

DISSENT, RESERVATION AND ADDENDA BY MR. CHIFLEY.

Desirable Objectives of a Monetary and Banking System: Method of Achievement (para. 517):

1. In the opinion of the other members of the Commission, the achievement of the objectives of the monetary and banking system outlined in the report is most likely to result, "in the present circumstances of Australia", from a system in which there is a government-owned central bank, regulating the volume of credit and currency, and, "as an integral part of the system", privately-owned banks, which distribute that volume, and which may be advised generally by the central bank as to the direction in which the distribution should be made.

2. With this opinion I am unable to agree. The evidence given before the Commission, and personal observation and experience, lead me to believe that there is no possibility of the objectives being reached, or of any well-ordered progress being made in the community, under a system in which there are privately-owned trading banks which have been established for the purposes of making profit.

3. I realize, however, that a government-owned central bank, with ample powers, whose policy is determined and directed wholly toward furthering the interests of the community by men of capacity and courage, is a most important feature of any banking system. Because of this, I have joined with the majority of the Commission in considering how a system, in which, in addition to the government-owned central bank, there are privately-owned trading banks, can best be operated.

4. The motive actuating those who establish private banks is the making of profit. When bank capital is subscribed, or bank shares are bought, what induces the investment to be made is not the

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rendering of a service to the community, but the opinion of the investor that there is a financial advantage in this particular investment over others offering. If the investor were not of that opinion, there would be no private banking: This is not to say that private banks give no consideration to the public interest, but they do so only under the pressure of public opinion, or from motives which bring to them prestige and confidence and, in the long run, profit.

5. In times of generally adverse conditions the profits of trading banks may be reduced through declining business, and the banks may even be willing to sacrifice some immediate profit by acting in the interest of the community; but they cannot for long continue a policy adversely affecting their profits. Privately-owned trading banks will therefore act much as any other company of individuals formed for the purpose of gain. The effect on the community, however, of the action of most companies is of little moment compared with the effects of the actions of banking companies.

6. Banking differs from any other form of business, because any action—good or bad—by a banking system affects almost every phase of national life. A banking policy should have one aim—service for the general good of the community. The making of profit is not necessary to such a policy. In my opinion the best service to the community can be given only by a banking system from which the profit motive is absent, and, thus, in practice, run by a system entirely under national control.

7. In times of unhealthy boom conditions the trading banks are unable individually to check these conditions, and collectively they have never attempted to do so. The fact that they have never even made a collective attempt indicates either a belief that they cannot do so, or that the desire for immediate profit during boom periods overrides any consideration of the national interest. The evidence convinces me that the banks, during some years before the depression, encouraged unhealthy economic conditions by unsound advancing. During a depression or feared slump, the banks, in their own interest, and to protect their depositors, on whose confidence the banks' prestige and solvency depend, adopt a policy of contraction which intensifies the evil. Contrary to what should be expected in an effective banking system the banks have been capable of creating boom conditions; and they have been ineffective in checking or minimizing a depression. The facts presented before the Commission show clearly that the part played by the trading banks in enabling a measure of recovery from the recent depression to be achieved has been very small. That measure of recovery has been achieved mainly because of action by Governments and by the Commonwealth Bank, combined with rising prices for exports. Private banking systems make the community

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the victim of every wave of optimism or pessimism that surges through the minds of financial speculators. I wish it to be clear that I do not suggest any dishonesty on the part of those who operate private banking in Australia, or that they have been guilty of motives other than those which actuate any other private institutions engaged in profit-making. My criticisms are directed at the inability of any system which includes privately-owned banks as an integral part to function in the best interest of the community.

8. The opinions expressed by the majority of the Commission that a central bank should be responsible for the supply of credit and currency, which should be distributed through the trading banks, seem to mean that the central bank should operate not only in the interests of the community, but so that the private banks may continue to make profits. As I have already stated, I think that banking should be conducted without profit-making considerations.

9. In my opinion, the objectives of a monetary and banking system for Australia, as outlined in the Report, can only be achieved with the Commonwealth Bank functioning in the following way:--

- (a) As a central bank controlling the volume of credit and currency.
- (b) The central bank to have a trading bank department through which this volume is distributed direct to industry.
- (c) The savings bank department of the bank to continue as an adjunct to its central bank activities.
- (d) There should be a mortgage bank department for the provision of fixed and long-term lending.
- (e) There should be an industrial bank department to assist in providing capital for developing industry.

10. Even under the system of a government-owned central bank with private trading banks, which has been adopted by the majority of the Commission, I am of the opinion that the trading section of the Commonwealth Bank should be extended, with the ultimate aim of providing the whole of the services now rendered by private trading banks.

11. The present policy of the Commonwealth Bank is to restrict the activities of its trading section, and to refuse an advance to a customer of a trading bank, unless in the opinion of the Commonwealth Bank the customer is not receiving fair and reasonable treatment from the trading bank. It has not been disclosed in the evidence that the Commonwealth Bank has ever taken a customer on these grounds. People should, in my opinion, have the right to obtain advances from the Commonwealth Bank without question as to

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whether they are customers of a private trading bank. The only considerations, in my opinion, should be whether they are credit worthy, and whether, in conformity with central bank policy, advances should be made to them. At present, the Commonwealth Bank, by its self-imposed restrictions as to the extent of its advances, deprives itself of any real power to prevent a rise in rates on advances. Although the Commonwealth Bank did not increase its advance rates in March, 1936, when some trading banks, in opposition to its wishes, increased deposit rates and later advance rates, it was unable to force the trading banks to respect its wish that rates should not be increased. That was an occasion on which the Commonwealth Bank, if it desired to enforce its wishes as a central bank, should have intimated that it would seek business at its lower rate from the trading banks who disregarded its wishes.

12. It has been mentioned, as an objection to the extension of the trading bank activities of the Commonwealth Bank, that the funds deposited with that bank by the trading banks may be used to compete with them. I think it would be unfair to make such a use of these funds, and also that it would be unnecessary. These funds should, and easily could, be separated from the funds of the trading bank section of the central bank.

13. In regard to the control of the trading bank activities, many sound reasons can be advanced for placing it under different direction from that of the central bank, but after close consideration I have come to the conclusion it is desirable that the central bank, under its own management, should have a trading bank section.

Interest Rates (para. 567):

14. In my opinion every effort should be made to keep interest rates low, even if legislation is necessary for this purpose. They are, I consider, too high at present. I disagree with the contention often made that the raising of interest rates is a suitable or effective method of checking undesirable expansion. In my opinion, this end can better be achieved by restricting the volume of advances. It is true that an increase in advance rates has some restrictive effect, but it has another, and undesirable, effect, because when rates on advances rise, these rates influence the rates on fixed and long-term loans, including government securities, and these rates rise also. As these loans are made for lengthy periods, the interest rates cannot be reduced except by legislation. In times of depression, when wages, prices, and national income fall, and overdraft rates may be reduced, the rates on these fixed loans impose an unfair burden both on governments and individuals.

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15. No better illustration of the weakness of the view that increased advance rates are a suitable method of checking advances can be given than that shown by the increase in rates in February, 1930. In that month the banks increased the rates on fixed deposits, and, generally, on all advances. The statistics for 1929 show that, during that year, unemployment had risen from 9.3 per cent. in the March quarter to 13.1 per cent. in the December quarter; the index figure of export prices had fallen from 95.1 in January to 77.2 per cent. in December; external long-term borrowing had ceased, national income was falling, and conditions generally were depressed. In spite of these circumstances the banks raised interest rates to check what has been described by some bank witnesses as expansion. The result was that those who were already in difficulties, and who had advances from the banks, had an additional burden imposed upon them. This action of the banks, in my opinion, was quite wrong as far as the interests of the community were concerned, although it did bring some immediate additional profits to the banks.

Commonwealth Bank Board (para. 561):

16. Since 1930, the Commonwealth Bank considers that it has functioned as a central bank. It should now, therefore, have a clear conception of its duties and responsibilities. The impression created on me by the evidence before the Commission, however, is that the Bank still has not assumed that leadership which its position requires. The instance in March, 1936, when it allowed two trading banks to increase interest rates against its wishes, seems to me a sign of considerable weakness so far as leadership is concerned. Although the Commonwealth Bank intimated that it did not desire interest rates to rise, two trading banks disregarded its wishes, and increased their rates, and the Bank itself and the trading banks subsequently took the same action. More disquieting was the statement made by the Chairman of the Bank Board to the press on 3rd March, 1936. In regard to the action of one trading bank in raising deposit rates, he is reported to have said—

“The propriety of an increase or decrease in interest rates is a matter of individual opinion, and action by any financial institution, and must be influenced largely by the particular policy which that institution desires to adopt. It is a matter which is usually based on the price and demand for money, which is in turn based on economic conditions from time to time.”

This was apparently an expression of personal opinion by the Chairman of the Board, but it seems remarkable that he did not say that any action in regard to interest rates should be influenced largely by the particular policy which the Commonwealth Bank thinks should be followed. If the Commonwealth Bank Board felt

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that interest rates should not rise at this time, it should have taken quick and decisive action to bring the offending banks into conformity with its wishes. It could have done this by using its trading bank activities. If the Commonwealth Bank is to discharge its central bank duties properly, it must exercise wise and firm leadership. Any policy which it desires to adopt must have careful consideration, and the views of others affected by its policy should be carefully weighed. But when its policy has been decided, the Bank should take steps to see that the policy is carried out, and no bank or banks should be allowed to disregard its wishes or to take the leadership.

Profits of Trading Banks (para. 653) :

17. If private trading banks are to continue, some limitation should, in my opinion, be placed on the profits which they, in their privileged position of semi-monopolistic public utilities, are able to earn. It is recognized in the case of some other public utilities—for example, gas companies—that in the public interest there should be some restriction on the profit which they are able to make from the supply of necessary services that the community is unable to obtain from other sources. I think there are additional grounds for the limitation of trading bank profits. In the case of other public utilities, the funds from which profits are derived are provided by the shareholders, or by debenture-holders whose interests are watched by trustees. In the case of the trading banks, the great part of the funds used by them, and from which their profits are derived, are provided by the public without interest or at low rates, and the public has no voice in their management.

18. The balance-sheets of the trading banks for 1936 show that the total shareholders' funds were £70,000,000. The Commonwealth quarterly statistics show that, for the last quarter of 1936, the sum of £290,000,000 was deposited by the public in Australia with the trading banks. Of this amount £110,000,000 earned no interest for the depositor; and 85 per cent. of the interest-bearing deposits of £180,000,000 were at rates of from $2\frac{1}{2}$ to 3 per cent.

19. During the period 1931 to 1935, the trading banks have not made unduly high profits; their total net income, as determined by the Commonwealth Taxation Commissioner, during that period was £14,150,000, representing an annual average of 7.58 per cent. on capital, and 4.10 per cent. on shareholders' funds.

20. Prior to that period, however, the trading banks as a whole have made large profits. In the period 1893 to 1936—a period of 43 years, including two major depressions, one minor depression, and the war—the published figures show that they made a total profit of £106,548,000, being an annual average of 10.27 per cent. on paid

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capital, and 6.28 per cent. on shareholders' funds. These figures do not include amounts placed to inner reserves, though the use of these reserves contributed to the profits.

21. Taking the published figures for the year 1910 to 1929—a period of twenty years—the average yearly profit was £3,480,000, with average yearly dividends of £2,525,000. The average yearly amount disclosed as paid to reserves was £785,000. The total profit for all the trading banks during this period was £69,600,000, equal to an annual average of 13.97 per cent. on paid capital, and 8.24 per cent. on shareholders' funds. These figures do not include amounts placed to inner reserves. For the five years 1926 to 1930, the total net income of all the banks, as determined by the Commonwealth Taxation Commissioner, was £27,007,000. This represents an annual average of 15.09 per cent. on capital, and 8.42 per cent. on shareholders' funds.

22. In 1925, the average paid by all banks as dividends to shareholders was 16.01 per cent. on paid capital. This represents 8.75 per cent. on shareholders' funds. In addition, some profits were placed to reserve.

23. In my opinion, legislation should be passed providing that the profits of trading banks should not exceed an amount equal to 5 per cent. per annum on shareholders' funds, or 3 per cent. per annum on paid capital, whichever is the less.

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