The Story of the COMMONWEALTH BANK

AN ANSWER FROM THE PAST CAN BEAT THE MYTH OF A WORLD CREDIT SHORTAGE

Institutions, no matter how excellent they may be, are of little permanent use to a people who do not understand the value of them. The right of the people of this Commonwealth to expand or contract financial credit in accordance with their needs, by means of the Commonwealth Bank, was something that Australians should have safeguarded with the same jealously as they safeguard the right to vote.

The Story of the Commonwealth Bank

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VERITAS
PUBLISHING COMPANY PTY LTD

Printed and Published by Veritas Publishing Company Pty., Ltd.,
P.O. Box 1334, Midland, DC. Western Australia, 6936. Tel/Fax +61 8 9574 6042
ISBN 0-9594631-6-X

Third reprint 2009

“The Commonwealth Stories”

No. 1. The Story of the Commonwealth Bank.

No.2. The Story of the Commonwealth Fleet (of Steamers).

No.3. The Story of the Commonwealth Railway and the Note Issue.

No.4. The Story of the Commonwealth Woollen Mills.

No.5. The Story of the Commonwealth Oil Refineries and the Search for Oil.

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

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!

FOREWORD

MELTDOWN - DESIGN BEHIND THE TUMULT.

By Jeremy Lee (29/9/08)

When news broke in late September that legendary investor Warren Buffet was consigning US$6 billion into Goldman Sachs, he knew something that lesser mortals had not been told. After all, the latest drama was about to open on Capitol Hill, where Congressmen were to hear President George Bush explain why the United States of America should swallow Henry Paulson's proposal to create $700 billion as a bail out of Wall Street. Both presidential candidates were to attend.

Melodramas on Broadway are usually more popular than in Congress. But not this time. Not only was most of America but, in fact, most of the world riveted to radios and TV screens. Treasurers, Prime Ministers and Presidents in a number of countries had changed their tune in a remarkably short period of time, from "Our economic fundamentals are sound" to "We are on the edge of meltdown".

WHAT ARE 'FUNDAMENTALS'?

When tens of thousands are losing their homes and jobs, when poverty stalks ordinary families, when it takes a husband and wife to try and keep the mortgage at bay and the poorest live by soup-kitchens and welfare, things are, by and large, still O.K. But when huge banking firms round the world begin to collapse like dominoes, crisis threatens!

The picture in the U.S. is ugly. Federal debt, after Iraq and Afghanistan, and hurricanes like Ike and Katrina, stands at $10.6 trillion. State and Local Government debt is a further $2.2 trillion. Mortgage debt is $11 trillion and consumer debt $2.6 trillion. These four items alone total over $26 trillion - well over $100,000 for every living soul in the United States, including the millions of illegal immigrants!

But that's only a fraction of the debt. Sheer gambling, in the form of derivatives, makes government and home mortgage debt look trivial. Wall Street banks are staring bankruptcy in the face. They dare not even lend to each other. What better solution than to make ordinary citizens bail them out?

THE PROPOSAL

So Henry Paulson, Secretary to the Treasury and former CEO of Goldman Sachs, proposed in three typed pages that the Federal Reserve Bank, under Fed Chairman Ben Bernanke, create a fund of $US700 billion, notch it up to ordinary taxpayers, and bail out the banks of Wall Street, and get debt money flowing again. George Bush was instructed to urge Congress to pass Paulson's proposal as the only alternative to disaster!

The sheer audacity of the proposal was breathtaking! Section 8 of Paulson's proposal read:

"...Decisions by the Secretary (of Treasury) pursuant to the authority of this Act are non reviewable by any Court of Law or any administrative agency ..."

Carte-blanche in other words!

INCH BY INCH

It was in 1913 that a major *coup* took place in a secret meeting on Jekyll Island in the United States when, at the instigation of Paul Warburg of the Warburg banking firm, the Federal Reserve was formed as the U.S. Central Bank. Most Americans would automatically assume that the "Fed", like Australia's Reserve Bank, is publicly owned. But, in fact, it is owned by a select group of the world's biggest banking empires. The current list of owners is:

Rothschilds of London and Berlin;
Lazard Bros of Paris;
Israel Moses Sief of Italy;
Kuhn Loeb & Co. Germany and New York;
Warburg & Co. Hamburg, Germany;
Lehman Bros of New York;
Goldman Sachs, New York;
Rockefeller Bros. New York.

WHO ARE THEY?

It was Nathaniel Mayer Rothschild who coined the well- known phrase: "Permit me to pass the money of a nation, and I care not who makes its laws."

Of the listed firms above, Lehman Bros has recently entered bankruptcy, being bought at a fire-sale price by Morgan Stanley.

It is Goldman Sachs which has gained the pivotal posts for the "new order". Henry Paulson himself is the initiator of the required *"carte blanche"* legislation. Joshua Bolton, White House Chief-of-Staff, is another former Goldman Sachs staffer. Robert Zoellick, former Secretary of Trade and one-time Goldman Sachs staffer, now runs the World Bank. The Central Banks of Canada and Italy are run by former Goldman Sachs men. John Corzene, former CEO of Goldman Sachs and now Governor of New Jersey, was spokesman for the international financiers who confronted Australian Prime Minister John Howard in June 1996, shortly after he gained office, in Sydney. Yet another former Goldman Sachs man, Malcolm Turnbull, who is at the present time, the Leader of Australia's Opposition.

IN THE BEGINNING

Both in Australia and the U.S. their founding Constitutions confer the power to create, print and borrow money on elected Federal Governments. The Labor Government now led by Kevin Rudd once founded the Commonwealth Bank as a bulwark against overseas borrowing. The same Labor Party under Paul Keating sold it into private hands. Both Australia and the U.S. have weakly abandoned their duty to their people, conferring the power to create money on their own terms to a network of privately owned banks. The resulting system of usury has destroyed families and communities, and is now enslaving nations. So overloaded has the global debt system become that it threatens to engulf us all.

DOCUMENTED

In 1963 America's most widely known and best regarded historian, Carroll Quigley, published his famous "Tragedy and Hope" - 'A History of the World in Our Time'. In this epic, Carroll Quigley said that he had been allowed access to the private papers of an association of bankers bent on using their monopoly to eliminate national governments, establishing global government under their own control. The power of finance was their chief instrument.

When Prime Minister Kevin Rudd and Treasurer Wayne Swan - and, incidentally, former Goldman Sachs representative Malcolm Turnbull - urge the United States Congress to give total control to Henry Paulson they are, consciously or unconsciously, endorsing this reach for global government and A New World Order.

A CAUSE FOR HOPE

At this very late stage, there is some cause for hope. A number of media reports say that Senators and Representatives in Congress, assembled to consider George Bush's plea that they endorse Henry Paulson's proposal for a bailout, were bombarded by a deluge of letters, calls and e-mails from every State, urging them to reject the suggestion. People instinctively know that this is wrong and evil, even if they don't know of an alternative. Congressional dissenters are having their arms twisted and their heads kicked to surrender to the 'banksters'. It is likely that the money power will prevail. But miracles have happened before.

AN ALTERNATIVE

When the Great Depression broke in 1929 there was a great deal of discussion among economists, church leaders and the public about a theorem propounded by a Scottish engineer called Clifford Douglas. It was known as the A+B theorem, and showed that, if all money was created in the form of debt, it must result in a price structure that rose faster than available purchasing power. The result would be prolonged periods of alternating boom and bust, interspersed with trade and military wars, and finally complete dislocation and breakdown.

Enormous efforts were made by the financial establishment to discredit the proposition, and finally to silence it. Orthodox economics has been elevated to religious status, even though it is now resulting in breakdown.

In 1989, two professional men, J.D. Malan, an engineer, and A.A. Chresby, one-time Liberal Member of Parliament, made a Submission to a Government Inquiry into the Financial System, the Campbell Inquiry. It presented an alternative for Australia that would have lifted the debt and poverty burden off many Australians and eliminated the ever-widening divide between rich and poor. Not surprisingly, it disappeared in the cesspool of orthodoxy.

Whatever way Congress votes, we now face a prolonged period of financial difficulty. We must do two things. Firstly, we must resist at all costs any idea of a world money system that would constrain Australia's sovereignty over our own affairs. We must return to our Constitution. And we must seek an alternative that releases us from the world of compounding debt.

REGENERATING THIS COUNTRY

"History is full or ironies! Who would have thought that the Australian Labor Party which struggled so diligently to establish a "Peoples' Bank" in 1910 as a bulwark against the pinnacle of Financial Capitalism would be the party to sell the Commonwealth Bank 86 years later? Who would have guessed that the old, blue-collar workers who once were the life-blood of a nationalistic, sovereign Australia would be progressively weeded out by the academic, lily-handed Fabians to whom nationalism was expendable, and who were even keener than their Opposition to cede Australia's independence into the centralised, global, mud pool?

Who would have imagined that we could produce a complete generation of old and young Australians who had never heard of King O'Malley and Sir Denison Miller? Or the innovative way they financed war and peace in Australia's early years?

As Australia, along with the rest of the world's industrial nations, is tempted and beguiled to dispense with its hard-won freedom for a banker-run New World Order, the reprint of this little booklet is timely. May it encourage young Australians, as it did those who fought in two World Wars, to regenerate their country in this, the greatest threat of all.

INTRODUCTION

A study of the events leading up to the establishment of the Commonwealth Bank, and subsequent developments, provides an understanding of a vital, but comparatively little-known part of Australian history.

Events since the publication, in 1948, of the thirteenth (revised) edition of **The Story of The Commonwealth Bank,** have both highlighted how the bank could have been used to serve the Australian people, and the author's fears about the implications of acceptance of the Bretton Woods Agreement in 1947. Much more is known today about the long-term strategy of those international forces which created the International Monetary Fund and The World Bank.

For example, with the emerging programme to establish a New International Economic Order, it has been revealed that the British economist, John Maynard Keynes, who played a major role in preparing the Bretton Woods Agreement, had in 1942 drafted a memorandum, "The International Control of Raw Materials." This memorandum, listing those commodities which Keynes felt should be under international control, remained unpublished until 1974, the year when the United Nations made its Declaration for a New International Economic Order.

Another influential architect of the Bretton Woods Agreement was Harry Dexter White of the American Treasury. White was subsequently appointed as an American Director of The International Monetary Fund. White allegedly committed suicide when he was exposed as a top Soviet agent. A fellow Marxist, Verginius Frank Coe, who had been White's assistant in the American Treasury Department, was technical secretary at the Bretton Woods conference and later appointed secretary of the International Monetary Fund. Following his exposure as a Communist agent, Coe left the U.S.A. and later worked as an economic expert for the Chinese Communist Government.

As pointed out in **The Story of the Commonwealth Bank,** the independently-minded Past Governor of the Bank, Sir Denison Miller used the bank's credit power after the First World War to save Australians from the depression conditions being imposed in other countries. But with moves to centralise banking globally under an International Monetary Fund possessing the right to create a new type of international currency, there is an open threat to the financial independence of all nations. Mr. William McChesney Martin, a former Chairman of Directors of the American Federal Reserve system, has outlined the "shape of things to come": "Further evolution along the path toward a world central bank will require nations to accept further limitations on their freedom of independent action".

The story of the Commonwealth Bank had its origins with the arrival in Australia late last century of one of the most colourful figures ever to enter Australian politics, the American King O'Malley. From the beginning of the history of the U.S.A., the subject of banking had been more openly discussed than in most countries. Thomas Jefferson had openly attacked the threat of the Money Power. The basic cause of the revolt of the American colonies against the British Government was the fact that the colonists were creating their own money and enjoying comparative prosperity compared with conditions in Britain. Benjamin Franklin obviously understood the money question.

King O'Malley had made a close study of the banking question and upon joining the Australian Labor Party, made every endeavour to interest his colleagues.

King O'Malley was a Federal Minister in the Fisher Labor Government before his long campaign for the establishment of a government bank creating credit, was successful. There have been many stories of the stratagems to which O'Malley allegedly resorted to persuade or cajole his reluctant colleagues to establish a bank, one being that, in true American Western style, he wore two guns to a Cabinet meeting, placing them on his desk to emphasise his point. Although O'Malley was certainly a colourful character in more ways than one, there is no reliable evidence for the story about the guns.

At the official opening of the Commonwealth Bank in 1912, William Morris Hughes, the man who later became Australian Prime Minister and known affectionately as "the little Digger" said, "It (the Bank) stands here today as the outward and visible sign of the wealth and substance of the whole people. It is indeed Australia commercially translated in the terms of money. It is the symbol of our wealth; it will stand as long as we stand. Of its solvency there can be no doubt while the race that made Australia stands:"

This realistic comment was echoed after the end of the First World War, when Sir Denison Miller said, as reported in the Australian press on July 7th, 1921, "The whole of the resources of Australia are at the back of this bank, and so strong is this Commonwealth Bank ....Whatever the Australian people can intelligently conceive in their minds and will loyally support, that can be done":

An indication of the widespread opposition to the proposed 1938 Amendment outlined by the author of **The Story of the Commonwealth Bank**, was the number of resolutions of protest carried at the time by numerous organisations. An Editorial in **The West Australian Wheatgrower** of May 4, 1938, provides typical evidence of the opposition: "The proposal sponsored by the Federal Treasurer, Mr. Casey, to dispose of part of the assets of the Commonwealth Bank is meeting with the strenuous opposition it deserves. At the annual meeting of the Australian Wheatgrowers' Federation, held last month in Canberra, it was resolved that a determined protest should be registered with the Commonwealth Government against any sale or sale in any way whatsoever, of any shares, debentures, or other assets of the Commonwealth Bank.

"In the properly considered opinion of the Australian Wheatgrowers' Federation, the Commonwealth Bank is the property of the Australian people, and Mr. Casey has no right whatsoever to attempt in any way to disregard this fact.... As far as the farmers are concerned, it is through the Commonwealth Bank alone that there is any hope of legislation which will help them to rid themselves of the incubus placed upon them by the Associated Banks:"

The Hon. King O'Malley, who had maintained a keen interest in Australian politics over the years, was stirred by what he saw as yet another attempt to "emasculate his beloved Bank."

Although over 80 years of age, King O'Malley vigorously entered the 1939 "Save The Commonwealth Bank Campaign," publishing a little booklet in which he demonstrated that he was still capable of the type of language for which he was famous during his campaign to have the Bank established. He wrote, "I trust that good and patriotic Australians will swear by the altar of their gods, the tombs of their ancestors, and the cradles of their children, that they will never vote for Parliamentary candidates whose secret mission is to destroy the Commonwealth Bank .... and whose brains, if extracted, dried and placed in the quill of a cock sparrow and blown into the eye of a bee, would not even make him blink."

In 1960 the Reserve Bank took over the role of Central Bank from the Commonwealth Bank. Like other trading banks, the Commonwealth Bank is today governed by Reserve Bank controls. The Federal Government could direct the Reserve Bank to adopt a completely different policy to that which results in ever-escalating debt, crushing taxation and insidious inflation. For example, interest rates could be reduced to the point where they were sufficient to meet the administration costs of creating and administering credit. New money could be made available as a credit, instead of debt, for financing consumer discounts as a major part of an anti-inflation policy.

But none of these and similar steps will be taken until a more enlightened public insists that the disintegration of Civilisation can only be halted by a reversal of present credit policies. Eventually this must happen. When history is written, the name of D.J. Amos, a distinguished Adelaide professional man, will be given an honoured place for his contribution to an understanding of a special Australian institution, the Commonwealth Bank.

-The Institute of Economic Democracy, 1981

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. Neither would the people have had to submit to the ruinous debt and taxation imposed upon them in the second war period (1939-1945).

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. 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 "advance": 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, $19 million to $119 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 $64 million in Australian notes, and the following table shows exactly what had happened:

CURRENCY IN CIRCULATION IN MILLIONS OF DOLLARS

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

Year	Australian Notes	Bank Credit
1914.........	22	230
1915.........	18	234
1916.........	26	266
1917.........	32	246
1918.........	36	280
1919.........	40	354
1920	44	320
Maximum Increase	22	124

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 $6 in Australian notes were given for $2 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% to5%, were made in different banks. These fixed deposits amounted in 1920 to $10,853,200.

(d) More than half of the notes were invested in Commonwealth stocks 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 $75,617,540, and returned an annual income to the Government of a little more than $3 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 $2 million 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 $4 million 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 of $20 million, 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 $6%; but the Commonwealth Bank floated $700 million of loans ($500 million locally and about $200 million overseas) for a charge of 56¢, thus saving Australians some $12 million in bank charges - and then the Bank made a profit of 20%. 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 $872 million; it found $4million 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 $7,121,902 for the payment of her soldiers. ("The Commonwealth Bank of Australia" p. 157 and p. 162, by C.C. Faulkner. Hansard, Vol. 161, p. 976/7).

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 $3 million it found $8 million for Australian homes; while to local government bodies, for construction of roads, tramways, harbours, gasworks, electric power plants, etc. it lent $18.72 million. It paid to the Commonwealth Government between December, 1920, and June, 1923, $6,194 million - the profits of its Note Issue Department - while by 1924 it had made on its other business a profit of $9 million, 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 $700 million, 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, Vol.161, p. 976/7).

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 Government securities, and partly by increasing his advances, he released, between June and December, 1920, $46 million 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 transfer 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 $16 million 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 $6 million. 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 Note Issue Department of the Bank.

2. That out of the profits standing to the credit of the Bank $8 million should be transferred to its Capital Account, which was increased to $40 million, of which $12 million might be loaned at interest by the Government, and what was needed to make up the $40 million 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 $8 million, 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 rediscount 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 rediscounting the bills which they had themselves discounted, at a figure very favourable 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 $10 million, but the Associated Banks took it, and then demanded another $20 million 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 $20 million, 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 $2,000 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 Assurance 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 banker's bank, an appendage 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 $14 million in bank charges, as against $6 million 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 Cooperative Wholesale Society in England, the concerted action of the private banks and their new ally, the Commonwealth Bank, frustrated the scheme. When the Cooperative 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 10 cents per bushel, but for merely transmitting the money, the banks charged the farmers practically 3.3 cents per bushel, amounting in all too some $120,000.

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 $4 million 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 $4 million 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 $42 million. 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 $42 million at this figure would show a profit of well over $2.4 million, and the profits on the Rural Credits Department during these years was only $649,560. 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 $64 million, but it also had lodged with it roughly $94 million 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 omit this paragraph, Dr. Earle Page replied bluntly: “No.” (Hansard, Vol 116, page 805).

W.M. Hughes

At the official opening of the Commonwealth Bank in 1912, William Morris Hughes, the man who later became Australian Prime Minister and known affectionately as "the little Digger": said, "It (the Bank) stands here today as the outward and visible sign of the wealth and substance of the whole, people. It is indeed Australia commercially translated in the terms of money. It is the symbol of our wealth; it will stand as long as we stand.

King 0 'Malley

Campaigned vigorously to save the Commonwealth Bank.

S.M. Bruce

The Honourable S.M. Bruce brought in the Bill to amend the Commonwealth Bank Act.

J. Scullin

The election of a Labor government under the Honourable J. Scullin brought about an immediate financial crisis in Australia when the English banking system promptly closed the London Money Market to any further Australian loans.

Denison Miller

Denison Miller was a former prominent Officer of the Bank of New South Wales, and became the first Governor of the Commonwealth Bank.

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 $7.6 million worth of securities, and at the same time called in $8 million of advances, thus cancelling $84 million 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 was 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 $56 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 overdraft. (Hansard, Vol. 122, p.313). They also deflated the currency by selling securities to the extent of $8 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 $3.50%, 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 $96 million in gold (Hansard, Vol. 122, p. 430), the remaining $40 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 $3.50% to $13%; (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 to 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 $4 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 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 reappointed 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 the 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 favour of the bond-holders.

5. Monthly accounts to be published in Australia and overseas, showing summaries of revenue and expenditure, also state the 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. "Today." writes Mr. H.N. Brailsford (quoted in Hansard, Vol. 127, p.576), "you may behold a continent on its knees. It is 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 $40 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 $40 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 it 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 $208 million, and it had a net annual income of $800,000. 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 ($34 million to $142 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 bond-holders in general. The press denounced Lang, in the most unbridled terms, as a swindler and a thief, whose proper place was gaol. It published "scare headings" such as "Lang will confiscate Savings Bank 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 that 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 75c%.

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 $30 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 of Conference, 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 $36 million, of which $12 million was to be applied to the relief of wheat growers, and $24 million (at the rate of $2 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 Commonwealth Government (destitute of English currency) had to meet a loan of $10 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 $102.99 million, while the accommodation he had provided for all the Governments and public bodies of Australia amounted to $260.59 million. 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 be definitely refused to provide any further accommodation at all in London, and only another $50 million in Australia.

Theodore's reply put in the clearest possible light the relationship between representative Government and organised finance existing in Australia today. 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 cooperate 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 $ 10 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 ultraconservative 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 $10 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 Act" (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. 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 $56 million, of which $8 million was to come from the profits of the note issue, and of the various other departments of the Bank and $48 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 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 desired to make a proper use of their bank, they could 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. The 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.

The financial cost of the Second World War to Australia (excluding damage to property) was as follows:-

Interest-bearing money borrowed for war:

	$ million
1939-1945	3,074,614

Increased taxation levied by the Commonwealth Government 1939-1945:-

	$ million	
1939- 1940 Increase over 1938-9	31,800	
1940- 1941 Increase over 1938-9	102,546	
1941- 1942 Increase over 1938-9	210,648	
1942- 1943 Increase over 1938-9	366,066	
1943- 1944 Increase over 1938-9	459,112	
1944- 1945 Increase over 1938-9	527,618	1,697,790
Total financial cost of war		4,772,404

(Aust. Statistics Bulletins 179, 180 and 188)

Had Australia decided to create the money herself that she borrowed ($3,074 millions in round figures), she would have been free of a very solid lump of debt, and her people would have been spared the necessity of finding an annual interest charge upon it of $79,110,098 (about $40 for every family of four). In its circular to the Loan Council in March, 1939, the Commonwealth Bank Board refused to create money for defence, even in the form of a loan, "except if there was no alternative and in the last resort." Oh, men and women, whose sons died in Malaya, Java, New Britain and New Guinea in the early days of the war, for want of planes, guns, and war-preparedness generally, if nothing else will turn your thoughts to finance, let this circular of the Commonwealth Bank Board, on the very eve of war focus your attention upon it! The

Reports of the Board during the war years make dismal reading. They show it preoccupied above all else with the following problems:-

1. How to create as little Central Bank Credit as possible.

2. How to raise as much money as possible by means of loans and taxation.

3. How to reduce the purchasing power in the hands of the people to the minimum necessary to keep them in good health and working, and in cases where this could not be done.

4. How to prevent the people from getting more consumption goods than just sufficient to enable them to live and work.

Of course, during the war, the Commonwealth Bank Board had, from time to time, to create some money. Of the $3,074 millions of borrowed money, $776 millions were in the form of Treasury Bills (Aust. Statistics Bulletin 188) and the Board also increased the Note Issue from $95 millions in 1939, to a peak circulation of $405.4 millions in 1945 (Commonwealth Bank Report 1945). It had also in its Special War-time Deposit Account, at June 30, 1945, $482 millions of the private banks' surplus funds, on which it paid interest at three-fourths of one per cent, and it is more than likely that these funds had to earn interest. In general, however, it can be stated that the Commonwealth Bank Board created as little money as they could, and, apparently, worried a good deal over what they did create. Whilst on this subject, it might be as well to remind Australians that, at June 30, 1947, the national debt stood at the imposing figure of $5,534,248,000 ($731.66 per head), while the annual interest on this debt was $162,417,446 (about $80 for every family of four). These figures constitute a magnificent testimonial to the insanity of our financial system. Every blow we struck for freedom during the war shackled our limbs with another chain of interest-bearing debt.

The Labor Administration of Mr. John Curtin had come into office on October 7, 1941, and as he had a substantial majority in both Houses, he could have stopped this plunge into debt had he chosen to do so. There is some excuse for his inaction, as, during the years of his administration, Australia's very existence depended upon keeping on good terms with the financial magnates who rule America: but by the time he died (5/7/1945) that necessity had long passed. There can be no excuse at all for the continuance of his financial policy by the Chifley Administration, and that it was so continued, forms the darkest page in the history of the Australian Labor Party.

In September, 1942, a Bill to provide a Mortgage Bank Department for the Commonwealth Bank was brought before Parliament, but was subsequently withdrawn, amended and reintroduced in February, 1943. The periods for which loans could be made were not less than five years or more than forty-one: the amounts that could be advanced against any property were not more than two-thirds of its value, or $10,000, whichever was the less; but the funds placed by the Commonwealth Bank Board at the disposal of the new Mortgage Bank Department ($2 million down and another $6 million to be paid in installments) were quite inadequate for the rehabilitation of rural industry as a whole - the purpose for which the Department was supposed to be formed. If it seriously attempted to carry out this purpose, it would have to borrow money at sufficiently high rates of interest to prevent advances being made at sufficiently low rates to compete with the present mortgagees. During the course of the debate, Sir Earle Page made a determined attempt to finance the Mortgage Department by the issue of debentures and inscribed stock secured upon the general assets of the Commonwealth Bank; but Mr. Calwell politely reminded him that it was the intention of the Government to provide a Mortgage Department for the Commonwealth Bank, not to mortgage the Bank itself. The Bill was assented to on March 20 and proclaimed law on September 27, 1943, but the policy of the Commonwealth Bank Board, who would not create the funds necessary for the proper functioning of its new Department, rendered it of very limited use to those it was intended to serve.

THE RESCUE OF THE BANK

Early in March 1945, a Bill for the Commonwealth Bank Act of 1945 was introduced into the House of Representatives. It repealed all existing Commonwealth Bank Acts, and provided:-

(1) That it should be the duty of the Commonwealth Bank, within the limits of its powers, to pursue a

monetary and banking policy directed to the greatest advantage of the people of Australia and to exercise its powers under this Act and the Banking Act. 1945, in such a manner as in the opinion of the Bank, would best contribute to (a) The stability of the currency of Australia, (b) The maintenance of full employment in Australia, and (c) The economic prosperity and welfare of the people of Australia.

(2) That the Bank would, from time to time, inform the Treasurer of its monetary and banking policy, and, in the event of any difference of opinion between them as to whether the policy of the Bank was directed to the greatest advantage of the people of Australia, the Treasurer and the Bank should endeavour to reach an agreement. If they were unable to reach an agreement, the Treasurer might inform the Bank that the Government accepted responsibility for the adoption by the Bank of a policy in accordance with the opinion of the Government, and would take such action (if any) within its powers as the Government considered to be necessary by reason of the adoption of that policy. The Bank should then give effect to that policy.

(3) That there should be an Advisory Council in place of the Commonwealth Bank Board, and that this Council should consist of (a) The Secretary of the Treasury and also a permanent official of the Treasury, appointed by the Governor-General, (b) The Deputy Governor of the Bank and also two other officers of the Bank appointed by the Treasurer on the recommendation of the Governor. The Governor of the Bank was to preside over the monthly meetings of the Council, but was not to vote.

(4) That an additional Department should be formed for the financing of industry.

The provision of the original Act that required the Note Issue to be backed by a 25 per cent Gold Reserve was not included in the Bill. This meant that Australian currency ceased to be tied to gold.

At the same time as the Bill for the Commonwealth Bank Act of 1945 was before the House, Mr. Chifley brought in a Bill for the Banking Act 1945. This Bill provided that no person other than a body corporate should carry on a banking business in Australia, and that within six months after the Bill became law, every body corporate carrying on such business should apply for a licence to do so; this licence could be granted by the Governor-General either unconditionally or subject to conditions, and these conditions could be revoked, or varied or added to. No bank could carry on banking business for a State or Local Authority except by permission of the Treasurer (Clause 48). The private banks had to satisfy the Commonwealth Bank as to their financial stability, and submit to inspection of their books and records by the Commonwealth Bank if the latter saw fit. They had to lodge in a Special Account of the Commonwealth Bank, every month, such sums as the Commonwealth Bank might in writing direct, and also a required amount in sterling. They could only withdraw money from this account with the consent of the Commonwealth Bank. The Commonwealth Bank was given power at need to determine the policy in regard to advances made by the private banks; it could stop them inflating the currency by means of the purchase of securities - but no provision was made to stop them deflating currency by means of the sale of securities. It could control absolutely, if necessary, all dealings in foreign exchange and in gold. It could demand detailed balance sheets, profit and loss accounts, and statements of investments, which would make a bank's accounts as comprehensible as those of a merchant. There was an ugly little clause (47) which gave power to the Treasurer to grant any bank exemption from this last provision, and Clause 48 was afterwards declared invalid by the High Court. ("Advertiser," 14/8/47).

These two Bills were assented to on August 3, 1945, and, on the 21st, the whole of the Banking Act 1945, and all the parts of the Commonwealth Bank Act 1945, except those dealing with Industrial Finance and Housing Loans came into force by proclamation. These two last parts of the Commonwealth Bank Act did not come into operation until January 2, 1946.

It is obvious that, on the passing of these two Bills, the Commonwealth Government possessed complete control over Australian currency and could expand or contract it in accordance with the needs of her people. It could have used this power to create better conditions in Australia than the world had ever seen before; to step, with some effort perhaps, but safely enough, from an old civilisation based on scarcity into a new one based on plenty. The older nations were exhausted by a terrible war and had enough troubles of their own to keep them from interfering with us in a military sense, while, both as a manufacturing and a primary producing nation our economic position was very strong. The necessary mechanism for the change had been discussed and criticised for nearly twenty years and was now ready for use. In the year 1945, Australia had an opportunity, such as no nation ever had before. Why was it not used?

THE BETRAYAL OF THE BANK

By the end of 1943, that group of international financial magnates who, as the delegates to the Peace Conference at Versailles after the first world-war had discovered to their cost, were the real rulers of the world (see Lloyd George's Memoirs) must have been feeling very perturbed. C.H. Douglas had been lecturing in Japan as early as 1929 (Straits "Times" 18/5/33). His works had been translated into Japanese, and more copies of them were sold in that country than in all the rest of the world put together (New Economics, 19/1/34, page 8). In the early "thirties" Japan began to create her own financial credit, and used it to so subsidise her industries that she could undersell her commercial rivals in the world's markets - which she did with convincing thoroughness. When the economic boycott was used against her (Australia applied it in 1936 - "Argus" April, 1936 and leading article, July 27, 1936) she went looking for raw materials with a gun.

Also there was that Hitler person in Germany with his "blocked accounts" which benefited Germany immensely, and, but for the fact that Hitler seems to have been constitutionally incapable of playing any game without stacking the cards, would have been of equal benefit to the countries with whom he traded. In essence, "blocked accounts" are a bilateral method of exchanging goods between nations without the aid of international finance (Bank of N.S.W. Circular, Aug. 2, 1937). Finally, in 1943, under the stress of war, England and America began to do the same thing by means of "Lend-Lease." "Lend-Lease" soon became a great international "clearing-house" for commodities, and the quantity of them "cleared" (contra against each other without the use of money) reached enormous proportions. Well might international financiers say to one another with pale faces, "This sort of thing has simply got to be stopped."

The first intimation that we, in Australia, received of their intention to stop it, was an article in the daily press of March 15, 1943, stating that Lord Maynard Keynes and the officials of the U.S. Treasury were engaged on plans for an International Monetary Fund and Bank. "Among the conditions necessary for the working of the plan, would be the willingness of participating countries to sacrifice some of their autonomy in monetary affairs." Subsequent articles, in April, 1943, revealed that the U.S. Treasury officials were Mr. Morgenthau, Secretary of the Treasury, and Mr. Harry Dexter White, its monetary adviser. Commenting upon these two plans, Professor K.S. Isles, of the Adelaide University, stated in the "Advertiser" April 9, 1943 that "The U.S. method would tend to be deflationary; the Keynes' method expansionist." The representatives of 34 United and Associated nations met at Washington, U.S.A. on April 22, 1944 and, being invited to choose between the broad outlines of the two plans, decided for the American one, apparently because it did not relegate gold to a minor role. ("Advertiser." 24/4/44). On July 1, 1944, the delegates from 44 nations met at Bretton Woods, in the U.S.A. There they found an Agreement already prepared for their signatures, and they were asked to sign upon the dotted lines. It took three weeks to induce them to sign, but eventually they all did so. The Australian Delegate (L.G. Melville) made it clear that his signature was not to be taken as a recommendation to the Commonwealth Government ("Advertiser." 25/7/44), and Mr. Curtin definitely stated that no Australian Delegate had been authorised to sign any agreement, but only a report concerning certain recommendations, which did not, of course, bind the Australian Commonwealth in any way ("Advertiser." 23/7/1944).

The Bretton Woods Agreements, whether by accident or design, are couched in highly technical, language which is meaningless to anybody without a financial training. They take away from all nations the power of either increasing or decreasing their currency (except within very narrow limits) without first obtaining the assent of an International Monetary Fund - which international financiers will control through its directorate, as Australian financiers, until recently, controlled the Commonwealth Bank. This International Monetary Fund is backed by an International Bank (similarly controlled) which will, for interest, and to the extent that it sees fit, lend us money for reconstruction purposes; provided always, that those purposes are productive and profitable for the Bank - that is specifically laid down in the first paragraph of Article No. 1. The security for the loans will be, in the last analysis, the combined assets of all the nations who have ratified the Agreements. Moneylenders and financial institutions throughout the world are cordially invited to subscribe to these loans. As both their capital and their interest can be guaranteed by the Bank, whose shareholders are intended to be all the nations of the world, we can imagine the enthusiasm with which they will respond. The world will spin upon its course with all the financial morning-stars shouting for joy and binding all the activities of mankind in chains of interest-bearing debt; for money will be made scarce by again tying it to gold, and what money is in existence they, and they only will control. The fact that the Governors of the two institutions will consist of delegates from the nations who combine to form both the Fund and the Bank, will not trouble them at all; power will remain with the Managers and the Executive Directors, and they will be men whom the financial morning-stars will select.

On December 27, 1946, 30 out of the 44 nations who had sent representatives to Bretton Woods ratified the Agreements at a ceremony held at the State Department in Washington, U.S.A. ("Advertiser." 29/12/45). Great Britain was among the number. Her Labor Government had been partly stampeded into ratification by the fear of the effects of semi-starvation among her people - following on the American President's abrupt cancellation of "Lend-Lease" as soon as the Axis of powers had surrendered - and partly bribed by the promise of an American loan of 3,500 million dollars at a low rate of interest. (This loan when, after long delay, it eventually materialised, was found to have lost much of its value, owing to the fact that the Americans had utilised the interval to inflate their currency). The principal nations remaining outside the Agreements at this date were (1) Russia, (2) Sweden, (3) Switzerland, (4) Spain, (5) Portugal, (6) Argentina, (7) Australia, (8) New Zealand, (9) Denmark, (10) the Axis Powers.

Australia was given until December 31, 1946, to ratify the Agreements. Some Cabinet Ministers were in favour of doing so, but many Members of Parliament and Trade Union Executives saw clearly that to do so was to prove false to their promise to bring the Commonwealth Bank back to its original position of financier for the people of Australia. The matter came before Cabinet on January 17, 1946, but no decision was arrived at, and it was referred to a later meeting by 10 votes to 7. Mistrust of the Agreements was deepened by the contrast between the lofty sentiments of American public men, and American dollar technique in the more recent negotiations with a war-ravaged Great Britain in respect to the American loan.

Meanwhile the first meeting of the Boards of Governors, appointed to establish the International Monetary Fund and Bank, took place at Savannah, in Georgia, U.S.A., on March 18, 1946. It was stated officially, that ratification of the Agreements would not be considered until Mr. L.G. Melville and Senator Keane, who were attending this meeting simply as observers on behalf of the Commonwealth, reported back to Australia ("Advertiser." 2/3/46). What they reported is unknown, as the Prime Minister, Mr. Chifley, refused to make public Mr. Melville's report ("Advertiser." 21/11/46), but what happened at the meeting is a matter of common knowledge. The Americans dominated the proceedings. "Secretary of U.S. Treasury, Vinson, taking charge of the newly delivered international twins, spanked and shook them in a way that left some of the other attendant midwives aghast" (U.S. "Nation." March 25 and 30, 1946). Executives drawn from the financial world were appointed for both the Fund and the Bank, and Eugene Meyer, former President of the U.S. Federal Reserve Board, was made President of the Bank. The war-time debts, incurred by Great Britain to her Dominions, Dependencies and other countries, are known as the sterling debt, or sterling balances. The United States demanded, as a condition of her loan to Great Britain, that the latter should repudiate a considerable portion of these debts ("scale down" was the expression used) and later on this was done - in the case of Australia, to the extent of $50 millions. That was Australia's first taste of dollar diplomacy. Her people thought they were making a gift to help Great Britain - they did not know that they were merely carrying out an order imposed by the United States ("Advertiser." August 7, 9, 14, 1946, and March 5, 1947) who saw danger in this vast accumulation of sterling ($5,318 millions), easily transferable throughout the sterling area, but not transferable to the United States for the purchase of goods ("The Banker." June, 1946).

On November 19, 1946, Cabinet Ministers decided, after a nine hours' discussion, to recommend to the Labor Caucus that Australia should ratify the Bretton Woods Agreements. Mr. Chifley led the move for ratification, but it is said that seven out of the nineteen Cabinet Ministers voted against it. (" Advertiser." November 20 and 21, 1946). The West Australian, the South Australian and the Tasmanian branches of the Australian Labor Party declared their hostility to ratification, and instructed their delegates to the Federal A.L.P. Executive Meeting, held at Canberra, on 27/11/46, to vote against the recommendation. The Western Australian delegates disobeyed their instructions, and Messrs. Burke and Davies were the mover and seconder respectively of the motion "That Australia shall be a signatory to Bretton Woods." The motion was carried (voting seven to five), but despite the efforts of the Prime Minister (Mr. Chifley), the Minister for Post-War Reconstruction (Mr. Dedman), and. the Attorney-General (Dr. Evatt) - the last named disregarded an express direction by his Electorate Council to oppose the motion - Caucus, led by the Minister for Transport (Mr. Ward), decided, by a margin of three votes, to defer their decision pending consideration of the issue by a special interstate A.L.P. Conference. ("Advertiser." December 5, 7, 1946). For the moment the danger was averted, but an ominous sign for the future was the fact that several members from different States, showed their contempt for the State branches of the A.L.P by defying their decisions. Another ominous sign was a campaign in the daily press, and over the air, in favour of the Agreements. Such campaigns do not arise spontaneously, and a correspondent of the Author, writing from Canberra on 29/11/46, stated: "This place is full of Yankee lobbyists." Three out of six of the State Branches of the A.L.P., when summoned to attend a special conference to ratify or reject the Agreements, shrank from accepting the responsibility which Caucus wished to place upon their shoulders. They declined the invitation, and instead of stiffening the backs of their representatives in Parliament, they stood aside and washed their hands. No Conference could be held, and Caucus was left to decide the issue by itself ("Advertiser." 27/2/47). On March 7, 1947, it was announced in the daily press that the Federal Labor Caucus, by 33 to 24 votes, had decided in favour of the Bretton Woods Agreements, and that legislation to that effect would be introduced into the Federal Parliament. The motion by Dr. Gaha, seconded by Mr. Duthie (both of Tasmania) that the issue should be made a non-party one in Parliament, so that members should be free to vote in accordance with their sincere beliefs, was defeated on the voices.

On March 20, 1947, the International Monetary Agreements Bill, formally ratifying the Bretton Woods Agreements, was passed by the House of Representatives after a perfunctory debate. The voting was 55 for to 5 against. The, Bill passed the Senate on March 25, 1947, and became law.

It is very difficult to give satisfactory reasons for the action of the Chifley Administration and the Australian Labor Party. The Author has examined the three generally advanced:-

1. The rise of 50 per cent in Federal Members salaries, first mooted just prior to the passing of the Agreements ("Advertiser." 21/2/47).

2. The fear of bringing about a split in the Labor Party which might throw it again into the wilderness of opposition.

3. The desire to form part of a world-wide organisation which might possibly result in an organised and peaceful world.

He has come to the following conclusions: -

1. There is no evidence of any connection between the rise in Federal Members' salaries and the passing of the International Monetary Agreements Act.

2. There is evidence of a desire to avoid a split in the Party. This is known as "Party Politics" and consists in placing the interests of the party before the principles for which the party stands.

3. There is a whole lot of evidence that the "One-world" carrot, consistently dangled before the donkey's nose, was of great use in sending the donkey down the road that international finance desired it to travel.

On August 6, 1947, Australia, in the person of Mr. Makin, signed the articles of the International Monetary Fund and the International Bank at Washington, U.S.A. She was the forty-fifth victim.

A Gallup Poll, taken upon the subject, revealed that only one Australian out of ten had even rudimentary knowledge of the Bretton Woods Agreements. Fifty-one per cent admitted that they had never heard of it. Only four per cent of women could answer questions on it. Of the ten percent who had some knowledge of the subject, only one-half were in favour of Australia signing it.

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

1. That of all the Administrations which have carried on the government of Australia, two of them are preeminent for the injuries they have inflicted upon the people they were appointed to serve: - The Bruce-Page Administration of 1923-1929, and the Chifley Administration of 1945-1949.

   The first enslaved to domestic financiers an institution which stood between Australia and ruin during the first world-war, and could have been used to create permanent prosperity in times of peace. The second rescued that institution from domestic slavery only to hand it over to a far harsher servitude abroad, from which it can be freed, if at all, only with extreme difficulty.

2. That institutions, no matter how excellent they may be, are of little permanent use to a people who do not understand the value of them. The right of the people of this Commonwealth to expand or contract financial credit in accordance with their needs, by means of the Commonwealth Bank, was something that Australians should have safeguarded with the same jealously as they safeguard the right to vote. They did not do this, so when the artificial depression of the "thirties" burst upon them, they were exposed without defence to the mercy of domestic and foreign financiers who knew no mercy. Today, thanks to the International Monetary Agreements Act of the Chifley Administration, they are just as powerless to help themselves against future depressions which those same financiers may be preparing for them.

3. That International Finance now has complete control over the policy of the Commonwealth Bank - and through it over the **policy** of the entire banking system of Australia - no matter in whose hands the **administration** of the various banks may rest. It will matter not a whit whether the private banks are nationalised by the Government or remain as they are now. International Finance can be trusted to see to it that the banking system in Australia is used, not for the benefit of the people of Australia, but in furtherance of its own policy, whatever that policy may be. We will prosper or we will starve, as that policy determines. [End]

COMMONWEALTH BANK BOARD, 30/6/1944

Name	Position	Interest Represented
Sir Claude Reading	Chairman	Banking, Big Business
Sir Clive McPherson	Director	Do. Do.
J.H. Ashton, Esq.	Do.	Do. Do.
Dr. H.C. Coombs	Do.	The Treasury
Mr. S.G. McFarlane	Do.	Do.
Mr. M.B. Duffy	Do.	Labor Party
Mr. W.C. Taylor	Do.	Labor Party
Mr. H.T. Armitage	Do.	Governor, The Bank

COMMONWEALTH BANK ADVISORY COUNCIL, 30/6/1947

Dr. H.C. Coombs	Councillor	The Treasury
Mr. S.G. McFarlane	Do.	Do.
Mr. G.M. Shain	Do.	The Bank, Deputy Governor
Mr. E.B. Richardson	Do.	The Bank, Secretary
Mr. L.G. Melville	Do.	Do. Do., Economist
Mr. H.T. Armitage	President (no vote)	Do. Do., Governor

ECONOMIC ADVISER TO THE COMMONWEALTH

Professor Copland

ECONOMIC ADVISER TO THE TREASURY

Professor Giblin

(Nothing in the past record of these economists would appear to indicate any special fitness for giving advice. In the days of the Depression, they amply demonstrated that they did not know how to distribute an abundance of food and goods among a people greatly in need of them. They still seem to be under the impression that money must never be created except as an interest-bearing debt, and that under no circumstances must the people be allowed to possess very much of it. Yet a Labor Government appoints them as guides of its financial policy, in a period when our actual and potential production combined is greater than ever before).

VOTING ON INTERNATIONAL MONETARY AGREEMENT BILL, 1947

House of Representatives,

Hansard, March 20,1947, p. 1004.

AYES

Alderman, C.F.; Anthony, H.L.; Barnard, H.C.; Beale, Howard.; Beazley, K.E.; Bowden, G.J.; Burke, T.R; Calwell, A.A.; Chambers, C.; Chifley, J.B.; Clark, J.J.; Corser, Bernard.; Daly, F.M.; Davidson, C.W.; Dedman, J.J.; Drakeford, A.S.; Duthie, G.W.A.; Edmonds, F.W.; Evatt, Dr. H.V.; Fadden, A.W.; Falkinder, C.W.J.; Francis, J.; Fraser, A.D.; Hamilton, L.W.; Harrison, E.J.; Haylon, L.C.; Holloway, E.J.; Holt, H.E.; Howse, J.B.; Hutchinson, W.J.; James, R.; Johnson, H.V.; Langtry, J.T.; Lawson, George; Lazzarini, H.R; Lemmon, N.; McBride, P.A.; McEwen, J.; McLeod, D.; Menzies, R.G.; Mulcahy, D.; O'Connor, W.P.; Page, Sir Earle; Pollard, R.T.; Riordan, W.J.F.; Russell, E.H.D.; Ryan, R.S.; Scullin, J.H.; Scully, W.J.; Sheehan, T.; Sheehy, T.N.; White, T.W.; Williams, T.F.; (Tellers) Fuller, A.N.; McDonald, A.M.

NOES

Blackburn, Mrs. D.A.: Cameron, Archie: Turnbull, W.G.; (Tellers) Lang, J.T.; Rankin, G.J.
Senate, Hansard, March 25, 1947, Pages 1059-1084.
Bill was introduced by Hon. W.P. Ashley before a House containing the following Senators:-
Cooper, W.J.; Large, W.J.; MacDonald, Hon. A.N.; O'Flaherty, S.W.; Leckie, Hon. J.W.; Grant, D.McL.; Hays, Hon. Herbert.; Nash, R.H.; Brand, C.H.; Finlay, A.; Sheehan, J.M.; Sampson, Burford.
Question was resolved in the affirmative:

The Bill was read a second time and passed through its remaining stages without amendment or debate.

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Parliamentary Debates 1911-1947
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"
"Conferences of Commonwealth and State Ministers"
Documents Relating to Bretton Woods Agreements .. 1944
"The Commonwealth Bank of Australia" By C.C. Faulkner
"Australia's Government Bank." By L.C. Jauncey, Ph.D.
"Facts and Theories of Finance" By F. Anstey, M.P.
"Lend-Lease" By .E.R. Stettinius, Jr.

"Money Credit, and Exchange" (the Joseph Fisher Lecture Adelaide University, 16/5/23)
By J. Russell Butchart
"The Advertiser 1943-1947
"The Banker" 1944, 1945, 1946
"Dun's Gazette 1926-1929
The "Argus" Newspaper 1924, 1925, 1930, 1936, 1939
"Smith's Weekly" .... 1930 and 1934
"U.S. Nation .... March, 1946