

Chapter 11

The Saga of a Peoples' Bank

Much of this Chapter has been adapted from the booklet, *The Story of the Commonwealth Bank* by D. J. Amos. Some additional material has been added, whilst some has been omitted as not being necessary to the present argument. Though there has been minor editing, the text remains substantially the same. Where necessary, sterling has been converted to its dollar equivalent.

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

These means of increasing or decreasing the currency at will were left in the hands of the private banks. The Government thought they understood the Bank Note Issue and legislated accordingly. The reason why the Government did not legislate regarding the bank deposit (credit) creation is because they had no clear understanding about it at all.

This is not to be wondered at in 1910, since even now in 2001, most politicians seem no better informed. Relatively few people even today realise that all money is simply purchasing power, 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 in the memory of a bank's computer, 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	<u>44</u>	<u>320</u>
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% to 5% 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 as 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. It was 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. Debentures are a means of financing companies through fixed-interest loans secured against company assets. The security in this case would be 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 appropriate security to offer. It would reduce the charges made on overdrafts, bills of exchange, and current accounts by the private banks; it would provide a safe investment for savings and would 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 would be paid into the general revenue of the Commonwealth. 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. Then, and as in all times since, loud voices protested that if the banks lost their control over the currency, the country would go to the dogs, being flooded with *Fisher's flimsies*. Subsequent events proved the worthlessness of their fears and arrogance. This same ogre of irrational fear rears its ugly head whenever reformers seek to do things differently from time-honoured so-called *sound* banking practice.

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. He thus avoided being indebted and having to pay 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 both a Government Bank and Savings Bank, and for the time being, to enter as little as possible into any sort of competition with the private banks. 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 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 were immense. Under the regime of the private banks, the flotation expenses of a loan in London, which Australian Governments would have had to pay, were 6%: but the Commonwealth Bank floated \$700 million of loans for a charge of 0.56%, thus saving Australians some \$12 million in bank charges. Even then the Bank made a profit of 0.2%.

With (and sometimes without) the assistance of the private banks,

it saved the Australian primary producer from stark ruin by financing pools of wheat, wool, meat, butter, cheese, rabbits, and sugar to the total amount of \$872 million. It found \$4 million for the Commonwealth Fleet of Steamers, which again saved the primary producer from ruin through lack of transportation facilities to his market overseas. It enabled Australia to transfer abroad, with the maximum efficiency and minimum expense \$7,121,902 for the payment of her soldiers.

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 it lent \$18.72 million to local government bodies for the construction of roads, railways, tramways, harbours, gasworks, electric power plants and the like. It paid to the Commonwealth Government between December 1920 and June 1923 \$6.194 million - the profits of its Notes Issue Department - while by 1924, it had made on its other businesses a profit of \$9 million, available for the redemption of debt.

At the official opening of the Commonwealth Bank in 1912, William Morris Hughes, the man who later became Australian Prime Minister said "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."

In 1921 Sir Denison Miller was reported in the Australian press as saying "The whole of the resources of Australia are at the back of this bank, and so strong is this Commonwealth Bank that whatever the Australian people can intelligently conceive in their minds and loyally support, that can be done." When asked if he, through the Commonwealth Bank, had financed Australia during the war for \$700 million, he replied that such was the case; and that he 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.

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.

The private banks in Australia commenced to follow the example set by the banks abroad, but Sir Denison Miller immediately brought the Commonwealth Bank 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. 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 that its banking operations did not lower the rates that private banks charged upon telegraphic transfers and overseas drafts. In the very nature of things, the private banks must have watched the progress of the Commonwealth Bank with ill-concealed rage and fear, which was translated into action in 1924, a disastrous year in the annals of Australian economic history.

During the war the private banks had been granted the privilege of getting three \$1 Australian notes for every \$1 in gold they deposited with the Treasury. 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 did not lend out their cash deposits at interest. They kept them to meet any demands for cash made upon the banks and gave 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" 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 the interest thereon. With one voice the private banks refused, and prepared for battle.

Sir Denison Miller died in June in 1923, aged 63, mourned as few public men in Australia have been mourned. The circumstances surrounding his death are not without conspiracy theories. With their most formidable adversary removed from their path and with a Liberal Government now in power, the hour of the private banks had struck. They used the Commonwealth Government to strangle the Commonwealth Bank.

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 STRANGLING OF THE BANK

In June 1924, the Bruce-Page Administration 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, composed (in addition to the Governor of the Bank and the Secretary of the Treasury) of a body of financial magnates. The very men who were appointed to control the destinies of the Peoples' Bank had other vested interests themselves as shareholders in private banks, and as directors of such institutions which were normally lenders of money at interest on a very large scale.

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, with 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. From the date of the appointment of this Directorate, the Commonwealth Bank ceases to function as a true Peoples' Bank; it becomes a banker's bank, a convenience of the private banks, run for their special benefit.

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 Co-operative Wholesale Society in England the concerted action of the private banks and their new ally, the Commonwealth Bank, frustrated the scheme. When the 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 to some \$120,000.

The roars of the primary producers under the unscrupulous 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 had to be made even if the Commonwealth Bank were damaged in the process. 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." 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.

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). Furthermore, 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.

The Bill did not merely lessen the Bank's profits. In the words of Mr Charlton in the House, "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. 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". He overlooked, however, 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, though in the throes of strangulation and its functions perverted, could not be destroyed. 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. 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).

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.

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 intending 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 the 1920s?

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. Among Labor members there was great diversity of opinion as to the value of such a bank, but the consensus of opinion in the ranks of the Opposition was that "the Government intended to use the Central Reserve Bank to supply large sums of money to carry out the schemes of Labor Administrations, both Federal and State."

(Hansard, Vol. 124, p. 2682/3). That opinion was probably correct; if not, it is difficult to understand why the Bill was brought forward at all. It passed the Representatives in June, 1930, but was referred to a Committee in the Senate, and finally lapsed in April, 1931.

By February 1930, the difficulties of finding overseas money to cover Australia's payments abroad had become so acute that the Commonwealth Government appealed to the British Treasury for assistance in finding credit to meet a small loan falling due. The Chancellor of the Exchequer referred them to the Bank of England, which, apparently found the necessary credit, but suggested sending Sir Otto Niemeyer for a report on the financial position of Australia. (Hansard, Vol. 127, p. 387). He arrived in Melbourne on July 19, 1930, where he was met by Sir Robert Gibson, Chairman of the Commonwealth Bank Board. ("Argus" 19/7/30, p. 22). As a result of that meeting, and of another one held in Sydney with the managers of the trading banks ("Argus" 22/7/30, p. 9), it appears that the Scullin Administration was handled with velvet gloves, and hoodwinked into believing that Niemeyer and Sir Robert Gibson intended to help it through the depression. Sir Robert Gibson was re-appointed to the Commonwealth Bank Board for another seven years on August 4, 1930, although his existing appointment did not expire until the following October. (Hansard, Vol. 129, p. 1610-1612). This done, Niemeyer attended a meeting of the Loan Council and 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, and to be used only in favour of the bondholders.
5. Monthly accounts to be published in Australia and overseas, showing summaries of revenue and expenditure. The short-term debt and loan account were also to be stated.

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, saying,

"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.

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 bondholders 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". 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. He said,

"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. It was pure malice.

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. As a result, the Commonwealth Bank offered amended and more liberal merger terms, which were finally accepted. The Savings Bank was then reopened 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 same year the Western Australian Savings Bank was also absorbed by the Commonwealth Bank under very similar circumstances.

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. This was 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, 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 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. 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.

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 he 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 both then and 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 co-operate with the Government and now proposed, without any consultation or prior discussion, to cut off money supplies to the Government beyond a point that would be reached in a day or two. That could only be regarded as an attempt on the part of the bank to arrogate to itself a supremacy over the Government in the determination of the financial policy of the Commonwealth, a supremacy which had never been contemplated by the fathers 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.

It could not seriously be denied that it was within the power of the banks to remedy this state of things. 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. 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. The verdict of history must lay upon the shoulders of Robert Gibson 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. After the defeat of the Scullin Administration, Australia was to all practical intents and purposes governed by the Commonwealth Bank Board.

On November 25, 1938, the Hon. R.G. Casey brought before the House a Bill to further amend the Commonwealth Bank Act. It represented the final stage in a 15-year plan to deprive the people of Australia of the power to control the money supply of their own country. Part VI c 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. The hope of the Commonwealth lay 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.

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
Increased taxation levied by the Commonwealth Government.	
1939-1945	<u>1,698</u>
Total financial cost of war	<u>4,772</u>

(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 interest charge upon it of \$79,110,098 (about \$40 for every family of four). In its circular to the Loan Council in 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". Reports of the Board during the war years make dismal reading. They show it obsessed above all else with the perennial 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 Wartime 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 ruled 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 this financial policy by the Chifley Administration, and the fact that it was so continued, forms one of the darker pages 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 lesser; 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 instalments) 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 mortgages.

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. However, 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. There were other provisions of a more practical nature which do not concern the argument here.

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 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. It could now 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

In 1943, under the stress of war, England and America began to cooperate in a *Lend-Lease* arrangement. This soon became a great international "clearing house" for commodities, and the quantity of them "cleared" without the use of money reached enormous proportions. International financiers were alarmed. This sort of thing simply had to be stopped.

On July 1st. 1944, the delegates from 44 nations met at Bretton Woods, New Hampshire, in the United States. 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. The Australian delegate (L.G.Melville) made it clear that his signature was not to be taken as a recommendation to the Commonwealth Government and Mr Curtin definitely stated that no Australian delegate had been authorized to sign any agreement, but only to sign a report concerning certain recommendations, which did not bind the Australian Government in any way.

The Bretton Wood Agreements would 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, in the same way as Australian financiers until recently had controlled the Commonwealth Bank. This International Monetary Fund was to be backed by a similarly controlled International Bank which would, to the extent that it saw fit, lend out money at interest for reconstruction purposes, provided

always that those purposes were productive and profitable for the Bank. Money lenders and financial institutions throughout the world would be cordially invited to subscribe to these loans. The world would continue on its course but henceforth all human activity would be bound and increasingly burdened with the chains of interest-bearing debt.

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, then the Labor Prime Minister, led the move for ratification, but the Caucus by a narrow margin decided to defer their decision pending consideration by a special interstate A.L.P. Conference. The latter was never held and the Caucus was finally persuaded by the Media and by lobbyists both local and foreign to act in favour of the agreements.

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 and 5 against. The Bill passed the Senate on March 25, 1947 and became Law. It is difficult to give satisfactory reasons for the actions of the Chifley Administration and the Australian Labor Party. There was a universal desire to form some sort of world-wide organisation which might possibly result in a well-functioning peaceful world. There is a great deal of evidence that the "One-world" global 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, USA She was the forty-fifth victim.

From then on, the operation of what was the Peoples' Bank was gradually undermined until today it is just a private corporation. It is no longer a Peoples' Bank. The Commonwealth Bank gradually assumed the role of a Central Bank and in 1959 this role ended with the introduction of the Reserve Bank Act of 1959 which saw the establishment of The Reserve Bank.

This last action virtually brought about the demise of the Commonwealth Bank as the Peoples' Bank and a further nail was put into the coffin when the Commonwealth Government decided to sell off part of the Commonwealth Bank. The Prospectus was dated 5 July, 1991.

It was issued on that day and was also lodged with and registered by the Australian Securities Commission on the same day. This was preceded by The Commonwealth Banks Restructuring Act 1990, which, among other things amended the 1959 Act to provide for the conversion of the Commonwealth Bank into a public company.

It must be remembered that when it was originally established in 1912 and up to 1924, not only was it making profits, but it made finance available through the very operation of credit creation. One question now arises. Was the change in the operations of the Commonwealth Bank due to political ignorance in the field of finance, or whether there has been a deliberate undermining of its potential through a policy generated outside the political sphere? It is ironical to hear that the reason for the privatisation of the Commonwealth Bank was to give the public the opportunity to have a share in it. Yet, if we are to believe that the Commonwealth Government is an administrative body acting on behalf of the Australian people and owning the Commonwealth Bank, then the latter Bank was already owned by the people. Included in the prospectus of 1991 was a letter from the Commonwealth Treasurer, J.C. Kerin, MP., which said in part;

"The Government is proud of the record of the Commonwealth Bank as a wholly owned Commonwealth Government business enterprise and looks forward to the Commonwealth of Australia continuing as a major shareholder. The Commonwealth Banks Restructuring Act 1990 requires the Government to maintain a shareholding of at least 70 per cent of the total voting shares issued by the bank. The Government has no plans to reverse or modify this position".

Experience shows that all such reassurances were completely worthless. By 1996, the original 100% ownership of Australia's Peoples' Bank by the people of Australia as a whole had passed through stages of 70%, then 50.1% and finally grounded to zero. The word *Privatisation* is derived from the Latin *privare* which means to deprive. With the death and burial of their Commonwealth Bank, the citizens of Australia were deprived of their patrimony. They no longer possessed a common wealth. The latter had become the private wealth of greedy individual financial investors and exploiters.

In February 1948, in his preface to the twelfth edition of his booklet *The Story of the Commonwealth Bank*, D.J. Amos wrote,

"In the present (twelfth) edition, the story is brought to its final conclusion, in the surrender by Australia of its control over its own currency to the International Monetary Fund and Bank. In future (the Commonwealth Bank being again reduced to servitude) these two great foreign institutions will be free to deal with our people and our living standards as they see fit".

As we know, that was not the final conclusion but only the beginning of it. The stage had been set for complete foreign control, but the dismantling of the Commonwealth Bank had to be effected first.

Here virtually ends the saga of the Peoples' *common wealth* Bank. 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 completely privatised and subject to 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 chaotic disintegration of marketplace activity can only be halted by a reversal of present credit policies. Eventually this must happen, but only after the situation gets even worse leading to complete economic anarchy.

There are three features of this story which stand out clearly.

1. That of all the Administrations which have carried on the Government of Australia, two of them are pre-eminent for the injuries they have inflicted upon the people they were appointed to serve, The Bruce-Page Administration of 1923-29 and the Chifley Administration of 1945- 49.

The first enslaved to domestic financiers an institution which had 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 enslavement abroad and from which it can only be freed, if at all, with extreme difficulty.

2. That institutions, no matter how excellent they may be, are of little permanent use to the masses of the 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 a Commonwealth Bank was something that Australians should have safeguarded with the same jealousy 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 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 any future depressions which those same financiers may be preparing for them.

3. That after the signing of the Bretton Woods Agreements, International Finance now had 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. International Finance can be trusted to ensure that the banking system in Australia remains in servile obeisance and its services used, not for the benefit of the people, but to further its own policy of *power over people and profits before persons*. Shareholders' interest comes first; the rich must be allowed to get richer even if it means the poor get poorer.

\$

AUSTRALIAN FOREIGN DEBT

From Reserve Bank of Australia Bulletin November 2001.

Table H.5 \$ million

Australia's **Gross** Foreign Liabilities at end of March 2000/01

Total Liabilities

Equity	Debt	Total
312 464	475 452	787 916

Table H.7 As at 30 June 2001, the level of **Net** foreign debt (net amount owed by the Australian public and private sectors to foreign entities) was \$310 952 million.

\$