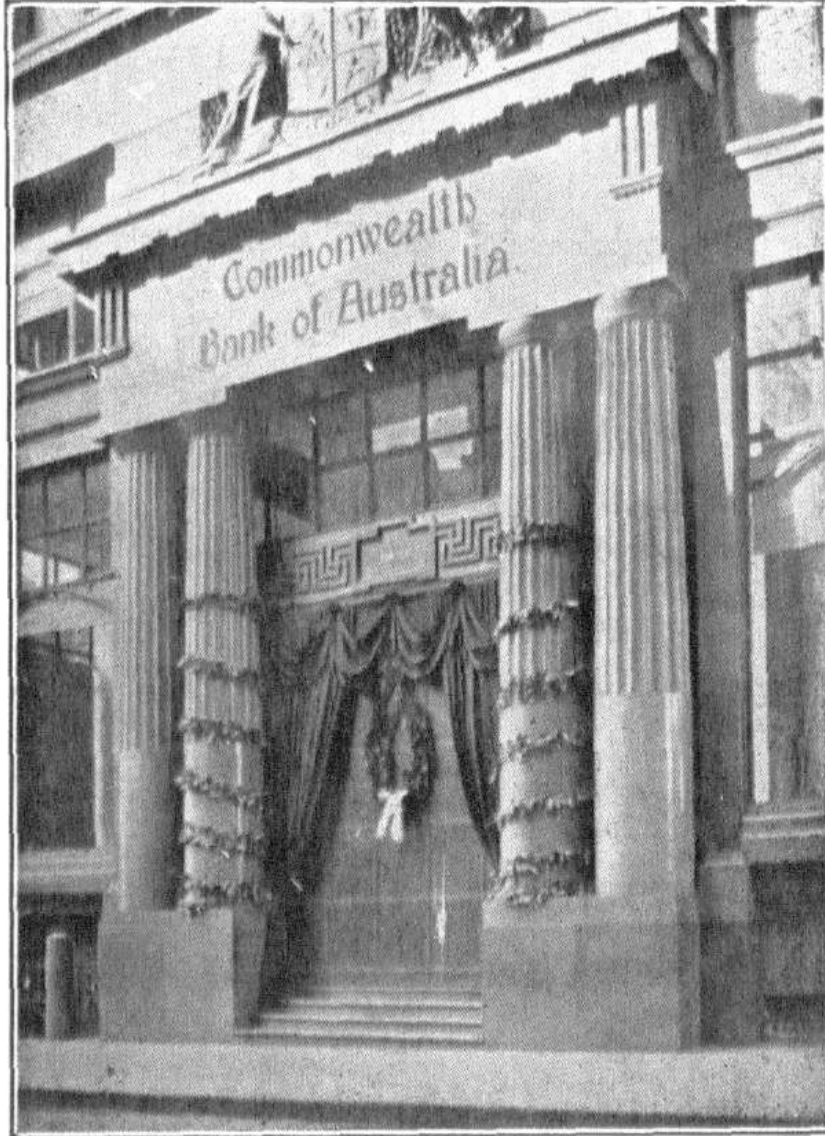


NINTH EDITION

*The Story
of the
Commonwealth Bank*

By D. J. AMOS, F.A.I.S.



*The Bank in Mourning for Sir Denison Miller,
June, 1923.*

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“The Commonwealth Stories”

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- No. 6.—The Story of the Commonwealth Wireless Service.

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PREFACE TO THE NINTH EDITION.

“The Story of the Commonwealth Bank” was originally delivered as a lecture before the Sturt Electoral Committee, Adelaide, and was first printed in pamphlet form in 1931. It exhibited the usual defect of all lectures, namely, condensation of the subject matter to an extreme degree.

The great and unexpected demand which arose for the pamphlet found me so closely occupied in other work that the second and third editions had to be printed practically unaltered, and I began to be more and more sensible of the need for amplifications and additions. These were accordingly made in the fourth (revised) edition, after which only minor additions, for the sake of clearness, were inserted in subsequent editions until the eighth was called for. It was then found necessary to continue the story up to Australia’s entry into the second world war (1939), and also to include in it a short account of the note issue. In the present (ninth) edition it has been deemed advisable to mention very briefly some important paragraphs in the Report of the Royal Commission on the Australian Monetary and Banking System (appointed in 1935), as this most important report is now either out of print or has been withdrawn from circulation.

It only remains for me to thank the general public for the cordial reception they gave to all “The Commonwealth Stories,” and which encouraged me to persevere and complete the series.

D. J. AMOS, F.A.I.S.

ADELAIDE,

July, 1940.

Lament of the Commonwealth Bank

A hand-maiden, where once I ruled
A Queen from sea to sea!
No task too vile to set me to,
Who strove to make you free.

God! Did I once stand upright from
My frightful servitude,
And wear upon my beaten brow
The crown of nationhood?

As in a dream I see them pass,
My deeds of long ago,
My bright Homes, filled with happiness,
In peace and comfort glow.

My Credit flows in running streams
To help you in your need;
It saves you from the usurer's grip,
And private banker's greed.

When Ruin turns his grim face on
Your primal industries,
My Ships steam swift, and carry forth
Your produce overseas.

I turn my eyes from what I did
To what I had decreed—
A nation freed from want and debt,
Where no man dwelt in need.

“Come, grind this people to the dust!”
I bend in slavery;
But once I was a nation's Queen,
And—almost—made it free!

The Story of the Commonwealth Bank

Let us consider the story of the Commonwealth Bank. It merits your attention, for if the Commonwealth Bank had been allowed to function as it did at the commencement of its career, Australia would have been helped over the years of depression as it was helped over the war period (1914-1918), many prosperous business firms would have been saved from ruin, and somewhere about one-third of our people would not have had to eat the bitter bread of charity.

THE NOTE ISSUE.

In 1910, the Australian Notes Act called in all notes issued by the private banks and by the Queensland Government. To all practical intents and purposes, it confined the power of issuing bank notes to the Commonwealth Government. But money is also created by banks making advances of credit to people, then entering these "advances" upon the opposite side of the ledger as "deposits," and telling their "depositors" to draw against these credits by means of cheques provided by the banks. The money thus brought into existence is destroyed whenever a bank chooses to call in its "advances," and by so doing to lessen its "deposits." Money is likewise created every time a bank purchases securities (whether Government stock or shares in private companies), and it is also destroyed every time a bank sells them.

The reader must constantly bear in mind that these means of increasing or decreasing the currency at will were left in the hands of the private banks. "The reason," says Mr. Butchart in his now world-famous lecture, "why the Government legislated regarding the bank note, is that they thought they understood it, and the reason why the Government did not legislate regarding the bank deposit (credit) is because they had no clear understanding about it at all." Small wonder that this was so in 1910, as we are only beginning to realise now (1940) that all money is simply a promise to pay either goods or services on demand. Whether that promise to pay is stamped on a coin, printed on a note, or simply written on the page of a bank's ledger, does not alter the fact that the vital thing is the promise to pay, and not the mere material upon which it is written.

Between the years 1914 and 1920 the Commonwealth Government increased the note issue from, in round figures, £9½ million to

£59½ million, but all these notes did not go into permanent circulation. Sooner or later they fell into the hands of the associated banks, who imprisoned in their vaults all of the notes that were not absolutely necessary for the nation's "small change." Upon this imprisoned national currency, they based an enormous increase in bank credits—a currency which comes into existence as a debt due to the banks—for the use of which they charged a heavy rate of interest. By 1920 the banks held nearly £32 million in Australian notes, and the following table shows clearly what had happened:—

CURRENCY IN CIRCULATION IN MILLIONS OF POUNDS.

(Copland's "Currency and Prices in Australia." Commonwealth Year Books).

Year.	Australian Notes.	Bank Credit.
1914	11	115
1915	9	117
1916	13	133
1917	16	123
1918	18	140
1919	20	177
1920	22	160
	—	—
Maximum Increase	11	62

During these same years, the price level index number for food and house rent in the capital cities of Australia rose from 1140 to 1785, and the increase in the note issue is generally said to have been the cause. It is very doubtful if it was the only cause, since there was an actual shortage of many commodities during the war years, but, in the absence of social machinery for controlling prices, it probably was an important factor.

The Commonwealth notes were issued in the following ways:—

- (a) A considerable quantity of them was given to the banks in exchange for gold (sometimes £3 in Australian notes were given for £1 in gold) for, by legal enactment, the Government was compelled to hold a reserve in gold equal to one-fourth of its note issue.
- (b) A number of short-term loans at interest were made to the States.
- (c) A number of fixed deposits, bearing interest at 3 to 5% were made in different banks. These fixed deposits amounted in 1920 to £5,426,600.

- (d) More than half of the notes were invested in Commonwealth stock and State securities at various rates of interest.

The last two items—(c) and (d)—formed the Australian Notes Account, held in trust for the nation, which amounted in 1920 to £37,808,770, and returned an annual income to the Government of a little more than £1½ million—the profits on the Australian Notes Account (Commonwealth Year Book, No. 14, p. 691).

By utilising Australian notes in this manner the Commonwealth Government avoided debt, interest-charges and taxation, and, before it finally entrusted the Australian Notes Account to the Commonwealth Bank, it made enough money out of that account to pay the greater portion of the construction cost of the East-West Railway, the remainder coming out of revenue. (Hansard, Vol. 129, p. 1930).

THE RISE OF THE BANK.

In October, 1911, the Labor Government of Mr. Andrew Fisher introduced a Bill to provide for the establishment of a Commonwealth Bank, *with power to carry on all the business generally transacted by banks, including that of a savings bank*, to be administered under the control of one man (called the "Governor" of the Bank), appointed for seven years. The Bank was to have power to raise a capital of £1,000,000 by the sale of debentures (the security for which was the national credit), and the profits were to be equally divided into two funds—a reserve fund, to meet any liabilities incurred by the Bank, and a redemption fund, to redeem the debentures or other stock issued by the Bank in order to obtain its capital; afterwards, this half of the profits could be used to reduce the National Debt.

The intention of the Bill was to make the national credit available to anyone with decent security to offer, to reduce the charges made on overdrafts, bills of exchange, and current accounts by the private banks, to provide a safe investment for savings, and to help in the reduction of the public indebtedness. As soon as the Bank was firmly established, it was proposed to entrust to it the note issue—the profits on which were to be paid into the general revenue of the Commonwealth—and from the start it was to be the Bank of the Commonwealth Government.

The Bill, in spite of bitter opposition, passed through Parliament practically without amendment, and became law.

It should be noted that the very people who are now crying that the country will be ruined if there is any relaxation in the

close monopoly that the private banks exercise over the currency, were loudest in their opposition to the formation of the Commonwealth Bank. The country, according to them, was going to be flooded with "Fisher's flimsies"; there were to be "sovereigns for everybody," prices would rise; the value of money would depreciate to nothing and we should all go very quickly to the dogs. Let us see what actually happened.

In June, 1912, Mr. (afterwards Sir) Denison Miller, a prominent official of the Bank of New South Wales, resigned his position and was appointed Governor of the Commonwealth Bank. He issued no debentures, but opened savings banks throughout Australia, and used the money he obtained in this way as his capital, thus avoiding being indebted, and paying interest, to anybody but his depositors. The Bank was not opened for general business until January of the next year, when, in one day, the Commonwealth Government transferred £2,000,000 from private banks to the Commonwealth Bank, without causing any financial disturbance, the cheques being simply cleared through the exchanges "in the ordinary way." Sir Denison Miller's idea was to make the Bank a Government Bank and Savings Bank, and, for the time being at any rate, to enter into competition with the private banks as little as possible. Nevertheless, he forced them to practically abolish their charges on current accounts, and to keep their charges on loans and overdrafts within reasonable limits.

Then, in 1914, came the war, and with it an Amending Act (24 of 1914), giving the Bank power to raise its capital to £10,000,000, and to take over other banks and savings banks. The Bank did not, at this period, make use of either of these powers, but the services it rendered to the people of the Commonwealth during the war were immense. Under the regime of the private banks, the flotation expenses of a loan in London, which Australian Governments had to pay were 3%; but the Commonwealth Bank floated £350,000,000 of loans (£250,000,000 locally and about £100,000,000 overseas) for a charge of 5s. and 7d.%, thus saving Australians some £6,000,000 in bank charges—and then the Bank made a profit of 2%. It saved the Australian primary producer from stark ruin by financing, with (and sometimes without) the assistance of the private banks, pools of wheat, wool, meat, butter, cheese, rabbits, and sugar, to the total amount of £436,000,000; it found £2,000,000 for the purchase of the Commonwealth Fleet of Steamers, which again saved the primary producer from ruin through lack of transportation facilities to his market overseas; and it enabled Australia to transfer abroad, with the maximum of efficiency and the minimum of expense, £3,560,951 for the payment of her soldiers. ("The

Commonwealth Bank of Australia," p. 157 and p. 162, by C. C. Faulkner. Hansard, 21 Sept., 1939, p. 976-7 or 1030-1).

In November, 1920, an Amending Act (No. 43 of 1920) came into force, by which the Australian note issue was entrusted to a department of the Commonwealth Bank. This "Note Issue Department" was to be kept distinct from all other departments of the Bank, and was to be managed by a board of directors composed of the Governor of the Bank, an officer of the Treasury, and two other directors. These two other directors were J. J. Garvan, Esq., and J. R. Collins, C.M.G., both members of the financial world; but as they formed only 50 per cent. of the directorate, and the Governor of the Bank possessed a casting vote, power remained with the Governor of the Bank as long as he could rely upon the support of the Treasury official representing the Government of the country.

Until 1924, when the Bank was effectually strangled, the benefits conferred upon the people of Australia by their Bank flowed steadily on. It financed jam and fruit pools to the extent of £1,500,000; it found £4,000,000 for Australian homes; while to local government bodies, for construction of roads, tramways, harbors, gasworks, electric power plants, etc., it lent £9,360,000. It paid to the Commonwealth Government between December, 1920, and June, 1923, £3,097,000—the profits of its Note Issue Department—while by 1924 it had made on its other business a profit of £4,500,000, available for redemption of debt.

When, during an interview in 1921, Sir Denison Miller was asked if he, through the Commonwealth Bank, had financed Australia during the war for £350,000,000, he replied: "Such was the case; and I could have financed the country for a further like sum had the war continued." Again, asked if that amount was available for productive purposes in times of peace, he answered in the affirmative. ("Australia's Government Bank," p. 275, by L. C. Jauncey, Ph.D. See also Treasurer Spender's speech in Hansard, 21 Sept., 1939).

As a matter of fact, he had just given a striking example of the power of the Bank in times of peace. In the latter half of 1920, the banks in other parts of the world started their policy of deflation, in order to raise the value of currency to such high levels that they, who possessed the monopoly of it, could secure the real wealth of the nations for themselves, and "in the winter of 1920-21," says Robertson, "the price-level was saying, like Alice as she shot down the rabbit hole, 'I wonder if I shall fall right *through* the earth.'" The private banks in Australia commenced to follow the example set by the banks abroad, but Sir Denison Miller brought the Commonwealth Bank with a rush to the rescue of the threatened people. Partly by purchasing Commonwealth and other Govern-

ment securities, and partly by increasing his advances, he released, between June and December, 1920, £23,000,000 of additional currency, as a slight hint as to what he would do if necessary, and deflation in Australia was deferred. (Commonwealth Bank balance sheets).

Sir Denison Miller has left it on record that the relations between the Commonwealth Bank and the private banks were always of a most cordial character, and doubtless he did all in his power to render them so; but the fact remains that the private banks excluded the Commonwealth Bank from their Clearing House, and forced it to make its clearings through the Bank of New South Wales. We do not know what price the Commonwealth Bank paid for even this concession, but we do know that the interest it allowed on its deposits was always lower than that allowed by private banks, and Mr. Butchart shows conclusively that its banking operations did not lower the rates that private banks charged upon telegraphic transfers and overseas drafts. In the very nature of things, the private banks must have watched the progress of the Commonwealth Bank with ill-concealed rage and fear, which was translated into action in 1924—a disastrous year in the annals of Australian economic history.

During the war, the private banks had been granted the privilege of getting three £1 Australian notes for every £1 in gold they deposited with the Treasury, so that they were thus enabled to increase their cash reserves by three, and therefore their loans, which were based on their cash reserves, by a similar figure. The private trading banks, I might mention, do *not* lend out their cash deposits at interest. They keep them to meet any demands for *cash* made upon the banks, and give *credit* for from nine to twelve times the amount of these cash deposits. Therefore, if the private banks got £300 cash in Australian notes for £100 in gold, they could give credit for about £3,000, instead of £1,000, and so earn three times the amount of interest they were doing before—a very profitable arrangement for the private banks. The additional £2 was treated as a loan to the banks (at rates varying between 3% and 4%), and was repayable not later than twelve months after the end of the war.

This three-to-one arrangement was later reduced to two-to-one, and war bonds were deposited by the banks as security for the additional £1 loaned; but the banks in many cases did not draw the additional notes—they traded on their “rights” to these notes as if they actually possessed them, and so avoided paying interest to the Government. These “rights to draw,” according to Anstey, amounted to £8,000,000 on June 23, 1923, and the Commonwealth

Bank, which now controlled the note issue, demanded that the banks should exercise their "rights," draw the notes, and pay interest thereon. With one voice the private banks refused, and prepared for battle. Sir Denison Miller had died in June, 1923—mourned as few public men in Australia have been mourned—so that their most formidable adversary had been removed from their path, while a Liberal Government, the Bruce-Page Administration, was now in power.

Early in 1924 the private banks demanded that their "rights to draw" should be extended by another £3,000,000. The chairman of the Notes Board of the Commonwealth Bank described the proposition as "madness," and the Treasurer upheld that view; but the banks' demand was conceded. The hour of the private banks had struck, and they also struck—below the belt. They used the Commonwealth Government to strangle the Commonwealth Bank.

THE STRANGLING OF THE BANK.

In June, 1924, the Bruce-Page Government brought in a Bill to amend the Commonwealth Bank Act by taking the control of the Commonwealth Bank out of the hands of the new Governor and placing it in the hands of a directorate consisting of the Governor of the Bank, the Secretary of the Treasury, and six persons actively engaged in agriculture, commerce, finance and industry, to be appointed by the Governor-General (which in practice meant the Bruce-Page Government) for different terms of years. The Bill provided that the Governor of the Bank should be merely the chief executive officer of the directorate, which should elect its own chairman, who should have a casting vote. (The effect of these clauses was to place the Bank absolutely under the control of a body of men who might be bitterly opposed to any competition with private banking). The Bill also provided, among other things—

1. That the new directorate should control the Notes Issue Department of the Bank.
2. That out of the profits standing to the credit of the Bank, £4,000,000 should be transferred to its Capital Account, which was increased to £20,000,000, of which £6,000,000 might be loaned at interest by the Government, and what was needed to make up the £20,000,000 might be raised by the issue of debentures. One half of any profit the Bank should make was to be paid into the National Debt Sinking Fund. (The effect of these "capital" clauses, when put into effect, would have been to impose such a tremendous drain of interest upon the Bank that they were never carried out in their entirety. The Capital

Account of the Bank was increased to £4,000,000, but no money was borrowed from the Government, or raised by the issue of debentures).

3. That it should be obligatory on the Commonwealth Bank to fix and publish the rates at which it would discount and re-discount bills of exchange. (The effect of this clause was that the private banks—if their nominees were in control of the directorate of the Commonwealth Bank—could fix the rates of re-discounting the bills which they had themselves discounted, at a figure very favorable for themselves, and so make large profits at the expense of the Commonwealth Bank).
4. The private banks were permitted to settle the balances of their accounts among themselves by means of cheques drawn upon the Commonwealth Bank, instead of keeping a supply of bank notes in hand for that purpose. In other words, they were permitted to make use of the Commonwealth Bank to settle their mutual debts, and so keep all their legal tender currency for their ordinary business.

In introducing this Bill, Dr. Earle Page alluded to the conferences which Ministers had held with the general managers of the private banks. Mr. Charlton told the House plainly that "the Bill was nothing less than an attempt to kill the Bank"; and Mr. Makin said: "The Government undoubtedly desires to place the Bank in subjection to private banking institutions, and to prevent it from fulfilling the real purpose for which it was established. It is to be prevented, by unsympathetic administration, from functioning in the interests of the general community." The debate was a stormy one, and it was only by declaring the Bill "urgent," and by a liberal application of the closure, that it was finally forced through the House. It was assented to on August 20, 1924, and was to come into force on a day to be fixed by proclamation; but the private banks wanted it at once. So, in August, 1924, the Associated Banks notified the Wool Councils that sales would not be financed without additional notes, or rights to draw them. The Commonwealth Bank gave them the "right to draw" another £5,000,000, but the Associated Banks took it, and then demanded another £10,000,000 before they would finance anything. In the meantime "the price of wool dropped, because buyers could not obtain bank credits, no matter on what security."

On October 10, 1924, the new Commonwealth Bank Act was proclaimed, and a conference was held between the Bruce-Page Government, the Associated Banks, and the Commonwealth Bank

Board. The banks were given the right to draw another £10,000,000, no interest to be paid except 4% on the amount actually drawn.

One naturally asks why it was that the Commonwealth Bank yielded to the demands of the private banks for these "rights to draw" in order to finance the wool sales, when the Commonwealth Bank could so easily have financed them itself. That question has never been answered; but the following facts may, or may not, throw some light upon the subject.

Mr. Kell, who succeeded Sir Denison Miller, was only Acting-Governor of the Bank before the Directorate was appointed, and so had neither the status nor the power of his great predecessor; while after the appointment of the Directorate, the Governor of the Bank was merely its executive officer. Moreover, he was personally in a rather precarious position, for he had previously made things so unpleasant for Mr. M. B. Young, a leading official of the Bank, that the latter resigned and brought serious accusations against Kell ("Argus," October 11, 1924, p. 31; September 4, 1925, p. 11). The Bruce-Page Administration sided with Kell, refused to appoint an independent tribunal to deal with the accusations, and upon Kell's retirement in 1926, granted him a pension of £1,000 per annum.

The new Commonwealth Bank Board was composed (in addition to the Governor of the Bank and the Secretary of the Treasury) of the following financial magnates, who were appointed to control the destinies of the people's bank, although they might themselves be shareholders in private banks, and in spite of the fact that such institutions as those of which they were directors are normally lenders of money at interest on a very large scale:—

John J. Garvan:

Managing Director, Mutual Life and Citizens' Assurance Co., Ltd.; Pastoralist, Rochdale Station, Queensland.

Sir Robert Gibson, K.B.E.:

Vice-President, Associated Chambers of Manufacturers; Victorian Representative, Central Coal Board; Director, Austral Manufacturing Co., the Lux Foundry, National Mutual Life Insurance Co., Union Trustee Co., Robert Harper & Co., Ltd. (Merchants and Manufacturers), Chamber of Manufacturers Insurance Co.

Sir Samuel Hordern, Kt.:

Director, Anthony Hordern & Sons (Universal Providers), Australian Mutual Provident Society, Royal Insurance Co.

Robert Bond W. McComas:

President of various Woolbuyers' Associations; Proprietor of William Haughton & Co. (Woolbrokers).

John McKenzie Lees:

Fellow, Institute of Bankers, London. (Formerly Chairman of Associated Banks in Queensland, and General Manager of Bank of Queensland, and of Bank of North Queensland)..

Richard S. Drummond:

An inconspicuous gentleman, appointed for inconspicuous reasons.

From the date of the appointment of this Directorate, the Commonwealth Bank, as a people's bank, ceases to function; it becomes a bankers' bank, an appanage and convenience of the private banks, run for their special benefit. The following example was given by both Mr. Charlton and by Mr. Anstey on the floor of the House (Hansard, 1925, vol. 3, pages 1696, 1725, and 1726), to show the spirit in which the Bank was now administered:—

The rates charged for financing primary produce began at once to rise, until they had more than doubled; the producers of the 1924-25 season had to pay £7,000,000 in bank charges, as against £3,000,000 for the previous year. When the farmers in Western Australia formed a voluntary pool, they applied confidently to the Commonwealth Bank to finance it, as the Bank had done for similar pools in previous years; but it was no longer the same bank, and both it and the private banks alike imposed conditions which were intolerable. Finally, when the farmers, unable to secure the necessary money in Australia, obtained it from the Co-operative Wholesale Society in England, the concerted action of the private banks and their new ally, the Commonwealth Bank, frustrated the scheme. When the Co-operative Wholesale Society paid in the money to the London Branch of the Commonwealth Bank, the Bank, instead of transferring the money to its Perth Branch, transferred it in quotas of one-fifth to each of the five associated banks (private banks) operating in Perth, so that each bank was enabled to exploit the farmers by means of transfer charges. The transportation of four million bushels of wheat from Australia to England cost the Co-operative Wholesale Society 1/- per bushel, but for merely transmitting the money the banks charged the farmers practically 3½d. per bushel, amounting in all to some £60,000.

The roars of the primary producers, under the gentle treatment meted out to them by the private banks and the new Directorate of the Commonwealth Bank, were so terrific that the Bruce-Page Government shifted uneasily on their Ministerial benches. At least a pretence of helping them must be made, and if the Commonwealth Bank was damaged in the process—well, that could not be helped. So in 1925 the Commonwealth Bank (Rural Credits) Bill was brought forward.

This Bill provided for a Rural Credits Department of the Commonwealth Bank, to be kept distinct from other departments of the Bank. It was empowered to issue short-term debentures up to the amount it advanced on primary produce. These debentures would form a short-loan market in Australia at about 4%, and be a steady drain upon the profits of the Department, while the money subscribed could be utilised by the private banks in their ordinary business, since the Commonwealth Bank, through its Rural Credits Department, was authorised to advance loans to private banks and financial companies, as well as to rural producers. In effect, the Bill ensured that a primary producer who owned machinery, land, buildings, and a coming crop, and who wanted a loan to tide him over until he marketed his produce, would have to go to the private banks to get it. Theoretically, he could go to the Commonwealth Bank direct, but if he did so he would almost certainly be told that the Commonwealth Bank "did not accept that class of business"; so he would have to lodge his security with a private bank, which would take it to the Rural Credits Department of the Commonwealth Bank, get the money at somewhere about 4%, and then lend it to the primary producer for as high as he could afford to pay—or higher.

"That," said Mr. Anstey in the House, "is the fundamental and iniquitous principle of the Bill. It is outrageous, and cannot be justified in any way whatever." It could not. Neither could the facts that both the Government and the Commonwealth Bank were empowered to lend money at unspecified rates of interest to this Rural Credits Department, and that £2,000,000 of profits from the Note Issue Department were, by the terms of the Bill, given to the Department gratis. The Bill was passed on September 14, 1925.

The Commonwealth Bank issued no debentures, but, between 1925 and 1932, gradually transferred £2,000,000 of its profits on the note issue to the capital account of its Rural Credits Department, and up to June 30, 1929, it financed the department with credits from the Bank to the extent of £21,000,000. Sir Robert Gibson states that this money was loaned by the Department at from 6½% to 5½%, and when the Department dealt direct with the producer, it probably charged those rates; but £21,000,000 at this figure would show a profit of well over £1,200,000, and the profit on the Rural Credits Department during these years was only £324,780. As we know from statements made in Parliament (Hansard, vol. 114, pages 3759, 4297) that the Rural Credits Department generally acted through the private banks, it is clear that the private banks must have obtained the amounts they required at a merely nominal rate of interest, but they charged the wretched primary producer

8%, and sometimes more, for the money that had been made available for his "relief." (Hansard, vol. 114, p. 4332.)

Early in 1927 there arrived in Australia Sir Ernest Harvey, Comptroller of the Bank of England, "for the purpose of advising the Commonwealth Bank as to certain phases of Central Banking." In other words, in order to make the Commonwealth Bank, which was supposed to be a national bank operating for the good of the people (as it did until prevented), a central bank operating for the benefit of private banks. He found the good work almost accomplished, but not quite. The general deposits in the Bank amounted approximately to £32,000,000, but it also had lodged with it roughly £47,000,000 of the people's savings, so that financially it was in a strong position, and if by any chance it could manage to release its neck from the strangling clutch of its Directorate, it might still be used for the purpose for which it was intended. Therefore, Sir Ernest Harvey "pointed out that the savings bank business did not come within the ambit of the functions of a bank of central reserve," and the Bruce-Page Government accordingly brought forward a Bill for the Commonwealth Bank (Savings Bank) Act, 1927.

By the terms of the Bill, the business of the Savings Bank Department (over 50% of the total revenue of the Commonwealth Bank) was taken away from the Bank, and placed under the control of three Directors, appointed by the Governor-General (which again meant, in practice, the Bruce-Page Government), and it was specially provided, by altering the definition of "bank" in the original Act, that the Commonwealth Bank of Australia "does not include the Savings Bank." Much of the profit the Commonwealth Bank was still earning was made in this Savings Bank Department; but the Bill did not merely lessen the Bank's profits, "it took away the Bank's cash reserves, which enabled it to compete with private banks, terminated its trading operations, and reduced it to a bankers' bank—not a reserve bank, because no bank was compelled to keep its reserves there—so that it became neither a trading bank nor a savings bank, nor yet a reserve bank, but a thing of shreds and patches, at the mercy of private institutions, and which could be destroyed at any time." So said Mr. Charlton in the House; but he overlooked two important facts—

1. The ownership of the Bank was still vested in the people of Australia.
2. Power to create credit, and the sole power of creating legal tender currency, was still vested in the Bank.

While these facts remain unchanged, the Bank may be strangled and its functions perverted, but it cannot be destroyed, and it may be delivered.

The Bill specifically provided that the Commonwealth Savings Bank might lend money to private banks, but the paragraph was objected to in Committee and omitted, but the Bill also contained a paragraph, couched in general terms, under which the same thing might be done. When asked if he would also omit this paragraph, Dr. Earle Page replied bluntly: "No." (Hansard, vol. 116, page 805).

THE BONDAGE OF THE BANK.

The Commonwealth Bank (Savings Bank) Act became law December 22, 1927, and between December, 1927, and June, 1928, the Directors of the Commonwealth Bank sold to the Commonwealth Savings Bank £38,000,000 worth of securities, and at the same time called in £4,000,000 of advances, thus cancelling £42,000,000 worth of currency, and making inevitable in Australia that "depression" which the banking system had already inaugurated abroad. (Commonwealth Bank balance sheets).

It commenced in January, 1929, with a constantly accelerating fall in the monetary value of Australia's exports, a fall out of all proportion to the drop in the value of her imports. This meant that there were soon not enough funds available in London to pay for our imported goods, to say nothing of the interest on our overseas debt which stood then at approximately £28 million per annum. In October, the Scullin Labor Administration came into office, and the English Banking System promptly closed the London money market to any further Australian loans. The Australian banks blindly followed the example set abroad. They began to contract their advances and call in their overdrafts, even in cases where securities had been lodged with them to the value of three times the amount of the overdrafts. (Hansard, vol. 122, p. 313). They also deflated the currency by selling securities to the extent of £4 million. (Aus. Banking Com.'s Report, Para. 180). The Scullin Administration found itself faced with unemployment and poverty at home, and possible default in interest payments abroad. It met the overseas situation by a sort of tacit alliance with the manufacturing, as against the pastoral and importing, interests of the country. In October, 1929, and again in April, 1930, it imposed prohibitions upon a number of imports and raised the duties on a still greater number.

The T.T. rate on bills of exchange stood in November, 1930, at 35/-%, but, as Australia had returned to the gold standard in

1925, this rate was above "gold point" (i.e., the point at which it paid to buy gold instead of bills of exchange with which to settle overseas debt), and Australian importers began to buy gold and ship it abroad (Hansard, vol. 122, pages 427/8). The Australian banks held in their reserves at this time some £48 million in gold (Hansard, vol. 122, p. 430), the remaining £20 million being in circulation, but they did not want their gold to be used in this way for the following reasons:—

1. They would lose all their profits on the trade in bills of exchange.
2. They might want to use some of the gold themselves in foreign investments, the dividends on which were free from Federal Income Tax and formed from about 30% to 60% of the total dividends paid by the banks. (Official Record, Melbourne Stock Exchange, February, 1928).
3. The gold might be useful as an instrument of coercion over the Commonwealth Government, if the latter could not obtain overseas currency to pay its overseas debt.

So, on November 28, 1929, Mr. Theodore brought in a Bill to amend the Commonwealth Bank Act. "It was not initiated by the Government," said he, "it originated with the Board of Directors of the (Commonwealth) Bank, and but for their urging would not be before the House." The excuse for the Bill was that it had become necessary to safeguard Australia's gold reserves, and it gave the Commonwealth Bank Board power to commandeer, in exchange for Australian notes, the total gold supply of Australia, whether in private hands or in those of institutions; it forbade the export of gold, without permission of the Board, under heavy penalties. The Bill became law (Act No. 31, of 1929) on December 17, 1929.

The result of this Act was:—(1) Australia was now definitely off gold and the Australian note was inconvertible; (2) The Commonwealth Bank possessed a virtual monopoly of all the gold in Australia; (3) Importers were rationed and the rate paid by them for bills of exchange rose from 35/-% to £6/10/-%; (4) The Commonwealth Government, if it could not find overseas funds to pay the interest on its overseas debt, would either have to default, or, in order to get the necessary gold, submit to any terms the Commonwealth Bank Board chose to dictate. (Hansard, vol. 130, p. 2702 to p. 2708).

Having tied its own hands with regard to the overseas position in this fashion, the Scullin Administration now turned its attention to home affairs which were going steadily from bad to worse.

Obviously, nothing could be done unless the Government possessed the power of the purse which was now in the hands of the Commonwealth Bank Board. What the Government had given, the Government could take away—if it were not for that unfortunate majority against it in the Senate—yet even with that majority ruling the Upper House, if one walked with circumspection, it might be done.

Since the establishment of the Bank of International Settlements at Basle, early in 1930, central reserve banks (more or less independent of the Governments of the countries in which they were situated) had been springing up like mushrooms all over the world, amid a chorus of approval from deluded Governments and people whom these banks were intended to reduce into servitude. Why not, reasoned the Scullin Administration, under cover of establishing one of them in Australia, get back into the hands of the Government the powers given away in 1920?

On April 2, 1930, Theodore brought forward his Central Reserve Bank Bill. The new bank was to control the note issue and the gold reserve. All other banks, including the Commonwealth Bank, were to keep 10% of their current accounts and 3% of their fixed deposits with it. The capital of the reserve bank was to be £2 million transferred from the Commonwealth Bank, which was to become simply a Government trading and savings bank competing with the private banks. The reserve bank was to be the clearing house of the other banks and it was to be managed by a board appointed by the Governor-General. This board was to consist of a Governor, two Deputy-Governors, the Secretary of the Treasury, and five other Directors, representing respectively agriculture, commerce, finance, industry, and labor. The Governor was to be the chairman of the board and chief executive officer of the bank, and the five other Directors were to retire in rotation. There was great diversity of opinion as to the value of such a bank among Labor members, but the consensus of opinion in the ranks of the Opposition was "that the Government intended to use the central reserve bank to supply large sums of money to carry out the schemes of Labor Administrations, both Federal and State." (Hansard, vol. 124, p. 2682/3). That opinion was probably correct; if not, it is difficult to understand why the Bill was brought forward at all. It passed the Representatives in June, 1930, but was referred to a Committee in the Senate, and finally lapsed in April, 1931.

By February, 1930, the difficulties of finding overseas money to cover Australia's payments abroad had become so acute that the Commonwealth Government appealed to the British Treasury for assistance in finding credit to meet a small loan falling due.

The Chancellor of the Exchequer referred them to the Bank of England which, apparently, found the necessary credit, but suggested sending Sir Otto Niemeyer for a report on the financial position of Australia. (Hansard, vol. 127, p. 387). He arrived in Melbourne on July 19, 1930, where he was met by Sir Robert Gibson, Chairman of the Commonwealth Bank Board ("Argus," 19/7/30, p. 22). As a result of that meeting, and of another one held in Sydney with the managers of the trading banks ("Argus," 22/7/30, p. 9), it appears that the Scullin Administration was handled with velvet gloves and hoodwinked into believing that Niemeyer and Sir Robert Gibson intended to help it through the depression. Sir Robert Gibson was re-appointed to the Commonwealth Bank Board for another seven years on August 4, 1930, although his existing appointment did not expire until the following October. (Hansard, vol. 129, p. 1610/1612). This done, Niemeyer attended a meeting of the Loan Council and a Premiers' Conference in Melbourne (August, 1930) and laid his demands before them. There were five main provisions. (Parl. Papers, 1929-31, vol. 2, No. 81, p. 45).

1. Budgets to be balanced at any cost in human suffering.
2. Cessation of overseas borrowing until the then short-term indebtedness had been dealt with.
3. No public works, which would not pay for interest and sinking funds on loans, to be put in hand.
4. All interest payments to be credited to a special account in the Commonwealth Bank, to be used only in favor of the bond-holders.
5. Monthly accounts to be published in Australia and overseas, showing summaries of revenue and expenditure, also state of short-term debt and loan account.

The Conference seems to have accepted these terms with a good many mental reservations, but, outwardly, at any rate, their submission was complete, not to say abject. "To-day," writes Mr. H. N. Brailsford (quoted in Hansard, vol. 127, p. 576), "you may behold a continent on its knees. It has bowed to his (Niemeyer's) dictation. It will cut down its imports. It will lay the axe to all its expenditure on social services, including education. It will reduce the salaries of its civil servants. It will cut wages all round. It is prepared for an increase in unemployment from the present 18% to a possible 30%. It is kissing the rod that chastened it. 'On all hands,' we read, 'the help of Sir Otto Niemeyer is warmly appreciated.'"

In desperation, the Scullin Administration besought Sir Robert Gibson to increase the note issue by £20 million so as to enable them to fight the depression which was now advancing like a landslide, but Sir Robert, secure in his recent appointment, no longer troubled to be polite. Said he, "Mr. Prime Minister and Members of the Cabinet, you ask me to inflate the currency by issuing another £20 million in notes. My answer is that I bloody well won't." ("Smith's Weekly," 4/10/30). It is difficult to believe that the Scullin Administration did not know that they had the power to deal with this hectoring individual by other means than getting a Bill through the Senate; but if they did know their power, they did not use it. After some ineffective attempts at revolt they submitted, and Sir Robert Gibson, in company with the trading banks, fixed up what is known as the Exchange Mobilisation Agreement. This was to the effect that each trading bank should hand over to the Commonwealth Bank, out of its sterling receipts in London, month by month, an amount sufficient to meet the overseas commitments of the Australian Government—the rate of exchange to be fixed by the Commonwealth Bank. This agreement eased the overseas position considerably, so far as the Government and the bondholders were concerned, and it still exists.

But the position of the Australian importer and exporter became desperate. The banks would not sell the importer enough bills of exchange on London to enable him to pay for his imports, while he could no longer buy gold and ship it abroad. As for the exporter, the banks saw to it that he only got the face value of his bill, although its value was really much higher. Owing to this "pegging of the exchange," importers began to approach exporters direct, and to offer them more for their bills than the banks were doing. Middlemen sprang up who acted as exchange operators, independently of the banks, and a free "outside market" was formed. It grew steadily stronger, and in January, 1931, it smashed the bankers' ring and "unpegged the exchange." Premiums on bills of exchange drawn on London rose to 30%, and, to the great joy of exporters, remained unchanged to December, 1931, when the exchange was "repegged" at 25%. (Aus. Banking Commission's Report, paras. 117, 118 and 150).

During the year 1931, three banks which set out to fight the deflation policy pursued by the Australian banking system as a whole, were smashed under that system. The banks in question were the Government Savings Bank of New South Wales, the Primary Producers' Bank of Aus. Ltd., and the Federal Deposit Bank Ltd. The story of the first will serve as a more or less accurate illustration of what befell all three.

In 1930, the Government Savings Bank of New South Wales was the second largest bank of its kind in the British Empire—the Post Office Savings Bank in England being the largest. Its assets exceeded £104 million, and it had a net annual income of £400,000. It was controlled by the New South Wales Government, and it started to finance homes for the people. It also assisted primary producers by means of advances through a trading branch it possessed known as the Rural Bank. By doing this, of course, it placed itself in opposition to the deflationary policy of the Commonwealth Bank and the trading banks. It was destroyed and its assets seized in the following manner:—

The bank was a splendidly solvent institution, but, like any other bank, its cash in hand and at short call was only a fraction of its liabilities (£17 million to £71 million), and if a run upon it could be brought about, it would finally have to borrow Australian notes from the Commonwealth Bank or else close its doors. The opportunity to bring about this run came in October, 1930, when, at the New South Wales State elections, Mr. Lang was returned to power and announced his policy. The three main planks in it were:—

1. That until Great Britain agreed to fund Australia's overseas debt in the same manner as America funded that of Great Britain, no further interest upon her overseas debt should be paid by Australia.
2. That the interest rate on this debt should be reduced to 3%, and that all interest rates on private finance should be correspondingly reduced.
3. That the existing system of currency be altered from a nominal gold standard to one more suited to modern conditions, preferably the goods standard.

This policy was greeted with a howl of mingled rage and fear from the private banks, the insurance companies, and the bondholders in general. The press denounced Lang, in the most unbridled terms, as a swindler and thief, whose proper place was gaol. It published "Scare Headings," such as, "Lang will confiscate Savings Banks deposits," "Lang will smash your bank and seize your savings," while politicians vied with each other in prophesying the bank's ruin in every newspaper—one Federal Member publicly stated that he gave the bank four days to run. (Hansard, vol. 128, p. 1087/8, 1181). Finally, the run upon the bank started. For seven months the bank put up a splendid fight and paid out all its liquid assets—then it appealed to the Commonwealth Bank for assistance. Sir Robert Gibson replied that he was only prepared

to consider merger proposals, and his terms were so harsh that the New South Wales Government refused to accept them. (Hansard, vol. 131, p. 4593-4, 4616).

The Bank closed its doors, 23/4/31, but the run upon both the Commonwealth Bank and the trading banks which immediately followed was by no means part of the scheme, and caused grave misgivings in banking circles generally. So serious did the position become, that Sir Robert Gibson was forced to make a memorable announcement. He made it on Sunday, May 3, 1931, in the form of a broadcast address in all States simultaneously. Said he: "The Government Savings Bank of New South Wales was forced to close its doors because the people who had deposited their money in that bank *were led to believe* by the foolish statements of those who should have known better, *and the statements of those who desired to bring about disaster*, that that bank was not in a safe position . . . The Government Savings Bank of New South Wales was in a perfectly sound position. *There was no good reason*, on account of lack of soundness, why it was compelled to close its doors." He spoke the truth. The reason had nothing to do with the Bank's soundness, and it was entirely bad.

Meanwhile a committee, known as the Rehabilitation Committee, had been formed to represent both the depositors and the citizens generally. This committee, having verified the solvency of the bank (Hansard, vol. 132, p. 1326), began to ask such awkward questions that it became seriously embarrassing to the money powers; so the Commonwealth Bank offered amended and more liberal merger terms, which were finally accepted. The Savings Bank was then re-opened, and in a few days was prepared to pay depositors in full, for it was soon discovered that deposits exceeded withdrawals, and that extra bank notes from the Commonwealth Bank were not needed. Had Sir Robert Gibson chosen, half a year earlier, to say a few words in support of the bank, the whole sorry business might have been avoided, "but the Rural Bank, with nearly 200 branches competing with the private banks in every town in New South Wales, was endangering their policy. It had to be destroyed, and the Commonwealth Bank was the instrument used to bring about this destruction." ("Australia's Curse," pages 13, 14 and 15, by G. C. Barnes, and also the now famous article in "Smith's Weekly," 8/9/34). In November of this year the Western Australian Savings Bank was also absorbed by the Commonwealth Bank under very similar circumstances. (Aus. Banking Commission's Report, para. 71).

At the beginning of 1931, Australia found herself faced with a complete breakdown in her monetary system owing to the deflationary action of her financial institutions. The prevailing depression was, in fact, world-wide, and had the same root cause, being entirely independent of government policies, whether free trade or protectionist, conservative or labor. With a vast amount of work waiting to be done, there were hosts of people unemployed. Industries were intact, markets organised, transport services efficient, warehouses and wharfs in readiness for handling goods. There were no devastations by war, pestilence, drought or floods, yet the whole world was commercially and industrially paralysed through sheer lack of currency to put the wheels of progress in motion.

On February 6, 1931, a conference of Premiers and Treasurers was held in Canberra, and the Government placed the following proposals before the Commonwealth Bank Board and the representatives of the private banks:—

1. Bank credit to be provided for the support and extension of industry and enterprise where sound.
2. Inflation to be prevented by the stabilisation of prices at the average price level for the five years ended 1929 (Index 1800) until the new goods, produced as the result of No. 1, came into the market.
3. Existing Government overdrafts to be funded. The Commonwealth Bank to issue against these securities credit or notes to one-third of their value, and to purchase Government securities on the market to the extent necessary to bring them up to a reasonable value.
4. On the recovery of the market, the Commonwealth Bank to underwrite a 5% loan (to be supported by the trading banks) for farmers' relief and for public works to absorb the unemployed.
5. Substantial reductions to be made on rates of interest on bank deposits, loans and overdrafts.
6. London exchange to be "unpegged" and allowed to go to its natural level, but the exchange pool to be maintained to provide funds for overseas obligations.
7. The banks' margin on exchange transactions to be reduced to 7/6%.
8. An attempt to be made at an early date to fund the short-term London debt.
9. In consideration of above items, the Commonwealth and States to pledge themselves to rigid economy in expenditure and elimination of duplication in all kinds of services.

These proposals were received with hostility by both the Commonwealth and the trading banks. Sir Robert Gibson's reply was that "subject to adequate and equitable reductions in all wages, salaries, allowances, pensions, social benefits of all kinds, interest and other factors which affect the cost of living, the Commonwealth Bank will actively co-operate with the trading banks and the Governments of Australia in sustaining industry and restoring employment." The reply of the trading banks, though not so blunt, was to the same effect—"they thought that the Government should follow the advice given by the Committee of Experts." (Minutes of Conference, pp. 76/7). The committee in question consisted of the Under-Treasurers of various States, and three professional economists, under the chairmanship of Sir Robert Gibson. It had already drawn up a scheme of retrenchment recommending an immediate cut of £15 million per annum—to come out of wages, salaries, pensions, maternity allowances, education, public health, and charities. As, however, the chairman had eliminated many of the suggestions made by the members of the committee from the report, and would not sign it himself, the conference disregarded it and authorised the Scullin Administration to bring before Parliament a "Fiduciary Issue Bill." (Minutes, pp. 13, 14, and 77, appendix 2).

On March 5, 1931, therefore, Mr. Theodore introduced his Fiduciary Notes Bill to the House. It provided for a fiduciary issue of notes by the Commonwealth Bank to the extent of £18 million, of which £6 million was to be applied to the relief of wheat growers, and £12 million (at the rate of £1 million per month) was to be employed on public works. The notes issued were to be credited to a Fiduciary Notes Account which was to be debited with any amounts raised to redeem and cancel the notes. If the Commonwealth Bank chose to notify the Government that it was prepared to advance loans to the extent of the whole or any portion of the total amount of the issue, the issue would be correspondingly reduced. (Hansard, vol. 128, p. 300). The Bill passed the Representatives, but, in spite of its conservative and conciliatory nature, was thrown out by the Senate on April 17, 1931. As soon as he was certain of what its end would be, Sir Robert Gibson decided that this refractory Labor Government must be brought to heel and taught to remain there. He had already requisitioned from the trading banks practically all the gold that they possessed, and he had shipped this precious metal, and more also, abroad. (Hansard, vols. 128 and 129, pp. 519-522, 2285; Aus. Banking Commission's Report, pp. 324-5).

The Commonwealth Bank Amendment Act of 1929 gave him first claim on all the gold that was left in Australia, and the Com-

monwealth Government (destitute of English currency) had to meet a loan of £5 million which was about to fall due in London. (Hansard, Vol. 129, p. 1617.) The ball was at his feet, and he kicked it.

On April 2, 1931, he notified all the Australian Governments that the sums he had advanced to the Commonwealth Government amounted to £51,495,000, while the accommodation he had provided for all the Governments and public bodies of Australia amounted to £130,295,000. The fact that it was the Commonwealth's own credit that he had made available in the form of money he omitted to mention, but he definitely refused to provide any further accommodation at all in London, and only another £25 million in Australia.

Theodore's reply put in the clearest possible light the relationship between representative government and organised finance existing in Australia to-day. He said, "that in February, 1931, he had submitted to the Commonwealth Bank Board comprehensive proposals adopted by the Government as a means to ease the financial stringency and assist the nation towards budgetary stability, but the bank had refused to co-operate with the Government, and now proposed, without any consultation or prior discussion, to cut off money supplies to the Government beyond a point that would be reached in a day or two. That could only be regarded as an attempt on the part of the bank to arrogate to itself a supremacy over the Government in the determination of the financial policy of the Commonwealth, a supremacy which had never been contemplated by the framers of the Australian Constitution, nor sanctioned by the Australian people. In financial, as in all other matters of public policy, the Government was responsible to the electorate and not to the banks, and it could not change this responsibility without exposing to grave danger the democratic principles of the nation. The Government would not be a party to any attempt of the Bank Board, or any other authority, to take from the people's representatives in Parliament what had hitherto been regarded as an essential prerogative of the people—the control of the public purse." He went on to point out "that the present financial difficulties had been brought about by circumstances over which the Government had no control, but which had been largely caused by the action of the Commonwealth Bank and the private banks themselves; for they had blindly followed the overseas banks in pursuing a deflationary policy which had forced down prices the world over, and brought in its train a collapse of trade, loss of commercial profits, thousands of business bankruptcies and the creation of unemployment on a scale wholly unprecedented in the

history of the country. That it was within the power of the banks to remedy this state of things could not seriously be denied. In a communication from the Commonwealth Bank Board in February, the undertaking was given that, conditional upon wages, salaries, pensions, and social services being adequately reduced, the banks would provide funds to sustain industry and restore employment. The banks had drained vast sums of money from the Australian public by their high charges for their services, doubled their declared annual profit in recent years, and, in addition, built up colossal inner reserves and palatial premises at the expense of the community. Most of the debt due by the Government to the Commonwealth Bank had been incurred by non-Labor Governments, and it was not on record that the Commonwealth Bank had threatened arbitrarily to stop their credit unless they agreed to a financial policy approved by the Bank. His Government, therefore, was not going to be deflected from its definite policy by the unwarranted action of the Bank Board." (Hansard, vol. 128, pages 990/993).

These were brave words, but—how was that loan of £5 million, falling due in London, to be met unless he could get hold of some gold to pay it with? Theodore might have the right upon his side, but Sir Robert Gibson had the gold, and wrote again to say, "My Board desires me to state that a position may arise in London in the near future which the bank would be powerless to meet" (it having shipped all its gold abroad, except the Statutory Reserve which it was legally compelled to hold against the note issue). (Hansard, vol. 129, p. 1619).

On March 24, 1931, Theodore brought before the House the Commonwealth Bank Bill of 1931. It gave the Government power, in order to pay its commitments in London, to commandeer the Commonwealth Bank's gold reserve which it held (quite unnecessarily, in view of the fact that the Australian note was now inconvertible into gold) against the note issue. The Bill passed the Representatives and, in view of the urgency of the situation, seemed likely to pass the Senate also, but the ultra-conservative element in that Chamber summoned Sir Robert Gibson to the Bar of the House, and asked him point blank if there was no alternative to the Bill but default. He replied, "There is an alternative" (meaning acceptance of his terms), and the Senate threw the Bill out. When Senator Daly said to Gibson, "You might have let the child live," the grim old man answered, "It is not my child," and departed—the real ruler of Australia. (Hansard, vol. 129, p. 1631). He is now dead and gone, but the verdict of history must lay upon his shoulders, the responsibility for the sufferings of the people during the terrible years of the depression.

There was nothing for it but default or surrender, and the Scullin Administration chose the latter alternative. They submitted to Sir Robert Gibson's terms (Hansard, vol. 130, p. 2708), and at a conference of Commonwealth and State Premiers, held in May and June, 1931, agreed to bring in immediately the necessary legislation to put these terms (known as the Premiers' Plan) into operation. Then, and not until then, was the Commonwealth Bank Bill of 1931 allowed to become law (Act No. 6 of 1931). It provided that the bank should accept £5 million worth of Commonwealth Securities in exchange for that amount of gold, taken from the reserve against the note issue, to redeem that pressing debt in London which had been used to bring a Labor Administration to its knees in utter subservience. Two more measures this unhappy Government was forced to pass at the bidding of its financial masters; the "Financial Emergency Act" (bringing the Premiers' Plan into effect) and the "Debt Conversion Acts" (persuading and finally compelling Australian citizens to renew old loans at a lower rate of interest—a necessary but unpopular measure), and then it was swept off the stage into political oblivion (January 6, 1932).

On May 11, 1932, another Commonwealth Bank Bill was introduced by Mr. Bruce, to enable the Commonwealth Bank to hold the note issue reserve either in gold or sterling, or partly in gold and partly in sterling ("sterling" meant English money or claims to it). "The Bank Board," said he, "has asked for these powers, and the Government considers it advisable to grant them." It was, apparently, not his Government's business to ask for particulars of the foreign securities the bank intended to purchase with this Australian gold, or to point out that if it was used to purchase Australian securities in this country, the depression might be arrested. The Bill became law (Act. No. 16 of 1932) on 21/5/32, and since June, 1933, there has been practically no gold held by the Commonwealth Bank, either as a reserve against its note issue or for other purposes. As for the private banks, they have been without gold since September, 1930, yet people still say that our currency is "sound" because "it is backed by gold." (Aus. Banking Commission's Report, pages 324-5).

After the defeat of the Scullin Administration, Australia was, to all practical intents and purposes, governed by the Commonwealth Bank Board, and on November 25, 1938, the Hon. R. G. Casey brought before the House a Bill to further amend the Commonwealth Bank Act. It represented the final stage in a 15-year plan to deprive the people of Australia of the power to control

the money supply of their own country. Part VIc provided for the establishment of a Mortgage Bank Department with a capital of £28 million, of which £4 million was to come from the profits of the note issue and of the various other departments of the Bank, and £24 million was to be raised by the issue of debentures and inscribed stock *secured upon the general assets of the Bank*. From the inception of the Bank, its profits had returned to the people, in one form or another, as their absolute property; but the proposed legislation handed most of these profits over to private bondholders in the form of interest on the debentures and inscribed stock which it was intended to issue. Moreover, what was infinitely worse, the majority of these securities might be held by international financial institutions, which would become in fact, though not in name, the real owners of the Bank. It is difficult to see how the Bank could be used for any other purpose than to earn interest for its bondholders if it became mortgaged itself, in order to start its Mortgage Bank Department. Yet the hope of the Commonwealth to-day lies in a wise use of its bank, not for the purpose of earning interest, but in order to bring about the welfare of its people.

Fortunately for Australia, the years of the "depression" had left it honeycombed with small bodies of monetary reformers who were loosely knit together in an association which supported two or three weekly newspapers. These people organised a storm of protest against the Bill, protests directed not to the Government, but to the individual members of the different constituencies. They printed "demand forms," of a more or less peremptory character, and distributed them in thousands throughout the country. The people signed them and forwarded them to their respective parliamentary representatives, who found it advisable to swim with the torrent rather than struggle against it. For the time being, at least, the Bill was shelved, and Australia entered the war still owning the Commonwealth Bank.

If the Australian people, therefore, still desire to make a proper use of their bank, they can do so, and, in this connection, the following paragraphs from the Report of the Royal Commission on the Australian Monetary and Banking Systems (appointed by the Lyons Administration in 1935) may be studied with advantage. The words in parentheses are those of the author.

Paragraph 516.—The general objective of an economic system for Australia should be to achieve the best use of our productive resources, both present and future (i.e., actual and potential). This

means the fullest possible employment of power and resources *under conditions that will provide the highest standard of living* (i.e., debt-and-interest-free conditions). It means, too, the reduction of fluctuations in general economic activity (i.e., no booms and slumps). Since the monetary and banking system is an integral part of the economic system, *its objective will be to assist with all the means at its disposal in achieving these ends.*

Paragraph 503.—The Central Bank in the Australian system is the Commonwealth Bank of Australia. This Bank is a public institution engaged in the discharge of a public trust. As the central bank, its special function is to regulate the volume of credit *in the national interest*, and its distinctive attribute is its control of the note issue. Within the limits prescribed by law (and those limits have been extended in the past when circumstances demanded it, and may be extended again), it has the power to print and issue notes as legal tender money, *and every obligation undertaken by the Commonwealth Bank is backed by this power of creating the money with which to discharge it.*

Paragraph 504.—Because of this power the Commonwealth Bank . . . can even make money available to Governments or to others free of any charge. (Interpreting this last and most vital statement, a letter from Mr. Justice Napier, Chairman of the Commission, received through Mr. Harris, of the Commonwealth Sub-Treasury, who was Secretary to the Commission, says, “This statement means that the Commonwealth Bank can make money available to Governments or to others on such terms as it chooses—even by way of a loan without interest, or even without requiring either interest or repayment of the principal.”).

Paragraph 530.—The Federal Parliament is ultimately responsible for monetary policy, and the Government of the day is the Executive of Parliament . . . The Government should give the Bank an assurance that it accepts full responsibility for the proposed policy and is in a position to take, and will take, any action necessary to implement it. It is, then, the duty of the Bank to accept this assurance and to carry out the policy of the Government. (Hitherto Governments have evaded this responsibility, but we are now at war, and if we do not compel our Governments to shape their monetary policy by the light of these four paragraphs, we may win the war, but we will lose everything that we are fighting for).

Here ends the story of the Commonwealth Bank, and three features in it stand out very clearly:—

1. That if ever there was an Australian Government which inflicted injury upon the country it was appointed to serve, it was the Bruce-Page Administration of 1923-9. At the bidding of the private banks, it deliberately strangled and dismembered an institution which had stood between Australia and ruin during the war, and would have performed a like service for the country in times of peace.
2. That institutions, no matter how excellent they may be, are of little permanent use to a people which does not understand the value of them. The people of Australia should have safeguarded their Bank with the same jealousy with which they safeguard the right to vote. They did not do this, so when the 1930-3 financial hurricane burst upon them, they were exposed without defence to the mercy of domestic and foreign financiers, who knew no mercy.
3. That the Associated Banks (private banks) at present control the Commonwealth Bank and the Commonwealth Savings Bank by means of Directorates appointed to them, and can use both their funds and their credit for the benefit of the private banks. They see to it that the funds and the credit of these institutions are never used for any purposes which may interfere with the profits or the policy of the private banks, and that their policy, whatever it may be, becomes the policy of the Government of the Commonwealth.

No Government, whether it be called Labor or Liberal, or any other fancy name, can be free from their domination unless it possesses the power to control currency, and to do this it must control the Commonwealth Bank.

PERSONNEL OF THE COMMONWEALTH BANK. BOARD OF DIRECTORS, DECEMBER, 1939.

<i>Name.</i>	<i>Position.</i>	<i>Interests Represented.</i>
C. H. Reading, Esq.	Chairman.	Late Director, British Tobacco Co. (Aust.) Ltd. " Director, W. D. & H. O. Wills. " Director, States Tobacco Co. " Member, Sydney Chamber Commerce. " Member, Commonwealth Board of Trade. (Six years in service of the Union Bank).
A. F. Bell, C.M.G.	Director.	Managing Director, Robert Harper & Co., Ltd. (Produce Merchants and Manufacturers). Victorian Director, Australian Mutual Provident Society. Late Director, National Bank of Australia, Ltd.
J. H. Ashton, Esq.	Director.	The family is closely connected with private banking and insurance companies, also with pastoral companies, and the sugar monopoly. He is an expert polo player.
Professor L. F. Giblin. D.S.O., M.C., M.A.	Director.	The Private Banking System. He was one of the "experts" responsible for the Premiers' Plan, which definitely subjected Australia to the rule of international financiers.
Sir Harry Sheehan, C.B.E.	Director.	Governor of the Commonwealth Bank.
R. S. Drummond, Esq.	Director.	Political Appointee of the Bruce-Page Liberal Administration.
M. B. Duffy, Esq.	Director.	Political Appointee of the Scullin Labor Administration.
S. G. McFarlane, Esq., C.M.G., M.B.E.	Director.	Secretary of the Treasury.

NOTE.—The Board elects its own Chairman, who possesses both a deliberative and a casting vote. The Governor is merely the executive officer of the Board, although, as a member of the Board, he has a vote. Disregarding the two political appointees from rival parties, and the Secretary of the Treasury, we may say that this Board represents (1) the private banks, (2) the insurance companies, (3) the tobacco monopoly, (4) the wool and produce rings, (5) the big pastoralists. Whether the interests of these people are also the interests of the Australian citizen, let the Australian citizen decide for himself.

(SPECIMEN OF DEMAND FORM)

HANDS OFF THE PEOPLE'S BANK!

URGENT!

The following matter is of vital concern to every man, woman, and child in Australia.

The Commonwealth Bank Act Amending Bill, which was brought before the House of Representatives by the Hon. R. G. Casey on 25th November, 1938, and which will be debated shortly, represents the final stage in a 15-year plan to deprive the people of Australia of their power to control the money supply of their country.

The Bank was formed in 1912, without any other capital than the confidence of the Australian people. Since then to June 30, 1938, it has made in profits (including those on the note issue) £33,594,949, and these profits have returned to the nation as its absolute property. The proposed legislation will hand most of the Bank's profits to private financiers, in the form of interest on the debentures and inscribed stocks which it is proposed to

issue, and the holders of these securities will become in fact, though not in name, the real owners of the Bank.

The hope of Australia to-day lies in the Commonwealth Bank working for the people's welfare by eliminating depressions engineered by private manipulators of finance. **IF WE FORFEIT THIS RIGHT, ALL TALK OF FREEDOM, SECURITY, and DEMOCRACY WILL BE IDLE AND FUTILE.**

This matter is of the utmost urgency.

It is **essential** that electors **take immediate steps to stop the passage of the Bill, BEFORE IT IS TOO LATE.**

This can only be done by making direct demands upon individual Members of the Federal Parliament.

YOUR Member of Parliament is **YOUR** Parliamentary Representative—**YOUR** political servant—paid by **YOU**.

Should you fail to tell him what **YOU** want—**YOU BECOME RESPONSIBLE.**

Sign and forward form on opposite side and get your friends to do likewise—**TO-DAY.**

To....., M.H.R., Canberra, A.C.T.

Dear Sir,

As my Federal Representative, I desire you to vigorously oppose The Commonwealth Bank Act Amending Bill, introduced by the Hon. R. G. Casey during November, 1938, and to press for the elimination of any clause in the principal Act that gives private interests power over the policy or profits of our Commonwealth Bank.

Yours faithfully,

(Address).....

(Signed).....

(Date).....

To Senator.....Canberra, A.C.T.

Dear Sir,

As my Federal Representative, I desire you to vigorously oppose The Commonwealth Bank Act Amending Bill, introduced by the Hon. R. G. Casey during November, 1938, and to press for the elimination of any clause in the principal Act that gives private interests power over the policy or profits of our Commonwealth Bank.

Yours faithfully,

(Address).....

(Signed).....

(Date).....

State Library of Victoria

Authorities :

The Commonwealth Bank Acts	1911-1932
Official Year Books	1910-1930
Commonwealth Bank Balance Sheets	1912-1932
Parliamentary Debates	1911-1939
Report of the Royal Commission on the Australian Monetary and Banking Systems	Appointed	1935
The Official Record, Melbourne Stock Exchange, February, 1928				
Parliamentary Papers, 1930 and 1931				
"Financial Requirements of the Commonwealth."				
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"The Commonwealth Bank of Australia"	By C. C. Faulkner	
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"Australia's Curse"	By G. C. Barnes
"Dun's Gazette"	1926-1929
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