated by James Kell in a letter to the London manager (2 September 1915):

> This is the first loan operation on a large scale that has been undertaken in Australia where the public have not yet been educated to subscribe very well to loans made available for public subscription.

[9] Ibid., 25 Nov. 1915.

But the fears proved to be unfounded.

The amount asked for was £5 million at 4½ per cent. The amount subscribed was £13·4 million: the number of subscribers 18,748. The costs of floatation were remarkably low, consisting of ¼ per cent to the stockbrokers, ¼ per cent to the Postal Department and a commission for the Commonwealth Bank of less than ¼ per cent. The total cost worked out at 5s. 1½d. per cent, which was very much less than the cost of any loan previously raised on behalf of Australian governments in London, Miller remarking mildly that 'so far as my information goes, [it] will compare favourably with any loan that has ever been issued by the British or any other Government'.[10] The wild success of the loan was a triumph for the Bank, and Miller noted with satisfaction that it had 'brought the Commonwealth Bank into prominence'.

Altogether there were ten war loans, of which the last three were issued after hostilities ended, and were intended to finance the transition to peace. In total, approximately £210 million was asked for and £250 million was subscribed. There were 834,000 applications and the total cost of floatation was £706,000 or an average rate of 5s. 7d. per cent.

The early loans were filled without difficulty, but, as the demands increased, new methods of organisation, incentives, and publicity had to be devised, for the first loan stock was inscribed only at the Treasury in Melbourne. But for later loans the task was transferred to the Bank, which opened inscription registries at the Head Office and at the branches in all capital cities. In addition to the registries, to cope with the work of raising and managing the loans, special loan branches were established within the Bank.

The first five loans returned 4½ per cent and the income from them was free of both state and Commonwealth income tax. With the sixth loan, issued in February 1918, the rate of 4½ per cent free of income tax was maintained but the purchasers were given the option of receiving 5 per cent subject to Commonwealth tax. For the seventh and eighth issue the option was removed, the rate being 5 per cent subject to Commonwealth tax. For the ninth and tenth the rate was raised to 6 per cent with the same conditions. As a further method of attracting small investors Australia followed Great Britain early in 1917 by instituting a scheme of war savings

[10] Ibid., 20 Sept. 1915.

certificates. The certificates were in denominations of £1, £5, £10, £50, £100, and £1,000. They entitled the owner to receive the principal plus 5 per cent compound interest at the end of three years. More than a million certificates were sold, bringing in a return of £7·4 million.

In the early loans, conventional methods of advertising were considered sufficient. Newspaper advertisements and notices in banks and post offices were the main means by which the loan was put before the public. By the sixth loan it was realised that something more was needed. An appeal was made to organisations to publicise and actively canvass for subscriptions, and authorised agents were appointed to the same end. Winning support for the seventh loan assumed the proportions of a mass campaign. In each of the capital cities a Central War Loan Committee was formed with local committees scattered throughout the municipalities and shires. To each of the central committees an organising secretary was attached and district organisers were appointed to act under his general direction. Community pride was enlisted as an incentive by allotting a quota to each shire and municipality, and an honour flag was donated to those who reached it. In the major cities an advertising focus was established. In Sydney a model destroyer was erected in the centre of the city and meetings were held there daily. The appeal was to patriotism and to match the self-sacrifice of the soldiers by lending until it hurt. The campaign succeeded, with the £40 million loan being over-subscribed by more than £4 million.

The methods adopted in the seventh war loan were continued in the post-war years, when they were even more necessary. The enthusiasm for the war was exhausted and the immediate post-war slump made money in the pockets of the public scarce. But in each case the loan was over-subscribed. In raising the war loans the Commonwealth Bank placed itself before the public to an extent which would have taken decades in normal times.

The third field in which the war presented the Bank with opportunities and responsibilities was in financing the export trade. Before the war the export of wool, wheat, meat, and other primary products was handled by wool-broking firms, grain merchants, and so on. But the war affected the normal channels of trade by limiting the available shipping, upsetting the established means of payment, and varying the demand for Australian products in England. By 1915 the government was aware that unless it took positive action the trade would be in chaos and Britain's need for Australian products would not be met. The answer found was the establishment of pools into which farmers could sell their products at guaranteed prices and which in turn arranged the sale and transport of the goods. In the formation of the pools, governments, both Commonwealth and state, worked in association with the merchants. Financing the pools was a combined banking operation in which the Commonwealth acquired a central part.[11]

Wheat was the first commodity to come under control. Immediately on the outbreak of war the Commonwealth government prohibited the export of wheat and the state governments followed by arranging to purchase the 1914/15 harvest. This was only a stop-gap measure and in the spring of 1915 a conference composed of representatives of the Commonwealth and the wheat producing states met in Melbourne to consider what should be done to deal with the anticipated heavy harvest and the shortage of ships to lift it. To control the marketing of the coming crop the conference worked out a comprehensive scheme which was later extended to all harvests up to the 1920/21 season. The machinery consisted of an Interstate Wheat Board composed of the Prime Minister and the Ministers of Agriculture of New South Wales, Victoria, South Australia, and Western Australia. In addition there were state Boards appointed by state governments and an Advisory Board representing the leading grain merchants. To arrange the sale of the wheat in Britain a Wheat Committee composed of the High Commissioner and the state Agents-General was set up in London.

The aim was to create a pool into which the harvest could be channelled and from which it could be drained off as ocean freight became available, thus preventing a stampede to sell on the Australian market, forcing the prices down to 'wreck' levels. By agreement all states offered to pay in negotiable certificates a flat rate of 2s. 6d. per bushel for wheat delivered to an agent of the pool at railway stations. At a later date the difference between the flat rate and the rate realised, less certain charges, would be paid to the farmers.

[11] For descriptions of the pools, see G. L. Wood, 'Wheat Pools, with Special Reference to Australia', *Economic Record*, Vol. IV, Feb. 1928, pp. 18-37; W. Millar Smith, *The Marketing of Australian and New Zealand Primary Products*; F. R. Beasley, *Open Market Versus Pooling in Australia*; B. D. Graham, *The Formation of the Australian Country Parties.*

The banks entered the operation by agreeing to advance the money necessary to cash the certificates, the amounts which each bank offered being based on the proportion of total deposits held by each bank in the state concerned. Thus the Bank of New South Wales agreed to advance 37 per cent of the money required for New South Wales but only 11 per cent of that for Victoria, while the Commonwealth Bank took 4 per cent of New South Wales and 13 per cent of Western Australia. The banks appear to have entered the scheme willingly and any reluctance was probably broken down by the offer of the Commonwealth Bank to accept any part of the business refused by other banks.[12] For the 1915/16 harvest the Commonwealth Bank had no special status in the scheme but for subsequent years it did. From 1916/17 onwards it took over the general control of the financial arrangements. It arranged the quotas of the several banks, made adjustments between the banks, and in London distributed to the banks sums received in payment for the wheat.

Until the end of 1916 the sale of wool was not controlled except that its export to certain markets from which it might reach enemy countries was prohibited. From the outbreak of war Denison Miller was worried about marketing wool. Germany and other continental countries had been big buyers of Australian wool and he feared, now that they were cut off, that there would be insufficient demand to take up the whole clip. So he proposed to the Governor-General, Sir Ronald Munro Ferguson, that Britain should buy all unsold wool and stockpile it if there was no immediate need for it. He offered the assistance of the Commonwealth Bank, which would be prepared on shipment to advance 50 per cent of the value of the wool, based on the price realised for a similar clip in 1913. The Governor-General reported the suggestion to the British government which did not act on it but did give assistance to the English manufacturers who were in financial difficulties because they had between eight and nine million pounds, owing to them by Germany, locked up. The British government paid the German debts so that the wool manufacturers could establish credits to buy Australian wool.[13]

At the end of 1916 the British government agreed to purchase the whole of the Australian wool clip at an average price of 15½d. per pound. Subsequently it acquired the whole wool output for the fol-

[12] RBA, LLS, Governor to London manager, 12 Nov. 1915.
[13] Ibid., 12 Jan. 1915.

lowing four years. This transaction was financed in a different manner from the wheat pool but in it also the Commonwealth Bank had the main part.

The wool was valued in Australia, above or below the average price, by independent appraisers. The British government was notified through a Central Wool Committee in Melbourne of the prices and amounts, and paid for them, as notified, at the Commonwealth Bank in London. The payments were then distributed by the Commonwealth to the other banks taking part in the scheme on the same basis as the wheat pool, namely in proportion to the total deposits held by each bank in Australia. In addition to the banks some of the pastoral and finance companies were included in the scheme, receiving payment in London in the same way as the banks. Unlike the wheat pool, the wool scheme did not involve the banks in making advances; they simply received the money in London and transferred it to Australia for payment to the woolgrowers. Between 1916 and 1920 almost £173 million was paid by Britain for wool and sheepskins.[14]

Wheat and wool were the two big pools but other products in smaller quantities were exported to England under similar schemes. Exportable surpluses of meat, rabbits, cheese, and butter were purchased by the British government. Governments in Australia, both Commonwealth and state, paid producers on shipment or when the goods entered store and were reimbursed in the usual way: payments made by the British government to the Commonwealth Bank were distributed amongst the London branches of the Australian banks according to their deposits, and transmitted to Australia by telegraphic transfer.

The wartime and immediate post-war pools were the first large ventures in state-controlled marketing in Australia. They were created to meet peculiar needs, but in the years after they had been abandoned for a return to the free market many farmers looked back with nostaglia to the certainties of controlled marketing. While not socialist in any ideological sense but simply pragmatically responsive to particular difficulties, the Commonwealth Bank in financing the pools assumed a function which its earlier socialist advocates would have considered as properly belonging to it.

One unusual business deal with which the Bank was associated

[14] Figures given by Sir John Higgins, 17 Sept. 1921.

during the war resulted in the Australian government acquiring a shipping line. Dissatisfied with the amount of shipping being allotted for Australian cargo, W. M. Hughes, who had become Prime Minister on the resignation of Fisher, decided to take matters into his own hands and buy his own ships. Since all shipping was under the control of the British government, this could only be done with their approval or by presenting them with a *fait accompli* which would be difficult to reverse. Hughes employed a combination of the two strategies. By agreement with Denison Miller £3·5 million was held in readiness in London for the arrival of Hughes, who proposed to handle the business personally. However, in the early stages of the operation Campion, to his horror, found himself loaded with the whole responsibility. Hughes, shortly after his arrival in England, dashed off to France. At Victoria Station as his train was about to leave he thrust a bundle of papers at Campion and instructed him to buy the ships through the brokers, Turner, Davidson & Co., during his absence. Campion wrote plaintively of the unwelcome responsibility with which he had been saddled.

> Looking, however to the magnitude of the amount involving £2,293,000, to the fact that the brokers, Messrs. Turner, Davidson & Co. Ltd., though well reported on, are almost strangers, and that buying a ship is almost like buying a horse, I feel that much caution is necessary . . . .[15]

However, Campion had no need to fear. Fifteen ships were acquired by the brokers on the direct instructions of Hughes, the Bank's part being simply the provision of the money. Having got the ships, Hughes, by hard bargaining, persuaded the British government not to intervene.

The war, as well as creating new functions for the Bank, also forced it to adopt innovations in organisation of which quite the greatest in scope was the provision of banking facilities for Australian soldiers both at home and abroad. In Australia agencies were early established at the four largest military camps and were later expanded into full-scale branches carrying on both general and savings bank business. As well as the four branches some thirty agencies were opened at the camps and military hospitals which proliferated throughout the country.

In the long run the soldiers' business outside Australia was con-

[15] RBA, LLS, London manager to Governor, 1 June 1916.

centrated in London, but early in the war steps were taken to provide banking facilities for the troops in Egypt, which served as the base for the campaign on Gallipoli. However, by the time the branch was ready to open the campaign had ended, and it was decided to abandon the idea of a branch in Cairo. The policy of the Bank towards soldiers' accounts was stated by the Governor.

> . . . as a matter of policy it is most desirable that, at this crisis in the history of the Empire, we should do everything we can to assist both directly and indirectly, without any thought of the present or future gain to the Bank; but, at the same time, there is no doubt that assistance of the nature indicated must leave a very favourable impression in the minds of not only the men themselves but those connected with them, which will materially assist in placing the Commonwealth Bank of Australia in the prominent financial position which it must eventually take.[16]

The Bank was to serve a patriotic purpose, but also it would be advertised amongst men who might later become customers. The Bank advertised well.

In England the Australian troops were quartered chiefly on Salisbury Plain, so branches of the Bank were opened at Tidworth and Warminster and later at Weymouth and Hurdcott; but London, to which the men came on leave, was the busiest. Soldiers' banking was beset by problems of a different kind from those that occurred in normal business. The Bank offered the soldiers unusually generous assistance; telegraphic transfers were made without cost, notes were exchanged at par not only in London but at agencies throughout the world, and even personal problems of many kinds were attended to by bank officers. One measure of the extent of soldiers' business was the volume of telegraphic transfers, which from the beginning of the war to 30 June 1920 numbered no less than 268,000, the total amount of money involved being £3·5 million. What this meant in human terms was described by the London manager. Each day from 100 to 150 soldiers called at the London branch, where they were formed into queues by an orderly sergeant and their wants attended to by six to eight clerks.

Things did not always run smoothly. Often men with the mud of the trenches still on their boots arrived eagerly demanding money to pay for their ten days' leave, only to find that the money for which

[16] Ibid., Governor to London manager, 16 Nov. 1915.

they had cabled was not there. Or if it were there it might have become the victim of the cable service and be quite unidentifiable. The telegraphic messages may have been held up by their being given a low priority as free messages or by the inefficiency of operators, the free messages being transmitted by probationers. Or if the message had come through the name could have been mutilated in transmission, for example the name Hector Bruning coming through as 'sector resuming' or Hugh Buckingham as 'Hughes Buck Ingher'. To deal with the difficulties created by inefficiency and dilatoriness, special clerks were appointed, and in the last resort, rather than send a man on leave penniless, the manager would often lend soldiers money from his own pocket.[17]

The military authorities were often far from helpful to the Bank in its attempts to give banking service to soldiers. Early in the war the Commandant of the Second General Western Hospital refused to permit payments from their accounts to be made to men discharged from hospital, the Commanding Officer explaining that on discharge men were given £1 and a rail warrant. Soldiers often saw their right to operate on a bank account as the vestigial remains of their rights as a citizen. In this they were supported by the Bank, which ran against serious opposition from the military authorities. Remittances sent by registered letter to soldiers in camp were impounded on the orders of the Commandant and returned to the Bank. The Bank then made arrangements to remit money to men in camp through the paymaster, but this, too, was quite unacceptable to some men. A private wrote to Campion:

> I want to know why you forwarded my money to the Staff Paymaster without my permission. I think you had very little to do, and further more, I don't wish anything of my own private affairs to be handled by Military.[18]

His feelings were shared by another soldier, who wrote very firmly that 'It was not my wish to have the Military to have anything to do with the money sent through privately'.[19] The relations between the military and the Bank varied according to the attitude of particular officers. Thus Campion was able to report that until the arrival of General Anderson (Commandant, Administrative Headquarters of

[17] Ibid., London manager to Governor, 3 Feb. 1916.
[18] Ibid., Enclosure with Campion to Governor, 23 Aug. 1917.
[19] Ibid., 7 Aug. 1917.

the A.I.F.) official relations had been warm and friendly but that he had changed everything. Campion wrote bitterly that if the Bank had been a German institution it couldn't have been worse treated. Anderson, he said, wrote letters to the Bank which were 'hectoring and minatory to a degree I have never witnessed during the thirty-five years I have been banking. One of his many expressions was "the Commonwealth Bank must be mended or ended".'

For more than a year Campion fought a running battle with the military authorities to protect his staff from conscription for military service by the British authorities. Towards the end of 1916 all male members of the staff with the exception of the manager himself had been called up. To replace them and also to deal with the vastly increased volume of work women and old men were employed. At the outbreak of war there was only one woman on the staff: by the end of 1916 there were about 150 'temporary lady clerks', as they were called in the stilted language of the time. As for the male replacements, they were not really adequate to the task. The manager complained:

> I have taken in men over-age and unfit—literally the blind, the halt and the maimed—but this I would not mind if unfortunately they were not also mentally destitute.[20]

The Bank's policy was to have bank officers already in the army released temporarily to assist. However, there appears to have been very little sympathy for the Bank's difficulties on the part of the relevant authorities, their attitude being strongly influenced by political prejudice against what they took to be a socialistic enterprise. In the attempt to gain exemption for the Bank's officers an appeal was made to the City of London manpower tribunal. Campion described the result.

> The special grounds for the exemption of our few remaining men have been placed repeatedly before the Tribunal and the Military Representative but without result. The Military Representative did not conceal his view that the State Bank of the Australian Commonwealth was a 'Socialistic Institution' which he would not follow in London. He no doubt honestly regards the Bank as a socialistic concern because from his point of view, it is entirely improper for a Dominion Government or any Government, to issue or manage their own Loans when it can be done by private

[20] Ibid., Campion to Colonel R. McC. Anderson, 30 Oct. 1916.

> Banks in London whom he no doubt regards as having a prescriptive right to such business.[21]

Success in the guerilla war with the military authorities came only when an appeal was made at the highest level. Andrew Fisher, at this time High Commissioner in London, entertained Lord Derby, Minister for War, to lunch. Following this the Ministry of National Service agreed to exempt ten permanent members of staff, and Lord Derby wrote, 'I was delighted to have the opportunity of seeing what excellent work the Commonwealth Bank is doing for members of the Australian Forces'.[22]

Women played a major part in keeping the Bank, particularly the London branch, going during the war, but Bank policy placed very definite limits on the area in which they could serve. The policy laid down by Denison Miller was that women should be employed only on specialised tasks and not on general banking work. He made quite clear the reasons for this limitation.

> On the question of Lady Clerks, please note that throughout the Commonwealth we employ numerous ladies, but in all cases on specific work of typistes or machinists, or such other specialised work, as sorting vouchers and filing letters, which duties we find they perform very efficiently; and, as a matter of principle, I do not care for the practice of ladies being employed on the general clerical work of the office as any such practice would later on involve other considerations, such as the rate of remuneration, as claims would inevitably be made that ladies employed on the same work as the men should be paid at the same rates.[23]

Many of the women who worked in the Bank during the war did so with the feeling that they were performing a national service and happily resigned when the war ended. The Bank shared this attitude and referred to the termination of their services as 'demobilisation'. But there were some who wished to continue to work for the Bank. In August 1920 of the 380 temporary lady clerks who had been employed in the London office during the war only 47 remained, and of these all but two were appointed to permanent positions.[24] Women, although restricted to particular kinds of work, had come to stay

[21] Ibid., Campion to High Commissioner, 4 April 1917.

[22] Ibid., A. C. Geddes to Fisher, 2 Nov. 1917; Derby to Fisher, 3 Nov. 1917.

[23] Ibid., Governor to London manager, 19 Oct. 1915.

[24] Ibid., London manager to Governor, 9 Sept. 1920.

as a part of the Bank's staff. Campion considered them peculiarly suitable for the kind of work on which they were engaged—typing, filing, machining, printing, and sorting, to mention a few of the tasks. Furthermore, they continued to be necessary, as men were unavailable as a result of the great extension of banking at the end of the war.

The expansion of the Bank was in the main a direct result of the war but there was also some expansion due to natural causes. One of the early private operations was in connexion with a loan for the Broken Hill Proprietary Company. The sum of £600,000 was raised by the sale of debentures, with the Commonwealth Bank handling the business. There was also some accretion of business from state government accounts in accordance with Miller's long-term aim. The Tasmanian government transferred its account to the Commonwealth Bank on 1 June 1914, although its London business continued to be done by the London County and Westminster Bank, to which Tasmania was bound under an agreement which did not run out until 1918. Western Australia followed closely on Tasmania when it began to bank with the Commonwealth in October 1914. The South Australian government, which had been well disposed towards the Commonwealth Bank from early in its existence, transferred its business under an agreement dated 3 March 1916. But the larger states remained aloof.

Other aspects of the Bank's development during the war years, but not directly connected with the war, which deserve mention are the opening of new branches and various other additions to the Bank as a physical entity. In the five years 1914-18 eighteen new branches were opened, in most cases in important country centres in all states. In towns such as Albury, Wagga, Bundaberg, and Geelong the Commonwealth Bank made its appearance beside the old established proprietary banks. The most widely publicised event was the building and opening of the Head Office building. One of the most substantial buildings in Sydney at the time, and one of the first to be built with a steel frame, its opening on 22 August 1916 was a notable occasion. In its building, equipment, and furnishing, the Governor had taken a close interest, to the extent of developing a close personal relationship with George Hayter Chubb, the head of the safe-making firm, and at another level personally selecting the china and cutlery to be used in the staff dining room.

As measured by the extent of its business the Bank had come a long way during the war years. In the second quarter of 1918 its deposits stood at £33·5 million, which was 14 per cent of total deposits in the Australian banking system and second highest of any bank. As measured by advances, however, its position was not so significant—£9 million or less than 6 per cent of total advances, with six banks having higher totals, and in the case of the Bank of New South Wales the total being three and a half times that of the Commonwealth. It was an important bank, but not by any means the most important so far as the commercial life of the community was concerned; its strength lay in its special relationship with government and the part which it had in financing the war. What strength it had came largely from the war and the needs created by it. When these needs disappeared the future course of the Bank's development must be in doubt. But for a few years the problems of financing the transition to peace were almost as pressing as those of the war itself.

# 10

# *Central Bank or Trading Bank?*

> *All the evidence the Commonwealth Bank supplies since it began its career shows that it has not met the requirements of a central banking institution, but has just performed the functions of an ordinary bank . . . It is different from an ordinary bank in certain particulars, inasmuch as it has not to answer to a board of directors or to shareholders, the result being that the governor is a law unto himself . . . If it were not for its savings bank activities entered upon in competition with the States' Savings Banks to secure funds for Commonwealth purposes, the Commonwealth Bank would slip back to a very moderate rank among the banks of the country.*[1]

The end of the war presented both bank officials and politicians with the problem of direction of future development. During the war the Bank had grown in the volume of its business and in prestige. With the war over and the prospect of a decline in government economic activity, unless some new line of development was decided upon, the Bank appeared certain to be shorn of some part of its newly acquired stature. There were two possible lines. The first was for it to enter vigorously into competition with the other trading banks. While this appealed to some members of the Labor Party who saw it as a means of weakening the private banks, they were not again to be in office for more than a decade. It did not appeal either to governments or to the leading bank officials. The other possible line of development was towards a central bank; a bank which would control the note issue and in various ways control or influence the level of credit available in the economy. Denison Miller favoured this course and support for it grew in the governing parties after 1920.

The idea that some change was necessary was strengthened by the

[1] *Argus*, 1 Aug. 1921.

difficulties that were experienced in banking and monetary affairs after the war. Before the war monetary problems had been of minor importance. With a gold based currency, and close connexions with the English Banks, Australian credit policy was determined wholly by a desire to maintain stability of exchange with London. The abandonment of the gold standard and the heavy issue of paper cut the old nexus, the position being aggravated by balance of payment difficulties and wide price variations between the two countries.

The long-term movement was towards increasing the central banking function but the movement was slow and the direction not always clearly seen. A number of factors quite independent of one another moved the Bank in this direction. They may be summarised as follows: the continuation of a significant role as the government banker, diminished, but only slowly, by the ending of the war; the failure of the Bank to develop as an important commercial bank; and the attachment of note issue control to the Bank in 1920. These were counterbalanced by the private banks' suspicions of any aggrandisement of the Bank, by uncertainties about correct note issue policies, and by political conflicts on the interests which the Bank should serve.

The primary product pools did not end with the war. During the immediate post-war years the organised marketing was allowed to run down but still needed to be serviced by the Bank. One new venture in this field was the British Australian Wool Realisation Association (BAWRA), which was set up to dispose of the wool accumulated in the hands of the British government as a consequence of buying the whole of the wool clip from 1916 onwards. In disposing of this, and in making extra payments due to the growers as a result of the above-average prices at which the wool was sold, the Bank carried out a complicated financial operation. In a more mundane sphere the Bank accepted unusual responsibilities in returning soldiers to civilian life.

In England immediately hostilities ceased there was the problem of trying to make sure that returning soldiers—who had only one idea in mind, to get home and get out of the army—should make proper arrangements to have accounts which had been transferred to London transferred back to Australia. Circulars were distributed, some paymasters co-operated in advising men what to do, notices were flashed on picture screens, but the task of impressing men released from death of the importance of making these arrangements was overwhelming. The Bank even went to the lengths of sending its officers around the streets of London to talk to returning prisoners of war. As one officer reported, with probably unintended pathos, 'They were easy to trace by their new boots and subdued manner'.[2]

Larger banking tasks which the Bank accepted were the payment of deferred pay and assisting in the housing of returned soldiers. To reduce the demand on government funds the Bank attempted to have soldiers take their deferred pay in accounts with the Commonwealth Bank, but in this it received only indifferent support from the army. Campion complained to the Director-General of Demobilisation that officers of the Commonwealth Bank had been offered to the army to serve on returning transports but their services had been refused; instead, officials of other banks had been employed by the paymaster's department, and were advising men to take their money and deposit it with other banks.[3] However, this was only a local irritation in a financial exercise which involved some millions of pounds and which was carried through successfully. Financing of soldiers' housing was a large, and, for a bank, unusual project.

Under the War Service Homes Act of 1918 and its amendments in 1919 and 1920 a Commissioner was appointed to provide homes for returned servicemen, nurses, munition workers, and their dependants. The Commissioner was given wide powers to acquire land and build or buy houses. Advances to build or buy were limited to £700 and later raised to £800 as the costs of building increased; interest was 5 per cent; and repayment of principal and interest was allowed over a period of 22 to 37 years according to the building materials employed.

The Bank entered the scheme not primarily as bankers but as agents of the Commissioner. Under an agreement made on 27 June 1919 the Bank was empowered to purchase and sell land, purchase, sell and erect houses, advance money, and effect insurance. A special administration was set up by the Bank to deal with its part of the scheme, the expenses of which were met by the government through the Commissioner. These expenses included the salaries of bank officers who were engaged exclusively on war service homes work, but

[2] RBA, LLS, F. W. Strack, memorandum for manager, 24 Dec. 1918.
Ibid., Campion to Director-General of Demobilisation, 4 Sept. 1919.

no charge was made by the Bank for its general banking services to the project.

The administration of the Bank's part of the scheme was an onerous job. It involved, in addition to the actual purchase and building, advice to applicants and the determination of eligibility and priorities. Altogether 5,179 houses were purchased at a cost of £2·9 million and 1,777 erected at a cost of £1·2 million.

The policy of seeking the accounts of all state governments as well as the Commonwealth was continued. It was reiterated by Campion in a letter to the Prime Minister, S. M. Bruce, in October 1923. He described what he considered to be the essential features of the Bank's business:

> The field of activities of the Commonwealth Bank are essentially different from those of the Private Institutions. It handles more the accounts of Public Bodies and Governments. Like the Bank of England, which is the central clearing Bank of the Empire, it has a proportion of private clients, but its main field of usefulness is as Bankers of Governments, Public Bodies, and as in London, has the accounts of several Australian Banks.[4]

At the end of the war the Bank had the accounts of three state governments—Tasmania, South Australia, and Western Australia. In 1920 Queensland joined them in the biggest deal up to that time. Under an agreement of 22 June between the Queensland government and the Bank two things were agreed: that the Bank absorb the state savings bank, and that it take over the government accounts in Australia, London, and abroad, including the floatation of state loans. This was to take effect from the expiry of the existing arrangements with the Queensland National Bank on 30 June 1921, and at a date to be negotiated with the Bank of England which had handled Queensland business in London.[5] The absorption of the savings bank had a marked effect on the level of business of the Commonwealth Savings Bank, deposits of which rose from £17·7 million in the June quarter of 1920 to £35·9 million in 1921, most of this increase coming from Queensland. Taking over the government account, as well as increasing the Bank's business, incidentally involved it in a tense political situation in London.

The policy of remaining free from any involvement, or appear-

[4] Ibid., duplicate to Kell, 13 Nov. 1923.
[5] Ibid., C2.23.10.1.

ance of involvement, in controversial political questions was beset by particular difficulties in London where, despite Campion's valiant efforts, there was a strong tendency to be suspicious of the Bank. In reporting the rejection of a proposal made by Denison Miller to Lloyd's Bank, Campion commented sadly on the prejudices of the city.

> And a further consideration, which is no small one in the light of the traditions and methods in this old City, the closeness of co-operation of the monied interests here and the real fear of inroads being made on the rights and privileges of the comparatively few of the community to whom most of the financial business is confined, as well as 'private enterprise' generally—this consideration has, I fear, no small part in the non-acceptance of your offer.[6]

He was disturbed by a friendly inquiry from the Independent Labour Party, a left-wing political organisation which favoured state banking, in case its interest in the Bank should be interpreted as expressing an identity of outlook. Campion was inclined to brush off the request for an explanation of how a bank without capital could have made accumulated profits of £1·1 million in six years, but he finally provided an answer.[7] He was even more concerned when the British Labour Party referred approvingly to the Commonwealth Bank. He wrote:

> the Labour Party in this country are strongly advocating the establishment of an English State Bank, quoting in their literature, the success of the Commonwealth Bank. In one respect it is a disadvantage to us because it brings the Commonwealth Bank within the area of political discussion and anything in the nature of state enterprise is looked upon here with such repugnance by the monied interests that there may be some risk of concerted action, or at least of a tacit understanding being promoted against giving us even an ordinary portion of the exchange and other commercial business of this country with Australia.[8]

However, it was not against the Bank, but against the Queensland government, for which the Bank was acting, that the 'concerted action' was taken.

Labor had been in office in Queensland since 1915 and in several respects had pursued a more radical policy than had any other Australian Labor government. As early as December 1919 a Queens-

[6] Ibid., LLS, London manager to Governor, 16 April 1919.
[7] Ibid., H. A. Campbell to London manager, 25 Jan. 1919.
[8] Ibid., London manager to Governor, 4 Aug. 1920.

land loan prospectus carried a proviso intended to calm the fears of prospective investors, inserted at the request of the Committee of the Stock Exchange. It stated that Queensland stock domiciled in London was not, and would not be, subject to income tax, death duties, or succession duty in Queensland.[9] By 1921 the government of E. G. Theodore was virtually placed under a black ban by the City, a decision that was strengthened by a Queensland pastoralists' lobby operating in London. Queensland was in sore need of London loans, both to pay interest and to redeem existing loans, and the government's opponents hoped that by cutting off London funds it could be forced out of office. So strong was the pressure that by July 1921 the market had closed its doors against a £1 million loan for the Brisbane and Ipswich Water Supply and Sewerage Board. One of the leading underwriters, Sir Robert Nivison, explained the attitude of the City. As reported by Campion: 'Sir Robert laboured the fact that their refusal was on the ground of principle, that they could not endorse any floatation in which the present Queensland government were interested.'[10] When the loan was thrown on the market only £250,000 was subscribed by the public, the balance being left to the underwriters. The unfavourable response was, in Campion's opinion, due to the brokers.

> The Press, except in a few instances, have been favourable but all the Banks and Brokers who have to deal with investments practically gave the Issue a 'cold shoulder', from one end of the country to the other. The Brokers did not even apply for prospectuses, and the applications from private investors written on forms cut from the newspaper advertisements have reached the unusual proportion of nearly double the applications taken from the prospectus forms, thus evidencing that it was the public direct and not the Brokers or Banks who subscribed even to the extent of 25 per cent of the Loan.[11]

The boycott was shaken by Queensland taking the unprecedented step of floating a loan for £12 million, followed by one for £10 million, in New York. Campion referred to it as a bombshell bursting in the City of London, where there was a sudden realisation that a new and vital change had occurred—'the Commonwealth and States of Australia were no longer absolutely bound to the City of

[9] Ibid., 16 Dec. 1919.
[10] Ibid., 13 July 1921.
[11] Ibid., 22 Sept. 1921.

London and . . . if they did not receive fair treatment, the Americans, who were pushful and capable, might to a greater or less extent displace them'.

But Queensland was still anxious to get back into the London market. They feared that if they were excluded the interest rates might rise for them in New York. There was also the fact that some £24·5 million of Queensland loans would mature in London in 1924/25. The black ban was dropped only after a visit by Theodore to London in March 1924, where he reached a compromise with the pastoralists.[12] It was followed by a highly successful £12·7 million conversion loan for which cash applications of £60 million were received.

As a banker of governments, even though the two largest states remained aloof, the Commonwealth Bank continued to have an important place in the banking system—a place which if reinforced by other factors could lead it in the direction of central banking. One such factor was the failure of the Bank to make any substantial progress as a commercial bank. As a strong competitor the trading banks would, for example, be reluctant to place reserves with it in case they were used in competition with themselves: they would be much more likely to place reserves with a Commonwealth Bank which did not constitute a potential threat. This was the dilemma with which the Bank was faced from the beginning and which was only finally resolved in 1959 when trading and central bank functions were separated. In the meantime, however, the failure of the Bank to acquire substantial trading bank business (except for government business) was objectively a factor conducive to its development towards a central bank.

Whether or not a different trading policy by the Bank would have produced a different result must be a matter for conjecture. What is certain is that it did not make a serious attempt to win business away from the private banks. As we have seen, this policy was laid down by Miller from the earliest days. It was reiterated by Campion in 1923.

> So far as relates to its attitude towards the other Australian Banks, it does not enter into active competition against them for private

[12] *S.M.H.*, 31 March 1924.

business. Accounts are opened for those who desire to do so, but they are not encouraged to leave the Private Banks.[13]

With such a policy it is not surprising that business did not expand.

In the years after the war if there was any general tendency as shown by the figures it was for the general banking business to decline at least relative to the private banks. In the five years 1920-4 advances and loans as a percentage of all trading banks fluctuated between 7·8 and 5·7, the latter figure being for 1924. Interest-bearing deposits, as percentages of total trading bank deposits, varied between 10·4 and 4·9, the lower figure again being for 1924.[14] If anything these figures inflate the actual position of the Bank because they are affected by the government accounts. Perhaps a better measure of the Bank's position relative to the others was the number of its branches. At 30 June 1921 it had 52 branches, which was 2·2 per cent of all bank branches. By 1924 this had increased to 74 or 2·69 per cent. By contrast with the figure for the leading trading banks the body of the Commonwealth was puny indeed. The Commercial Bank of Australia had 361 branches in 1921 and 411 in 1924; the Bank of New South Wales 275 and 306; and the National Bank of Australasia 336 and 457, the increase in this case being due in part to amalgamation with the Bank of Queensland.

Amalgamation was the one way open, given its non-competitive policy, for the Commonwealth Bank to grow. This possibility was not ignored by Miller and active negotiations were entered into with a number of banks. In August 1920 the Queensland National Bank offered itself to the Commonwealth Bank, but withdrew from negotiations in December when it appeared that the proposal would have to go before Parliament. There were also abortive negotiations with the Bank of Victoria and in London with the Bank of Australasia and an anonymous 'powerful and wealthy' English bank. In these negotiations also the Commonwealth Bank was at a disadvantage compared with the private banks; the probability that the amalgamation would have to go to Parliament, with the attendant publicity, was a barrier which most banks considering amalgamation were not prepared to jump.

13 RBA, LLS, duplicate to Kell, 13 Nov. 1923.

14 Commonwealth Bureau of Census and Statistics, *Finance Bulletins* Nos. 12-15, 21. Figures for June quarter.

The position of the trading bank business was summed up by Giblin.

> By 1924 it seemed that the Bank had got about as far as it could go without additional powers, under a policy of not competing aggressively with other banks. Apart from the needs of any future war, the Bank's share in general banking business was not likely to increase greatly. Further amalgamations with other State Savings Banks were a possibility but these, under the accepted conditions of amalgamation, were not likely to give the Commonwealth Bank a free command of great additional resources.[15]

By 1924 the trading activities of the Bank were in the doldrums and at the least constituted no serious barrier to the further development of central banking.

The most positive step towards central banking was the creation of the Note Issue Department of the Commonwealth Bank. By an Act of 1920 proclaimed on 14 December the note issue was removed from the Treasury and placed in the hands of a department of the Bank, but a department which was to be kept separate from all other departments. Control was in the hands of a Board consisting of the Governor of the Bank as Chairman, an officer of the Treasury, and two others. The first Board appointed consisted of Denison Miller, who, as Chairman, had both a deliberative and a casting vote, James Collins, Secretary of the Treasury, and two businessmen, J. J. Garvan and G. Swinburne. The two strong men on the Board were Miller and Garvan, who, until Miller's death in June 1923, determined the policy of the Board. Although there were some differences between them the policy adopted was one of severe limitation of note issue, a policy which was even more rigorously applied by Garvan after the death of Miller.

The establishment of the Note Issue Board was important as an institutional development for two reasons: firstly, it brought the control of the note issue close to the Bank; secondly, in composition and policy it anticipated the Bank Board which would be set up following the reorganisation of the Bank in 1924. The composition of the Board brought a new principle into note control, since business, as well as government and Bank, were represented on it. Its policy, which proved to be highly restrictive, was a foretaste of what the Bank Board would later do on a wider scale of operations.

[15] L. F. Giblin, *The Growth of a Central Bank*, p. 5.

It was held by the Note Issue Board and most emphatically by Garvan that the proper course to take should be decided by the desirability of getting back on to the gold standard, an assumption that was almost unquestioned, despite five or six years in which a managed currency had proved to be an effective instrument of finance. In order to do this it was believed that the note circulation must be reduced as much as possible. This was seen as protection against inflation—a dread word in the post-war years, which had seen the German currency rendered valueless. As well it was regarded as the necessary condition for getting back to the protection of the 'natural' standard of gold.

All members of the Board agreed on the policy. Armitage, secretary of the Bank and of the Note Issue Board, referred to the need to 'decrease the circulation by all legitimate means. . . .'[16] Miller expressed similar feelings in a letter to Campion: 'we are working to get back to a Gold basis here, and any inflation . . . would only cause delay, which we wish to avoid'.[17] Garvan gave voice publicly: 'we must strive to become a free gold country again, but until we get rid of our surplus paper money this cannot happen'.[18] The dogged adherence to this policy made the Notes Board much less effective than it might have been in dealing with the financial difficulties of the early twenties—a failure which increased the wariness of the private banks towards any increased central banking functions that the Commonwealth Bank might seek to assume or which might be given to it by legislation.

Despite its policy of restriction the Notes Board was not very successful in reducing note circulation. In the two years between January 1921 and January 1923 the circulation was only reduced from £59·0 million to £54·2 million. This resulted mainly from the reduction of bank reserves of notes, which fell from £34·8 million to £29·8 million. For the next fifteen months, except for the brief Christmas period in 1923, notes fluctuated by no more than £1 million. On 31 March 1924 circulation stood at £53·9 million, after which time it was increased by more than £3 million to meet war gratuity payments. In following months the note issue remained almost constant, the amount in October being £56·9 million. In

[16] RBA, C1.8-21/N/5, Armitage to Collins, 17 June 1921.
[17] Ibid., LLS, Governor to London manager, 7 Dec. 1922.
[18] *S.M.H.*, 5 July 1921.

effect the Notes Board had found itself powerless to reduce the 'surplus paper money', although in the process it had aroused much bad feeling on the part of the private banks.

The banks were initially quite prepared to accept the Notes Board so long as their demands for notes were met. But in April 1922 a letter from Kell to the general managers informed them 'that deposits issued under the 3 to 1 Gold Arrangement mature on the 31st August 1922'. In May the banks were further informed that the gold lodged under the 3 to 1 provision would not be due for repayment until 1 November 1925. The banks immediately suspected that further advances under the 3 to 1 would not be allowed, fears which were confirmed in a letter from Miller to the Associated Banks of Victoria dated 9 September 1922. It informed them that 'it was unanimously decided that . . . The Board does not recognise the rights of Banks to obtain further advances under the 3 to 1 Gold Arrangement'.[19]

The banks protested in a deputation which met the Notes Board in Melbourne in October 1922. They claimed that at a meeting with the Treasurer in 1920 at which Denison Miller was present it was agreed that all wartime rights and privileges would be extended for five years, and that this included the 3 to 1 arrangement. This view was rejected by the Board but they agreed to advance notes in return for an equal amount of gold in order to finance the seasons' exports.

Even this modest response to the banks' requests was opposed by Garvan, who stated his firm opinion that 'no more notes should be printed before the pound note is equal in value to a sovereign'.[20] This was one occasion on which Miller disagreed with his determined colleague. He wrote:

> I do not agree that it would be inflation to give notes for gold when demanded by the Banks, or to purchase gold from the public. It would perhaps mean an increase in circulation, but not necessarily inflation, but the circulation would soon adjust itself to the legitimate business requirements of the people . . . I maintain there is no inflation of currency in Australia, as in practice a Pound Note will purchase as much goods in the open market as a sovereign.[21]

Garvan remained unconvinced—'Never was a more dangerous doc-

[19] RBA, C1.8-22/N/2.
[20] Ibid., 705/15.
[21] Ibid., Miller to Garvan, 22 Feb. 1923.

trine preached than yours'—although to modern eyes his position was quite untenable. The banks, while not satisfied with the arrangement, accepted it in the knowledge that if absolutely necessary to meet seasonal needs they could get notes.

Up to 1923 the policy of the Notes Board was merely restrictive: in 1923/24 it became a positive hindrance to the solution of financial difficulties. In 1923/24 the balance of trade was strongly in Australia's favour, resulting in the accumulation of funds in London, with no means of transferring them to Australia because of the British government's embargo on the export of gold. Thus the banks with funds tied up in London were unable to provide the advances to finance exports. In December 1923 the Prime Minister, S. M. Bruce, cabled from London:

> Have had several instances brought under my notice where Australian export trade is being hampered owing to Bankers refusing to undertake finance on the grounds that their resources are not sufficient to meet increased demand consequent upon lifting of seasonal crops. Opinion I have always held and which has been strongly reinforced by information I have obtained here is that Notes Board should be prepared to allow greater elasticity in note issue to meet seasonal requirements.[22]

The proposal was that the Notes Board should buy London funds and issue notes against them. It refused on the grounds that it would be impossible to guarantee repayment and also that it would be inflationary. The alternative proposal (which had previously been acceptable to the Board), that it should issue notes in return for gold in Australia, was equally adamantly rejected. With Miller dead, the Board appears to have gone over completely to Garvan's viewpoint. Kell, the acting Governor and Chairman of the Notes Board, wrote to the Queensland National Bank.

> The Board has given careful consideration to the request that it should issue notes for Gold, and has come to the conclusion that all necessary notes can be provided out of existing currency. The issue of any notes additional to those already promised would result in an inflation of credit and would necessitate a deflation, with all its attendant trouble later on.[23]

The Notes Board had carried prudence to the point where it was a positive hindrance to the conduct of business.

[22] Ibid., Note Issue Board Minutes, 14 Dec. 1923.
[23] Ibid., C1.8-24/N/3.

A further step in the direction of central banking attempted by Miller was the proposal to the trading banks that they should settle their exchanges through the Commonwealth Bank. This proposal was first made by Miller in a letter to the trading banks on 1 March 1921. He argued that now the note issue was controlled by a department of the bank it was important to find some way to reduce the circulation. The best way to achieve this, he thought, was for the banks to settle their exchanges by means of cheques drawn on accounts with the Commonwealth Bank. The banks were not prepared to agree with the proposal but Miller was confident they would fall into line in due course.

After Miller's death the idea was revived by the acting Governor. He wrote to all general managers.

> As the Banks have now practically all established accounts with us at each Capital, the time seems opportune to again bring forward the question of the settlement of Exchanges between Banks by cheque on their accounts at the Commonwealth Bank, instead of actual payments of notes, as at present . . . As we are now agreeable to allow Banks interest on their balances with us up to a limit to be arranged, the proposal should be more acceptable to the Banks, and I would suggest that the matter again be given consideration.[24]

The banks refused once again, for reasons that have been explained by Butlin.[25] They were simply not prepared to keep clearing deposits with the Bank unless they had an assurance that the funds would not be used in competition with them. This assurance was not given, 'and the banks drew their own conclusions'.

Although the banks refused to clear with the Commonwealth, Kell had more success with another proposal which had some central banking implications. Because it was the government's banker, at times the Commonwealth Bank's position improved at the same time as the other banks' position deteriorated; in particular this occurred when public loans were being subscribed. So on 2 August 1923 Kell wrote to the general managers in connection with the Commonwealth conversion loan. He pointed out that the Commonwealth Bank was accumulating notes and that consequently some of the trading banks might find themselves temporarily short. Therefore he

[24] Ibid., 705/18, Kell to general managers, 29 Sept. 1923.
[25] *Australia and New Zealand Bank*, p. 369.

proposed that the Commonwealth Bank might lodge funds on deposit at call with them at a nominal rate of interest. For the period immediately after the loan closed, when the reverse position would hold, with funds being withdrawn from the Commonwealth Bank and the trading banks accumulated a surplus, they might lodge funds not temporarily required with the Commonwealth Bank on the same terms. Kell concluded his letter:

> It has also been our continuous policy to create through the machinery of the Commonwealth Bank a reservoir for funds in order that Banks accumulating surplus funds at any time may lodge them with us at interest, whilst on the other hand, Banks which are temporarily depleted can obtain funds from us at a reasonable rate. Such an arrangement would give much added strength to the position of all the Banks co-operating, and, will I trust, commend itself to you.[26]

Some of the banks took advantage of the offer and this limited degree of co-operation was put into effect.

Despite the limited successes in dealing with the banking problems of the early twenties the substantial failure of the banking system to respond to the challenge of the new conditions created pressures for the amendment of the Acts under which the Bank and the Note Issue Board existed. Pressures of different kinds had existed from the passage of the original Act.

The criticism of the Bank focused on three things: the autocratic powers of the Governor; the failure of the Bank to provide credit for primary industry; and its inadequacy as a central bank. In Parliament the attack on the powers of the Governor was led by Dr William Maloney, whose association with O'Malley has been previously noted. He referred to Miller as a 'dictator' and buttressed his demand for a Bank Board, which would exercise final authority, by accusations of nepotism—this being a reference to the fact that the firm of J. & H. Kirkpatrick, architects, which had been employed in the designing of the Head Office building and later in the design of war service homes, included members who were closely related to Miller. Maloney believed that the Governor had been spoiled by power, and that he should be protected from the circumstances that corrupt, by the appointment of a Board.[27] This opinion was echoed

[26] RBA, 705/18.
[27] *Comm. P.D.*, Vol. XCIV, pp. 5663-4.

by others and gave an edge to dissatisfaction with the Bank arising from other sources.

The two ideas of a Bank Board and a special department for the provision of rural credits came together in the policy of the Country Party in 1922. Although new on the political scene, the Country Party was soon to wield influence beyond its years and size when, led by Earle Page, it entered a coalition government with the nationalists. In the Bruce-Page government, which held office from 1923 to 1929, Page was the Treasurer and carried through an amendment to the Act in 1924.

Central banking was in the air. The international monetary conference held at Genoa in 1921 recommended that a central bank should be established wherever there was none. In Australia, D. B. Copland, then Professor of Economics at Hobart, was publicising the idea. It was taken up by some of the newspapers. Thus the *Argus* (1 August 1921) delivered itself on the subject:

> All the evidence the Commonwealth Bank supplies since it began its career shows that it has not met the requirements of a central banking institution, but has just performed the functions of an ordinary bank . . . It is different from an ordinary bank in certain particulars, inasmuch as it has not to answer to a board of directors or to shareholders, the result being that the governor is a law unto himself . . . If it were not for its savings bank activities entered upon in competition with the States' Savings Banks to secure funds for Commonwealth purposes, the Commonwealth Bank would slip back to a very moderate rank among the banks of the country.

The criticisms were echoed by other papers, and reached a crescendo during the election campaign of 1922.

The Country Party took the lead in criticism and advocacy of reform. In his policy speech Page recommended that the Commonwealth Bank should 'become a Central Bank by giving it control of the currency under an independent Board of Directors and making it the bank of Exchange, Discount and Reserve'. The words recall O'Malley, which is not surprising, as Page was closely in touch with him at the time. In a speech at Grafton, Page spoke further of the need for reorganisation (*Daily Telegraph*, 28 October 1922).

> Without in any way reflecting upon the present management, we feel that this institution should now be placed under a board of directors, upon lines similar to the Bank of England. These direc-

> tors should be men of the broadest outlook and representative of our industries. Free from all political control, they should be placed in a position to make available the vast resources of this institution for development of the primary and secondary industries in Australia.

There was nothing new in what Page had to say but the fact that he would soon be in office gave it a greater significance.

In the election no party gained a majority and after extended negotiations the coalition government of Bruce and Page was formed. But reform of the Bank did not follow immediately. At the political level uncertainty about just how the Bank should be reformed delayed action. One adventitious event, the death of the Governor in June 1923, made easier any reform affecting the authority of the Governor. It also eased the way for leading officers of the Bank to set down their opinions on the Bank's first ten years and their ideas on its future.

The inner-bank opinions were summed up in two letters that Kell wrote to Page on 20 and 29 June 1923.[28] Kell, who also closely reflected the views of the secretary, Armitage, felt that the Bank should continue much as it was. He considered that the Bank was growing into a central bank by a natural process in the same way that the Bank of England had done and that any legislative restriction of this process would be a mistake. His ideas on the proper function of the Bank were essentially those stated by Miller ten years before. He was emphatic in his attitude to the Savings Bank; it must be retained, because to make the Bank a truly national central bank, 'it is necessary for the savings of the whole of the Australian people to be centralised in its National Bank'. He favoured one reform, the limitation of the autocratic powers of the Governor. He said that he had 'always regarded the present system of autocratic control by one man as wrong in principle, dangerous in practice and out of step with the spirit of the time'. A Board was necessary but care must be taken in its appointment. He was opposed to a Board consisting of businessmen, because it would be almost impossible to select prominent men 'who are not interested in the various ramifications of private Banking'. He was also afraid of political influence being exercised in appointments to the Board. Therefore he insisted that the Board should consist of bank officers. These views no doubt arose in part

[28] RBA, C2.26.9.

from the sense of frustration that Kell had experienced when serving as deputy to the 'autocratic' Governor, but they also expressed genuine fears of the influence of politics and businesses.

The bank officers had made their proposals but they had little effect on the amending Bill. In outlining its legislative program in June 1923, the government announced that it would place the control of the Bank in the hands of a non-political Board. The Deputy Leader of the Opposition, Frank Anstey, the author of *The Kingdom of Shylock*, was sceptical; he believed that the Board would consist of men whose interests and opinions would be opposed to the welfare of the Bank. He said,

> The Labour Party believe in a policy of control in respect of our private banking systems. The Government, however, proposes in respect of the Commonwealth Bank—a Bank which has been administered by one man in a way that is creditable to himself, and has proved of the utmost value to the country of which he is a citizen—that there shall be a Board of Control. It proposes that the present Governor of the Bank shall be supervised by a Board consisting of its own particular partisans . . . .[29]

The Leader of the Opposition, Matthew Charlton, took the same position and urged that if there was to be a Board it should consist of men already in the service of the Bank.

Although it was mentioned in the Treasurer's budget speech, the government did not proceed with the amending legislation in the first session of Parliament. The reason appears to be that they were still uncertain of what to do, but the refusal of the Note Issue Board to follow Bruce's suggestion to issue notes against London funds strengthened the intention to do something. As Page recalled it in his memoirs,

> These difficulties, the conflict with the Notes Board, and the serious losses faced by the primary producers, determined us in our intention to carry through banking reforms which would put currency control where it belonged, in the hands of a central bank.[30]

Having made the decision, according to Page, the details were worked out in discussions between himself, the Prime Minister, and the Secretary to the Treasury.

[29] *Comm. P.D.*, Vol. C11, p. 77.
[30] *Truant Surgeon*, p. 116.

In the preparation of the Bill itself the Bank was virtually ignored, not receiving a draft copy of the Bill until two or three weeks before it was introduced into Parliament. Kell made some criticisms of the draft, in particular of the composition of the Bank Board. Not only did Page reject the criticisms but he also rebuked the acting Governor for interfering with government policy.[31] The treatment of the private banks was very different. The draft was placed before a special committee of bankers, who proposed some alterations which were accepted by the government. According to Blainey they were largely satisfied with the outcome, the Chief Manager of the National Bank writing to London,

> taking the measure as a whole and knowing the present Government's views and intentions, we feel that there is very little wrong in the measure, and that, provided a good Board be appointed, the result may be regarded as likely to be a very satisfactory advance, in the Commonwealth Bank constitution and position.[32]

There was reason for their satisfaction, in that one of the concessions made by the government was the removal from the Bill of a clause requiring the banks to keep their reserves in special accounts with the central bank[33]—a clause which was important to the central banking function but strongly opposed by the private banks.

The Bill was introduced to Parliament in June 1924. In his second reading speech Page claimed that the Bill contained five important amendments. They were: the appointment of a Board of Directors to control both general banking business and note issue; the provision of further capital; the giving of power to the Board to publish its discount rate; a requirement that the banks settle their exchanges through the Commonwealth Bank; and the preparation of certain statistics. In its passage through Parliament some amendments were made, of which the most important was in the category of persons to be appointed to the Board.

The Act provided that the Bank should be managed by a Board consisting of the Governor, the Secretary to the Treasury, and six other persons, 'who are or have been actively engaged in agriculture, commerce, finance or industry'. This was a fundamental change in the management of the Bank—the days of the 'autocratic' Governor

[31] L. F. Giblin, *The Growth of a Central Bank*, p. 14.
[32] *Gold and Paper*, p. 315.
[33] Page, *Truant Surgeon*, p. 116.

were over. In the event they were to be replaced by days in which the dominant figure became the Chairman of the Board. The second major change brought about by the Act was the transfer of control of the note issue to the Board, the same authority which managed the general banking business. Less important but of some significance was the requirement that the banks settle their exchanges through the Commonwealth Bank. Giblin says of it that 'This provision gave official status and prestige to the Bank but did not in itself give the Bank any more control of the monetary situation'.[34] The power to re-discount bills and to publish a discount rate was not new except that control of the note issue armed the Bank with the means, should it wish to use them. However, since trade bills played a very small part in Australian finance, it was something of a dead letter.

The debate on the Bill revealed the gulf that lay between the Nationalist-Country Party alliance and the Labor Party, although the differences were muted to some extent by the uncertainties in Labor's position. For the government the clear aim was for the national bank to assume a key role in a predominantly privately owned banking system. Membership of the Board was intended to represent interests in the economy—rural, commercial, and industrial—and in its deliberations it was expected to arrive at policies which would as nearly as possible satisfy all of them. For Labor the new administration meant that the Bank had been handed over to private enterprise. So far as they had any clear position it was that the national bank should be an instrument in the gradual nationalisation of the banking system, the steps to which were no clearer in 1924 than they had been in 1911. However, it was clear that the Act of 1924 was not a step in that direction.

Central bank or trading bank? The question was not answered by the Act of 1924. In the words used about it, and in the powers granted, 1924 was an advance towards its becoming primarily a central bank. But it would need an economic depression and a war before this tendency was confirmed.

[34] *The Growth of a Central Bank*, p. 15.

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## *ARCHIVES AND MANUSCRIPTS*

The archives of the Commonwealth Bank, held in the Head Office of the Reserve Bank, are very extensive. They are well ordered and described. Several series were used, but the greatest use was made of the London letter series, a regular to and fro correspondence between the Governor and the London manager. In these exchanges most important policy matters were discussed. There are also extensive and well preserved newspaper cuttings covering the period from the foundation of the Bank.

The O'Malley papers held by the National Library of Australia are extensive but contain little that is not available in published form. His numerous diaries contain virtually nothing other than entries recording the time he reached his office and the state of the weather.

The papers of W. M. Hughes and P. McM. Glynn, held by the National Library of Australia, were examined on my behalf by scholars with access to them and proved quite unrewarding for my purposes. The minutes of the meetings of the Commonwealth Parliamentary Labor Party confirm the argument advanced by Kim Beazley on the role of O'Malley in the establishment of the Bank.

The archives of those government departments to which I was granted access contain nothing which does not exist in the archives of the Reserve Bank.

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He is the author of *The Coalminers of New South Wales* (1963), and of *Radical and Working Class Politics* (1960), of which he is now writing a second volume, tracing the course of the radical impulse into the 1960s.

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