The Role of the Reserve Bank of Australia in Papua New Guinea's Decolonisation
Nugget, Pike, et al.

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RJ May

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In 1995, the North Australia Research Unit's (NARD) position within the Research School of Pacific and Asian Studies (RSPAS) was reviewed within the Institute of Advanced Studies. Following a report by the review committee, NARD underwent strategic restructuring in terms of management. For a short period NARD was relocated to the National Centre for Development Studies but, in August 1997, the Unit reverted to its former position and is directly accountable to the Director of RSPAS.

The location of the Unit in Darwin has made it something of a frontier research post for more than two decades. Opened in the early 1970s, the aggregate of scholars over the years, and even today, is a reflection of the inter-disciplinary nature of the research carried out at the Unit.

A large portion of that research has focused on the Aboriginal and Torres Strait Islander peoples of Australia and, in that context, on the social, cultural, political, economic and development issues which are part of northern Australia. The range of research projects which are underway at any particular time depend very much on the priorities of the individuals who are engaged in the actual research. Aboriginal and Torres Strait Islander issues are of continuing importance in northern Australia and, consequently, to NARD. The reasons for this would be obvious to anyone who visits northern Australia—outside of Darwin, indigenous people comprise the majority of the population in the north.

In addition to NARD's traditional research there is now a very strong focus on governance and development in northern Australia, and in regions further north, particularly east Asia. Scholarly interest in this regional relationship has been substantial,
adding considerably to the depth and breadth of NARU’s cross-disciplinary role with the ANU.

As an integral part of the ANU, and RSPAS, the Unit offers scholars from Australia and around the world a unique opportunity to conduct research in one of the most remote academic outposts in Australia—perhaps, the world. NARU has excellent resources and site facilities, including a social science library which boasts a comprehensive collection of material on northern Australia and which is networked into the ANU library system in Canberra. The library and other facilities are reserved for NARU academics, visiting fellows, and students and demand is relatively high during the ‘Dry’ season. Enquiries are welcome and should be directed to either the Unit Director or the Administrator.

Guidelines for Contributors

Papers should not exceed ten thousand words. The Harvard system of referencing is recommended, and footnotes rather than endnotes are preferable. The styling method of this paper can be used as a guide. Authors are requested to send three copies of their paper and one copy on disk; please include an abstract and short profile of the author.

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Much of the literature on decolonisation suffers from a tendency to overgeneralise, in particular to portray the colonial power as monolithic and its motives as simple. This propensity tends to vary directly with commentators’ distance in time and space from the decolonisation process. Increasingly, I read references to decolonisation in Papua New Guinea which describe events that, as someone involved on the margins of the decolonisation process, I have difficulty recognising. In fact, in virtually all decolonisation processes different actors, both colonisers and colonised, occupy a range of positions, from opposing independence to being in its vanguard. This was true of Papua New Guinea. In the movement towards independence there were Papua New Guineans who resisted the transition, as well as those who promoted it, and colonial officials who sought to hasten it, as well as those who sought to delay it; and among both these were people whose position changed over time.

* From 1957 to 1972 the author was employed by the Commonwealth/Reserve Bank, initially in the Research Department and from 1970 as senior economist in the Papua New Guinea Department. In 1972 he left the Bank to become Field Director of the ANU’s New Guinea Research Unit but was appointed to the board of the Bank of Papua New Guinea in 1973.
This paper recalls one aspect of Papua New Guinea’s decolonisation: the transfer of control over the banking and monetary system. Specifically, it focuses on the role played by the Reserve Bank of Australia. The Bank’s interest in the future of Papua New Guinea began early, on the initiative of its governor from 1949 to 1968, Dr HC (‘Nugget’) Coombs—a man who has been in the vanguard of much of what has been good in Australian life in the twentieth century. Coombs recruited Dr PWE Curtin to carry forward the Bank’s work in Papua New Guinea, and in subsequent years the Bank’s Papua New Guinea Department, under Curtin and MJ Phillips, became closely involved with Papua New Guinea, pursuing a strategy of development which sometimes met resistance from the Australian government, the Papua New Guinea Administration and even within the Bank itself.

In the Beginning

In his autobiography, *Trial Balance*, Coombs records that, during the latter years of the Second World War, the Department of Post-War Reconstruction (of which Coombs became Director-General in 1943) gave thought to a number of issues of post-war regional planning, including plans for the development of Papua New Guinea. Coombs notes:

As Director-General of Post-War Reconstruction, I had been involved in the planning of the transition in Papua New Guinea from military Government to civil administration, and in the measures to rehabilitate those residents of the Territories adversely affected by the war and to promote the economic and social reconstruction generally.

By 1946 these gave primary emphasis to the development and welfare of the indigenous inhabitants (Coombs 1981:172).

This ‘primary emphasis’ was expressed in the Commonwealth Parliament in 1945 by External Territories Minister Eddie Ward:
This government is not satisfied that sufficient interest had been taken in the Territories prior to the Japanese invasion, or that adequate funds had been provided for their development and the advancement of the native inhabitants ....

In future, the basis for the economy of the territory will be native and European industry, with the limit of non-native expansion determined by the welfare of the natives generally (Commonwealth Parliamentary Debates [Representatives] 183:4052, 4054, 4 July 1945).

I do not know what influence Coombs may have had in the formulation of this policy statement, but there is certainly some coincidence in the views recorded by Coombs and those expressed by Ward.¹

In 1949 Coombs became Governor of the Commonwealth Bank of Australia² and, as he puts it, ‘brought to the banking problems of the Territories some familiarity with their economic and social contexts’ (ibid.). At that time, Papua New Guinea was an extension of the Australian banking system; initially two commercial banks operated there: the Commonwealth Banking Corporation and the Bank of New South Wales (now Westpac); in the 1950s they were joined by the Australian and New Zealand Bank and the National Bank of Australasia. The business of all four banks was overwhelmingly directed towards the ‘expatriate’ sector and the Administration, although the Commonwealth Savings Bank made

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¹ Geoff Gray discounts the link, pointing to the role of Alf Conlon and the Australian Army’s wartime Directorate of Research and Civil Affairs (personal communication and see Gray 1996). Also see MacWilliam (1996). Coombs seems to have had a fairly close personal association with Conlon.

² In 1949 the Commonwealth Bank included the Commonwealth Savings Bank, the Commonwealth Trading Bank and the central bank. In January 1960 the central banking functions were separated and transferred to the Reserve Bank of Australia which was created by legislation in 1959. Coombs became Governor of the Reserve Bank.
early efforts to mobilise Papua New Guinean savings.\textsuperscript{3} Any attempt to extend banking to Papua New Guineans would, in any case, have been hampered by the \textit{Transactions with Natives Ordinance}, which (until 1963) rendered transactions in excess of $100 ‘unlawful and void as against a native’. Monetary policy also applied uniformly across Papua New Guinea and Australia.

In 1953, a New Guinea Committee was set up within the Commonwealth Bank. Its responsibilities were: to ensure that funds deposited in ‘New Guinea’ were ‘reasonably employed’ in the interests of ‘New Guinea itself’; to consider what action the Bank could take to promote the development of village co-operatives; and to oversee long-term educational and training measures to enable the ‘natives’ to participate in the administration of the Bank.

The same year a working committee of the Australian National University (comprising Oskar Spate, Cyril Belshaw and Trevor Swan) was commissioned by the Australian government, ‘to investigate the economic structure of the Territory with a view to suggesting gaps in knowledge which it is most essential to fill and lines of advance which hold most prospect of producing positive results’ (Spate, Belshaw and Swan 1953: Foreword). Again, I do not know whether Coombs played a part in initiating this study (his relations with the ANU were, of course, close), but an economist from the Bank (Don McKenna) was attached to the working committee in Canberra for several months, acting as general liaison officer between the committee and the Department of Territories (which had been established eight years earlier) and undertaking a major part of the committee’s statistical work—and [presumably] keeping Coombs in touch with the committee’s work. Although the working committee acknowledged the work of ‘numerous

\textsuperscript{3} For an account of banking in Papua New Guinea to 1969, see Phillips (1972:54-59).
committees in the past’, and suggested that it had ‘found little to say which has not been said before’ (ibid.), its report in fact provided an important critique of past policies and its discussion of future prospects and proposals for a ‘native-oriented polity’ and ‘native-based production’ anticipated much of developments to come.⁴ Coombs recalls that the Spate, Belshaw and Swan report ‘criticised all the banks for the failure to support New Guinea development, particularly the native agriculture upon which they believed the development should be based’⁵ and says that following the report:

... the Commonwealth Bank carried out studies of the native economy to test how far the existing state of knowledge and experience of the money economy provided scope for lending and that a ‘modest beginning’ was made to the employment and training of indigenous staff (Coombs 1981:172).

In 1959, the Bank commissioned a study of ‘the use of money and the need for credit by the indigenous people of TPNG’, to inform its efforts at developing a financial system appropriate to the changing economic and social conditions. The study, carried out by JR Thomas, an economist with the Bank, and Sydney University anthropologist Dawn Ryan (Thomas and Ryan 1959), made a number of recommendations for financial education and

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⁴ The working committee identified three major developmental needs: roads; the strengthening of agricultural work; and fiscal reform and the fostering of financial responsibilities.

⁵ I can find no discussion of banking in the report apart from the brief observation that ‘net finance from the banking system is negative’ (that is, the banks in effect used funds deposited by customers in Papua New Guinea to lend to customers, including the government, in Australia) and comments that ‘The importance of agrarian credit [for “native production”] ... cannot be overstressed’ and that ‘some suitable form of credit will have to be devised’ (Spate, Belshaw and Swan 1953: paras 37.4, 14.3, 28.2).
development, including the recommendation that the Bank consider the establishment of credit unions (see below).

In the same year, the central banking functions of the Commonwealth Bank were transferred to the newly-created Reserve Bank, which commenced operations in January, 1960. In August, the Bank opened a branch in Port Moresby. In its first report (Reserve Bank of Australia, Report and Financial Statements [hereafter RBA Report] 1960:28) it was noted that the central bank ‘has for some years taken a special interest in Papua New Guinea’ and that the opening of a Port Moresby branch ‘will enable it to carry out its central banking functions in the Territory and to keep informed of problems that face banks in this changing environment’.

The Reserve Bank in Papua New Guinea

The Bank’s Role in Financial and Economic Policy Making

Initially, the Bank’s central banking functions were largely confined to acting as banker to the Commonwealth government and the Administration of Papua New Guinea, distributing notes and coin, assisting the Department of Territories and the Administration with loan raising, and maintaining a stock registry; but as political and economic development accelerated, the Bank’s role increased. The Bank’s 1964 report stated:

In addition [to providing ‘the normal range of central banking services’], research activities in relation to the economic and financial development of the Territory have been expanded and, in association with the Administration and the trading banks, the Bank has been actively engaged in encouraging the development of a financial and banking structure suited to the particular needs of the Territory (RBA Report 1964:25).
In November 1958 Coombs appointed, as Senior Research economist (international affairs) in the Bank’s Research Department, Dr PWE (‘Pike’) Curtin. Curtin, a fellow Western Australian, had worked with Coombs in Post-War Reconstruction and had subsequently been Director of the Colombo Plan Bureau in Sri Lanka, and Chairman of the Commonwealth Public Service Board. He was an unorthodox economist of Fabian persuasion. Curtin provided the nucleus of what, in 1965, became the Bank’s Papua New Guinea Division.

Towards the end of 1960, a meeting of the Bank’s internal Central Banking Advisory Committee (CBAC) considered a paper on the Bank’s activities in relation to Papua New Guinea, drafted by Curtin. On the basis of this, CBAC concluded that the Bank should explore the scope for possible action through: education and training of natives in finance and commerce; employment and training of native staff; financing of promising developmental projects; and collection and publication of basic statistical and economic data. It was also resolved to liaise with CSIRO and other relevant research teams and to continue financing research projects through the Bank’s Rural Credits Development Fund. Responsibility for planning of studies and courses of action was given to a CBAC subcommittee, the TPNG Committee, headed by one of the Bank’s advisers, AW Elvery; the work was to be done primarily within the Bank’s Research Department, including that Department’s Rural Liaison Service, under Curtin.

Shortly after this, Curtin, accompanied by John Phillips from the Bank’s Rural Liaison Service and Eric Fleming from the Bank’s

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6 One of the major beneficiaries under this scheme was a study of cocoa dieback.

7 Phillips, an agricultural economist, later succeeded Curtin as Manager of the Papua New Guinea Department and subsequently became Deputy Governor of the Bank.
Bonds and Stock Administration, visited Papua New Guinea. On their return, a further paper was presented to CBAC, which recommended: that credit unions be established; that a meeting of banks and the Department of Territories be organised to plan joint advertising and promotion of savings ('thrift'); that a liaison officer be appointed for Papua New Guinea; and that the Bank make clear its feeling ‘that there should be a forward move in lending to indigenes.’ On the last point, CBAC was of the opinion,

... that it is likely to be some time before the volume of native borrowing would warrant consideration of a separate advance or credit policy for the Territory .... However, as we are asking the banks to make special efforts in the Territory, the Committee feels that it should consider what would be involved in having policies differing from those required in Australia.

It proposed a meeting with banks, at which

... we should tactfully suggest means of adapting the structure, staffing and policies ... to meet the growing requirements of the indigenous people .... It is important that the banks be persuaded that TPNG should be regarded as a separate entity rather than merely as an extension of Australia.

A meeting was held with the banks early in 1961, but achieved little.

Subsequently, the Bank announced a programme of education in money, savings, banking and credit for Papua New Guineans, to be carried out in collaboration with the Department of Territories, the Territory Administration and the banks in Papua New Guinea, and Phillips was posted to Port Moresby, with the designation ‘special duties, monetary development’. In 1962 Phillips’ staff was increased and he was joined by a Papua New Guinean, Robin Kumaina, who was seconded from the Administration.\(^8\) By then a

\(^8\) Kumaina later became Registrar of savings and loan societies, but eventually left the Bank to return to East New Britain as a businessman.
booklet entitled *Your Money*, in English, Tokpisin and ‘Police Motu’, had been distributed and other publications were in preparation. (By 1966, 100,000 copies of the English version of *Your Money* were in circulation.) The Bank’s Port Moresby staff numbers steadily increased in the early 1960s, with an increasing proportion of Papua New Guinean staff (see below), and in 1964 work commenced on a new building (in the early 1970s the Reserve Bank building dominated the downtown Port Moresby landscape).

By the early 1960s, the Reserve Bank had thus established a significant presence in Papua New Guinea and initiated a process of localisation, had embarked on a programme of financial education, and was becoming increasingly involved in research into and monitoring of the Papua New Guinea economy.

In 1963, the Australian government requested the International Bank for Reconstruction and Development (IBRD) to undertake a survey of the Papua New Guinea economy. The controversial ‘World Bank Report’ (IBRD 1964) was presented the following year. Apart from observing that bank lending to indigenous borrowers was small and that ‘Indigenous employment in banking, apart from the lowest levels is virtually non-existent’ (IBRD 1964:374), and advising that a separate monetary system would not be advantageous (ibid:368), the Mission had little to say on the subject of money and banking. Its main recommendation was that, to mobilise credit to finance the economic development proposals it recommended, a Territory Development Finance Company should be established (ibid:381-85). (This was later done, in the form of the Papua New Guinea Development Bank, and a Reserve Bank officer, John Beach, was seconded as Deputy Managing Director.)

Curtin provided one of the first public commentaries on the World Bank Report—concluding, somewhat cryptically, that ‘No one with a sense of colonial realities can do other than agree, in the main, with the commendations of this World Bank Mission’ (Curtin
1965:58)—and the Council on New Guinea Affairs, of which Curtin was a board member and sometime secretary, and to which the Reserve Bank provided funding, organised two seminars (one in Melbourne, one in Goroka) to discuss it. At the high-profile seminar in Goroka, which was attended by Australian Opposition Leader Gough Whitlam, Coombs presented a paper. In it, he endorsed the assumption ‘that it is the Australian Government’s intention ... to try to keep ahead of the demands of the local people’ in the transfer of political power, and expressed dissatisfaction with the World Bank Report’s ‘lack of precision in dealing with the task of stimulating indigenous enterprise’, before going on to outline the work the Reserve Bank was undertaking in creating, developing and guiding an emerging financial system (Coombs 1965:62, 63, 64).

In 1965, in accordance with a recommendation of the World Bank Report, the Australian government created the position of Economic Adviser to the Papua New Guinea Administration, and an Australian economist, then with the Prime Minister’s Department in Canberra, Bill McCasker, was posted to Port Moresby. In 1967 and 1968, McCasker’s office produced two important policy documents, *Economic Development of Papua and New Guinea* and *Programmes and Policies for the Economic Development of Papua New Guinea*, as a basis for future economic policy direction. They broadly followed the strategy proposed in the 1964 World Bank Report, concentrating on areas of high economic potential and assuming a continuing major role for

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9 From 1961 there had been a Central Planning and Policy Committee, but it had no full-time staff. Following the World Bank mission’s visit a Projects and Planning Team was created; prior to the appointment of McCasker, two Reserve Bank officers—A MacIntyre and MJ Phillips—acted as team leaders and a young graduate was seconded to the team. Another Bank officer, Ron White, assisted ANU economists in the preparation of national income accounts.
Treasury remained reluctant but the Bank provided capital funding to the Papua New Guinea Development Bank and later acquired a small Papua New Guinea security portfolio.

From the mid 1960s, the Bank's work on and in Papua New Guinea intensified. The Port Moresby office was given greater responsibility, and for the most part, operated through the Papua New Guinea Division rather than dealing with individual departments in the Bank. The Division reported half-yearly to the CBAC and annually to the Bank's board. From 1966-67, separate shadow accounts were kept for the Bank's Papua New Guinea operations (this had been proposed as early as 1963) and a TPNG Service staff classification system was introduced. From 1969, the Savings and Loan Registry operations were separated from those of the Bank. Research activities were coordinated between Sydney and Port Moresby. In 1970, the Papua New Guinea Division was upgraded to a full department.

Late in 1968, a memorandum from Curtin argued that the time had come to look at a Papua New Guinea banking ordinance, divorced from Australian legislation. Others argued, however, that separate legislation was not needed to give effect to the development of policies specifically geared to Papua New Guinea's needs, and Curtin's initiative temporarily lapsed (though his call for national financial legislation was repeated in a paper to a Council on New Guinea Affairs seminar in Sydney in 1969—see Curtin 1969-70:45). A later memorandum from Curtin argued for exemption of trading banks' business in Papua New Guinea from the central bank's statutory reserve deposit requirements and liquidity conventions, again without effect.

11 A similar proposal had come from Curtin five years earlier, but CBAC had doubted whether the government would accept such a proposal, and did not pursue it.
Early in 1970, a major research project was initiated within the Papua New Guinea Division to guide the Bank’s policy making in the final run-up to self-government and independence. The project envisaged a study in four parts, covering (1) a review of past developments; (2) an assessment of the present situation (including the relevance of Australian legislation and policy, and the adequacy of the financial system); (3) an examination of prospective issues in future development, and (4) an analysis of the implications for the Reserve Bank. Prospective issues were identified as:

(a) Separate currency.

(b) The role of a central bank.

(c) The pattern of institutional development:
   (1) Foreign entry.
   (2) Multi-purpose banks.
   (3) An indigenous bank.
   (4) The Development Bank.
   (5) Other specialist banks.
   (6) The future of the Savings and Loan movement.

(d) The development of a market in financial assets.

It was intended that Bank staff in both Sydney and Port Moresby be involved in the study.

The study was substantially completed when, in July 1971, the Minister for External Territories proposed the establishment of a Committee on Banking in Papua New Guinea, comprising

representatives from External Territories, Treasury, the Reserve Bank and the Papua New Guinea Administration.

Shortly before this, the Australian government had accepted the recommendation of the Select Committee [of the Papua New Guinea House of Assembly] on Constitutional Development, that Papua New Guinea should be prepared for internal self-government in the period 1972-76. Banking was identified as one of the areas in which ‘suitable arrangements would need to be developed’ prior to self-government. The Committee’s terms of reference directed it to make recommendations on: the major elements of a framework appropriate to banking in Papua New Guinea at self-government and at independence; the lines along which the Papua New Guinea banking system should be developed over the next few years; and the nature and timing of the various steps for setting up an appropriate banking system in Papua New Guinea. Prospective currency arrangements were specifically excluded from the terms of reference (see below).

The committee, which was chaired by Gerry Gutman of External Territories, held its inaugural meeting in Canberra in September 1971. The Bank’s representatives at this meeting were JB Wright (a former Secretary of the Reserve Bank, then holding the title of adviser), JA Kirkwood (of the Bank’s Banking Department), DG McKenna (who had recently joined the Papua New Guinea Department, having previously been on secondment as Deputy Governor of the Bank Negara Malaysia), and the Bank’s then Port Moresby Deputy Manager, Henry ToRobert; with the exception of ToRobert, these were men of essentially conservative disposition with little direct experience of Papua New Guinea. The senior Treasury representative was Harold Heinrich, a person with no

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13 Wright did not attend later meetings and Kirkwood was replaced by D Parr, without changing the tenor of the Bank’s representation.
evident empathy for developments in Papua New Guinea. The proceedings of the first meeting were largely devoted to discussing possible extension of the terms of reference to include currency arrangements (the committee decided not to), and discussing publicity (it was agreed that low key publicity of the Committee’s existence was desirable and that banks operating in Papua New Guinea should be approached for their views, but that ‘no specific invitation would be extended to academics to express their views’).

Three more meetings were held in Australia and Papua New Guinea during 1971, which considered a series of papers, mostly derived from the Reserve Bank’s research project and including (for the third meeting) a pro forma banking ordinance.

By this time the desirability of localising banking legislation had been underlined by an ‘in principle’ proposal from the Bank of New South Wales to register a subsidiary, to be called the First Papua and New Guinea Bank Ltd, which would provide integrated trading and savings bank services in Papua New Guinea. As early as 1963, the TPNG committee had suggested that banks operating in Papua New Guinea be encouraged to transform their Territory branches into local subsidiary companies. In 1971, the Papua New Guinea Department supported the idea of using the Bank of NSW’s application as leverage to introduce a separate banking ordinance in Papua New Guinea; but in the event the Bank of NSW was persuaded to hold off on its application pending the report of the Banking Committee. Also, an informal application from the First National City Bank to open a branch in Papua New Guinea—challenging the Australian policy of exclusion of ‘foreign’ banks—

14 The full list of those attending the inaugural meeting was Wright, Kirkwood, McKenna, ToRobert (Reserve Bank); Heinrich, TWJ Vear, R Beetham (Treasury—though both Vear and Beetham were former Reserve Bank officers); HP Ritchie, V Navuru (PNG Administration); GO Gutman, P Kellaway, E Ingevics and MJ Hilyard (External Territories).
was ‘discouraged’ following discussion with Treasury, though the Papua New Guinea Department expressed support for the FNCB’s entry.

The Banking Committee’s progress was, however, slow. A note on the minutes of the fourth meeting of the Committee (written shortly before I left the Bank in January 1972) made the comment:

It is disappointing, to say the least, to see that by December 1971—the date initially set for completion of the draft preliminary report—the Committee has made so little progress towards a definition of issues, let alone a series of policy recommendations. The account of the fourth meeting reveals a lack of direction on major policy issues and the draft summary of recommendations is so trite as to be virtually useless, its only substantive content being a negative one—that there is no necessity to do anything before self-government.

Such disappointment was heightened by the fact most of the substantive issues canvassed by the Banking Committee had been comprehensively addressed within the Reserve Bank before the Committee had even met.

An interim report was eventually presented in January, 1972.\(^{15}\) It recommended: that control of banking be transferred to local authorities ‘as soon as practicable’; that Papua New Guinea should have its own central bank; and that the business of the Commonwealth Banking Corporation in Papua New Guinea should be transformed into a Papua New Guinea institution. However, the Committee did not expect ‘any immediate demand for self-government’ from the new House of Assembly to be elected in 1972, and proposed a timetable which extended into 1974. Moreover, the Committee commented that ‘the full implications of the legislative changes required to implement the transfer of banking powers ... have yet to be considered’—notwithstanding the

fact that extensive documentation had been prepared in the Bank in 1970—and there were unresolved differences between External Territories, Treasury and the Bank as to the sequencing of transferring general banking powers, establishing a central bank, and granting full central banking powers. Indeed, in its response to the interim report, External Territories argued that, in recommending a central bank, the report went further than the committee envisaged (suggesting that the term ‘central monetary authority’ be used rather than ‘central bank’, and that decisions about its nature and powers await discussion with the IMF). External Territories also stepped back from the committee’s recommendation on the Commonwealth Banking Corporation, suggesting that its continued operation in Papua New Guinea was still an option.

On the question of a central bank, the committee presented a number of arguments in favour of a separate central bank, but its recommendation was clearly influenced by consideration that ‘an embryo central bank already exists’, and that training of Papua New Guinean staff and operation of a local Advisory Committee on Central Banking had been initiated some time ago.

Throughout this period (from the early 1960s to the early 1970s), relations between those responsible for the Bank’s Papua New Guinea operations and the personnel of External Territories had been cordial, though not especially close. Curtin, Phillips and later myself had good relations with Gutman—who shared the Bank’s generally progressive attitude to the pace of development in Papua New Guinea; on the other hand, Curtin especially had little time, intellectually, for External Territories secretaries Warwick Smith (1960-1970) or Hay (1970-1973), both of whom he saw as essentially conservative. Relations with Treasury, on the other hand, were never close and were sometimes antipathetic, reflecting in part a general ambivalence in relations between the Reserve Bank and
Treasury during this period, and in part the Treasury's apparent reluctance to embrace change in Papua New Guinea. In contrast, by virtue of its longstanding presence in Port Moresby, the Bank probably had closer working relations with the Papua New Guinea Administration, and later with Papua New Guineans, then either External Territories or Treasury.

With the change of government which brought Whitlam to office in Australia, and the emergence of the Somare government in Papua New Guinea, from 1972 the pace of change quickened and increasingly the initiative for policy change came not from Canberra or Sydney but from Port Moresby.

In early 1972, a confidential 'Gearing-Up Plan' was prepared by officials in Port Moresby, listing activities to be carried out before self-government (then anticipated as December 1975); the list included a separate central bank and banking system. The establishment of a central bank and separate currency were identified as areas of potential conflict between Australia and Papua New Guinea (Barnett 1981:49, 53).

The Committee on Banking submitted its final report in December 1972, and four months later the two governments announced their agreement on future banking arrangements. This included transfer of control of banks and financial institutions operating in Papua New Guinea to local authorities; the establishment of a central bank based on the Port Moresby office of the Reserve Bank; the creation of a Papua New Guinea Banking Corporation to take over the bulk of the business of the Commonwealth Banking Corporation; and the merging of trading and savings banking operations. A Central Banking Ordinance and a Banks and Financial Institutions Ordinance were passed by the House of Assembly in September 1972 and the Bank of Papua New Guinea was launched the following month, with To Robert as its first Governor. At a launching ceremony Prime
Minister Somare paid tribute to the Reserve Bank’s ‘foresight and planning’.

The Savings and Loan Movement

In 1959, the Thomas-Ryan report had recommended the creation of credit unions as an appropriate means of drawing Papua New Guineans into the financial system. A follow-up survey by officers of the Bank in 1960 ‘found considerable interest and enthusiasm for the idea of credit unions, both in government circles and among such indigenous organisations as were contacted on the matter’ (Lanes 1969:118), and in early 1961 Curtin and Phillips, accompanied by Elliott Elijah of the Administration’s Co-operatives Registry, visited Fiji to examine the experience with credit unions there before making a final commitment. A memorandum, written on their return, ‘confirmed the view, already widely held, that the credit union type of activity had distinct possibilities as a primary training ground for the money economy’; and recommended that the Bank assist in their establishment. There was support for the idea within the administration, specifically from the Co-operatives Division; but since the latter lacked the resources to set up credit unions the task was left to the Reserve Bank, with the expectation that the commercial banks would provide some support.

Following a change in terminology from ‘credit union’ to ‘savings and loan society’, a Savings and Loan Societies Ordinance was passed in September 1961. In his second-reading speech on the Bill the Territory Treasurer, HH Reeve, described the savings and loan societies as a ‘type of “pre-banking” system’, intended to

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'supplement' the banking system. It was intended that the societies should:

1. Help to foster the habit of thrift among the people;
2. provide education for their members in the fields of finance generally and financial responsibility in particular;
3. enable the making of small loans for wise purposes which it would not be practicable for existing financial intermediaries to undertake;
4. play some part in fostering capital formation in the Territory; and,
5. place in the hands of members a valuable means of furthering their own development (Elvery 1962:30-31).

In its 1964 report (p.25) the Bank described savings and loan societies as,

... in effect, small scale co-operative banks. Their main functions are to mobilise small savings and to provide credit in small amounts. At the same time, they enable the indigenous people to gain valuable training and practical experience in the running of financial enterprises (RBA Report 1964:25).

The following year, it referred to the savings and loan movement as 'a sub-banking system designed to provide a stepping stone to the use of the established banking system and to an extent to supplement it' (RBA Report 1965:28).

The first savings and loan society was formed in 1962 and Papua New Guineans were recruited for training in savings and loan operations. An officer of the Bank was appointed registrar of savings and loan societies, and expatriate and indigenous staff

were posted to Rabaul and Lae to encourage and assist in the development of savings and loan societies and savings clubs. The commercial banks in Papua New Guinea subsequently seconded several officers to the movement and offices were established in Goroka, Mount Hagen and Kavieng. In June 1963, there were four savings and loan societies, with membership of 209 and funds of $6,256; by June 1967 the number had grown to 189, with membership of over 10,000 and balances of $0.6 million. In 1966, a national Federation of Savings and Loan Societies was established, with funds from a levy on all society members, to provide some common services, including insurance of members' funds and the channelling of funds between societies to enable a more efficient use of the members' money. Also in 1966, a Gazelle League of Savings and Loan Societies was formed among societies in East New Britain, to provide advice, training, and audit facilities to members, and organise a discount purchasing service. In 1969, the Gazelle League employed six staff—all indigenous (one of them being John Kaputin)—and owned a building and vehicles. Another League was formed in the Eastern Highlands in 1967, on a more modest scale. (Among its directors were Hari Gotoha and Soso Subi, two of the Gorokans referred to in Finney's *Big-Men and Business* (1973).)

The history of the savings and loan movement has been recounted, at least in part, elsewhere. The movement enjoyed a rapid growth during the 1960s. Although the more successful societies were concentrated in Port Moresby and Rabaul—where better educated Papua New Guineans provided both a pool of relatively skilled manpower and source of income and demand for loans—adventurous young field officers enthusiastically set up savings

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clubs and societies throughout Morobe and the highlands (some of which could not be located years later). By the late 1960s, the movement was represented in fifteen of the country's eighteen districts. However, poor understanding of the functioning of societies and a chronic problem of non-repayment of loans had, in Lanes's words (1969:(iii)), 'tended to undermine the societies' reputation and image among members', and with only 41 per cent of members' funds invested in loans to members at June 1969, much of the effect of savings and loan activities was to transfer indigenous savings to the banks for on-lending to non-indigenes. These problems were only partially addressed in the early 1970s.

The development of the savings and loan movement represented an early and innovative initiative in attempting to develop financial institutional arrangements appropriate to the needs of Papua New Guineans, at a time when the commercial banks (with the minor exception of the Commonwealth Savings Bank) showed almost no interest in the development of a Papua New Guinean clientele.19 In developing this co-operative credit system the Bank created a structure that was based fundamentally on the notion of self-help and was, at all levels of its administration, localised to quite a high degree.20

Staff Development

In its second annual report, in 1961, the Reserve Bank noted that two Papua New Guineans had been sent by the Bank to Brisbane, to upgrade their secondary school qualifications. The following year another two were sent to Brisbane and one (Henry ToRobert)

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19 A survey of trading bank lending to indigenous borrowers undertaken in 1972 revealed that the banks' interest was still minimal (see May 1974).

20 At June 1969, of the 38 staff of the Savings and Loan Societies Registry 29 (including the deputy registrar) were Papua New Guinean.
was enrolled in the Economics Faculty at Sydney University. In 1963, the Bank’s report specifically observed that indigenous officers were being trained to ‘assume duties currently undertaken by Australians’, and noted that six officers were undergoing further secondary training in Australia, including the first woman. Attempts to allocate further bursaries for study at Sydney University in 1963 were unsuccessful, but a second Papua New Guinean (Nick Bokas) was enrolled in Economics the following year. To Robert graduated from Sydney University in 1967 (becoming Papua New Guinea’s second university graduate) and, after attending central banking courses in Sri Lanka and Washington (at the IMF), returned as Economic Research Officer in the Bank’s Port Moresby branch, which was already being developed as an embryo central bank. With the establishment of the University of Papua New Guinea in 1965, the Bank’s 1967 report recorded that seven officers were undergoing further secondary training in Australia, five were attending tertiary institutions in Papua New Guinea on Bank scholarships, and eighteen were taking correspondence courses. The same year, the Bank announced the formation in Port Moresby, of a Territory of Papua and New Guinea Bankers’ College, a residential college which provided training courses for officers in the five banking institutions then operating in Papua New Guinea.

In addition to its own trainees, the Reserve Bank’s Papua New Guinea Division provided a point of contact for other Papua New Guineans studying in Australia: both Bernard Narokobi (studying law at Sydney University) and Charles Lepani (studying Commerce at the University of New South Wales) spent vacation periods working in the Division, where they gained experience of central banking and economic analysis—and were able to discuss their university assignments with the Bank’s research staff. John Kaputin (who, as noted, was briefly employed with the Gazelle
The Issue of Separate Currency

The question of whether Papua New Guinea should have its own currency was raised within the Department of Territories as early as 1953. At that time the Reserve Bank opposed the idea of a separate currency, on the grounds that it was hard to imagine a Papua New Guinea currency not fixed to the Australian dollar or supported by Australia, that it would be unlikely to yield worthwhile benefits to Papua New Guinea, and that it would introduce confusion in trade, inconvenience to visitors, and additional work for banks and traders. Territories concurred. The issue was raised again nearly a decade later, first in the context of a forthcoming visit by an IBRD mission, and secondly in relation to the commencement of planning for the introduction of decimal currency in Australia in 1966. On the latter occasion—notwithstanding the opinion of the Reserve Bank’s Manager in Port Moresby (Phillips), that if separate currency were likely to come within, say, ten years of 1966, its introduction with decimalization would seem sensible—the prevailing view within the Bank, and the view passed on to the acting Treasurer in Port Moresby, was that, ‘we consider it better that the Territory should continue to use Australian currency’. The IBRD subsequently coalesced in this opinion, saying, ‘at this time a separate monetary system would not be to the economic advantage of the Territory’ (IBRD 1964:368).

23 Letter from Coombs to Territories, 6 October 1953.
24 Memorandum from Manager, Port Moresby 24 June 1963.
25 Letter from Deputy Governor to Manager, Port Moresby, July 1963. The Bank’s analysis was set out in two internal memoranda: ‘Establishment of Separate Currency’ (Research Department, 19 December 1962) and ‘Memorandum for Central Banking Advisory Committee. Action in TPNG in View of Australian Change to Decimal Currency’ (Investment Department, 3 July 1963, with comments by Curtin and Elvery).
In introducing legislation to implement decimal currency in 1964, the Papua New Guinea Treasurer told the House of Assembly that, although 'serious consideration' had been given to the introduction of a Territory currency, and although 'It is elementary that working as we are towards the independence of the Territory ... a local currency will be introduced at some time or another', the Administration believed that the interests of the Territory would be best served at that stage by the adoption of the new Australian decimal currency. (Eight months previously the Australian Minister for Territories had denied an ABC report that the Administration was considering a separate currency for Papua New Guinea.)

Over the next few years there was little reference to separate currency. Somare later said that, in 1968, he had suggested that Papua New Guinea should have its own currency, and 'hardly anyone took me seriously'; and in 1969 Curtin had supported separate currency at a Council on New Guinea Affairs Seminar (Curtin 1969-70). However, when in 1970 the Reserve Bank embarked upon a major study of the future of Papua New Guinea’s monetary and banking system (see above), possible future currency arrangements were on the research agenda. In October 1970 a paper entitled 'Separate Currency - What is it All About?' was presented to the Advisory Committee on Central Banking (ACCENT) in Port Moresby. Amongst other things it spelt out some of the advantages and disadvantages of Papua New Guinea’s integration into the Australian monetary system. Another ACCENT paper in June 1971 discussed ‘The Question of Currency Reserves in a Developing Country’. In May 1971, a paper on ‘Separate Currency. A First Look at Questions of Implementation’

was discussed at a Reserve Bank staff seminar; it looked at alternative possible currency arrangements and what was needed to implement them. A copy of the paper was sent to External Territories. The same month a visiting UN mission recommended that,

at a later stage the creation of a territorial currency, fully backed by the Australian dollar and freely convertible into Australian currency, might be considered in order to facilitate the observation of monetary transactions relating to the Territory.

By this time, however, the issue of separate currency had become a point of some contention.

In April 1970, ANU Professor Heinz Arndt had addressed the Nuigini Economic Society in Port Moresby on the subject of separate currency. Arndt argued, along the same lines as the Reserve Bank’s Port Moresby Manager in 1963, that nationalist sentiment would demand a separate currency for an independent Papua New Guinea and saw a strong case for its introduction well before independence, so that the step could be taken in conditions of relative calm. Arndt’s view caused concern within the Administration, where it was believed that merely talking about the possibility of a separate currency could lead to an outflow of capital. The following month, the Administration issued a press release (No. 661, 25 May 1970) which denied that any consideration was being given to a separate currency. (Similar denials were repeated in January 1971 and October 1971.) The subject was raised again by academic economists at an ANZAAS conference in Port Moresby in August. About this time, also, the Reserve Bank’s Papua New Guinea Department proposed to discuss the subject of

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28 Arndt’s paper (published as Arndt 1971) was passed on to DWC Allen in the Bank of England, who commented, ‘... we thought that Arndt’s paper takes a very practical line and we broadly agree with his analysis and conclusions’.
Separate currency with Treasury and Territories but was informed that senior officials thought this inappropriate; instead, we arranged with Professor Arndt a seminar at the ANU, at which papers were presented by Arndt, Phillips, and Don Stammer. In August 1971, I presented a further seminar on separate currency to the Nuigini Economic Society in Port Moresby, incurring the displeasure of the Deputy Administrator (Newman) and McCasker. What Newman and others failed to appreciate was that, apart from Newman’s own statement in 1964, that ‘it is elementary that ... a local currency will be introduced at some time’, the subject had been raised on several occasions, and discussed within the Bank’s Advisory Committee, and business people in Papua New Guinea expected that such discussion should be taking place; when they denied that any consideration was being given to a separate currency, Administration officials simply confirmed business people’s fears that a separate currency was to be introduced and that its effects must be bad (why else would the Administration deny that consideration was being given to the subject when it was so obviously under discussion?).

For reasons that are not clear to me (but presumably had to do with the general paranoia about the subject), in July 1970, Prime Minister Gorton had issued an edict that no study of currency should be undertaken without reference to him. When in 1971, the interdepartmental Committee on Banking in Papua New Guinea was convened, the subject of currency arrangements was specifically omitted from its terms of reference. At its inaugural meeting, however, External Territories Secretary David Hay suggested ‘that the situation had changed considerably since then’ [July 1970] and that his minister would be prepared to seek the government’s approval for a study of future currency arrangements if the committee thought that this was desirable or necessary. In fact, the Administrator of Papua New Guinea had requested that the Committee’s work be extended to embrace an
examination of future currency arrangements, suggesting that the Administrator’s Executive Council would expect to be advised on the currency question. Under pressure from the senior Treasury representative (Heinrich), and with the concurrence of the Reserve Bank representatives, the Committee resolved not to widen its terms of reference; instead, it agreed that the Reserve Bank would prepare a paper setting out the policy options available, to be considered by a working group comprising Treasury, Reserve Bank and External Territories officers. In a handwritten note of 30 September, following a phone conversation with Heinrich about how the issue was to be addressed, Curtin wrote,

Mr Heinrich seems to be pernickety and ostrich-like about Currency. This question will not go away as a result of verbal quibblings. It’s a question which, if ignored creates more troubles (and magnifies itself) than if faced up to and at least ventilated.

Correspondence between Curtin and Papua New Guinea’s Treasurer, HP Ritchie, also reveal that by October 1971 Papua New Guinea’s Treasurer, at least, had come to the view that ‘the sooner Papua New Guinea has its own currency .... the better’. In a subsequent letter from Barnes to the acting Treasurer (McMahon) (7 October 1971), the External Territories Minister accepted the Committee’s decision, but expressed ‘full agreement’ with the Administrator’s view and urged that the study be commenced at an early date. Two contemporary developments may have sharpened the minister’s focus on the subject. First, Gough Whitlam had asked, in the Australian parliament, whether

29 Draft letter from External Affairs Minister Barnes to Acting Treasurer (McMahon) (September 1971).
30 The officers ‘tentatively suggested’ were myself, Mr Hogget (Treasury) and Mr Ingevics (External Territories).
31 Ritchie to Curtin, 11 October 1971.
the Committee on Banking was authorised to inquire into and report upon a separate currency for Papua New Guinea. Secondly, in the context of rumours of an imminent Australian devaluation, primary producing interests in Papua New Guinea had made representations to the minister pointing out that they would lose from such a realignment and would seek compensation. In a letter worthy of Yes, Minister’s Sir Humphrey Appleby, the Treasurer (Snedden) responded: ‘The question of currency is, as I feel sure you would agree, a delicate one with important political and psychological ramifications .... For these reasons, I believe that we should be careful not to seek to influence the wishes of the local people ....’.

Shortly after this, the Papua New Guinea House of Assembly passed a resolution urging the Australian government to restore the Australian dollar to its former parity with the US dollar, and the Chairman of WR Carpenter Holdings Ltd, at a company annual meeting in Port Moresby, observed that Papua New Guinea was unable to counter international currency manipulation because it did not have its own currency. Barnes again wrote to the Treasurer in early December observing that the government’s capacity to respond to questions about separate currency was limited, ‘because we have deliberately refrained from studying the subject until recently’; ‘I now regard the matter as urgent’, the Minister wrote, and urged the Treasurer to extend the Committee’s terms of reference. But the Treasury maintained its opposition, and was supported by the Bank’s senior representative, Wright.

Having finally had its role determined (it was to consider a paper, prepared by the Reserve Bank, to be cleared by Treasury, External Territories and the Bank, shown to the Administration, and then

formally submitted to External Territories for submission to the Administrator), the currency working group met in Canberra in December 1971. A substantial paper ('Currency Arrangements for Papua New Guinea'), based on the paper discussed at a seminar within the Reserve Bank in May 1971, was considered. A diary note from the meeting records that there was broad agreement on the contents of the paper, though Treasury wanted a comment on prospective profits from currency issue to be qualified 'to take account of the possibility that any profits from a note issue would be taken into account in the determination of the Commonwealth grant to Papua New Guinea' (an improbable possibility which, in fact, was never contemplated), and considered that comments on timing were 'not appropriate'. It was agreed that a simplified version of the paper should be prepared for forwarding to the Administrator, subject to the necessary departmental clearance, and another meeting was set for January 1972. In January, however, the Treasury representative failed to appear; on enquiry Ingevics and I were told that his supervisor (Heinrich) considered him 'too busy' to attend the meeting.

I left the Bank soon after this. In March I was told by former Bank colleagues that Treasury was attempting to either pigeonhole or substantially dilute the currency working group's paper, and was encountering little resistance from the Bank's representatives on the Banking Committee.

But as 1972 progressed, the action in respect of policy development for Papua New Guinea shifted increasingly from Canberra and Sydney to Port Moresby. In February, national Pangu Pati

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33 'If Papua New Guinea is ever to have its own currency there is a sound case for introducing it sooner rather than later .... Deferment of separate currency (and, a fortiori, embargo of discussion of the subject) will not prevent speculation and may aggravate the effects of it'.

President, Gavera Rea, was reported as saying that an independent Papua New Guinea should have its own currency. In July, ToRobert (who became Manager of the Bank’s Port Moresby branch in that month) complained that Papua New Guinea was impotent to protect its interests against world currency movements while tied to the Australian dollar. The same month, encouraged by Curtin, I submitted a paper examining alternative currency arrangements to *New Guinea* (May 1972), and at the request of Paul Ryan (secretary of the Chief Minister’s Department), prepared a simplified version of the paper for the Administrator’s Executive Council (cabinet).

In July 1973, Finance Minister Julius Chan announced that cabinet had decided that Papua New Guinea should have its own currency as soon as practicable (but not before December 1974, and initially with Australian and Papua New Guinean currencies in joint circulation). A Currency Working Group, chaired initially by Chan and later by ToRobert, was established to coordinate planning for the currency. The new currency was introduced in April 1975. In launching the kina and toea Prime Minister Somare said,

‘to have our own national money has long been one of my dreams .... It makes me very proud to see and receive this beautiful money’.

**The Reserve Bank and Decolonisation**

Due largely to the foresight of Coombs and the dedication of Curtin, the Reserve Bank became involved in Papua New Guinea early and closely. It sought to assist in the development of a

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34 *Post-Courier*, 3 February 1972.


36 Speeches by Somare, Chan and ToRobert are reproduced in Bank of PNG *Quarterly Economic Bulletin* March Quarter 1975.
financial and banking system appropriate to Papua New Guinea’s needs, particularly through the savings and loan movement; it established the foundations for an independent central bank; it was a pioneer in the training of young Papua New Guineans for senior positions, and, for a while at least, it helped keep alive the discussion of a separate currency. Coombs, Curtin, Phillips and others also promoted intellectual debate, in Australia and Papua New Guinea, through their involvement in and the Bank’s support of such institutions as the Council on New Guinea Affairs and the annual Waigani Seminar organised by the University of Papua New Guinea and the ANU’s New Guinea Research Unit.

Frequently, the Bank found itself pushing against a fundamental conservatism in Canberra (and sometimes in Port Moresby). Ironically, as self-government drew near and the future of banking came under inter-departmental review, representation of the Bank’s views shifted largely from its Papua New Guinea Department to other parts of the Bank, where attitudes were less progressive. But by 1972, the real action was not in Canberra or Sydney but in Port Moresby, where ToRobert and a staff of Papua New Guineans and committed expatriates carried forward the momentum of Coombs, Curtin and Phillips. ToRobert became probably the longest-serving senior appointment in post-independence Papua New Guinea and the Bank of Papua New Guinea a bastion of financial responsibility in an increasingly challenged financial system. That, perhaps, is the ultimate measure of the Reserve Bank’s role in decolonisation.
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