COMMONWEALTH OF AUSTRALIA.

REPORT

OF THE

Royal Commission appointed to inquire into the Monetary and Banking Systems at present in operation in Australia, and to report whether any, and if so what, alterations are desirable in the interests of the people of Australia as a whole, and the manner in which any such alterations should be effected.

By Authority:
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CONTENTS OF REPORT.

COMMONWEALTH OF AUSTRALIA.

GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.

To Our Trusty and Well-beloved—

The Honourable JOHN MELLIS NAPIER, a Judge of the Supreme Court of South Australia;
EDWIN VAN-DER-VORD NIXON, Esquire, C.M.G.;
Professor RICHARD CHARLES MILLS;
The Honourable JOSEPH BENEDICT CHIFLEY;
HENRY ARTHUR PITT, Esquire, C.M.G., O.B.E., Director of Finance, Victorian State Treasury; and
JOSEPH PALMER ABBOTT, Esquire.

Greeting:

KNOW YE that We do by these Our Letters Patent, issued in Our name by Our Governor-General in and over Our Commonwealth of Australia, acting with the advice of Our Federal Executive Council, and in pursuance of the Constitution of Our said Commonwealth, the *Royal Commissions Act* 1902-1933, and all other powers him thereunto enabling, appoint you to be Commissioners to inquire into the monetary and banking systems at present in operation in Australia, and to report whether any, and if so what, alterations are desirable in the interests of the people of Australia as a whole, and the manner in which any such alterations should be effected:

AND WE APPOINT YOU the said JOHN MELLIS NAPIER to be the Chairman of the said Commissioners, and as such to have a deliberative, and, in the event of an equality of votes, a casting vote, in all matters considered by the Commission:

AND WE DIRECT THAT for the purpose of inquiring into and taking evidence upon any matter entrusted to you, Our said Commissioners, any four of you, Our said Commissioners, shall be sufficient to constitute a quorum:

AND WE REQUIRE YOU with as little delay as possible to report to Our Governor-General in and over Our said Commonwealth the result of your inquiries into the matters entrusted to you by these Our Letters Patent:

IN TESTIMONY WHEREOF WE have caused these Our Letters to be made patent and the Seal of Our said Commonwealth to be thereunto affixed.

WITNESS Our Right Trusty and Well-beloved Counsellor, Sir ISAAC ALFRED ISAACS, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Governor-General and Commander-in-Chief in and over Our Commonwealth of Australia, this fifteenth day of November, in the year of Our Lord One thousand nine hundred and thirty-five, and in the twenty-sixth year of Our Reign.

(Sgd.) ISAAC A. ISAACS
Governor-General.

By His Excellency's Command,
(Sgd.) J. A. LYONS
Prime Minister.

Entered on Record by me, in Register of Patents, No. 60, page 339, this fifteenth day of November, One thousand nine hundred and thirty-five.

(Sgd.) F. STRAHAN.

To His Excellency Brigadier-General the Right Honourable Alexander Gore Arkwright, Baron Gowrie, a Member of His Majesty's Most Honourable Privy Council, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George, Companion of the Most Honourable Order of the Bath, Companion of the Distinguished Service Order, upon whom has been conferred the Decoration of the Victoria Cross, Governor-General and Commander-in-Chief in and over the Commonwealth of Australia.

MAY IT PLEASE YOUR EXCELLENCY:

We the Commissioners appointed by Letters Patent dated the 15th day of November, 1935—

to inquire into the monetary and banking systems at present in operation in Australia, and to report whether any, and if so what, alterations are desirable in the interests of the people of Australia as a whole, and the manner in which any such alterations should be effected,

have now the honour to submit our report.

INTRODUCTION.

The first public session was held at Melbourne on the 15th January, 1936, when we began the hearing of oral evidence, for which purpose we held 105 sessions. These sessions were held in Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart and Launceston, and in all 200 witnesses were examined. In addition, we have received numerous written communications from individuals and organizations interested in the subject of our inquiry.

At the first public session, an announcement was made with respect to the course of our inquiry. Pursuant to this announcement, evidence was taken from representatives of the Commonwealth Bank, the trading banks, and other institutions concerned with the issue and supply of credit. When we were satisfied that we were in possession of adequate information with respect to the existing system, we proceeded to take evidence from economists, representatives of industry and commerce, and the public generally.

In order to give every opportunity to the public to present criticisms of the system, and proposals for its amendment or reform, an invitation was issued through the press, prior to the sittings of the Commission in each city, to organizations and individuals desiring to be heard. All who intimated their desire to appear before the Commission were given an opportunity to present their views.

We desire to acknowledge the help that we have received from many different sources. Questionnaires were addressed to all the banks, and to other financial institutions and organizations concerned in the issue or supply of credit, including pastoral finance companies, assurance societies and companies, trustee companies, building societies, and stock exchanges in the various States. Questionnaires were also addressed to organizations which we regarded as representative of the users of credit, as for instance, to chambers of commerce and of manufactures, and associations of primary producers and of retailers. Representatives of all these institutions and organizations attended before us, and were examined upon their answers. In addition, questionnaires were addressed to economists in all States, and we obtained valuable assistance from their evidence. We are indebted to all these and to other witnesses, who attended at our request, or voluntarily, for the time and thought devoted to the preparation of their evidence. To supply the information which we have obtained from the banks and other financial institutions has involved them in detailed investigation and exhaustive analysis. We record the fact that all the information for which we have asked has been supplied.

We wish to acknowledge the services of Mr. E. R. Reynolds, who was appointed as Counsel to assist the Commission, during the early stages of our inquiry.

We are deeply indebted to our secretary, Mr. W. T. Harris, and to our economist, Mr. J. G. Phillips, for their assistance throughout our inquiry and in the preparation of this report, and we desire to express our appreciation of the services rendered by the assistant secretary, Mr. W. J. Swan, and the other members of the staff.

PART I.

CHAPTER I.

THE AUSTRALIAN ECONOMY.

1. In order to understand the working of the monetary and banking system, it is essential to consider the characteristics of the Australian economy, of which it forms part. Australia comprises a large territory with a highly diversified and scattered production. The main productive areas are: Queensland (south from lat. 16), New South Wales, Victoria, Tasmania, South Australia (as far north as lat. 33), Western Australia (the south-western corner and a belt, 300 miles wide, along the coast northwards, also the gold-mining areas, which are farther inland), and the Northern Territory (in a few areas mostly within about 300 miles of the coast). There is a large area in the interior of Australia in which production is negligible.

2. The productive areas differ greatly in soil, rainfall, temperature and other conditions, and even within these areas there are considerable variations. Many of the coastal regions, especially in the Eastern States, have a rainfall of about 40 inches or more, but as the distance from the coast increases the rainfall diminishes, and, except in Tasmania, the average annual rainfall in the inner productive areas is generally from 10 to 15 inches, with high evaporation. In these inner areas, the rainfall is uncertain, at times there are severe droughts, and the return from a given area is much lower than in districts where intensive production is possible. It has been necessary to construct many miles of railways, carrying but little traffic, so that marketing of the products of these areas may be possible. The interior is generally best adapted, and is mainly used, for sheep-raising or wheat cultivation, and sometimes for cattle. Where the rainfall is greater, and other conditions permit, production is more intensive, and dairy products, sugar, tropical and temperate fruits, and forage, are produced; also fat stock and farmyard products.

3. The minerals principally produced are gold, coal, silver, lead, iron, tin and copper, which are obtained as follows:—

- Gold—in all States, but mainly in Western Australia.
- Coal—in all States except South Australia, but mainly in New South Wales.
- Silver and lead—in New South Wales, Queensland and Tasmania.
- Iron ore—mainly in South Australia.
- Tin—mainly in New South Wales, Queensland and Tasmania.
- Copper—in Queensland and Tasmania.

4. A very large proportion of the primary production is exported, and the value of these exports forms a large proportion of the total value of production. The Australian economy is therefore materially affected by variations in overseas prices.

5. The first settlement was in New South Wales, towards the close of the 18th century. Conditions proved to be particularly favorable for pastoral production, and the foundation was laid of the wool industry, which has since developed into the most valuable export industry of the Commonwealth.

6. Wool was the principal product of the continent until 1852, when gold took the first place. The discovery of gold in New South Wales and Victoria attracted immigrants—especially to Victoria—and the population of the continent increased from 405,000 in 1850 to 1,146,000 in 1860, contained mainly in New South Wales (349,000) and Victoria (538,000). From 1859, the gold yield began to decline, and the downward trend continued till about 1893, when gold was discovered in large quantities in Western Australia. During the ten years 1901 to 1910, gold production reached its highest point. Production seriously decreased until 1930, since when there has been a substantial increase.

7. Shortly after 1860, the value of wool production in Australia exceeded that of gold, and it has maintained that position ever since. The production of wool is now second in order of value, being exceeded by manufacturing and followed by agriculture.

8. From about 1860, demands for closer settlement of the land became insistent. In Victoria the demands were emphasized by the need to provide employment for those rendered idle by the decline in gold-mining. Since that time increasing attention has been directed to the development of agricultural and pastoral resources. These forms of production in many cases have been extended into marginal areas. The importance of rural industries will be seen from the fact that, according to the census of 1933, the persons directly employed in those industries numbered 548,000, out of a total of 3,156,000 bread-winners, and that for 1934-35 the net value of rural production was £128.72m. out of a total net production of £301.75m.

9. The unemployment resulting from the decline in the gold yield after 1859 was greatest in Victoria, and in that State land settlement policies were supplemented in 1867 by tariff measures, designed to encourage the development of secondary industry, and to relieve unemployment as well as to provide a more balanced economy.

10. Tariffs had also been imposed in the other States prior to Federation, but they were designed more for revenue purposes and less for "protective" purposes than the Victorian tariff. With Federation, the power to impose customs duties passed to the Commonwealth, and the encouragement and protection of manufacturing industries has been an important feature of Commonwealth legislation. Manufacturing production has now become in value the principal form of production in Australia.

11. Most of the secondary industries are concentrated in Sydney and Melbourne and adjacent areas. This development has been due to several causes. These capital cities have always been the most populous centres, possessing a greater supply of labour and a larger local market than other places. Their growth as manufacturing centres has been facilitated by Government policy, which has provided for the convergence on them of most of the railway systems communicating with the interior, and for their development as ports. The general trend towards concentration of manufacturing units has also strengthened their position. The relative importance of Sydney and Melbourne as manufacturing centres has increased since Federation, and they are the main suppliers of Australian-made goods to the rest of the Commonwealth. In other States the same considerations have contributed towards the establishment of secondary industries in or near the capital cities. About 47 per cent. of the population is contained in the capital cities of the States.

12. The establishment of banking and other financial institutions followed settlement in New South Wales and Victoria. The wealth obtained from wool and gold in those States provided large supplies of capital for the development of Australia, and provided the means for the opening in other States, in addition to the smaller banks established there, of branches of banks whose head offices or chief Australian offices were in Sydney or Melbourne. Some of these smaller banks have since amalgamated with the larger institutions, and the importance of Sydney and Melbourne as banking centres has thus been increased. The factors that have brought about concentration of banking have also operated in the case of some other financial institutions and these cities have thus become the main centres of the financial system of the continent.

13. The tables in the appendices (pages 347-354) illustrate the growth of the Australian economy during the present century.

Public Finance.

14. The monetary and banking system of Australia is materially affected by government finance. The loan policy of governments, the budgetary position, taxation, interest payments, and sinking fund provisions and operations, are all of importance to the system.

15. It is convenient to begin with a consideration of the public debt. At 30th June, 1936, the debts of the Commonwealth and

States amounted to £A1,403,320,000 (including overseas debt at rate of £stg.100 = £A125), or about £A207 per head of the population. The following table shows the internal and external debt at 30th June, 1936:—

Total Debt.

(In millions of pounds Australian.)

—	Australia.	London.	New York.	Total.
	£Am.	£Am.	£Am.	£Am.
Commonwealth	218.40	195.36	20.44	434.20
States	447.26	485.72	36.14	969.12
Total	665.66	681.08	56.58	1,403.32

16. The overseas debt amounts to about 53 per cent. of the whole. The following table shows the movement of this debt over five-yearly periods since 30th June, 1901.

Overseas Debt.

(In millions of pounds sterling.)

—	Increase in overseas debt (decrease shown —).			Total overseas indebtedness at end of period.		
	Common-wealth.	States.	Total.	Common-wealth.	States.	Total.
	£Stg.m.	£Stg.m.	£Stg.m.	£Stg.m.	£Stg.m.	£Stg.m.
At 30th June, 1901 ..	..	..	..	..	177.89	177.89
Five-yearly Period—						
1st July, 1901, to 30th June, 1906	..	12.62	12.62	..	190.51	190.51
1st July, 1906, to 30th June, 1911	3.82	—3.64	.18	3.82	186.87	190.69
1st July, 1911, to 30th June, 1916	33.29	46.88	80.17	37.11	233.75	270.86
1st July, 1916, to 30th June, 1921	65.46	35.14	100.60	102.57	268.89	371.46
1st July, 1921, to 30th June, 1926	43.96	88.80	132.76	146.47	357.75	504.22
1st July, 1926, to 30th June, 1931	28.12	66.79	94.91	174.59	424.54	599.13
1st July, 1931, to 30th June, 1936	—1.95	—7.06	—9.01	172.64	417.48	590.12

The overseas debt outstanding at the end of any financial year reached its maximum of £601.61m. sterling in 1932. By the 30th June, 1936, it had been reduced by £11.49m. sterling to £590.12m. sterling.

17. The overseas indebtedness at 30th June, 1936, includes £90.74m. sterling on account of the war, of which £79.72m. sterling is due to the British Government for moneys borrowed and expenditure incurred on behalf of Australia. The debts to the British

Government were consolidated in 1921 under an arrangement (the "Funding Arrangement") which fixed the total amount due at £92.48m. sterling, and provided for an annual payment of £5.55m. sterling, to cover interest and a sinking fund to cancel the debt in about 35 years. By agreement with the British Government, no payments have been made since the financial year 1930-31. The sinking fund payments, made under this Arrangement, reduced the amount owing by £12.76m. sterling to £79.72m. sterling. The remainder of the overseas war debt amounts to £11.02m. sterling.

18. The following statement shows the directions in which loan moneys have been spent:—

TOTAL LOAN EXPENDITURE, COMMONWEALTH AND STATES TO 30TH JUNE, 1936.

	£m.
GENERAL—	
Railways	367.73
Roads, bridges, harbours, rivers	85.55
Tramways	13.76
Water supply	76.43
Sewerage	22.75
Electricity supply	25.62
Public buildings	37.36
Post office, telegraphs, telephones	41.05
Housing	19.30
Local Government loans and unemployment relief	43.50
Federal Capital Territory	7.78
Defence	7.65
Other public works	21.25
	769.73
PRIMARY PRODUCTION—	
Land settlement, including advances	91.94
Water conservation, irrigation and drainage ..	28.19
Agriculture, including agricultural banking	22.28
Mines, minerals	5.80
Other primary production	9.74
	157.95
WAR PURPOSES	367.08
OTHER PURPOSES	27.84
DISCOUNT AND FLOTATION EXPENSES	35.47
FUNDING OF DEFICITS	82.03
	1,440.10

(NOTE.—The total of this statement differs from that of the public debt, as it includes all expenditure from loans, whether the loans have been paid off, or are still outstanding. The public debt statement shows only the amount outstanding and each loan is shown therein at the amount repayable at maturity and not at the amount available for expenditure.)

19. The total annual interest payable on the debt at 30th June, 1936, was £A50.13m., of which £A24.21m. was payable on internal loans and £A25.92m. (£20.74m. sterling) on external loans. The total of £A50.13m. includes £A7.98m. for interest on war loans.

20. Against the interest bill, however, may be set the excess of receipts over working costs of government enterprises, less sinking fund contributions. In a few government undertakings, working expenses and receipts are not brought into the consolidated revenue funds and these figures are not available. The figures available for 1935-36 show an excess of receipts over working costs of £A20.54m. After deducting £A9.10m. for sinking fund contributions (which includes contributions on all loan expenditure, whether in respect of these enterprises or for other purposes), there remains £A11.44m. to be set off against the total interest bill of £A50.13m. This leaves a net figure of £A38.69m. or a little less than £A6 per head of population, to be met by taxation and from other sources.

21. The net value of the production* of Australia for 1935-36 was about £A325m., of which about 8 per cent. was required to provide the interest payments, amounting to £A25.92m., to overseas bondholders.

22. Although the direct return from government loan expenditure as a whole is insufficient to pay the total interest and sinking fund contributions, there are indirect compensations. The increased facilities and better living conditions provided by means of this expenditure have enabled the country to increase production and support a larger population. From a national point of view it has been considered that large areas capable of being made productive could not be left idle, although the direct return might not suffice to pay charges on the debt incurred.

23. It was generally believed that the community's interests could best be served by the State providing facilities, e.g., railways, which otherwise might not have been provided at all, or would not have been provided by private enterprise as rapidly or to the same extent. For these reasons a great deal of capital which might otherwise have been invested in private enterprise has been invested in Australian government securities. The holders of these securities have regularly received interest on their investment, and their principal has been secure. Where similar activities have been undertaken

* NOTE. The value of production quoted is on a net basis, which is the basis now adopted by Australian statisticians. For this reason it is not comparable with the value of production published for the years prior to 1933-34, which was based on gross value (except for manufacturing) including all costs incidental to production and marketing.

by private enterprise, investors have, in many cases, suffered a reduction or loss of income, or a loss of capital. The security of the capital values of their government investments has given to large Australian institutions a degree of stability which has been of benefit to the community.

24. The extent of State enterprise in Australia is indicated by the proportion of the total assets of the community owned by the various governments. The latest detailed investigation into the wealth of Australia was published in 1934 by the Commonwealth Statistician, and relates to the year 1929. He estimated the private wealth in Australia, irrespective of domicile of owner, to be £A3,351m. The loan expenditure of the Commonwealth and States at that date, excluding war debt and revenue deficits, amounted to about £A790m. In addition, there had been some expenditure from revenue on works for capital purposes; and also local government capital expenditure to the extent of about £A135m. It is difficult to say what valuation could be placed on the assets represented by the expenditure of Commonwealth and State Governments; some of the assets will have depreciated, some, such as land, will have appreciated in value; others will have disappeared. Another factor which has to be taken into account is that the value of money has varied from time to time. Although there must be considerable assumption in making an estimate, it would appear that in 1929 the total assets in Australia could be valued at about £A4,000m., and that between one-fifth and one-sixth of the total was then represented by assets directly provided by government expenditure. There is no reason to believe that the proportion has since appreciably changed.

25. Some idea of the part played by governments in the economy is also shown by the proportion which the number of government employees bears to the total of breadwinners. According to the census of 1933 the number of breadwinners was 3,155,621. At this date about 218,000, or 7 per cent. of the total, were employed directly by governments. Statistics are not available to show the comparison between total earnings of government employees and all other recipients of income; but in 1934-35, salaries and wages of government employees were about £A51m. out of an estimated national income of £A518m.

26. As the loan expenditure of governments forms a very large proportion of the total capital expenditure in Australia, the rate of interest on government borrowings has an important influence on other money rates, which in turn affects them. The following table shows internal loan issues made since June, 1931, and the rate of

interest paid, together with the ruling rate of interest on two years' fixed deposits with the trading banks at the time of issue:—

INTERNAL LOANS AND INTEREST RATES, 1932-1937.

Date.	Amount of Loan.	Interest Rate Per cent.	Effective yield per cent. including Redemption.	Year of Maturity.	Trading Banks' two years' Fixed Deposit Rate.
	£m.	Per cent.	£		Per cent.
November, 1932	8.00	3¾	3 16 0	1942	3¼
May, 1933 ..	8.46	3¾	3 15 0	1942	3
November, 1933	10.32	3½	3 12 5	1943	3
June, 1934 ..	12.23	3¼	3 7 8	1948	2¾
November, 1934	15.05	3	3 0 5	1948	2½
June, 1935 ..	12.51	3¼	3 8 5	1949	2½
November, 1935	7.96	3¾	3 15 6	1949	2½
June, 1936 ..	9.02	3¾	3 17 6	1951	3
November, 1936	7.52	3¾	3 19 4	1951	3
May, 1937 ..	7.50	3⅞	3 19 1	1948	3

27. It will be seen that, since November, 1934, the differences between the rates of interest on the loans raised and the rates on the fixed deposits of the trading banks are greater than the differences prior to that date, although the amounts of the loans raised since then have generally been lower and the position of government finances has much improved.

28. The sources of investment in government securities are indicated by the following analysis of the holdings, at 31st December, 1936, of long-term government securities maturing in Australia:—

HOLDINGS OF LONG-TERM GOVERNMENT SECURITIES.*

Held by	Amount of holdings (at face value). £Am.	£Am.
Commonwealth Bank—		
General Banking Department	27.47	
Savings Bank	83.83	
		111.30
Trading banks		20.26
Savings banks, other than Commonwealth Savings Bank ..		42.82
Trustee companies (*mainly trust funds*)		38.32
Insurance companies		61.98
Superannuation funds		15.02
Governmental trust funds and semi-governmental authorities ..		20.26
Friendly societies and trade unions		1.40
Other institutions and general public		275.71
		587.07
Bonds—unclassified		25.09
Total		612.16

* NOTE.—This table does not include treasury-bills and other short-term indebtedness.

29. The monetary and banking system is affected not only by government loans but by government revenue finance. The following table shows the position of the revenue accounts of the Commonwealth and States from the financial year 1929-30:—

GOVERNMENT REVENUE ACCOUNTS, 1929-30, TO 1936-37.

(Surplus + Deficit −.)

—	1929-30.	1930-31.	1931-32.	1932-33.	1933-34.	1934-35.	1935-36.	Estimate, 1936-37.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.
Commonwealth	−1.47	−10.76	+ 1.31	+3.54	+1.30	+ .71	+3.57	+ .05
States ..	−8.23	−14.90	−18.31	−8.22	−6.87	−3.81	−2.44	−1.34
Total ..	−9.70	−25.66	−17.00	−4.68	−5.57	−3.10	+1.13	−1.29

30. The effects of the depression on government finances led to the adoption by the Commonwealth and State Governments, in June, 1931, of the "Premiers' Plan", by which all governments undertook to bring into effect the following measures, with a view to rehabilitation of the finances in such a way as would distribute as equally as possible the reductions in incomes involved:—

(*a*) A reduction of 20 per cent. in all adjustable government expenditure, as compared with the year ending 30th June, 1930, including all emoluments, wages, salaries, and pensions paid by the Governments, whether fixed by statute or otherwise, such reduction to be equitably effected;

(*b*) Conversion of the internal debts of the Governments on the basis of a 22½ per cent. reduction of interest;

(*c*) The securing of additional revenue by taxation, both Commonwealth and State;

(*d*) A reduction of bank and savings bank rates of interest on deposits and advances with the co-operation of the banks;

(*e*) Relief in respect of private mortgages.

These proposals represented the greatest effort in economy and taxation which it was considered safe to attempt. It was anticipated at the time of the Plan that, as a result of these measures, the total estimated deficits for 1931-32 would be reduced from £A41.08m. to £A14.65m. It will be seen that the actual deficits for that year totalled £A17.00m.

31. During the year 1929-30, the Governments issued treasury-bills in Australia as a means of providing funds to meet revenue deficits as well as for loans for public works. The amount of the treasury-bills outstanding, and the rate of discount at the time of issue are as follows:—

TREASURY BILLS IN AUSTRALIA.

30th June—	Amount outstanding.	Rate of discount.
	£Am.	Per cent.
1930	2.30	5½
1931	20.02	6
1932	44.99	4
1933	48.87	2½ and 2¾
1934	48.47	2¼
1935	45.12	1¾
1936	47.01	1¾

32. The following table shows the combined revenue accounts of Commonwealth and States for the year 1935-36:—

REVENUE.	£Am.	EXPENDITURE.	£Am.
Taxation—		*Interest*—	
Customs duties (Commonwealth)	28.07	Overseas	26.91
		Australia	24.13
Excise duties (Commonwealth)	13.37		51.04
Income tax	21.72	Sinking Fund	6.67
Land tax	2.73		
Succession duties	5.46	Invalid and old-age pensions (Commonwealth)	12.80
Sales tax (Commonwealth)	9.43		
Unemployment tax (States)	8.17*	War pensions and repatriation (Commonwealth)	8.55
Flour tax (Commonwealth)	1.15	Defence (Commonwealth) ..	4.34
Other taxation	9.14	†Unemployment (States) ..	5.16
		Education (States)	10.22
Total taxation	99.24	*Charitable and health (States)*	5.52
Territorial (States)	4.20	Police and penal (States) ..	3.88
Interest on loans to local bodies (States)	8.41	Mines, lands, agriculture and forestry (States)	2.89
Other revenue—		Miscellaneous (States) ..	10.68
States	7.63	Administrative, territories, bounties, public works and miscellaneous (Commonwealth)	8.38
Commonwealth	3.33		
Carried forward ..	122.81	*Carried forward*	136.03

* Excluding, in the case of Queensland, £2.49m. which was paid to a special fund.
† Excluding, in the case of Queensland, £2.05m. which was paid from a special fund.

REVENUE.		EXPENDITURE.	
Brought forward	122.81	Brought forward	136.03
Business undertakings—		Business undertakings (exclusive of interest and sinking funds)—	
Post Office	14.87	Post Office ..	9.71
Railways and Tramways ..	45.59	Railways and tramways ..	33.45
Other (States)	6.04	Other (States)	2.80
Total Business undertakings	66.50	Total Business undertakings	45.96
Grants and payments by Commonwealth to States ..	17.02	Commonwealth Grants to States	17.02
		Amount of Commonwealth grants to States paid by States to special funds, e.g., Sinking Fund	6.19
		Total expenditure	205.20
		Surplus	1.13
	206.33		206.33

33. The proportion of the estimated national income which was taken in the form of income and unemployment relief taxes was as follows:—

	Per cent.
1930-31	7.4
1931-32	7.2
1935-36	5.6

The Financial Agreement.

34. The Financial Agreement, of 12th December, 1927, between the Commonwealth and State Governments, was the result of efforts, extending over several years, to bring about more satisfactory financial relations between the Commonwealth and the States, and it marks an important development in Australian government finance.

35. In the first instance, the scheme was adopted by the various governments, and certain of the proposals were brought into effect, in respect of the period from 1st July, 1927, to 30th June, 1929, by the statutory ratification of the various Parliaments in 1928. But in order to give permanent effect to the provisions of the Agreement, it was necessary to amend the Constitution by conferring upon the Commonwealth the powers now given by Section 105A. This amendment of the Constitution was approved by a referendum taken in November, 1928, and the Financial Agreement was finally validated by the *Financial Agreement Validation Act* 1929.

36. The Agreement covers a variety of matters and has far-reaching effects. The most important provisions are those which relate to the consolidation of the public debt, the regulation of government borrowing, and the sinking funds.

37. The principal permanent provisions are as follows:—

I. Consolidation of public debt.

(*a*) On 1st July, 1929, the Commonwealth took over

"(i) the balance then unpaid of the gross public debt of each State existing on 30th June, 1927; and

(ii) all other debts of each State existing on the 1st July, 1929, for moneys borrowed by that State which by this Agreement are deemed to be moneys borrowed by the Commonwealth for and on behalf of that State—

and will in respect of the debts so taken over assume as between the Commonwealth and the States the liabilities of the States to bondholders".

The interest on these debts is paid by the Commonwealth and collected from the States, less the sum of £7.58m. per annum, which is provided by the Commonwealth for a period of 58 years.

II. The regulation of government borrowing.

(*a*) The Australian Loan Council is established. It consists of representatives of the Commonwealth and of each State.

(*b*) The Commonwealth and the States agree that they will from time to time submit to the Loan Council their loan programmes for each financial year.

(*c*) If the Loan Council considers that the total amount of the programmes cannot be borrowed at reasonable rates and conditions, it determines what amount shall be borrowed. By a unanimous decision, this amount can be allocated between the Commonwealth and the various States, but in default of a unanimous decision, a formula is provided for that purpose.

(*d*) Revenue deficits which require to be funded must be included in the loan programme, but borrowings for "temporary purposes" need not be included. Borrowing by the Commonwealth for defence purposes is not subject to the agreement.

(*e*) Subject to the decision of the Loan Council, the Commonwealth is to arrange for all borrowings, including those for conversions, renewals, and redemptions, but the Commonwealth or a State is at liberty to borrow in the following circumstances:—

(i) The Commonwealth or a State may borrow for "temporary purposes" by overdraft or fixed or special deposit subject to maximum limits (if any) decided by the Loan Council for interest and other charges.

(ii) The Commonwealth may borrow within the Commonwealth, or a State within its territory, from authorities, bodies or institutions, or from the public by counter sales of securities, and it may use any public moneys which are available. But the interest and other charges must not exceed any maximum decided upon by the Loan Council from time to time, and any amount so borrowed is to be considered as part of the borrowing programme for the year; any excess is to be considered as part of the programme for the ensuing year. The securities issued for moneys so borrowed are to be Commonwealth securities, to be provided by the Commonwealth on terms to be approved by the Loan Council.

(iii) A State is at liberty to borrow overseas if the Loan Council by unanimous decision so decides. In that event, the Commonwealth is to guarantee the performance by the State of all its obligations to its bondholders.

III. Sinking Fund provisions and other payments.

Contributions to the sinking fund in respect of the debts taken over by the Commonwealth and of any other loans raised subsequently by a State or by the Commonwealth for and on behalf of a State are as follows:—

(*a*) On the net public debt of the States at 30th June, 1927—£641.35m.—7s. 6d. per cent. per annum, of which the Commonwealth pays 2s. 6d. and the States 5s. Contributions are to be continued for a period of 58 years commencing on 1st July, 1927, except in the case of New South Wales, in which that State's contributions commenced on 1st July, 1928.

Where there is an obligation under law or contract to provide a sinking fund in excess of the rate of 7s. 6d. per cent. per annum, the excess is provided out of the National Debt Sinking Fund.

(*b*) On loans raised by a State or by the Commonwealth on behalf of a State after 30th June, 1927—10s. per cent. per annum, of which the Commonwealth pays 5s. and the State 5s. Contributions are to continue for 53 years, commencing from the date of the raising of the loan, except in the case of New South Wales, in which the commencing date for that State's contributions in respect of loans raised in the year 1927-28 was 1st July, 1928. Provision is made by which the sinking fund contributions by the States may be increased on loans raised after 30th June, 1927, in the case of expenditure of the loan moneys on wasting assets.

38. In respect of loans raised after 30th June, 1927, by a State, or by the Commonwealth for a State, to meet revenue deficits accruing after that date, the Commonwealth is under no obligation to make sinking fund contributions and the State is required to provide for the redemption of the loan by making contributions at the rate of 4 per cent. per annum.

39. The sinking funds established under the agreement are under the control of the National Debt Commission, an authority constituted under Commonwealth legislation (the *National Debt Sinking Fund Act* 1923-1934) and consisting of the Treasurer of the Commonwealth, the Chief Justice of the High Court, the Governor of the Commonwealth Bank, the Secretary to the Commonwealth Treasury, the Solicitor-General for the Commonwealth, and a representative of the States. All contributions in pursuance of the agreement are debts payable to the Commission.

40. All moneys and securities standing to the credit of sinking funds of a State at 30th June, 1929, were transferred to the National Debt Commission unless there were statutory or contractual conditions precluding the transfer. In that event the funds remained under the control of the State or trustees concerned, and the National Debt Commission makes to the States or the trustees all future sinking fund payments.

41. Sinking fund contributions made under this agreement, and sinking funds transferred to the National Debt Commission, are not accumulated but are applied to the redemption of the public debts of the States, or to the purchase of securities issued in respect thereof; but if deemed inexpedient at any time by the National Debt Commission to apply sinking funds in this way, the Commission may temporarily invest those funds in authorized securities. The purchase of securities by the National Debt Commission is arranged through the Commonwealth Treasury.

42. When a security issued in respect of a public debt of a State or of a loan raised by the Commonwealth for a State is repurchased or redeemed by the National Debt Commission, it is cancelled. From the date of cancellation and for the full period during which sinking fund contributions are payable, the State on whose account the security was issued must make a further sinking fund contribution at the rate of 4½ per cent. per annum on the face value of the cancelled security.

43. The terms of the agreement are legal obligations binding on the Commonwealth and the States. These obligations cannot be released or altered without a new Agreement which would require the approval of all the Parliaments.

44. The security which the Financial Agreement has given to investment in government loans has had a favorable influence upon the terms of new borrowings and conversions. Prior to the Financial Agreement there was no general obligation to provide sinking funds on State loans, and even where sinking funds had been established, the investor did not have the security which he now possesses.

45. The establishment of the Loan Council, its power to decide whether the total amount of the Commonwealth and States' loan programmes can be borrowed on reasonable terms, and, if necessary, to decide the total amount to be borrowed, remove the possibility of competition in borrowing between the different governments, which, if unchecked, would result in higher interest rates.

46. There is no provision in the Agreement to cover loans raised by local government bodies which, under State law, have power to borrow, but the States concerned have now arranged that these loans shall not be raised without Loan Council approval.

47. The amendment of the Constitution in 1928 (Sec. 105A) enabled the Commonwealth Parliament to make agreements with the States for the conversion of debts, and this power made possible the legislation in 1931 for the conversion of the internal public debt at lower rates of interest, in accordance with the resolutions under the "Premiers' Plan".

Commonwealth Sinking Funds.

48. The Financial Agreement does not apply to sinking fund payments in respect of loans raised by the Commonwealth for its own purposes. Under the National Debt Sinking Fund Act and other Acts, the Treasurer is required to pay into the National Debt Sinking Fund each year in respect of debt, excepting war debt due to the British Government, contributions of 30s. per cent. on debt raised for the Postmaster-General's Department and 10s. per cent. on other debt, together with 5 per cent. on the receipts of the sinking fund in respect of contributions on Commonwealth debt.

National Debt Sinking Fund Receipts.

49. The receipts of the National Debt Sinking Fund to 30th June, 1936, were as follows:—

—	In respect of Commonwealth debt.	In respect of States' debt.	Total.
	£Am.	£Am.	£Am.
Prior to 1st July, 1930	32.00	8.10	40.10
Financial Year—			
1930–31	3.07	3.51	6.58
1931–32	3.37	3.83	7.20
1932–33	3.68	4.08	7.76
1933–34	3.75	4.44	8.19
1934–35	3.92	4.67	8.59
1935–36	4.10	4.91	9.10
Total to 30th June, 1936	53.98	33.63	87.61

In addition to payments to the National Debt Sinking Fund, the Commonwealth has redeemed debt to the amount of £A15.6m. out of Consolidated Revenue.

CHAPTER II.

THE MONETARY AND BANKING SYSTEM 1901-1936.

THE CURRENCY SYSTEM 1901-1936.

50. At the inauguration of the Commonwealth in 1901, the Australian currency consisted of coins and bank notes, except in Queensland, where Treasury notes had taken the place of bank notes.

COINAGE.

51. The gold coins were sovereigns and half-sovereigns, which were minted by the Royal Mint in England or by branches of the Royal Mint which, under Imperial Orders in Council, had been opened in Sydney (1855), Melbourne (1872), and Perth (1899). Wherever minted, these gold coins were identical in weight and fineness. Those minted in Australia were British currency, and all were legal tender in Australia for the payment of any amount. Token coinage consisted of silver and bronze. The usual silver coins were the half-crown, the florin, the shilling, the sixpence and the threepence. The bronze coins were the penny and the halfpenny. Until 1910 all these were British coins minted in England and imported into Australia.

52. Under the constitutional power to legislate with respect to coinage, currency and legal tender, the Federal Parliament passed the *Coinage Act* 1909, which left the gold coin unaltered, but provided for the issue, under the control of the Commonwealth Treasurer, of a separate coinage in silver and bronze, though with the same degree of fineness as then existed in the British coinage. In 1910 these coins, with a distinctive Australian design, were minted in England, but in 1916 the work was given to the Melbourne Mint. The *Coinage Act* 1909, made no provision for the half-crown, and this coin gradually disappeared. The silver coins are legal tender up to 40s. and the bronze to 1s. Under the *Coinage Act* 1936, provision was made for the issue of a new coin, the crown, which has since been minted.

53. When the Australian silver and bronze coinage was introduced in 1910, an arrangement was made with the British Government under which British silver coins were withdrawn from circulation in Australia at the rate of £100,000 per annum. The coins were sold to the British Government at their face value and were handed over to the Australian Mints, where they were melted down. The bullion was purchased by the Treasury, and used for minting Australian silver coins. The arrangement for withdrawal only applied to the British coins which were of the same silver content as the

Australian. Until 1920, British and Australian silver coins were of 925 millesimal fineness. The British coins, issued after that date, were reduced to 500 millesimal fineness, but the Australian coins have remained unaltered.

54. The disappearance of gold coins during the war, and later the falling-off in the production of gold, led to the closing of the Sydney Mint in 1926, and in September, 1931, Australian mints ceased to mint gold coins. In September, 1931, the Commonwealth Bank made an arrangement, which is still in force, whereby the mints were to buy gold as agents of the Bank, at a price fixed weekly by the Bank on the basis of sales effected overseas. At present both the Melbourne and the Perth Mints assay and refine gold, and the former provides the token coinage. The British Government appoints the officers of the mints, but the State Governments of Victoria and Western Australia, respectively, own the lands and buildings, receive the revenues, and bear the expenses of the establishments. Owners of gold pay for the services of assaying and refining it, and the Commonwealth Treasury pays for the work of minting the silver and bronze coin. From these sources the two States meet the cost of the mints and make any profit or loss arising in this way. Since the face value of a silver or a bronze coin is greater than the value of the metal from which it is made, a profit arises from the token coinage, and this forms part of the revenue of the Commonwealth Government.

55. The following procedure is observed in connexion with the minting and issue of the token coinage. The Treasury estimates the amount of new coin required for circulation, as well as for any reserve which it deems necessary to hold. The bullion is then purchased by the Treasury, and orders are given to the Mint for its coinage. As the coins are minted they are delivered to the Commonwealth Sub-Treasury, Melbourne. When coins are required by any bank, it notifies the Commonwealth Bank, which purchases from the Sub-Treasury any necessary supplies.

NOTES.

56. In 1901, the bank note currency consisted of notes, payable in gold coin and issued by trading banks in all States except Queensland. Some restriction upon the issue, or other provision for the protection of the public, was generally contained in the charter or statute of incorporation, or in the general statute law. Bank notes were never legal tender except in New South Wales, where the notes of certain banks had been made legal tender for a brief period during the crisis of 1893. All the States imposed a tax, upon

the issue of the notes, usually at the rate of 2 per cent. per annum upon the average circulation. There was only one form of Government paper currency in circulation, namely, Queensland Treasury notes. These had been issued by the Queensland Government, temporarily in 1866, and continuously from 1893. They were legal tender in that State, where they had, from 1893, superseded bank notes.

57. In 1910, the first step was made from the system under which a number of trading banks issued notes, towards the present system under which a single bank has a monopoly of the note issue. In September of that year, the Australian Notes Act was passed, prohibiting banks from issuing or circulating State notes as money, and giving the Governor-General in Council power to authorize the Commonwealth Treasurer to issue Australian notes. The Act came into force by proclamation on 1st November, 1910, and notes were issued forthwith. To supplement this Act, and to put an end to the circulation of bank notes, the Bank Notes Tax Act was passed in October, 1910, imposing a tax of 10 per cent. per annum "in respect of all bank notes issued or re-issued by any bank in the Commonwealth after the commencement of this Act and not redeemed". This Act came into force by proclamation on 1st July, 1911.

58. Under the *Australian Notes Act* 1910, it was provided that the Australian notes should be "payable in gold coin on demand at the Commonwealth Treasury at the seat of Government", and that the Treasurer should hold in gold coin a reserve of an amount not less than one-fourth of the notes issued up to £7m., and an amount equal to the excess over £7m. In 1911, this latter provision was amended, and the Treasurer was required merely to hold in gold coin not less than one-fourth of the total amount of Australian notes issued. Under the *Australian Notes Act* 1910, notes might be issued in denominations of 10s., £1, £5, £10 or any multiple of £10; and were to be legal tender "throughout the Commonwealth and throughout all territories under the control of the Commonwealth".

59. These two Acts effectively put an end to the issue of notes by trading banks and by the Queensland Treasury. In 1910, control of the issue of Australian notes was vested in the Commonwealth Treasury. In 1920, control was transferred to the Note Issue Department, a separately-managed department of the Commonwealth Bank. It was provided that notes should "bear the promise of the Treasurer to redeem the notes in gold coin . . . on demand at the Head Office of the Commonwealth Bank." In 1924, the Note Issue Department was brought under the authority of the general Board of the Bank. The Treasury, however, continued to control the issue of token

coinage. Under the Act of 1920, the Note Issue Department has power to issue 5s. notes in addition to those authorized by the Act of 1910, but this power has not been exercised.

60. In July, 1915, a proclamation was issued by the Governor-General prohibiting the export of gold specie or bullion from Australia, except with the consent of the Commonwealth Treasurer. This proclamation was repeated in February, 1922, but both proclamations were revoked in April, 1925, when Australia was once more on a gold standard. Gold coins, which had ceased to be current during the war, did not, however, return to circulation. The gold standard lasted only until the end of 1929. The *Commonwealth Bank Act* 1929, gave the Treasurer power to authorize the Bank to obtain particulars of gold coin and bullion held in Australia, and to require the exchange of the gold for Australian notes. The rate to be paid by the Bank was one pound note for each sovereign, and £3 17s. 10½d. per ounce standard of the bullion. Australia once more left the gold standard and has not since returned.

61. In June, 1931, a change was made in the legislative provisions governing the note reserve. In place of the statutory obligation to hold in gold coin not less than one-fourth of the total amount of Australian notes issued, the *Commonwealth Bank Act* 1931, provided that the reserve should be—

(*a*) for the two years ended 30th June, 1933, not less than 15 per cent.;
(*b*) to 30th June, 1934, not less than 18 per cent.;
(*c*) to 30th June, 1935, not less than 21½ per cent.;
(*d*) thereafter, not less than 25 per cent.

62. In May, 1932, a further change was made in the note reserve provisions. The *Commonwealth Bank Act* 1932, provided that the reserve might be held "in gold or in English sterling or partly in gold and partly in English sterling". English sterling for this purpose "means currency which is legal tender in the United Kingdom, and includes—

(*a*) balances standing to the credit of the Bank at the Bank of England or at any other of its bankers in London;
(*b*) Bills of exchange, or advances secured by bills of exchange, which—
   (i) are payable in the United Kingdom in currency which is legal tender in the United Kingdom;
   (ii) will mature in not more than three months, and the security for the payment of which bills is, in the opinion of the Bank, satisfactory; and
(*c*) Treasury-bills or other securities of the United Kingdom which will mature in not more than three months."

The Act also abolished the provision that the Australian note should bear the promise of the Treasurer to redeem it in gold coin. Notes are now issued without any such promise, and are merely expressed to be legal tender in the Commonwealth and the territories under its control.

63. Australian notes are now printed for the Note Issue Department at the Note Printing Branch of the Commonwealth Bank in Melbourne. Notes are not issued directly to the public, but only to the General Banking Department of the Commonwealth Bank. When, for example at Christmas time, an expansion of the issue is required, the Note Issue Department transfers notes to the Banking Department in exchange for Government securities at their nominal value; conversely, in the case of a contraction, the Banking Department transfers notes to the Note Issue Department in exchange for securities. After additional notes have been issued, they find their way into circulation when the trading banks, and other customers of the Commonwealth Bank, draw on their deposits with the General Banking Department. Until they find their way into circulation, they play little or no part in the monetary system. Notes held by the Note Issue Department are not included in the note issue. In 39 cities and towns in Australia, there are offices of the Commonwealth Bank, which, in addition to their other activities, serve as note issue branches. Trading banks may, without expense, lodge Australian notes at any of these branches, and immediately withdraw from any other such branch a corresponding amount.

CURRENCY SYSTEM—SUMMARY.

64. During the period 1901 to 1936, there have thus been several changes in the composition of Australian currency. Until 1914 gold coin was the chief form of currency. In Australia, the trading banks' "cash", and the public's "cash" also, then included gold, notes, and token coins. Between 1914 and 1929 the note issue became predominant. Gold ceased to be current, and the circulation of notes was greatly increased, providing not merely a substitute for the gold, but also additional currency. Apart from token coins, the trading banks' holdings of "cash" were still gold and notes, but the latter had become more important, and the public's holding of "cash" consisted almost entirely of notes. In 1929, however, the Commonwealth Bank took over from the trading banks most of their gold, and the note issue began to play a less important part in the monetary system. The trading banks took payment for the gold in the form of deposits with the Commonwealth Bank. Apart from token coins, trading banks' "cash" now consisted mainly of notes and deposits with the Commonwealth Bank. The public's "cash", as before,

consisted almost entirely of notes. Prior to 1929, the obvious way in which an expansion of the "cash" of the system came about was through an increase in the note issue, which would be shown at once. After 1929, however, it was possible for an increase to take place in that part of the trading banks' "cash" which consisted of deposits with the Commonwealth Bank, without affecting the note issue.

65. Changes have taken place, too, in the character of the note issue reserve. It was originally established to ensure a supply of gold to keep the Australian note convertible and to maintain an effective gold standard. The legal requirement to hold a reserve was faithfully met even during the war period, when the gold standard had been abandoned, for the gold reserve never dropped below 30 per cent. of the total note issue. When, in 1931, the legal minimum reserve was temporarily reduced below 25 per cent., some of the gold was used to meet overseas obligations. The permission given in 1932 to hold the reserve in gold or English sterling enabled the Bank to decide how much gold it would hold for this purpose, and the present function of the reserve, in relation to the note issue, is to set a legal limit to its expansion.

THE BANKING SYSTEM 1901 TO 1936.

TRADING BANKS.

66. Since 1817, when the first Australian bank, the Bank of New South Wales, was founded, private trading banks, incorporated by charter or by statute or under the Companies Acts, have carried on the business of banking in various parts of Australia. Some of these banks were incorporated and owned in Australia and others in England, with head offices in London—a distinction which has remained important to the present day. Australian banks adopted the system of branch banking. There was no legal restriction imposed upon the spread of banking, either within a State, or from one State to another, although some banks confined their operations to one State. Most of the banks possessed and exercised the right of issuing notes. In this respect they were subject to the conditions of their charters or special acts and to the general law, but some provision was generally made for the protection of note holders.

67. In the 19th century the trading banks experienced some vicissitudes of fortune such as arose from various crises in the early days, from the discovery of gold in 1851, and from the troubles of the late 'sixties, but it was not until the crisis of 1893 that the banking system was involved in serious difficulties. The preceding boom was associated with a large influx of capital on private account and with wild speculation in land, to which some banks contributed. The slump was associated with the collapse of the land boom, a serious decline in export prices, and a falling-off in overseas lending accompanied by a withdrawal from Australian banks of deposits owned in the United Kingdom. . In New South Wales the Government declared the notes of certain banks legal tender and guaranteed their payment for a period of about six months. In Victoria the Government declared a moratorium of five days from the 1st to 5th May, 1893. The crisis was most severe in these two States. Some banks remained open, but many suspended payment. Of those which closed, a few comparatively unimportant banks failed altogether, but the majority re-opened and subsequently reconstructed. The period from 1893 to 1901 was one of slow and painful recovery, and at Federation some of the reconstructed banks were still working under their various schemes.

SAVINGS BANKS.

68. Savings banks were established very early in Australia for the encouragement of thrift. For example, Campbell's Bank, the first savings bank, was opened in New South Wales in 1819, in order to remedy "the extravagance and improvidence which the poor settlers, mechanics, and labourers of this Colony have fallen into, by reason, first of their having no encouragement to save their earnings, and secondly of their having no place of safe deposit for those earnings". In 1833, this bank was taken over by the Savings Bank of New South Wales, established by an Act of Parliament in 1832. In South Australia a savings bank was established in 1848 "for the encouragement of frugality and that persons possessing small sums of money beyond what they require for the supply of their immediate wants, should be afforded an opportunity of depositing the same on good security to accumulate at interest". A feature of this Bank from its inception was that the whole profits of the Bank, after deducting expenses and the sum set apart for the Security Fund, were to be appropriated to the payment of interest at a rate decided from time to time by the Trustees. In other States, savings banks were established: The Commissioners' Savings Banks of Victoria, which dated from 1842; the two Savings Banks of Tasmania, the Launceston Bank for Savings, 1835, and the Hobart Savings Bank, 1845; and the Queensland Savings Bank, 1865. Some of these were government-owned and controlled, others were managed by Boards of Trustees, over whose appointment governments often exercised some control.

69. Another type of savings bank was the Post Office Savings Bank, first established by Western Australia in 1864, and later in most of the other States. These were separate government institutions except in South Australia where the Post Office Savings Bank was

merely an agency for the Savings Bank. In Victoria the Post Office Savings Bank, established in 1865, was absorbed, in 1897, by the Commissioners' Savings Bank, which became known in 1912 as the State Savings Bank of Victoria. In New South Wales a Post Office Savings Bank was established in 1871.

70. All these banks made steady progress, and emerged unscathed from the disasters of the 'nineties. The Post Office Savings Bank of New South Wales had, throughout its existence, been a government bank and its deposits, in 1893, showed an increase over those of 1892. The Savings Bank of New South Wales neither sought nor received government assistance, but was able to meet all its obligations, and its deposits fell only slightly. The Victorian Government guaranteed the Commissioners' Savings Banks of Victoria and the deposits were larger in 1893 than in 1892. In South Australia the deposits of the Savings Bank in 1893 were greater than in any previous year.

71. The establishment of the Commonwealth Savings Bank Department of the Commonwealth Bank in 1912, under the Act of 1911, led to considerable changes in the system of savings banks in Australia. In the first place the Commonwealth Savings Bank decided to use as its agent the Post Office, which had been transferred from the States to the Commonwealth, and the Savings Banks of the States could no longer carry on business through the Post Office. They had to find other premises, and any savings bank previously conducted through the Post Office which was not already a branch or agency of an existing savings bank, became the Savings Bank of the State. The New South Wales Post Office Savings Bank had become, in 1906, the Government Savings Bank. In 1914 this bank absorbed the Savings Bank of New South Wales, which had been established in 1832. In the next place the Commonwealth Savings Bank began a process of absorption by taking over, in 1913, the Savings Bank of Tasmania, and, in 1920, the Queensland Government Savings Bank. Various proposals were made from time to time for taking over other Savings Banks, but nothing came of them until the recent depression, when two State Savings Banks, which found themselves in difficulties, were absorbed by the Commonwealth Savings Bank. The first was the Western Australian Savings Bank, which was absorbed in November, 1931. In New South Wales, the Government Savings Bank was forced to suspend operations on 23rd April, 1931. It was reconstructed and opened for the transaction of new business in September, 1931, and was amalgamated with the Commonwealth Savings Bank as from 15th December, 1931.

RURAL AND AGRICULTURAL BANKS.

72. These banks were created to promote rural settlement and development by affording to primary producers financial assistance, by means of long-term loans, greater than is usually obtainable from other institutions, but their activities have been extended also in other directions. There are two main types, those closely associated with Savings Banks and those established independently. The Credit Foncier Department of the State Savings Bank of Victoria was established in 1896 to give assistance to farmers. In New South Wales, an Advances to Settlers Board was established in 1899, and its activities were transferred, in 1906, to the Advance Department of the Government Savings Bank. In 1920, the Rural Bank Department of the Government Savings Bank was established to take over and extend the scope of the operations of the Advance Department. In both States these departments were under the control of the Commissioners of the Savings Bank, but the accounts were kept separate from those of the ordinary savings bank department. In 1931, when the Government Savings Bank of New South Wales was amalgamated with the Commonwealth Savings Bank, the Commonwealth Bank took over the liabilities of the Rural Bank Department which was, in 1933, reconstituted by the State as the Rural Bank of New South Wales. The other type is the bank specially created for the purpose. Examples of this type are the State Bank of South Australia, and the Agricultural Banks of Tasmania, Western Australia and Queensland.

73. In 1925, the Rural Credits Department of the Commonwealth Bank was established "to facilitate the marketing of primary produce in an orderly manner". The department was authorized to make advances for one year, upon the security of primary produce placed under the legal control of the Commonwealth Bank, to the Commonwealth Bank or other banks, co-operative associations, and corporate or unincorporate bodies specified by proclamation.

THE COMMONWEALTH BANK OF AUSTRALIA.

74. By the *Commonwealth Bank Act* 1911, the Commonwealth Bank was established as a trading bank and a savings bank in competition with the existing trading and savings banks. During several of the crises of the 19th century proposals had been made in Australia for a public bank which should have sole power to issue notes. After Federation, the idea of a Commonwealth Government Bank took form, and some held the view that it should not only be a competitor with the trading banks, but also in some sense a central reserve bank. For instance, the scheme adopted by the Brisbane conference of the Labour Party, in 1908, included the provision "that the bank

shall be a bank of reserve for the deposit of reserves of the banking companies operating in the Commonwealth". But by the time the bill for the establishment of the bank came before the Federal Parliament in 1911, the idea of a central reserve bank was less prominent, and the sole power to issue notes, usually conferred upon a central reserve bank, had already been vested in the Commonwealth Treasurer.

75. No Board of Directors was provided for the Bank. The management was left in the hands of a Governor, appointed for a period of seven years, who was not subject to political control except in some minor matters. The Governor appointed in 1911 was Mr. (later Sir) Denison Miller, who was re-appointed in 1918 for a further period of seven years, but died in office in 1923.

75A. The powers given to the Bank were the following:—

(a) To carry on the general business of banking;
(b) To acquire and hold land on any tenure;
(c) To receive money on deposit, either for a fixed term or on current account;
(d) To make advances by way of loan, overdraft or otherwise;
(e) To discount bills and drafts;
(f) To issue bills and drafts, and grant letters of credit;
(g) To deal in exchanges, specie, bullion, gold-dust, assayed gold, and precious metals;
(h) To borrow money; and
(i) To do anything incidental to any of its powers.

76. The Commonwealth was made responsible for the payment of all moneys due by the Bank. The capital of the Bank was fixed at £1,000,000, to be raised by the issue of debentures, and the Commonwealth Treasury was authorized to make advances to the Bank out of Consolidated Revenue. Authority was also given for the establishment of a Savings Bank Department.

77. The net profits were to be allocated as follows:—

(a) Half to the Bank Reserve Fund to be available for payment of any liabilities of the Bank;
(b) Half to the Redemption Fund which might be used to repay money advanced to the Bank by the Treasury, or to redeem debentures and stock issued by the Bank, or to redeem Commonwealth debts or State debts taken over by the Commonwealth.

78. On 15th July, 1912, the Act came into force by proclamation, and the Bank began savings bank business, but did not commence general bank business until 20th January, 1913. No debentures were issued, but, for the Bank's initial expenses, the Treasury made an

advance of £10,000 which was quickly repaid. On the 20th January, 1913, when the accounts of the Commonwealth Government were taken over, that Government made deposits of £2,327,550. The Government accounts of Tasmania and of Western Australia were taken over in 1914, those of South Australia in 1916, and those of Queensland in 1920. The New South Wales Government does not bank with the Commonwealth Bank, and the Government of Victoria divides its accounts between seven trading banks and the Commonwealth Bank.

79. The *Commonwealth Bank Act* 1914, gave the Bank power, with the approval of the Treasurer, to take over the business of any other corporation carrying on the business of banking. This Act authorized the issue of an additional £9m. of capital, making £10m. in all, but no action was taken under this authority. Debts due to the Bank by any corporation carrying on the business of banking were given the same priority as debts due to the Commonwealth.

80. The Bank began its career shortly before the War, and the arrangements for war finance increased the Bank's power, developed its financial technique, and enhanced its prestige. The Bank assisted the Treasury in the flotation of Commonwealth loans in Australia. Since the first few months of 1915, it has managed the Commonwealth Inscribed Stock Registries in Australia, and since 1916, in London. In addition, the Bank assisted in the financing of many war-time pools and other marketing schemes for primary products.

81. In the first twelve years of its existence, the net profits of the Bank amounted to over £4½m. Although it began with no capital it had the use of current deposits, from the Commonwealth and from some of the State Governments, on which it paid no interest. During the war, and for some years afterwards, these current deposits were largely increased by the balances of loans then floated. The following table is compiled from figures published by the Treasury in the *Commonwealth Gazette*. It shows that from March, 1916, to December, 1920, inclusive, the quarterly balances in Australia, except on five occasions, never fell below £10m. and often greatly exceeded this amount.

TABLE.

COMMONWEALTH TREASURY BALANCES WITH COMMONWEALTH BANK.

	£m.		£m.
1915—March	.6	1918—March	7.2
June	.8	June	18.5
September	3.0	September	27.6
December	6.1	December	20.8
1916—March	8.8	1919—March	27.8
June	16.5	June	20.2
September	20.2	September	23.2
December	19.1	December	10.7
1917—March	22.0	1920—March	11.9
June	16.8	June	8.6
September	9.4	September	10.2
December	12.1	December	6.0

82. In 1920, a step was taken which prepared the way for the Commonwealth Bank to become a central reserve bank. It was then decided to remove the note issue from the control of the Treasurer. A Note Issue Department of the Commonwealth Bank was established, managed by a board of directors composed of the Governor of the Bank who was ex-officio chairman, an officer of the Commonwealth Treasury, and two other directors. Its only function was the control of the note issue, and the new department of the Bank was distinct from all other departments, which still remained in the sole charge of the Governor. The assets and liabilities of the Commonwealth Treasurer under the Australian Notes Act were transferred to the Note Issue Department. Reserves against the note issue were still required to be gold coin of not less than one-fourth of the amount of the notes issued, but the remaining assets of the department might be held (a) on deposit with any bank; or (b) in securities of the United Kingdom, or of the Commonwealth, or of a State; or (c) in trade bills with a currency of not more than 120 days. The net profits of the note issue were required to be paid into the Consolidated Revenue of the Commonwealth, and the Act provided that in case of emergency the control of the note issue might be transferred to the Treasurer by proclamation, for the period and to the extent specified in the proclamation.

83. In 1924, the Act was further amended with a view to providing the legislative framework in which a central reserve bank could operate. The amending Act made a radical alteration in the management of the Bank by substituting control by a board for control by a governor. Eight directors were provided for in the Bill, namely, the Governor of the Bank, and the Secretary to the Commonwealth Treasury, two chosen for their knowledge of currency matters, and four who were or had been associated with some form of commerce or industry. During the progress of the Bill through Parliament, the provision for two "currency" directors was deleted, and the Act provides that the Board shall consist of the Governor, who is the chief executive officer, the Secretary to the Treasury, and six others "who are or have been actively engaged in agriculture, commerce, finance or industry". It was further provided that these six directors should retire in rotation. The election of a chairman was left to the members, and up to the present time the offices of governor and chairman have not been combined. The Board was given authority to appoint an executive committee of any three directors to carry on the business of the Bank between meetings of the Board, and this authority has been exercised. The Act provides also for a Board of Advice in London, but no board has been appointed. The Note Issue Department was retained, but its management was transferred to the Bank Board, and the provision for the transfer of the note issue to the Treasurer in case of emergency was repealed.

84. Under the Act, authority was given to increase the capital of the Bank to £20m., but no action has been taken apart from the transfer, as provided in the Act, of £4m. from the Bank Reserve and Redemption Funds to the Capital Fund. The net profits of the Bank, apart from those of the Note Issue Department, which still went to the Treasury, were to be allocated as follows:—Half to the credit of the Bank Reserve Fund, and half to the National Debt Sinking Fund on Commonwealth account. The Act provided that after a date to be proclaimed, the Board should fix and publish from time to time the rates at which it would discount and rediscount bills of exchange, but, up to the present, no date has been proclaimed. It was also provided that from a date to be fixed by proclamation the banks should settle their inter-bank balances by cheques drawn on the Commonwealth Bank, but there was no compulsion on a bank to keep any particular amount on deposit with the Commonwealth Bank. The trading banks voluntarily opened accounts with the Commonwealth Bank, and no proclamation under this power has been issued. The Board was given authority to issue Australian notes in exchange for sterling or sterling securities lodged with the London branch of the Bank. All banks were required to furnish to the Treasurer statistics of quarterly averages of their liabilities and assets within Australia, on a basis similar to that used previously in furnishing statistics to State authorities.

85. By the *Commonwealth Bank (Rural Credits) Act* 1925, it was provided that 25 per cent. of the net annual profits of the Note Issue Department should be paid into the Rural Credits Department, until the amount paid reached £2,000,000. This amount was reached in September, 1932.

86. The *Commonwealth Bank Act* 1927, provided for the transfer of the savings bank business to a separate institution—the Commonwealth Savings Bank of Australia—which was established by the Act. Provision was made for its management by the Commonwealth Bank Board until a commission of three should be appointed upon a resolution of both Houses of Parliament. No action has yet been taken for the appointment of the commission, and the management of the Savings Bank remains with the Board of the Commonwealth Bank.

THE SYSTEM IN OPERATION, 1901 TO 1936.

(a) PRE-WAR 1901 TO 1914.

87. *From 1901 up to the outbreak of war in 1914, credit policy was in the hands of the trading banks, including the Commonwealth Bank from the time of its establishment.* Throughout the war period, and for some time afterwards, credit policy was considerably affected by the Government's methods of war finance. As the influence of war finance disappeared in the post-war period, credit policy once more rested with the banks. This continued until 1929, for the Commonwealth Bank cannot be said to have become in any real sense a central bank before that year.

88. Throughout the greater part of the period 1901-1936, the international reserves of the banking system were held largely by the trading banks, partly in gold in Australia, and partly in gold or sterling in London. In this respect there was little change until 1929, and, except for the periods 1914 to 1925 and after 1931, sterling was equivalent to gold.

89. Until 14th July, 1915, Australia was on a gold standard. The meaning of this may best be illustrated by a simplified description of the pre-war gold standard in England, and an indication of any differences between it and the Australian gold standard.

90. In England, the monetary unit, the pound sterling, was legally equivalent to 113.1 grains of fine gold, or 123.27 grains of standard gold. The weight of standard gold in a sovereign was 123.27 grains, and an ounce of standard gold, therefore, was worth £3 17s. 10½d. Complete freedom was allowed in dealing with gold. There was no limit to the extent to which it might be imported or exported, coined or melted down, sold to or bought from the Bank of England. Gold sovereigns and half-sovereigns were then current in England, but this circulation was not essential to the gold standard. In order to maintain the gold standard it was necessary that holders of notes should be able to get gold for them at the official rate so that the value of the pound should not fall below its official value in gold. Again it was necessary that holders of gold should be able to get notes for it at the official rate, so that the value of the pound should not rise above its official value in gold. The legal provision in itself was not enough to keep the value of the pound and the value of the fixed weight of gold equal. Action was taken by the Bank of England to ensure that the standard was effectively maintained. In the first place, the Bank held a stock of gold sufficient to meet emergencies, and in the next place the Bank took steps to avoid heavy withdrawals of gold or abnormal accretions.

91. The other chief countries of the world were also on a gold standard. The British sovereign contained 113.1 grains of fine gold, and the American dollar, for instance, contained 23.22 grains. A sovereign was therefore equal in weight of fine gold to 4.866 dollars, and this relation of their respective weights was known as the gold parity between them, and was the rate at which the pound sterling normally exchanged for dollars. Any serious departure from this rate would make it profitable to ship gold from one country to another. When, for example, the exchange rate moved so that the pound sterling exchanged for more than 4.866 dollars, it might be profitable to buy gold in the United States with dollars, and ship it to London where it could be sold for pounds sterling. Conversely, when the exchange rate moved in the other direction, it might be profitable to ship gold from London to the United States. In either case, the shipment of gold would only be profitable if the difference from the gold parity was at least enough to cover the cost of the transport, insurance, and loss of interest involved. The rates above and below gold parity at which it paid to ship gold were called the gold points.

92. One cause of a drain of gold from England or of an influx of gold to England, was a movement in English price levels in relation to the price levels of other gold standard countries. If, for example, English price levels moved upwards in relation to those of the United States, foreign purchases of the highly-priced English commodities would tend to decline, and English purchases of less highly-priced American commodities would increase. This would mean a greater demand for dollars, and unless it were offset, for example, by American investors wishing to invest funds in England, the exchange rate would fall below 4.866, and, if it fell far enough, gold would be exported from England. Conversely, if prices moved far enough in the other direction the exchange rate would rise, and gold would be imported into England.

93. The Bank of England had developed a technique of credit contraction and expansion which enabled it to keep England on the gold standard. The guide followed was the movement in the exchange rate. If, for example, the sterling-dollar rate went to the gold export point, and a drain of gold was threatened, the Bank endeavoured to check it by initiating a credit contraction. This was usually brought about by raising the Bank rate, i.e., the minimum rate at which the Bank was prepared to discount first class bills of exchange. The Bank sometimes supplemented this action by the sale of securities on the open market. The result of such measures was a rise in interest rates, because the banks were accustomed to follow the lead of the Bank of England; a restriction of credit; and a tendency for prices

to fall. The higher interest rates tended to encourage foreign investment in England, and any fall in prices to discourage imports; the *demand for sterling increased, and the rate moved towards parity.* If there were an influx of gold the Bank might lower the Bank rate, and, if necessary, purchase securities, leading to a fall in interest rates, an expansion of credit, a rise in prices, and a movement of the exchange rate back towards parity.

94. The Australian pre-war gold standard was effectively maintained by somewhat different methods. The Australian pound was legally equivalent to 123.27 grains of standard gold, as was sterling. The Australian sovereign was identical in weight and fineness with the English sovereign, so that the normal rate of exchange between the two currencies was parity. Trading bank notes, Queensland Treasury notes, and, after 1910, Australian notes, circulated alongside the gold coinage, into which they were freely convertible. There was no restriction upon the export or the import of gold, nor was there any limit to the amount of gold which any one could sell to an Australian Mint at the fixed price of £3 17s. 10½d. per ounce standard (i.e., 11/12ths fine). Any one who deposited gold at the Mint, in amounts of not less than 1,000 ozs., could have it minted there, subject to the charges for assaying, refining and minting. There was a regular export of gold produced and very little import. No gold points were formally recognized, but the cost of shipping gold was generally from 30s. to 35s. per cent. There was, however, no central bank to take action as the Bank of England did, and Australian banks had developed their own method of maintaining the gold standard, giving parity of exchange with England and corresponding rates with other gold standard countries.

95. Until the depression, the Australian pound and the English pound were generally regarded as identical. In exchange transactions, English sterling was quoted at a premium or a discount. For example, the quotation "Sydney on London. Buying 5s. per cent. discount. Selling 15s. per cent. premium", meant that an Australian bank would buy from a customer £100 sterling for £99 15s. in Australian currency, and would sell to a customer £100 sterling for £100 15s. in Australian currency. The difference of £1 was the bank's charge on the two transactions. This method of quotation serves to illustrate the fact that parity with sterling was regarded as normal. No permanent or serious disparity between Australian currency and British currency appears to have been considered possible. The sterling exchange rate was in some measure controlled by common action on the part of the banks, and was not determined in a completely free market. Had it been so determined, the rate must have

been more responsive to movements in London funds, as the overseas balances of the Australian banks are usually called. If, for example, the value of exports had risen, the greater supply of London funds would have tended to force sterling to a discount. Conversely, a fall in value would have tended to force sterling to a premium. To prevent such movements of the exchange rate, it was essential that the banks should continue to buy or sell sterling in unlimited quantities at the ruling rates. In order to do this the banks had to allow their London funds to fall when sterling was tending to a premium, and, conversely, to rise when sterling was tending to a discount. So long as the banks held sufficient funds in London, and were willing to permit these fluctuations, they could control the exchange market. The banks had, in fact, developed a technique which enabled them, in normal periods, to maintain adequate funds in London to control the *exchange rate, and Australia was thus kept on a gold standard,* without special shipments of gold to and from Australia, such as are usually associated with a gold standard.

96. Current Australian banking practice is to pay attention to the ratio of cash to deposits, the ratio of liquid resources to total liabilities to the public, and the ratio of advances to deposits. There is no general agreement as to the order of importance of these ratios, and there is some difference of practice as to what is regarded as cash. While Australia was on a gold standard, cash included coin, bullion, and Australian notes. Some banks included money at short call in London, and others did not, just as some now include Commonwealth treasury-bills and others do not. Liquid resources included cash, British treasury-bills, money at short call and bills receivable in London, British government securities, and Australian government securities. Every bank had its own opinion as to what were satisfactory ratios from the point of view of profit and liquidity, and shaped its policy accordingly. These ratios were never rigidly adhered to by the banks. On the contrary, they were prepared to let the ratios alter within wide limits. But in the long run, every bank endeavoured to keep its ratios within fairly well defined limits.

97. In order to meet seasonal requirements, the banks accumulated large sums in London during the export season, and allowed them to decline gradually during the remainder of the year. From the point of view of a single bank, an increase in its London funds over its normal holding, without a corresponding decrease in Australian funds, tended to improve its liquid ratio, and therefore its power to lend; conversely, a decrease in its London funds without a corresponding increase in Australian funds, tended to reduce its power to lend. If one bank found that its holdings of London funds

were too large, or too small, it adjusted the position by selling to, or buying from, other banks through exchange brokers. In either case, *its liquid resources would remain unchanged in amount.*

98. For the banks as a whole, of course, it was not possible to meet the position in this way. A general increase in London funds, without a corresponding decrease in Australian funds, meant a *general increase in the liquid resources of the system.* Since no one bank knew accurately the amount of any holdings of London funds except its own, it could not be certain as to the extent of the increase in London funds, but it would be a matter of common knowledge, for example, that export values had increased. In these circumstances, generally speaking, the banks, finding their liquid resources increased, were in a position to lend more. Conversely, when London funds decreased without a corresponding increase in Australian funds, they were inclined to lend less. Whenever receipts from exports were high, or government overseas borrowing increased, or imports fell off, the liquid resources of the system tended to rise, and an expansion of credit could be expected. Whenever receipts from exports were reduced, or government overseas borrowing slackened, or imports rose, the liquid resources of the system tended to fall, and a contraction of credit could be expected.

99. If the banks were in such a position that their cash ratios, liquid ratios, and ratios of advances to deposits were satisfactory, and a net increase or decrease in London funds altered them, the steps taken by the banks would restore the ratios and lead to the necessary adjustments in London funds. When, for example, the course of export values increased the London funds of the banks, it simultaneously increased the Australian deposits, or reduced the advances, of those customers from whom the banks had bought export bills. The first effect of this was that the ratios of advances to deposits would fall, and the ratios of cash to deposits and liquid assets to liabilities would rise. If this change in the ratios were large enough the banks would be prepared to increase their advances, thus raising the advance-deposit ratios. Any increase in advances would tend to increase deposits. Cash ratios and liquid ratios would then fall. Further, *the expansion of credit in this way would tend to* increase the aggregate money income of Australia and to stimulate imports, which would in due course reduce London funds. Conversely, a net decrease in London funds leading to a change in the ratios would generally result in a restriction of advances, which would tend to restore London funds through a decline in imports.

100. In this way the Australian banks met the strain imposed on the stability of the exchange rate by movements in London funds, and

maintained parity between English and Australian currency. So successful were they that up to 1915, and from 1925 to 1928, there were only very small movements in the rate. Even during the period 1915 to 1925, when Australia and England were both off gold, sterling was never at a greater discount than £3 10s. per cent., nor at a greater premium than £2 10s. per cent. There was, however, no exact relation between an increase or decrease in London funds, and an expansion or contraction of credit in Australia. The banks had no means of estimating accurately how the demand for imports would respond to the expansion or contraction of credit. At times it might happen, in the case of an expansion, that the effects upon imports would be to reduce London funds to a level lower than was convenient; at other times a contraction might have the opposite effect. In either case the movement in London funds would serve again as an indicator to the banks.

(b) WAR-TIME, 1914 TO 1920.

101. During the war Australia abandoned the gold standard and adopted many financial measures which caused alterations in the monetary and banking system. In July, 1915, the export of gold from Australia without the consent of the Treasury was forbidden by proclamation. It was not found necessary to pass any legislation giving further power to the Treasury to control the use and disposal of gold. All through the war period, and indeed until the end of 1929, the Australian note was legally convertible into gold, and there was no legal limitation on the freedom to deal with gold other than the prohibition of export from 1915 to 1925. But the Treasury did not exchange gold for notes, and the Australian note became in practice inconvertible. The banks ceased to cash cheques in gold, and undertook not to present notes to the Treasury for gold. The general public was refused gold except in small amounts. The Mints, however, adhered to the practice of buying any gold offered at £3 17s. 10½d. per ounce standard, and of issuing sovereigns to any one who deposited 1,000 ounces or more of gold. In fact, the right to get sovereigns was exercised only by the banks.

102. The measures of war-time finance helped to produce an expansion of credit from 1914 to 1920, which was accompanied by rising prices. The main features of these monetary changes were that notes were substituted for gold held by the public and by the banks, that additional notes were issued and lent to Governments and to banks, and that banks were given the right to get further notes under certain conditions. Much of the gold held by the public came to the banks and was not paid out again. Immediately upon the outbreak of war the banks voluntarily brought large sums of gold to

the Treasury to exchange for notes. In October, 1914, the Treasury arranged that the banks should surrender 10,000,000 sovereigns in exchange for notes. In September, 1916, the banks agreed to provide in exchange for notes a further 5,000,000 sovereigns for export. The stocks of gold accumulated by the Commonwealth Treasury raised the note reserve from £4.1m. in June, 1914, to £17.7m. in 1918, and to £24.3m. in 1919. These exchanges of gold for notes did not alter the volume of legal tender currency. The notes issued merely replaced the sovereigns withdrawn from circulation. But the increased gold holdings of the Treasury made possible a considerable increase in the volume of legal tender currency within the limits of the note reserve requirements.

103. The legal power to issue additional notes backed by this additional gold was used very early by the Treasury. In October, 1914, the Commonwealth Government agreed to lend to five of the States (excluding Queensland) £18m. for public works, on condition that they would not raise new loans for a year. In order to make the loan the Treasury increased the note issue by £18m. Subsequently, further sums amounting in all to £4m. were similarly lent to the States. The exchange of gold for notes did not directly affect the cash position of the banks, but the expenditure of the loan money by the States increased, sooner or later, both the deposits and cash resources of the banks, and raised the ratios of cash to deposits. The note issue jumped from £9.6m. on 30th June, 1914, to £32.1m. on 30th June, 1915.

104. A more direct, but in the result a less important, means of increasing the cash resources of the banks was the grant of rights to obtain notes from the Treasury. In October, 1914, the Government gave to the banks the right to get £3 in notes for every sovereign presented by the banks at the Treasury. Two-thirds of the amount of the notes so issued were treated as a loan to the banks, which were required to pay interest at the rate of 4 per cent. per annum, and to repay the principal not later than twelve months after the end of the war. Similar rights were given to the banks when they handed over 5,000,000 sovereigns for export in September, 1914. In 1919 the banks advanced up to £6m. to provide cash in lieu of 5½ per cent. war gratuity bonds for special classes of recipients. For this service the banks were entitled to obtain advances at the same rate from the Treasury up to the total amount provided. The 1920-21 harvest was financed by the banks in the four wheat-growing States by advances at 6 per cent. interest. Every bank which made such an advance had the right to borrow at 5½ per cent. from the Treasury up to the full amount outstanding.

105. Another method of finance was the arrangement made for the war and peace loans raised in Australia from April, 1918, to September, 1920. The plan as applied to the sixth war loan was as follows. In order to enable their customers to subscribe to the war loan, the banks agreed to offer overdrafts up to 90 per cent. of the subscriptions, the rate of interest on the overdrafts to be 4 per cent. per annum. As the war loan carried interest at 4½ or 5 per cent., the conditions of the overdraft proposal were attractive. On its part the Treasury undertook to make to any bank a loan of notes, if needed, up to the amount of overdrafts granted to customers and still outstanding. The interest to be paid by the banks for these loans was fixed at 3 per cent. Similar arrangements with different rates of interest applied to the other loans. The extent to which the banks made use of these various facilities may be gauged from the fact that up to December, 1920, the sum of £12.04m. had been advanced in notes by the Treasury to the banks, of which £6.97m. had been repaid.

106. In these ways, during the war period and for some time afterwards, the effect of movements in London funds on the expansion and contraction of credit in Australia was outweighed by governmental action which increased the volume of the cash resources of the banks and enabled an expansion of credit to take place. This in turn was followed by a rise in prices. During the whole of the war period, and even later, the additional notes issued were backed by gold to considerably more than one-fourth of their value, but this did not prevent a fall in the purchasing power of money in Australia. A strain on London funds, due to overseas expenses of war, was prevented by borrowing abroad and by the high prices of exports.

(c) POST-WAR 1920 TO 1929.

107. The Board of Directors of the Note Issue Department, or the Notes Board as it was commonly called, took over control of the note issue in December, 1920, and aimed at preparing the way for a return to gold as soon as circumstances permitted. At the time when the Board assumed control the note circulation was £55.24m., and by December, 1923, it had fallen by £3m. The Board had assumed the liability of the Treasury to make notes available to the banks under the various agreements. No rights were cancelled by the Board, but some expired by effluxion of time. As wheat and other temporary advances were liquidated, the banks repaid advances to the Board and the proceeds were available to reduce the note circulation. To assist in financing exports the Board offered the banks advances to the extent of £3m. in 1922-23, £3m. in 1923-24 and £5m. in 1924-25, but only very small advances were actually

made. The rights under the war gratuity arrangements would have expired in May, 1924, when approximately £4m. in notes had to be paid to the banks in consideration of amounts provided by them. The Notes Board, however, anticipated this payment and issued the notes two or three months earlier, causing a rise of some £4m. in the note issue. The net effect on the note issue, of all these transactions, was that when the Notes Board was transferred to the control of the Commonwealth Bank Board in October, 1924, the note issue stood at £56.89m.

108. A recession in trade began in 1920, and this was accompanied by exchange and currency troubles. Those who were expecting a revival of trade had placed orders overseas for large quantities of goods, and these, with many orders placed in London before the end of the war, were unexpectedly filled. Imports, which had been £102m. in 1918-19, and £99m. in 1919-20, increased to £164m. in 1920-21. London funds were reduced, sterling went to a premium, credit was contracted, and imports decreased.

109. In 1924 further exchange and currency troubles arose. Owing to large public borrowing abroad, the investment of overseas capital in new industries in Australia, an influx of capital brought by immigrants, and the accumulation in London of Bawra profits for remittance to Australia, the 1920-21 position was reversed. There was a great increase in London funds, the exchange rate was altered, and sterling was quoted at a discount amounting in October to a maximum of 3½ per cent. It was commonly stated that "money could not be transferred" from London to Australia. The fact was that sterling could have exchanged for Australian currency if only the discount had been allowed to increase sufficiently. The banks, however, did not take this course. In May, 1924, they asked the Notes Board to issue notes secured by gold, cash balances in London, or approved British Government securities. The Board offered to do this with a limit of £3m., subsequently raised to £5m. The banks were opposed to any such limitation and negotiations continued. In August, 1924, the banks complained of a shortage of currency, but the Board denied the shortage, and asserted that there was no evidence to support the banks' contention. In October, 1924, when the Commonwealth Bank took over the note issue, it was empowered to issue notes, if necessary, against the security of London funds. The Bank Board offered to issue notes up to £15m. on condition that interest was paid at the Bank of England rate, that 75 per cent. of the advances should be repaid by 31st August, 1925, and the remaining 25 per cent. at a date to be fixed by further negotiations. Under this arrangement advances were made by the

General Banking Department of the Commonwealth Bank without any increase in the note issue. The maximum amount of advances outstanding at any time was £2.8m., and all the advances were repaid by June, 1925. The trading banks also converted some of their London funds into Australian funds by importing approximately £10.5m. in gold between February and May, 1925. This may have been done because the banks thought the gold would serve as cash if notes could only be obtained in the form of a temporary advance on conditions; or it may have been a means of replenishing their gold stock in view of the expected return of Australia to a gold standard.

110. On 30th April, 1925, Australia, along with Great Britain and New Zealand, returned to a gold standard, and the exchange rate moved to parity with sterling. The new gold standard established in England differed in one respect from the pre-war standard. From this time gold could only be obtained from the Bank of England in the form of bars of not less than 400 fine ounces at the fixed price of £3 17s. 10½d. per ounce standard. Gold coins, too, which had practically disappeared in war time, remained out of circulation. The new gold standard established in Australia was similar to the old except in one important respect. The prohibition of the export of gold was withdrawn; but, although the Australian note still bore on its face the promise of the Treasurer to redeem it in gold coin on demand, in practice it remained inconvertible. The Mints were still prepared to buy gold at the fixed price, and to issue sovereigns to any one who deposited 1,000 ounces or more of gold. Indeed, this practice was only abandoned in September, 1931, when the Mints ceased to mint gold coins.

111. The period 1919 to 1929 was on the whole one of rising industrial activity, which reached its peak in 1927. Many indexes show the growth of this activity. Over the period factory employment substantially increased. Unemployment, as measured by the Commonwealth Statistician's figures, reached the lowest post-war figure at the end of 1926, although it had risen sharply again by the middle of 1928. Share prices by 1928 had risen to a level 50 per cent. above the depressed level of 1921-22. From 1919 to 1928 export prices fluctuated, but the average was some 50 per cent. above pre-war prices. Imports and exports both rose in value. For the five years 1919-20 to 1923-24, imports of merchandise averaged £128m. and exports £125m. annually. For the next five years 1924-25 to 1928-29, imports averaged £150m. and exports £141m. annually. Public borrowing, both overseas and internal, continued on a scale only slightly less than that of war-time borrowing. In the ten years

between 30th June, 1919, and 30th June, 1929, the net addition to overseas public debt was £225m., and to internal debt £173m. The greater part of these sums was spent by Australian Governments on public works. There are no figures available which show how many people were dependent for their livelihood upon this expenditure. But, as the annual average of loans raised at home and abroad was approximately £40m., employment dependent upon public works financed by loans must have been considerable.

112. The deposits of the trading banks rose steadily from £193.4m., in the June quarter of 1919, to £302.3m. in the June quarter of 1929. This increase occurred mainly in fixed deposits, which rose from £104.5m. in 1919 to £192.1m. in 1929. Current deposits, which were £88.9m. in 1919, jumped to £114.3m. in 1920, and thereafter remained fairly constant, being £110.2m. in 1929. There was an increase in the trading bank advances from £161.8m. in the June quarter of 1919 to £267.8m. in the June quarter of 1929, about equal to the increase in total deposits. The note issue fell from £56m. towards the end of 1925 to £44m. in June, 1928, and £42m. in June, 1929. It might appear from these figures that the volume of currency had greatly decreased, and that, with the expansion of bank deposits during the period, the banks' cash position in Australia had deteriorated. But, after 1924, the note issue occupied a less significant position in the monetary system, and deposits held by the trading banks with the Commonwealth Bank increased in importance. After the passing of the *Commonwealth Bank Act* 1924, the trading banks began to settle their clearings through their accounts at the Commonwealth Bank. The banks had previously conducted these clearings, after they had ceased to use gold for the purpose, chiefly by means of £1,000 notes. After 1924, these notes were largely replaced by deposits with the Commonwealth Bank, which retired the notes by exchanging them for securities held in the Note Issue Department. In this way, between June, 1924, and June, 1928, the issue of £1,000 notes decreased from £21m. to £7m., a fall of £14m., which was rather more than the total decrease in the note issue between these dates. One result of this process, as of any other which involves a transfer of securities from the Note Issue Department to the General Banking Department, was to decrease the revenue of the former and to increase the revenue of the latter.

113. In the period 1925 to 1929, industrial activity in Australia was stimulated by high export prices and heavy overseas borrowing. Neither of these two influences could be relied on to continue indefinitely at the same strength, and some recession was to be expected when they weakened. This point of view was emphasized by some observers, but few foresaw the imminence of depression, and

still fewer contemplated that its severity would be accentuated by a world-wide slump. It has sometimes been claimed that the Australian banks, foreseeing the depression, issued general warnings to the public. There is little substance in this claim, for the warnings regularly given in the annual speeches of chairmen of some trading banks amounted to little more than protests against excessive public borrowing and governmental extravagance.

(*d*) DEPRESSION AND RECOVERY, 1929 TO 1936.

114. The onset of the depression was marked by the complete cessation in January, 1929, of long-term government borrowing from abroad, and by a decline in the prices of Australian exports, beginning in the middle of 1928, and becoming rapid from the early part of 1929. These changes resulted in a severe drain on London funds. The value of exports of merchandise (excluding gold) fell by £40.3 sterling between 1928-29 and 1929-30, but the value of imports fell by no more than £12.5m. sterling, turning an excess of imports of £5.6m. sterling into an excess of imports of £33.4m. sterling. Overseas interest on public debt, including local government debt, amounted to about £28m. sterling. Great difficulty was found in meeting this obligation, and drastic steps had to be taken to provide the funds necessary to meet the interest and to pay for imports. In October, 1929, and again in April, 1930, the Commonwealth Government, with a view to reducing imports, imposed prohibitions upon a number of imports, and raised the duties on a still greater number; and in July, 1930, a primage duty of 2½ per cent. was imposed on all imports. Gold was mobilized and exported, £27.7m. in 1929-30 and £13m. in 1930-31, drawn mainly from the cash reserves of the banking system. This process was facilitated by the Act of 1929 which enabled the Commonwealth Bank to acquire gold from any holder; by the Act of 1931 which temporarily reduced the note issue reserve; and by the Act of 1932 which allowed the Commonwealth Bank to hold the reserve in sterling. Other measures were directed towards securing funds in London for government needs, including repayment of overdrafts. Although long-term lending had ceased, the Governments were able to arrange for short-term loans, including overdrafts, in London amounting at 30th June, 1931, to £38m. sterling.

115. Towards the end of 1929, the exchange rate with sterling had risen above the gold export point, and Australia had definitely left the gold standard. Throughout the whole of 1930, persistent efforts were made to keep the rate as near as possible to par with sterling. Trading banks were prepared to sell London funds to their customers at a rate somewhat higher than par, but in the effort to

preserve the rate they rationed exchange. In deciding what amounts they would sell to importers, they paid some attention to the kind of imports which the funds were to purchase, but for the most part they exercised a general restriction, and allowed the importer to decide how to use the limited supply. In August, 1930, in order to ensure that the requirements of governments and local government bodies for the payment of overseas interest would be met, a voluntary exchange mobilization pool was established by agreement between the governments, the Commonwealth Bank, and the trading banks. For this purpose each trading bank undertook to hand over month by month to the Commonwealth Bank, at slightly less than the published rate, a proportion of its gross cash receipts in London. The Commonwealth Bank also contributed to the pool on the same basis as the trading banks. The amount agreed to be provided was originally £3m. sterling a month, but as overseas interest declined it was reduced, and now amounts to £2.4m. per month. In the first week of each month, trading banks contributing to the pool inform the Commonwealth Bank of the amount of their gross receipts in London for the previous month. On this information the quota for each bank for the month is determined.

116. Notwithstanding all these measures, it was found impossible to hold the sterling exchange rate, which had moved by slow stages from 101.6 at the end of 1929, to 108.5 in October, 1930. There was great reluctance on all sides to admit that the Australian pound was not identical with the English pound. All the force of tradition was behind the view that the two currency units were one. The Governments were anxious, too, that no serious disparity between the two pounds should arise, because a higher rate of exchange meant, immediately at least, higher taxation to meet overseas interest. It seemed to many people that any serious depreciation of Australian currency as compared with sterling, would lead directly to uncontrollable inflation and precipitate a flight of capital, of which there was already some evidence. In October, 1930, an alteration in the method of quoting the exchange rate emphasized the fact that the two currency units were not identical. Sterling was no longer quoted at a premium or at a discount, but the price of £100 sterling was quoted in terms of Australian pounds. For example, instead of quoting, "Buying 8½ per cent. premium, selling 9 per cent. premium", banks quoted "Exchange on London on the basis of £100 London: Buying £108 10s., selling £109".

117. Exchange rationing was, in effect, an attempt to control both the price and the quantity of the commodity sold, which in this case was sterling. A bank which rationed exchange was willing to sell only a limited quantity to a customer at a fixed price and customers who offered higher prices were necessarily refused. It became clear towards the end of 1930 that the banks controlled a decreasing proportion of the total sterling offered. Exporters who had been paid in sterling found that they could get a better price than the banks were offering by selling it to importers, who were unable to get from the banks all that they wanted. In these circumstances, opportunity arose for exchange operators, outside the banks, to act as middlemen between exporters and importers, and to make a free market for sterling outside that controlled by the banks. Exchange rationing broke down because of the inherent difficulty when the monopoly of supply is not possessed by those who attempt to ration.

118. In December, 1930, when the banks' buying rate for £100 sterling was £108 10s. Australian, the outside market was offering £110 Australian. The disparity between the two prices increased in the early part of January, 1931, when the outside market rate was £116 Australian. On 6th January, the Bank of New South Wales altered its rate to £115 Australian, the other banks followed suit, and the outside market rose still higher. The banks then vigorously competed with the outside market by raising the official rate within three weeks to £118, £125, and, on 29th January, to £130. The outside market then became quiescent, and the last rate remained unchanged until December, 1931.

119. In October and November, 1931, it looked as if the rate might come nearer to the old parity. Export prices then were higher than they had been since the middle of 1930. Imports of merchandise had been cut in half, falling from £130.8m. sterling in 1929-30 to £60.6m. sterling in 1930-31. Exports of merchandise had only fallen from £97.4m. sterling to £76.3m. sterling, and an excess of imports of £33.4m. sterling had been converted into an excess of exports of £15.7m. sterling. London funds of the trading banks were accumulating at a season when, for the past two years, they had shown a tendency to decline. There was some expectation that England's departure from gold in September would be followed by a downward movement in the Australia-London exchange rate. In November, 1931, for example, the outside market was quoting £127 as compared with the official rate of £130, and forward exchange was being quoted at £126. At the end of the month the outside market rate had fallen to £125 5s. In these circumstances, some of the trading banks began to fear that the official rate might fall and involve them in loss.

120. A conference was held in Sydney on 23rd November, 1931, between the general managers of the trading banks and the Chairman

and the Governor of the Commonwealth Bank. The Commonwealth Bank tabled proposals of which the following were the principal:—

> "(1) The Commonwealth Bank, in conjunction with the trading banks, is prepared to maintain the present telegraphic transfer carded rates, and will not depart from this arrangement without notification and consultation with the trading banks;"
>
> "(2) The undertaking of the Commonwealth Bank in respect of number (1) is conditional upon all of the trading banks jointly entering into the same arrangement with the Commonwealth Bank";
>
> "(5) The Commonwealth Bank will undertake to continue to buy exchange from its regular trade customers at carded rates conditionally upon the trading banks agreeing to the same conditions".

After discussion, the trading banks were unwilling to accept Clause No. 5 as it stood, and it was decided that the following amendment should be submitted to the Commonwealth Bank Board at its meeting on 1st December, 1931:—

> "(5) The Commonwealth Bank will undertake to buy and sell exchange from its regular customers including the trading banks at carded rates conditionally upon the trading banks agreeing to buy and sell all exchange offered to them at carded rates".

121. The Board, however, at its meeting, rejected the amendment of its proposals and the original offer lapsed. On the following day, the Board announced "that the Commonwealth Bank will buy from the general public without restrictions and from the banks conditionally upon the banks furnishing all returns required by the Commonwealth Bank any surplus of London funds over the amount held by them on 30th November, 1931, at rates to be fixed by the Commonwealth Bank from time to time". The undertaking to purchase the surplus London funds of the trading banks still exists although the basis for calculating the surplus was later changed to the amount held on 31st August, 1932. At the same time the Board announced that it was prepared to buy exchange on London at the rate of £125 Australian for £100 London, and to sell at the rate of £125 10s. Australian for £100 London. Some at least of the trading banks were surprised by this step. Had the modified proposals proved acceptable to the Bank Board, no alteration in the rate would have been made "without notification and consultation with the trading banks". The Bank Board claimed that its proposals were

merely tentative, and took the view that the clauses were interdependent, and that, since clause 5 had not been accepted as originally drawn, the other clauses did not operate. The rates established on 2nd December, 1931, have remained unchanged up to the present. Before that date the usual practice had been for the exchange rate to be determined by the banks in consultation, and the rate fixed continued to apply until a change was announced. Since that date the Commonwealth Bank has announced the rate every Friday without consulting the trading banks.

122. The middle of 1932 is usually recognized to have been the period of deepest depression in Australia. Export prices began to rise in May, 1933, and, although there was another serious decline in 1934, the tendency since the beginning of 1935 has been upwards. These movements have been reflected in exports of merchandise, which rose from the lowest depression figure of £75.2m. sterling in 1931-32 to an annual average of £83.2m. for the next three years. Imports rose from their lowest figure of £44.0m. sterling in 1931-32 to an annual average of £62.9m. sterling for the next three years, giving an average annual surplus of exports of £20.3m. sterling. The most rigid item in the balance of payments, namely, interest on overseas debt, was reduced by the suspension of payments of war debt and by the conversion of overseas debt at lower rates of interest. The corrective measures taken, and the rise in export prices, have helped to make the problem of the balance of payments no longer acute, although the fluctuation of London funds has at times caused some uneasiness.

123. The course of the depression dislocated public finance, and led to measures which produced important effects upon the monetary and banking system. The fall in the incomes of exporters, the cessation of public works financed from long-term overseas borrowing, and the consequent decline of other incomes, led to a serious reduction of national income. With prices falling rapidly it was difficult to adjust costs, and business depression and growing unemployment added to the difficulties of the Governments. Revenues fell with the decline in national income, but expenditure could not easily be reduced. Some of the more rigid items of the Budgets were those sinking fund contributions which since 1928 have been constitutionally binding on the Governments, and overseas interest payments. In addition, new responsibilities had to be undertaken by Governments such as relief of unemployment. As a result, the combined deficits of the Commonwealth and State Governments greatly increased between 1929-30 and 1930-31.

124. The situation was met by increases in taxation, reduced expenditure, and by external and internal borrowing. Between June, 1929, and June, 1931, although several internal loans were floated for conversion purposes, only £12m. of new money was raised by long-term loans. In these circumstances, recourse was had to short-term borrowing from the banks both in Australia and in London. On 2nd April, 1931, the Commonwealth Bank advised the Loan Council that a point was being approached beyond which it would be impossible for the Bank to provide further financial assistance for the Governments. At that date advances on treasury-bills made to the Governments by the Commonwealth Bank were £25m. in London and £23m. in Australia. It was estimated that the combined deficits of the Commonwealth and the States would amount to £31m. in 1930-31 and £41m. in 1931-32. After a series of conferences, the Commonwealth and the State Governments unanimously adopted, in June, 1931, the Premiers' Plan. It was expected that the adoption of the Plan would eliminate deficits within a few years, and borrowing by treasury-bills or otherwise was approved as a method of financing them in the meantime.

125. Treasury-bills are three-month promissory notes issued through the Commonwealth Bank by the Commonwealth Government on account of itself and State Governments. In Australia there has never been any system either of tendering or of sale in the open market, but, when an issue of treasury-bills is made, the Commonwealth Bank discounts the bills at a fixed rate, using its discretion as to what volume it will sell to the trading banks, and what volume it will retain for itself. There has been no definite basis of allocation to the trading banks, but a rough guide followed by the Commonwealth Bank is the amount of deposits which a trading bank holds with it. Treasury-bills are not sold to branches of foreign banks such as the Comptoir National d'Escompte de Paris and the Yokohama Specie Bank.

126. The treasury-bills issued prior to October, 1929, were all temporary issues, and were repaid at maturity. For example, in 1927, bills were issued at a discount rate of 4 per cent. per annum to provide cash to redeem the unconverted portion of the Commonwealth Government loan of £4.25m. which matured at the end of May of that year. For this purpose, the Commonwealth Bank took up bills to the value of £530,000, and, subsequently, sold some of them to the trading banks. In February, 1928, a further issue of £1m. at a discount rate of 4½ per cent. was taken up by the Commonwealth Bank in conjunction with the trading banks.

127. In London, short-term accommodation for the Australian governments was arranged by means of treasury-bills and short-dated

debentures. These have undergone various changes as to amount, rate of interest, and even form, sometimes being termed treasury-bills and sometimes debentures. The following five original issues were made:—

Time of Issue.	Amount.	Form.	Original Discount Rate per cent.	To whom Issued.	Purpose.
	£		£ s. d.		
1. September, 1929	5,000,000	Treasury Bills	6 2 8	Public ..	To meet London requirements of Commonwealth and certain States
2. November, 1929	5,000,000	Treasury Bills	5 7 0	Public ..	
3. November, 1930	2,050,000	Treasury Bills	5 0 0	Trading Banks	To reduce overdraft at Westminster Bank
4. January, 1931	19,580,000	Debentures	3 and 3½ per cent.	Commonwealth Bank	For overdraft accommodation for Governments
February, 1931	545,000				
			£ s. d.		
5. April, 1931	5,000,000	Treasury Bills	4 0 0	Westminster Bank	For balance of overdraft
Total ..	38,075,000				

128. The first issue was taken over by the Commonwealth Bank in March, 1931. Six months debentures were issued and were periodically renewed, the rates being reduced by stages to 2½ per cent. in September, 1932. In December, 1936, the issue was replaced by three-months sterling treasury-bills in Australia at 2¼ per cent.

129. The second issue was taken over by the Commonwealth Bank in June, 1930, which sold bills to the public in July. These were renewed in December, 1930, and met in June, 1931, by Commonwealth Bank overdraft. In August, 1931, a six-months debenture was issued to the Bank, payable in March, and was renewed periodically. The rate of interest was reduced by stages to 2½ per cent. in August, 1932. In February, 1937, the issue was replaced by three-months sterling treasury-bills in Australia at 2¼ per cent.

130. The third issue was dealt with as follows:—In July, 1932, the trading banks exchanged one-half of these bills for treasury-bills issued in Australia. The other half was paid to the trading banks in London by the Commonwealth Bank, which received treasury-bills issued in Australia. Thus, £2,950,000 was transferred to Australia and became part of the Australian short-term debt to the amount of £3,705,000.

131. Rates on the fourth issue were later increased to 4½ and 5 per cent., and still later reduced by stages to 2 and 2½ per cent.

£500,000 was paid off and £17,134,000 has been replaced by three-months sterling treasury-bills in Australia at 2¼ per cent. £2,491,000 remains as short-term debentures in London, at 2 per cent.

132. The rate on the fifth issue was increased to 6½ per cent. in September, 1931, and reduced later to 4½, 3½ and finally 3 per cent. £1,500,000 was paid off at different times, and in June, 1934, the balance, £3,500,000, was taken over by the Commonwealth Bank. In September, 1934, three-months debentures were issued in Australia at 2½ per cent. These have been renewed periodically, but £250,000 has been paid off. In September, 1936, the issue (£3,250,000) was replaced by three-months sterling treasury-bills in Australia at 2¼ per cent. Of these £700,000 are held by the National Debt Commission as a temporary investment.

132A. The present position is—

	£	
Sterling treasury-bills in Australia	30,384,000	at 2¼ per cent.
Short-term debentures in London	2,491,000	at 2 per cent.
	32,875,000	
Paid off	2,250,000	
Now part of Australian short-term debt	2,950,000	
	38,075,000	

133. In October, 1929, treasury-bills were issued in Australia instead of a public loan, but at the end of the year a total of £2.5m. was outstanding. In December, 1930, this sum had increased to £9m. At a conference between the Commonwealth Bank and the trading banks in that month it was decided that future banking accommodation to the Governments should be provided only by treasury-bills issued under the authority of the Loan Council. Both Commonwealth and State Governments had previously borrowed money for temporary purposes by means of overdrafts either from the Commonwealth Bank or from trading banks. To the banks which held them, treasury-bills at this time were merely short-term government securities, but in June, 1931, a step was taken which altered their significance for the trading banks. In accordance with the Premiers' Plan, government deficits continued to be financed by treasury-bills, but in order to make the bills more acceptable to trading banks, the Commonwealth Bank on 30th June, 1931, undertook to meet the bills at maturity if necessary, and to rediscount them at a rate differing not more than ¼ per cent. from the rate at which they were issued. At this date, the balance outstanding amounted to £20.6m. It increased gradually to about £50m. at the end of 1932, a figure about which it fluctuated

for the next two years. The rate of discount, which was 6 per cent. per annum in 1930, was gradually reduced to 1⅞ per cent. by January, 1935, where it has since remained. Treasury-bills were used both for the purpose of government deficits and to provide finance for government loan expenditure. Since February, 1933, however, by arrangement with the Loan Council, treasury-bills have not been used for the latter purpose. In June, 1934, the Commonwealth Bank Board agreed to finance the 1934-35 deficits only on the understanding that bills of an equivalent amount would be retired during the financial year. At the same time, the Board announced that thereafter it would not be prepared to finance deficits in this way, but only the normal lag in revenue. The Board also withdrew its guarantee to meet the bills at maturity and its undertaking to rediscount them at a fixed rate. At present the position is that the Bank will quote to the holder of a bill, upon application, a rate at which it is prepared to rediscount.

134. The conversion of the whole of the internal public debt of £558m. had been successfully carried out by September, 1931, relieving the budgets considerably of payments for interest. One of the items of the Commonwealth Budget was an amount comprising interest and repayment of principal on account of the war debt owing to the British Government. Early in 1930 the British Government suspended the repayment of principal, and in 1931, after the Hoover Moratorium, suspended the interest payments as well. The total relief to the Commonwealth Budget on this account was £5.5m. sterling, or about £A7m. In October, 1932, the first conversion of Australian overseas public debt was negotiated in London, and since then a sum amounting to £198.5m. sterling has been converted, resulting in an annual saving of interest of approximately £A4m. As recovery has progressed and national income has grown, governmental revenues have recovered. In 1935-36, the combined revenues of Commonwealth and States showed a slight excess over expenditure.

DEVELOPMENT OF CENTRAL BANKING.

135. Central banks are of comparatively recent origin, and there is no universally recognized technique of central banking. The first central bank was the Bank of England, which developed powers and practices suitable to the peculiarities of the monetary and banking system within which it had to work. The chief function of a central bank may be said to be the regulation of the volume of credit, including currency, and in performing this function the Bank of England made use of the bank rate and of purchases or sales of securities on the open market. The successful working of these powers depended upon the existence of a specialized short-term money

market and upon the fact that the banks and the money market responded to action by the central bank. As central banks developed on the continent of Europe and elsewhere it was found that the conditions under which they worked rendered English practice to some extent inapplicable, and different methods were employed for regulating the volume of credit.

136. The progress of the Commonwealth Bank as a central bank came in great part through the exercise of powers which it possessed under the *Commonwealth Bank Act* 1911-1924, and only in a less degree through powers added by later legislation. No great use was made of these powers until the depression forced upon the banking system a recognition of their necessity, and the Commonwealth Bank regards 1929 as the year in which it began to act as a central bank.

137. In 1930, Mr. Theodore, Treasurer in the Scullin Government, introduced into the Federal Parliament a bill to establish a Central Reserve Bank of Australia. The bill proposed to transfer to the new institution some of the Commonwealth Bank's powers and to add other powers considered essential for the purposes of a Central Reserve Bank. The Commonwealth Bank was to be left with its trading bank powers unimpaired to compete with the other trading banks and to be subject, as they would be, to the powers of the new Central Reserve Bank. The Commonwealth Savings Bank was to remain under the control of the Commonwealth Bank. The capital of the Reserve Bank was to be £2m., transferred from the Commonwealth Bank. The net profits from the note issue were still to be paid to the Commonwealth Treasury. All other profits were to be placed to reserve until the reserve fund reached an amount of £2m., and while this sum was maintained half the profits were to go to the Reserve Fund, and half to the National Debt Sinking Fund. The Reserve Bank was to be managed by a Board appointed by the Governor-General, consisting of a Governor, two Deputy Governors, the Secretary to the Treasury, and five other directors "who are or who have been actively engaged in agriculture, commerce, finance, industry or labour". 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. Control of the note issue was to to be transferred from the Commonwealth Bank to the Reserve Bank, as also was the power, conferred on the Commonwealth Bank in 1929, to require the exchange of gold for notes. Trading banks were to be compelled to keep with the Reserve Bank balances of not less than 10 per cent. of demand deposits and 3 per cent. of time deposits. Trading banks were also to furnish, monthly as well as quarterly, returns to the Reserve Bank, covering, amongst other matters, particulars of their London funds, and after a date to be proclaimed they were to settle their clearing balances through the Reserve Bank. Powers were given to the Reserve Bank to buy and sell exchange and to buy and sell securities; to make advances to banks or to rediscount for banks; to accept current deposits without interest; and to make secured advances to any one, or unsecured advances to any Australian government. The Board of the Reserve Bank was also required to fix and publish from time to time the rate at which it would discount and rediscount approved bills of exchange and short-dated government securities. The bill passed the House of Representatives in June, 1930, but in July the Senate referred it to a Select Committee. After taking evidence the Committee, in December, reported adversely upon the Bill. In April, 1931, the Senate resolved that the bill be read a second time "this day six months", and the Bill lapsed.

138. In March, 1931, a Fiduciary Notes Bill was introduced into the House of Representatives by the Treasurer, Mr. Theodore. The Bill provided machinery to enable the Government to demand from the Commonwealth Bank an issue of additional currency up to the amount of £18m. The issue was to take the form of Treasury notes, which would be legal tender for any amount. Not more than £6m. were to be used for relief of wheat-growers, and not more than £12m. for reproductive public works. The decision as to the time and amount of each issue rested with the Governor-General in Council, but the £12m. for public works were to be issued at a rate not exceeding £1m. per month. The Bill passed the House of Representatives, but was rejected by the Senate in April, 1931.

139. It may be said that, for Australia, any power which enables the Commonwealth Bank to exercise control over the volume of credit is a central bank power, irrespective of whether the power in question has been used by any other central bank, or is appropriate to any other central banking system. It is not to be expected that the regulation of the volume of credit in Australia could be achieved by a central bank which merely copied the methods appropriate to a different and much more highly-specialized monetary and banking system. But it is possible to trace the development from 1929 of the Commonwealth Bank as a central bank, and show how it has exercised its powers, without attempting to draw too clear a line of demarcation between powers which are normally considered essential to a central bank and those which are not.

I.—The Note Issue.

140. The note issue in Australia is an essential part of the monetary circulation. Consequently, unless it were controlled by the central bank, steps taken by the bank to increase or reduce the

cash of the banking system, with a view to regulating the volume of credit, might be nullified by action in the opposite direction by the authority controlling the note issue. Since 1924, the Commonwealth Bank has possessed complete control over the note issue, subject only to the statutory requirements as to reserve. By the legislation of 1931 and 1932, the Commonwealth Bank's control over the note issue was extended. The Bank was free to reduce temporarily the reserve of the note issue and to hold it in sterling or gold. It is to be noted that the legal maximum of the note issue is now affected by the exchange rate with sterling, for if the value of gold or sterling included in the reserve is expressed in Australian currency (as is the present practice of the Commonwealth Bank), any rise or fall in the rate automatically varies the legal limit of the note issue.

II.—Trading Banks' Deposits with the Central Bank.

141. It is usually considered essential to the success of a central bank that it should hold the cash reserves (other than till-money) of the trading banks. It is clearly more convenient for them to hold their cash reserves not in the form of legal tender currency, but as deposits with the central bank. Instead of holding large amounts in notes they can draw upon their deposits with the central bank for their cash requirements, and for the settlement of inter-bank transactions. The practice increases the prestige of the central bank, because the trading banks are more likely to regard it as the "bankers' bank", or the "lender of last resort", if their reserves are held with it. In Australia the form in which the trading banks keep their reserves is a matter of some importance to the Commonwealth Bank. If they are kept in the form of deposits with the Commonwealth Bank, the assets and liabilities of the Bank are then increased. The Bank has, therefore, greater strength arising from its control over the disposal of a larger volume of assets and from its increased sources of revenue. If the trading banks were to hold their reserves in the form of treasury-bills or of London funds instead of deposits with the Commonwealth Bank, the Bank would suffer a loss of assets and a loss of profits in either case. In one case, too, there would be a loss of a particularly important form of asset, namely London funds. If the trading banks were to hold their cash reserves in the form of notes, the amount of the note issue would require to be much larger than would be necessary if the trading banks held deposits with the Commonwealth Bank. With a larger note issue, the Commonwealth Bank, in order to comply with the statutory requirements, would have to keep earmarked a larger reserve of gold or sterling, which would immobilize more London funds. Although,

in this case, the assets and liabilities of the Commonwealth Bank as a whole would remain unchanged, a transfer of London funds and government securities would have taken place within the bank, causing the Note Issue Department to gain assets and profits at the expense of the General Banking Department.

142. Before 1924, some of the trading banks had maintained deposits with the Commonwealth Bank, but these balances formed a very small proportion of the cash reserves of the banks. The section of the Act of 1924 which compelled the banks to settle their clearings through the Commonwealth Bank has not been proclaimed, but since the passing of the Act all the trading banks have held balances there. In 1926 the average balances held by trading banks was £6m., which by 1928 had increased to £11.8m. In 1928 the Commonwealth Bank requested the trading banks to keep their reserves with it, and gave an undertaking that if this were done, these reserves would not be used in competition with the trading banks. A significant increase in these balances, from £9.8m. in 1929 to £16.7m. in 1930, came after the Commonwealth Bank took over £12m. sterling of gold from the trading banks. Since 1930 these deposits have formed the chief part of the trading banks' cash in Australia. After gold had been taken over from the trading banks, the Commonwealth Bank held a greater proportion of the gold and sterling which form the international reserves of the Australian banking system. The trading banks ceased to hold gold and held only their ordinary London funds, while the Commonwealth Bank held in sterling the reserve against the note issue, and such other London funds as were left to it after the balance of payments had been adjusted.

III.—Relations with Governments.

143. It is essential for a central bank that its relations with the Government responsible for monetary policy should be close and cordial in order that there should be consistency between Government financial operations and those of the Bank. It was not until the Financial Agreement concentrated borrowing power in the hands of the Loan Council, from 1927 onwards, and the depression necessitated short-term as well as long-term borrowing, that the influence of the Commonwealth Bank in this respect became important. From 1912 the Commonwealth Bank held the Commonwealth Government account, and by 1920 those of most of the States. By doing so the Bank was better able to avoid the dislocations which might be associated with large government operations in the money markets and with any lag of revenue behind expenditure. By holding the Commonwealth Government account, the Bank was brought into closer relation with the Government responsible for monetary policy.

The legislation of 1929, enabling gold to be mobilized by the Commonwealth Bank, was introduced on the recommendation of the Bank, as also was the legislation of 1931 and of 1932, relating to the note issue reserve.

144. Australian governments have sought to relieve unemployment and to hasten recovery by means of long-term internal loans for the purpose of public works. The Bank has acted as adviser to the Loan Council in regard to all loan finance. It is consulted by the Loan Council as to amount and terms of loans, and the time of issue; but the advice of the Bank has not always been taken. The Loan Council has always looked to the Bank to underwrite government loans in Australia, and the Bank has frequently proposed limits of underwriting which it has subsequently agreed to extend; but on the whole the Bank has been a most important influence in regulating public long-term borrowing. Between November, 1932, and November, 1936, all but one of the loans floated were underwritten by the Commonwealth Bank. The total amount underwritten was £84.3m., and, together with the Commonwealth Savings Bank, it subscribed £15.2m. to loans in the same period.

145. Treasury-bill finance affords a good example of the power of a central bank to expand credit. A simplified example of movements in the balance-sheet of the Commonwealth Bank, on the supposition of an issue of £10m. of treasury-bills followed by government expenditure of the proceeds, and subsequently by the funding of £7m., should make the working of the mechanism clear.

—	Liabilities.				Assets.		
	Government Deposits.	Deposits by Trading Banks.	Other Liabilities.	Total Liabilities.	Treasury Bills.	Other Assets.	Total Assets.
	£m.	£m.	£m.	£m.	£m.	£m.	£m.
Stage 1.—Position before any Treasury bills are issued	5	20	55	80	..	80	80
Stage 2.—Position after the issue of £10,000,000 Treasury bills.. ..	15	20	55	90	10	80	90
Stage 3.—Position after the Government has expended the proceeds ..	5	30	55	90	10	80	90
Stage 4.—Position after floating public loan of £7,000,000	12	23	55	90	10	80	90
Stage 5.—Position after £7,000,000 Treasury bills have been paid off ..	5	23	55	83	3	80	83

146. When the Commonwealth Bank discounts treasury-bills for the Government, the Bank is lending funds to the Government, and taking in return short-dated government securities. The Bank's assets and liabilities both increase by an equal amount, as shown in stage 2. Government deposits are credited with the value of the treasury-bills and government securities are increased. The Government then has a right to draw cheques on the Commonwealth Bank equivalent to the increased amount of its deposits. As the Government proceeds to spend the money either in ordinary expenditure, as when the treasury-bills are used to finance a deficit, or in public works, it pays its creditors by cheque. The creditors pay in the cheques to their accounts at the trading banks, thereby increasing the deposits (or reducing the advances) of the trading banks. When the trading banks present the cheques to the Commonwealth Bank, the deposits which they hold with the Commonwealth Bank are thereby increased. The Government's deposits with the Commonwealth Bank are correspondingly reduced. (Stage 3.) Since the trading bank deposits with the Commonwealth Bank are the equivalent of cash, the cash of the trading banks has been increased when the process is completed. The net result of the issue of treasury-bills has been that deposits of the trading banks have increased (or their advances have been reduced), and their cash has increased, so that they are in a more liquid position than when the process began.

147. Correspondingly the position of the trading banks may be rendered less liquid by the process of funding treasury-bills, i.e., the substitution of a long-term loan for the short-term bills. If, for example, a public loan is floated in order to redeem treasury-bills, the first effect is that those who subscribe to the loan pay the Government for the new securities by cheques drawn on their deposits with the trading banks, which reduces the deposits (or increases the advances) of the trading banks. When the Government pays these cheques into the Commonwealth Bank, its deposits there are increased, and the deposits of the trading banks held there are correspondingly reduced. (Stage 4.) When the bills mature, the Government meets them by a cheque on its account which reduces the government deposits with the Commonwealth Bank, and the bills are cancelled. (Stage 5.) The net result of this process is that the deposits of the trading banks have decreased (or their advances increased) and their cash has decreased, so that they are in a less liquid position than when the process of funding began. The only case in which funding would not render the trading banks less liquid is "private funding", i.e., where the Commonwealth Bank subscribes the full amount of the funding loan, and, in effect, takes from the Government the new securities in place of the treasury-bills.

148. The rate of discount on treasury-bills has been controlled by the Commonwealth Bank, and the bank has secured the reduction of the rate from 6 per cent. in 1929, which was in line with the overdraft rates of that year, to 1¾ per cent. in January, 1935. Moreover, the Bank has been concerned to restrain any tendency for the issue of treasury-bills to increase beyond what it has considered to be a reasonable amount. This is shown, for example, by its decision in 1933 not to discount treasury-bills to finance public works, and by its policy in 1934 in regard to deficits and rediscount. Further evidence is to be found in the Bank's attitude towards funding. In July, 1932, the Bank Board took the view that a beginning should be made in funding the internal floating debt. When the Loan Council met in October, 1932, the Board, holding that the large volume of treasury-bills menaced its control of currency and credit, offered to underwrite a loan of £20m. at 4 per cent. at par, of which £12m. was to be used for funding treasury-bills and the rest for public works. The offer was not accepted, but a loan of £8m. at 3¾ per cent. at par, underwritten by the Commonwealth Bank in conjunction with the trading banks, was raised, half of which was used for funding treasury-bills and half for public works. During 1933, the Board continued to urge that the increasing volume of treasury-bills should be checked, and the Loan Council agreed that there should be a gradual funding of the bills by loans raised in the market as and when conditions permitted. Consequently, in November, 1933, £5m. out of a loan of £10m., and in June, 1934, £3.5m. out of a loan of £12m. were used for funding, but the amounts funded were practically offset by the issue of additional bills for revenue deficits. In October, 1934, the Bank Board proposed to the Loan Council that treasury-bills should be funded by means of a public loan, and in the alternative offered to fund £5m. of bills by private funding. The Loan Council, however, was unresponsive to this advice, and consideration of the question of funding by either method was postponed.

149. On 28th February, 1936, after discussion with the trading banks, the Commonwealth Bank announced an offer to the public of £1m. treasury-bills from its own holding. The bills were repayable in three months, the rate of discount was fixed at the existing treasury-bill rate of 1¾ per cent., and tenders were to close on 12th March. At the same time the Bank made the following statement:—

Treasury-bills have in the past been issued only to banks, but it is now thought that the opportunity should be given to the public to utilize this form of gilt-edged short-dated investment. The first issue will be for £1,000,000—at 1¾ per cent., and full rights to re-discount at any time will apply, at the current rate at the date of re-discount. Such rate will be based on market conditions.

At the date of the offer the rate allowed by the trading banks for three months deposits was 1½ per cent. and by the Commonwealth Bank, 1 per cent. On the same day, 28th February, two conversations took place between the Chairman of the Commonwealth Bank Board and the General Manager of the Bank of New South Wales with respect to deposit rates, which the latter thought should be raised. As to the tenor of the first conversation their views differ, the latter holding that he received approval for his proposal to raise the rates, and the former holding that he gave no approval. We are satisfied that no approval clearly understood by both parties to be such was ever given. There is no doubt as to the tenor of the second conversation later in the same day, when the Chairman of the Commonwealth Bank Board made plain his disapproval of the proposed rise, and the General Manager of the Bank of New South Wales stated that he had already sent out his instructions, and could hardly reverse the decision he had taken earlier in the day to raise deposit rates. On the 2nd March, the Bank of New South Wales announced a rise of ½ per cent. in all deposit rates, bringing the rate for three months' deposits above the rate at which the treasury-bills were being offered to the public, and on the 3rd March the Bank of Adelaide followed. In a press statement of 3rd March, the Chairman of the Commonwealth Bank said—

"Until the next meeting of the Board an official pronouncement regarding deposit rates cannot be made. The propriety of any increase or decrease in interest rates is a matter of individual opinion, and action by any financial institution must be influenced largely by the particular policy which that institution desires to adopt."

Bills to the amount of £315,000 were taken up by the public and issued on 16th March. On 18th March, the Chairman issued a statement which included the following:—

"The Commonwealth Bank does not desire interest rates to rise unless it is abundantly clear that such increase has become necessary through general economic and financial conditions.

With a view to at least avoiding any rise which can be avoided, and taking into account the above facts, the Commonwealth Bank proposes to refrain from making any increase in either its deposits or overdraft rates, provided the trading banks which have already raised their rates will revert to the former basis. It is obvious that if this is not done those banks which have not already raised their rates will be forced to do so, just as it is obvious that the Commonwealth Bank cannot maintain indefinitely a lower rate than that which the banks as a whole are offering for deposits.

With a view to bringing about this desirable condition of affairs, representations have been made to the banks who have not yet altered their published rates, and an undertaking has been given by them to refrain from taking definite action until 23rd March, and thereafter provided the other banks revert to the old rates, fixed deposit rates as ruling on 1st March will be continued, subject, of course, to review from time to time in the light of existing conditions."

No reduction in rates however was made by the two banks, and on 24th March the Commonwealth Bank and the remaining trading banks raised their deposit rates to the same level.

IV.—The Exchange Rate.

150. It is important that a central bank should have power to regulate the exchange rate, otherwise action which it might take to control the volume of credit might be hindered by an alteration of the exchange rate. The control of the exchange rate assumed by the Commonwealth Bank in December, 1931, gave some control over the volume of credit. For instance, if London funds were falling, the trading banks would tend to restrict credit. In these circumstances, if the Commonwealth Bank wished to maintain the volume of credit or to expand it, the rate could be raised, for example, from £125 to £130. The effect of such an alteration is to stimulate exports and to discourage imports. Insofar as this occurs, London funds and deposits tend to rise, the ratio of advances to deposits to fall, and the position of trading banks becomes more liquid. Correspondingly, a movement of the exchange rate in the opposite direction, would, by discouraging exports and encouraging imports, serve to make the position of the trading banks less liquid. The amount of this control over the volume of credit depends upon the magnitude of the alteration in the exchange rate. A few points one way or the other would have little effect upon the liquidity of the trading banks. In practice the Commonwealth Bank has not used its power over the exchange rate for the purpose of controlling the volume of credit, but, since December, 1931, has maintained complete stability of exchange.

151. When the serious movement in the exchange rate came in January, 1931, its tendency was to assist in adjusting the balance of payments. Exporters' returns in Australian currency were increased, and this encouraged export industries to increase the volume of exports. Imports on the other hand were discouraged because they were correspondingly dearer in Australian currency. It is always possible for a country, by depreciating its currency in the attempt to adjust its balance of payments, to gain for a time a competitive advantage for its exports, provided that other countries do not take counteracting measures. For some time after January, 1931, some markets were, because of this depreciation, more readily accessible to Australian exports. The actual rate at which the exchange was fixed in January, 1931, was influenced by the rates ruling in the outside exchange market at the time, but the export

season was then at its height, and use was being made of holdings of gold, both of which helped to increase London funds. Had the banks held the rate for another three months, and then attempted to pursue the outside market at a time when neither of these factors was operating, the rate might have gone considerably higher than £130.

152. When the rate was reduced from £130 to £125 it was in conformity with quotations of the outside market. The Commonwealth Bank was afraid of a "collapse of the exchange", i.e., a large movement of the rate from £130 nearer to the old parity, and in its report of 9th March, 1932, the Bank claimed that it was "instrumental in preventing the collapse which might otherwise have occurred". The Chairman of the Bank, too, in a letter of 13th January, 1932, to the Prime Minister, expressed the fear that the Bank was taking a risk by accumulating London funds even at the rate of £125 "unless it has a reliable prospect of being able to dispose of them without serious loss." The weekly announcement of the rate, and the abandonment of the practice of consulting the trading banks were merely incidental changes, and not really relevant to the fundamental change in December, 1931, which was that the Commonwealth Bank began to buy and sell exchange freely at a rate quoted by itself. So long as it can do this, the Bank is in control of the rate. It is to be noted that the outside market was only important while the buying rates quoted by the banks were lower than the buying rates quoted outside. If the banks offered to buy sterling at £130, while the outside market offered £125, there would be no difficulty in holding the rate provided that the banks were prepared to buy at £130 all sterling offered to them. The banks could only lose in this way if it were decided to reduce the rate. The Commonwealth Bank could have held the exchange at £130 or higher if it had chosen to take the risk of accumulating more London funds, which would have meant loss only if the Bank had itself subsequently lowered the rate.

V.—Open Market Operations.

153. Open market operations consist of sales and purchases of securities by the central bank with a view to contracting or expanding the volume of trading bank cash. Whenever a central bank sells securities on the open market, those who buy the securities normally pay for them with cheques drawn on the trading banks. When these cheques are cleared, the deposits of the trading banks are reduced (or their advances increased) and their deposits with the central bank are reduced. The tendency of such an operation is to lower the liquidity of the trading banks. Conversely, where the central bank buys securities on the market, the effect is to increase the trading

bank deposits (or to reduce their advances), and to increase the trading bank deposits with the central bank. The Commonwealth Bank has made little use of open market operations for the purpose of regulating credit. The Bank considers that, in Australia, these operations are difficult because of the sensitive and limited nature of the bond market, and because of the risk of affecting the price and yield of government securities.

VI.—Rediscounting.

154. The power to vary the rate at which it will rediscount bills is useful to a central bank if it can thereby bring about corresponding changes in other interest rates, which will have their effect in expanding or contracting credit. If a central bank wishes to contract credit by this means, the appropriate action is to raise its rate of rediscount, so that those who wish to borrow from it against bills which they have discounted, will have to pay a higher rate of interest. Section 29A of the Act of 1924 which would require the Bank to fix and publish from time to time its rates of discount and rediscount of bills of exchange has not been proclaimed, and a rate has never been published. Nor would publication of the rate be effective, because there is no internal bill market of importance in Australia, and no practice of rediscounting by the Commonwealth Bank. The nearest approach to a rate of rediscount is that on treasury-bills. Occasionally small amounts of treasury bills have been rediscounted by the Commonwealth Bank, but neither the rate nor the fact of rediscount has been of any importance.

VII.—Advances to Banks.

155. Where it is customary for a central bank to make advances to trading banks, and for trading banks to borrow from the central bank on any large scale, the central bank has a further means of controlling the volume of credit. For if the central bank wishes to expand credit, it might induce the trading banks to accept further advances. This would have the same effect as an increase in their deposits with the central bank. This increase in their cash would tend to make their position more liquid, and to allow them to expand credit. Conversely, if the central bank wishes to contract credit, it might withdraw in whole or in part any advances made to the trading banks and thereby reduce their cash. A trading bank may borrow from the Commonwealth Bank when it is temporarily short of cash and does not wish to realize assets. Occasionally some trading banks have obtained advances to finance seasonal or abnormal demands from customers, and to assist in taking up government loans. But, even during the depression, these advances were negligible, and from 1927 to 1936, the quarterly average has never exceeded £2m.

VIII.—Trading Bank Powers.

156. If a central bank possesses trading bank powers, it may make use of them as a means of controlling the volume of credit. If it wishes to contract credit, it may attempt to attract deposits from the public, for example, by offering a higher rate than that of the trading banks. If, as a result, the public transferred deposits from the trading banks to the central bank, the position of the trading banks would be rendered less liquid, for the transferor would draw a cheque on his deposit with the trading bank and pay it into the central bank. This would reduce the deposits of the trading banks and also their balances with the central bank. Since cash and deposits are reduced by the same amount, the cash ratios of the trading banks will fall, and the tendency will be for a contraction of advances The trading banks may take action to prevent transfers of deposits by raising their rates. In that event, no contraction will occur unless the rise in advance rates, which normally follows the rise in deposit rates, produces a contraction of advances. On the other hand, if the central bank wished to expand credit, it might bring about the transfer of private deposits to the trading banks by offering lower rates than the trading banks. The central bank might also contract or expand credit by reducing or increasing its advances to the public. An increase in advance rates would tend to reduce advances, and a decrease tend to expand them.

157. The Commonwealth Bank has taken the view that its central bank activities are of paramount importance, and that its development as a central bank should go hand in hand with some limitation of its trading activities. Since 1930, at least, it has not been a serious competitor of the trading banks. Neither has the Bank made much use of its trading activities for the purpose of expanding or contracting credit. It is difficult to analyse movements in the quarterly average figures of private interest-bearing deposits with the Commonwealth Bank from 1929 to 1936, because the deposits doubled in December, 1931, when the Commonwealth Bank took over approximately £11m. deposits from the Rural Bank Department of the Government Savings Bank of New South Wales. But the general trend has been a slightly upward movement until the end of 1934, and a slightly downward movement since then. The quarterly average figures of private advances before 1931 cannot be separated from advances to governments, but since that date they bear out the contention that the Commonwealth Bank has not pressed its trading activities. The figures, too, show no trace of expansion during the early years of the depression and no trace of contraction during the latter part, but rather point in the opposite direction.

158. A central bank may also exercise some control over credit if it has power to vary rates of interest. If contraction is desired, the appropriate movement in rates is a rise, and if expansion is desired, a fall. Variations in rates of interest are likely to follow open market operations or changes in the rate of rediscount. If, for example, a central bank buys securities, prices of these securities tend to rise and their yield, or the rate of interest on this type of investment, to fall. Similarly, sales of securities tend to depress their prices, and to cause their yield to rise. The Commonwealth Bank, as previously pointed out, has rarely undertaken open market operations, or rediscounting, but has used other powers to affect interest rates. If the Bank wishes to contract credit, one of the means at its disposal is to raise the rates of interest which it pays on fixed deposits. It would be difficult for the trading banks not to follow, and the rise in their deposit rates would in time lead to a rise in advance rates. Correspondingly, if expansion is desired, it might be sought by a reduction in deposit rates of the Commonwealth Bank. This method is slow and somewhat uncertain, because, when times are prosperous, a small rise in interest rates will hardly serve to check expansion, and in times of depression a small fall will offer little inducement to enterprise.

159. The Premiers' Plan contemplated "a reduction of bank and savings bank rates of interest on deposits and advances", but prescribed neither the amount of reduction nor the machinery by which it should be brought about. It was decided at a conference of bankers with the Federal Treasurer in 1931, that rates on fixed deposits and on advances should be reduced by an average of 1 per cent. Reductions in the rates offered for new fixed deposits were to take place at once, and those on advance rates were to be made with reasonable expedition, the method being left to the banks individually. On 26th June, 1931, fixed deposit rates were reduced 1 per cent. by the Commonwealth Bank and all the trading banks. In the beginning of July, the Commonwealth Bank reduced its maximum rate on advances from 6½ per cent. to 5½ per cent., and by 1st October, 1931, the reduction of 1 per cent. in the average rate on advances had been completed by all banks. In the further fall in fixed deposit and advance rates after 1931, the Commonwealth Bank and the trading banks on the whole moved together, although some banks reduced rates earlier than others. In December, 1934, when the Commonwealth Bank reduced its three months and six months deposit rates, the trading banks did not follow. In March, 1936, the rise in fixed deposit rates was initiated by some of the trading banks, and the Commonwealth Bank and the other trading banks followed. When the trading banks increased their advance rates after March, 1936, the Commonwealth

Bank did not raise its advance rates. The Commonwealth Savings Bank rates, too, were reduced from a maximum of 4 per cent. prior to July, 1931, to 3 per cent. on the 1st July, and gradually to 2 per cent. in June, 1935. The other savings banks followed the general trend of this reduction.

IX.—Savings Bank Powers.

160. The fact that the Commonwealth Bank controls the Commonwealth Savings Bank, which is by far the largest savings bank in Australia, gives it no new powers to regulate credit but strengthens its existing powers. As has already been pointed out, the Commonwealth Bank has some power to cause the rates of interest to vary in the direction appropriate to its policy of expanding or contracting credit by altering the rates which it pays on fixed deposits or charges on advances. As a supplement to this action the Bank may bring into line with its policy the rates of interest on deposits with the Commonwealth Savings Bank. Further, the control which the Commonwealth Bank exercises over the disposal of the assets of the Commonwealth Savings Bank is of practical importance in relation to the exercise of its central bank powers. The deposits in the Commonwealth Savings Bank have usually increased each year, and its investment policy is governed by the Commonwealth Bank Board. The Commonwealth Savings Bank holds large amounts of government securities, some of which could be used for open market operations, and any net addition to deposits may be invested, for example, in government securities, or be held on deposit with the Commonwealth Bank. The Commonwealth Bank, therefore, has the opportunity of increasing or decreasing the rate at which the Commonwealth Savings Bank will buy government securities or subscribe to new government loans. If it wishes to contract credit, the appropriate policy is to subscribe less to government loans through the Savings Bank, sell securities, allow maturing loans made by the Savings Bank to be repaid, and invest the Savings Bank money, which would otherwise have gone in these directions, on deposit with the Commonwealth Bank. The tendency of any of these measures is to reduce the liquid position of the trading banks. The sale of securities, the repayment of loans made by the Savings Bank, and the reduced subscription to new loans, all tend to reduce the deposits of the trading banks, from which usually comes the money for the purchase of the securities sold, for the repayment of the maturing loans, and for the subscriptions to the new loans. Conversely, if expansion is desired, the Commonwealth Savings Bank can subscribe more to government loans, renew maturing loans, and deposit less with the Commonwealth Bank.

161. Prior to the *Commonwealth Bank Act* 1927, it was the practice of the Commonwealth Savings Bank to place money on fixed deposit with other banks. While this practice existed it was possible for the Commonwealth Bank to cause these deposits to vary in accordance with its credit policy. But the Act provided for deposits to be placed with the Commonwealth Bank, and made no provision for deposits with other banks so that this practice ceased as the deposits with other banks matured.

162. Although little use has been made of open market operations, in the second half of 1935 the Commonwealth Bank, through the Commonwealth Savings Bank, bought securities in the market, mainly to offset the effects on interest rates of sales of securities by trading banks. An examination, however, of the figures of the Commonwealth Savings Bank suggests that, at least since 1932, no great use has been made of savings bank activities for the purpose of regulating credit.

X.—Co-operation.

163. A system of central banking assumes that there are trading banks as well as a central bank. It is important that a central bank should secure the willing co-operation of the trading banks, because the successful exercise of many of its powers necessitates action by the trading banks. If the trading banks, for one reason or another, do not co-operate with it, the central bank will have greater difficulty in carrying out its task of regulating the volume of credit. In Australia, there has been no formal or regular method of consultation. The Commonwealth Bank has met the trading banks, either individually or collectively, as occasion required, and has discussed with them matters of common interest. From these meetings and discussions, co-operation has frequently resulted. Recent instances of such co-operation have been the action of the trading banks in assisting to underwrite government loans, in taking up treasury-bills, in voluntarily maintaining deposits with the Commonwealth Bank, and in contributing to the exchange mobilization pool. The policy of lowering interest rates was followed in co-operation by all banks for the greater part of the period from June, 1931, onwards. On the other hand, the conduct of the trading banks in not reducing deposit rates in December, 1934, and of those banks which initiated the rise in deposit rates in March, 1936, was regarded by the Commonwealth Bank as evidence of lack of co-operation. The Bank states, too, that it has been hampered in its efforts to build up London funds by refusals on the part of some trading banks to sell at current rates, but that, in many directions, co-operation has been satisfactory. From time to time since 1931, in view of its additional responsibilities as a central bank, the Commonwealth Bank has requested additional information from the trading banks, which, in most cases, has been supplied.

XI.—General.

164. The Commonwealth Bank regards its central banking function as being to regulate, in the interests of the community, the aggregate volume of credit (and currency) in Australia. It distinguishes between the volume of credit and the base upon which that volume is built. The credit base consists of "cash, deposits with the Commonwealth Bank, treasury-bills and London funds, and varies mainly with the rise and fall of London funds". All, in its opinion, that the Bank can do to increase or reduce the credit base is to "add to or subtract from the effect that movements in London funds have on the credit base in Australia". Further, the volume of credit is dependent upon other factors than the size of the credit base, and it may be affected, for example, by the trading banks allowing their ratios to vary within wide limits, or by the willingness or unwillingness of borrowers to use bank loans. During the depression, the credit base was expanded by the use of treasury-bills to a size not consistent, in the opinion of the Bank Board, with a desirable credit policy for Australia. "The credit policy of the Board since 1929 has therefore been to prevent the credit base from being increased more than was essential to meet the immediate emergency".

165. The Commonwealth Bank keeps in touch and exchanges information with other central banks such as the Bank of England and Dominion central banks. It receives the confidential fortnightly letter sent by the Bank of England to all the Dominion central banks containing information as to world monetary conditions, prices, &c. The Commonwealth Bank seeks, from the best source available, any advice or information which it requires. The Commonwealth Bank may ask for the Bank of England's opinion, and it may or may not act on it. The Bank of England never offers the Commonwealth Bank advice, and there are no grounds for the suggestion made in evidence that the policy of the Commonwealth Bank is dictated by the Bank of England.

TRADING BANKS.

166. *In a system of central banking* the central bank is responsible for regulating the volume of credit and the trading banks are responsible for distributing that credit amongst different industries. Their obligations to depositors force trading banks to keep a proportion of their assets in liquid form. In conducting their business, trading banks watch movements in their assets and liabilities, and pay attention to changes in the ratios of cash to deposits, liquid assets to total liabilities to the public, and advances to deposits. Banks regard as unsatisfactory too low a cash or a liquid assets ratio, or too high an advance-deposit ratio, because they may be unable to meet the demands made upon them by their depositors. On the other hand, they regard as unsatisfactory too high a cash or a liquid assets ratio, or too low an advance-deposit ratio because relatively idle money means less profit.

167. There is uniformity in the practice of the banks as to what is included in the items of deposits, advances, liquid assets, and total liabilities to the public, but there are differences in regard to cash. The deposits comprise both fixed and current deposits. The advances include bills discounted and some other small items, but by far the greater part of the sums lent consists of advances by way of overdraft; bills discounted are now only about 1 per cent. of the total, and other items about ½ per cent. For many years there has been a continuous decline in bills discounted, which fell, for example, from about £10m. in 1926 to about £3m. in 1936. The practice of trading banks in Australia when lending on overdraft is to charge interest only on the debt outstanding at the end of the day. Consequently, if an advance is arranged, only that part actually used by the borrower will appear in the figures of the advances. At all times, therefore, the aggregate amount of advances outstanding is less than the aggregate amount arranged, but as a rule no attention is paid to the margin between the amount of advances made and the limits of overdraft allowed. Some banks review the aggregate limits periodically, others do not, but all agree that the relation between the two is not important.

168. There is no general agreement as to the items covered by the term "cash". All banks include coin, bullion, Australian notes, and deposits with the Commonwealth Bank. In addition some include treasury-bills, some include part of their London funds, and some include both. Some banks which include London funds do not convert them into their equivalent in Australian currency.

169. Liquid assets include cash and all the other assets except advances and landed property. All banks thus include in liquid assets Australian government securities whether held in London or Australia. There is, therefore, little difference between the banks as to what they regard as liquid assets, but the portion of these which they regard as cash differs materially as between banks. The total liabilities to the public consist almost entirely of deposits, together with a small amount on account of notes and bills in circulation and balances due to other banks.

170. The Commission has been furnished with a detailed statement of the assets and liabilities in Australia of each of the nine trading banks from 1926 to 1936 inclusive, and of their London funds From these items have been calculated certain ratios for each bank and for all the banks taken together. In order to examine the operations of the trading banks during depression and recovery, it is necessary to refer to these ratios, and, if the position as a whole is to be surveyed, it is necessary to use aggregate figures. No difficulty arises with the advance-deposit ratio, nor with the liquid assets ratio. The ratio of advances to deposits is the percentage ratio of the aggregate advances to the aggregate deposits. The liquid assets ratio is the percentage ratio of the aggregate liquid assets to the total liabilities to the public. But the "cash ratio" cannot be so simply determined, because of the difference in practice in regard to what is included under "cash". We have, therefore, selected as cash for this purpose, those items which are cash in themselves (coin, bullion, and notes) and those which will be turned readily into cash by the Commonwealth Bank (deposits with the Commonwealth Bank, treasury-bills, and London funds). We have not regarded as London funds Australian government securities held in London. The amount of these, however, is so small that their exclusion affects the ratio very little. The London funds included as cash are taken at their value in Australian currency at the time to which they relate. It is true that no one bank uses precisely these items in calculating its cash ratio, but in our view the ratio which we have adopted is the most important indication of the liquidity of the system as a whole. It might be confusing to call the ratio either "cash ratio", or "liquid ratio". The items include more than cash in the strict sense of the word, and less than the total liquid assets taken into account by the banks for purposes of their liquid assets ratio. For convenience we shall refer to it as the "cash reserve ratio" and to the aggregate cash, treasury-bills, and London funds as "cash reserves".

TABLE.

NINE TRADING BANKS—AUSTRALIA.

Movement in Percentage Ratio of Cash, Treasury-bills, and London Funds to Total Deposits.

INCREASE (+) OR DECREASE (—), FROM SECOND QUARTER TO SECOND QUARTER.

(The banks are arranged differently in each year, according to the magnitude of change in ratio.)

—	1926 to 1927.	1927 to 1928.	1928 to 1929.	1929 to 1930.	1930 to 1931.	1931 to 1932.	1932 to 1933.	1933 to 1934.	1934 to 1935.	1935 to 1936.
	%	%	%	%	%	%	%	%	%	%
	— 1.7	+14.4	— 0.8	+ 4.4	+11.4	+11.2	+ 2.2	+ 7.5	— 1.5	+ 3.3
	— 3.5	+12.3	— 2.2	+ 2.1	+11.2	+11.1	+ 0.7	+ 3.1	— 3.8	+ 1.8
	— 4.0	+11.8	— 3.7	— 4.0	+11.1	+ 9.5	+ 0.1	+ 2.8	— 4.6	+ 1.3
	— 6.0	+ 5.9	— 4.8	— 4.0	+ 9.2	+ 7.5	— 0.5	+ 1.2	— 8.9	+ 1.2
	— 6.4	+ 5.0	— 5.7	— 4.2	+ 8.9	+ 6.9	— 1.4	+ 0.9	—10.2	+ 0.4
	— 6.8	+ 4.9	— 9.1	— 4.4	+ 5.5	+ 4.1	— 2.4	+ 0.8	—11.0	— 1.3
	— 7.0	+ 4.8	— 9.8	— 5.3	+ 4.8	+ 3.7	— 3.1	+ 0.5	—14.1	— 2.8
	— 7.6	+ 1.8	— 9.9	— 7.8	+ 2.8	+ 3.3	— 3.6	— 1.0	—15.3	— 3.2
	— 8.5	— 0.4	—12.8	—10.9	+ 2.4	+ 2.3	— 6.6	— 3.3	—16.5	— 4.9
All Trading Banks (aggregate)	— 5.1	+ 7.7	— 6.1	— 5.3	+ 8.4	+ 6.6	— 1.5	+ 1.7	— 8.8	+ 0.2

Movement of Percentage Ratio of Total Advances, &c., to Total Deposits.

INCREASE (+) OR DECREASE (—), FROM SECOND QUARTER TO SECOND QUARTER.

(The banks are arranged differently in each year, according to the magnitude of change in ratio.)

—	1926 to 1927.	1927 to 1928.	1928 to 1929.	1929 to 1930.	1930 to 1931.	1931 to 1932.	1932 to 1933.	1933 to 1934.	1934 to 1935.	1935 to 1936.
	%	%	%	%	%	%	%	%	%	%
	+12.4	+ 5.4	+11.0	+15.8	+ 0.5	— 3.9	+ 6.2	Nil	+15.8	+ 6.8
	+12.2	— 3.9	+10.5	+12.7	+ 0.5	— 5.0	+ 5.8	— 3.1	+12.2	+ 5.8
	+10.7	— 4.2	+ 7.2	+11.4	— 2.0	— 8.3	+ 3.6	— 3.4	+ 8.3	+ 3.9
	+ 9.0	— 4.3	+ 5.1	+11.2	— 2.3	— 8.8	+ 3.1	— 3.6	+ 6.6	+ 3.6
	+ 7.7	— 5.6	+ 5.0	+10.8	— 4.3	— 9.5	+ 2.7	— 3.9	+ 4.7	+ 2.2
	+ 7.5	— 6.3	+ 4.7	+ 9.9	— 5.8	—10.8	+ 2.6	— 5.3	+ 2.3	+ 0.2
	+ 6.1	— 6.8	+ 4.3	+ 7.7	— 8.7	—12.2	+ 2.4	— 5.7	+ 1.9	Nil
	+ 5.1	— 9.5	+ 2.2	+ 7.2	— 9.2	—12.8	+ 2.1	— 6.0	+ 1.0	— 0.2
	+ 1.7	—11.0	— 3.2	+ 5.6	—14.4	—12.9	— 0.9	— 7.4	+ 0.1	— 3.3
All Trading Banks (aggregate)	+ 6.6	— 7.0	+ 5.5	+11.1	— 5.5	—10.1	+ 2.6	— 5.3	+ 7.3	+ 3.1

171. An examination of the ratios of any one bank discloses a wide range of fluctuation around the average. A comparison of the ratios of different banks shows that the average ratio differs considerably as between banks, and that the range of fluctuation is greater for some banks than for others, but on the whole, as the table above shows, the ratios of the banks moved in the same direction. The ratio of cash reserves to deposits is shown by the graph in the appendix, which is based upon the aggregate figures of the nine trading banks for the period 1926 to 1936. It will be seen that the ratio varies within wide limits. It is to be borne in mind in considering this ratio that the period which the graph covers includes years of acute disturbance. It should not, therefore, be accepted as giving an accurate view of the limits within which the trading banks' cash reserve ratio has varied in less-disturbed times. If we look, for example, at the years 1926, 1927 and 1928, which preceded the depression and included a period of slight business recession, it will be seen that the variation is not as extreme as in the later years. For example, the cash reserve ratio then varied from 24 per cent. to 34 per cent., the liquid assets ratio from 30 per cent. to 41 per cent., and the advance-deposit ratio from 79 per cent. to 91 per cent., whereas in the succeeding eight years of depression and recovery, the cash reserve ratio varied from 19 per cent. to 39 per cent., the liquid assets ratio from 25 per cent. to 45 per cent., and the advance-deposit ratio from 79 per cent. to 98 per cent.

172. For a considerable period prior to 1929 seasonal movements in banking figures had been discernible, due to the production and sale of the principal exports. For example, the cash reserve ratios and liquid ratios were usually at the lowest point in the third quarter of the year. During that quarter, advances increased, deposits decreased and cash reserves tended to fall. In the first quarter of the year deposits reached their highest point and advances were low. The expectation arising from these movements was that up to September deposits would gradually decrease and advances be higher, throughout the fourth quarter deposits and cash reserves would both be rising, and that in the first quarter the cash reserve position would be restored with the growth in deposits and the slackening off of advances.

173. The changes in the banking figures and ratios before the depression may be illustrated for the three years 1926 to 1928.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Deposits with Commonwealth Bank.	Gold.	Cash Reserve Ratio.	Advance-Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1926—								
1st ..	259.3	204.6	85.5	33.1	5.7	24.0	33.0	78.9
2nd ..	258.2	210.6	81.3	32.4	6.2	24.4	31.5	81.6
3rd ..	254.2	220.0	69.5	10.5	6.7	24.4	27.3	86.6
4th ..	258.7	231.0	63.1	13.2	7.4	24.8	24.4	89.3
1927—								
1st ..	266.1	231.4	73.1	20.0	8.2	25.0	27.5	87.0
2nd ..	263.4	232.2	69.6	21.0	8.2	24.1	26.4	88.2
3rd ..	258.5	234.5	68.0	18.2	9.4	23.8	26.3	90.7
4th ..	263.4	232.9	74.0	21.7	11.2	23.8	28.1	88.4
1928—								
1st ..	275.3	223.4	91.6	35.8	13.7	23.7	33.3	81.1
2nd ..	273.5	222.0	93.3	41.3	12.9	23.5	34.1	81.2
3rd ..	266.9	228.2	78.6	29.2	10.4	23.6	29.4	85.5
4th ..	275.2	236.0	80.4	27.5	13.0	23.7	29.2	86.0

174. The most variable element in the cash reserves of the trading banks in pre-depression years was the item of London funds. Quarterly average figures of London funds for the years 1926 to 1928 show a fall between the first quarter and the fourth quarter of 1926 from £33m. to £13m. London funds remained low throughout 1927, but rose again to £41m. in the second quarter of 1928. There were no offsetting movements in other forms of cash reserves, so that these changes were reflected in the ratios of the banks as a whole. When London funds fall off suddenly, it is difficult for the banks to effect an immediate reduction of their advances to conform with the fall. The result is that the cash reserve ratio falls, the advance-deposit ratio rises, and the position of the banks becomes less liquid. When the fall in London funds took place in 1926, the ratio of cash reserves to deposits, which had been 33 per cent. in the first quarter, fell to 24 per cent. in the fourth quarter, and the advance-deposit ratio rose from 79 per cent. in the first quarter to 89 per cent. in the fourth quarter. Throughout 1927, the banks as a whole were faced with the position of a high advance-deposit ratio and a low cash reserve ratio. It was some time, however, before the low level of London funds in 1927 brought about a reduction in advances. London funds rose again to £41m. in the second quarter of 1928, and the cash reserve ratio to 34 per cent. Advances which had risen sharply in 1926 from £205m. in the first quarter to £231m. in the fourth quarter, remained high during 1927, but were brought back to £222m. in the second quarter of 1928. Deposits had steadily increased over the whole

period, and the advance-deposit ratio fell to 81 per cent. by the second quarter of 1928. During the period, too, the trading banks increased their holdings of long-term government securities from £11m. to £17m.

1929—FIRST HALF.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Gold.	Cash Reserve Ratio.	Advance Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1928—									
1st ..	275.3	223.4	91.6	35.8	0.3	13.7	23.7	33.3	81.1
2nd ..	273.5	222.0	93.3	41.3	0.3	12.9	23.5	34.1	81.2
3rd ..	266.9	228.2	78.6	29.2	..	10.4	23.6	29.4	85.5
4th ..	275.2	236.0	80.4	27.5	..	13.0	23.7	29.2	86.0
1929—									
1st ..	287.1	239.2	90.0	34.8	..	15.1	23.6	31.3	83.3
2nd ..	284.5	246.7	79.0	32.6	..	9.5	23.0	28.0	86.7

175. In the first half of 1929 the outlook for the future showed some disquieting features, but was by no means bad. It is true that no long-term overseas loan was raised after January, 1929, and a decline was already to be noticed in export prices, but it was not yet certain that overseas borrowing had ceased entirely, and although the drop of 20 per cent. in export prices between May, 1928, and May, 1929, brought them to a figure lower than any since 1922, there was always hope that the trend might be reversed. Unemployment for Australia as a whole, according to the figures of the Commonwealth Statistician, based upon trade union returns, had risen from 6.4 per cent. in the second quarter of 1927 to 10 per cent. in the second quarter of 1929, but this again was a movement which might be reversed.

176. Bank deposits in the first quarter of 1929 were seasonally high, and there was the usual drop in the second quarter. For several years fixed deposits had regularly increased and the seasonal changes took place in current deposits alone. Bank advances had risen from £237m. in the fourth quarter of 1928 to £247m. in the second quarter of 1929, and there was not the usual seasonal fall in the first quarter. London funds, which had reached a high point of £41m. in the second quarter of 1928, dropped to £27m. in the fourth quarter, but followed the normal upward trend in the first quarter of 1929, and stood at £33m. in the second quarter. Deposits with the Commonwealth Bank, which were not yet an important proportion of the trading banks' cash reserves, fell from £13m. in the fourth quarter

of 1928 to £9.5m. in the second quarter of 1929. The cash reserve ratio in the first quarter of 1929 was a little over 31 per cent., not as high as in the early part of 1928, but still satisfactory. The advance-deposit ratio was 83 per cent., not high enough to cause any apprehension. Even in the second quarter of 1929, there was only a slight deterioration in the cash reserve ratio, which fell from 31 per cent. to 28 per cent., and in the advance-deposit ratio, which rose from 83 per cent. to 87 per cent. The position of the trading banks was becoming slightly less liquid, but similar movements had occurred before and had righted themselves.

1929—SECOND HALF.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Gold.	Cash Reserve Ratio.	Advance Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1928—									
3rd ..	266.9	228.2	78.6	20.2	..	10.4	23.6	29.4	85.5
4th ..	275.2	236.6	80.4	27.5	..	13.0	23.7	29.2	86.0
1929—									
1st ..	287.1	230.2	90.0	34.8	..	15.1	23.0	31.3	83.3
2nd ..	284.5	246.7	79.6	32.6	..	9.5	23.0	28.0	86.7
3rd ..	277.2	259.2	61.1	17.6	..	7.8	21.6	22.1	93.5
4th ..	275.2	269.5	53.2	9.3	1.5	8.6	19.1	19.4	97.9

177. Towards the end of 1929 it became clear that Australia was entering a depression. Export prices had fallen another 10 per cent. between May and December, and the wool sales had opened badly in September. Unemployment was definitely rising, and the figure of 10 per cent. in the second quarter of 1929 became 13.1 per cent. in the fourth quarter. Bank deposits fell from £284m. in the second quarter to £277m. in the third quarter. This fall might have been accepted as seasonal, but instead of the usual rise in the fourth quarter, there was a further fall to £275m. Most of this change was due to movements in current deposits, which followed their seasonal trend downwards but did not rise again. There was a slight check, too, in the general upward trend of fixed deposits. Advances rose from £247m. in the second quarter to £269m. in the fourth quarter, a rather steeper rise than usual. The holding of government securities by the trading banks fell off from £17m. in the second quarter to £13m. in the fourth quarter.

178. The chief strain, however, came on London funds, which fell from £33m. in the second quarter to £18m. in the third. In itself, this fall was little worse than had happened in 1926, but in the fourth quarter there was a further fall to the very low figure of £9m. There was also a fall from £23m. to £19m. in the amount of gold held, which occurred before the Act of that year empowering the Commonwealth Bank to acquire gold had time to take effect. The cash reserve ratio fell from 28 per cent. in the second quarter of 1929 to 22 per cent. in the third quarter, which was lower than at any time in the past three years. But instead of a seasonal recovery in the next quarter the ratio fell again to 19 per cent., which was clearly unsatisfactory to the banks. The advance-deposit ratio rose from 87 per cent. in the second quarter to 94 per cent. in the third quarter, which was higher than at any time since 1926, and in the fourth quarter it rose to 98 per cent., a figure also unsatisfactory.

179. The position of the banks at the end of 1929 was extremely illiquid. Deposits and cash reserves were falling, advances increasing. London funds were very low, and were likely to remain low even with the normal seasonal increase to be expected in the new year. The cash reserve ratio and the advance-deposit ratio were both unsatisfactory, and the problem for the banks in these circumstances was how to restore their liquidity. If one bank alone is faced with such a problem, any action which would increase its cash reserves would help it to become more liquid. The bank may refuse to make new advances, or may restrict new advances so as to protect its position from further deterioration. It may go beyond this, and attempt to call in advances. To the extent to which it is successful in this action its cash reserves will increase, and although it may at the same time cause some reduction in its deposits, the net effect is an improvement in both its cash reserve ratio and its advance-deposit ratio. Similarly, a bank may sell government securities, which will have much the same effect upon its ratios as a reduction in advances. Finally, it may use various means of attracting to itself deposits, and in so far as it is successful the increase in its cash reserves and its deposits improves both ratios. Apart from such methods, unless the Commonwealth Bank is prepared to provide it with more cash, or the public to hold less, a bank cannot become more liquid unless its gold or London funds increase. But while one bank alone may use any or all of these methods with some degree of success, the same results will not follow their use by the trading banks as a whole. If, for example, to restore liquidity all the banks try to attract deposits, they are not likely to achieve their aim, because what one gains another loses. Even if some deposits are attracted from the State savings banks, liquidity is not necessarily improved by this means. Savings banks which hold large deposits with the trading banks may simply draw on these deposits to meet the drain which arises from the transfer of deposits to the trading banks.

Savings banks may also sell securities to provide the cash for such transfers. In this case, if the buyers of government securities draw upon the deposits of the trading banks to pay for these securities, at the end of the process the trading banks are no more liquid than before. The attraction of deposits from savings banks will help to restore liquidity to the trading banks only if the deposit comes from the Commonwealth Savings Bank, or if securities are sold to buyers who pay for them by reducing their deposits with the Commonwealth Savings Bank or the Commonwealth Bank. In other words, the increased liquidity has come from an increase in volume of central bank credit. Apart from this, if the Savings Bank met the drain by reducing its cash, there might be some gain to the trading banks, but this is unlikely to be of much importance. Generally speaking, too, if all banks sell government securities, attempt to call in advances, or refuse new advances, these efforts to arrive at a more liquid position will not add to their cash reserves unless they can induce the public to hold less cash or the Commonwealth Bank to provide more. But the general reduction of advances and the sale of securities mean the general reduction of deposits, and although the cash reserves of the banking system are not increased, yet the cash reserve ratio and the advance-deposit ratio may improve.

180. During the latter half of 1929, the banks sold securities, reducing their holding of £17m. by £4m. On the other hand, £1.5m. of treasury-bills were taken up by the banks. But at this time some of the banks were chary of lending to the Governments on treasury-bills, which were not then subject to the Commonwealth Bank's undertaking to rediscount them at a fixed rate and to meet them, if necessary, at maturity. During 1929, and especially in the latter half of the year, the banks severely restricted new lending, whilst endeavouring to assist old customers, especially primary producers.

1930—FIRST HALF.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Gold.	Cash Reserve Ratio.	Advance Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1929—									
1st ..	287.1	239.2	90.0	34.8	..	15.1	23.6	31.3	83.3
2nd ..	284.5	246.7	70.6	32.6	..	9.5	23.0	28.0	86.7
3rd ..	277.2	250.2	61.1	17.6	..	7.8	21.6	22.1	93.5
4th ..	275.2	269.5	53.2	9.3	1.5	8.6	19.1	19.4	97.9
1930—									
1st ..	272.3	264.4	60.0	15.7	2.1	14.5	12.4	22.0	97.1
2nd ..	265.9	260.2	60.4	21.2	2.0	18.7	2.6	22.7	97.8

181. In the first half of 1930, the depression in Australia deepened. Export prices fell a further 14 per cent. from the second quarter of 1929 to the second quarter of 1930, making a total fall of approximately 40 per cent. from May, 1928. Unemployment rose rapidly from 13.1 per cent. in the fourth quarter of 1929 to 18.5 per cent. in the second quarter of 1930. Deposits fell again from £275m. to £266m. in the same period, and for the first time for some years the first quarter of the year showed no increase over the preceding quarter. The slight fall in fixed deposits from £178m. in the fourth quarter of 1929 to £176.5m. in the second quarter of 1930 continued the reversal of the upward trend which had been for long characteristic of these deposits. Current deposits, too, fell from £97m. to £89m. Recent increases in fixed deposits had been mainly in the three months and 24 months classes. Between June, 1929, and June, 1930, there was a definite shift from the longest term to the shorter term fixed deposits. There was no marked change in the proportions of large and small fixed deposits, but the loss of £8m. in current deposits was spread evenly over the various categories, being least severe in the very large and in the very small deposits. Deposits of States savings banks with the trading banks fell from £28.7m. in June, 1929, to £25.2m. in June, 1930, while the total deposits of the State savings banks fell from £186m. to £178m. Advances, which had reached their highest point of £269m. in the fourth quarter of 1929, fell in the second quarter of 1930 to £260m., and there was no significant change in the holding of government securities. Changes in the cash reserve position of the banks resulted in a net increase of some £7m. Between the fourth quarter of 1929 and the second quarter of 1930, London funds rose from £9m. to £21m., which may be compared with the smaller rise in 1926-27 from £13m. to £21m. Gold fell from about £19m. to about £3m. Treasury-bills rose from £1.5m. to £2m., and deposits with the Commonwealth Bank from £8.6m. to £18.7m. There was an increase in the cash reserve ratio from 19 per cent. to 23 per cent., but the latter figure was still too low to be satisfactory to the banks, and the advance-deposit ratio remained in the neighbourhood of 98 per cent., which was much too high to be satisfactory.

182. During this period, the banks surrendered most of their gold and received instead deposits with the Commonwealth Bank. They still maintained their attitude to treasury-bills, which were, from their point of view, unattractive. At the beginning of 1930, all fixed deposit rates were increased by a minimum of ¼ per cent. and a maximum of ¾ per cent., and advance rates were also increased. The same policy was pursued of carrying old customers and restricting new lending, and advances fell sharply. All through the early part

of 1930 the trading banks were resisting the pressure on the exchange rate, and were rationing exchange to their customers.

JUNE, 1930, TO JUNE, 1931.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Gold.	Cash Reserve Ratio.	Advance Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1930—									
1st ..	272.3	264.4	60.0	15.7	2.1	14.5	12.4	22.0	97.1
2nd ..	265.9	260.2	60.4	21.2	2.0	18.7	2.6	22.7	97.8
3rd ..	259.8	255.0	57.0	19.2	2.4	18.4	0.7	21.9	98.2
4th ..	260.7	253.2	60.4	15.7	5.3	22.9	..	23.2	97.1
1931—									
1st ..	260.6	244.6	76.7	21.6	6.5	31.3	..	29.4	93.9
2nd ..	258.7	238.8	80.5	20.7	6.8	32.1	..	31.1	92.3

183. From June, 1930, to June, 1931, the depression continued, but the liquidity of the banking system increased rapidly after the end of 1930. Export prices showed some fluctuation, reaching their lowest point in January, 1931, and rising again by June, but between June, 1930, and June, 1931, there was a fall of 15 per cent., making a total fall from May, 1928, of about 50 per cent. Unemployment continued to rise rapidly, and increased from 18.5 per cent. in the second quarter of 1930 to 27.6 per cent. in the second quarter of 1931. Deposits fell from £266m. to £259m., fixed deposits rising slightly and current deposits decreasing from £89m. to £81m. The trend from longest term fixed deposits to the shorter terms was accentuated. The only significant change in the size of fixed deposits was a slight increase in the lowest class, while the fall in current deposits was most marked in the largest accounts. Deposits held by the State Savings Banks with the trading banks fell from £25m. to £13m. at a time when the total deposits of the State Savings Banks fell by £24m. The heavy withdrawals from the Government Savings Bank of New South Wales were mainly responsible for these reductions.

184. The downward trend of advances continued, and there was a sharp fall from £260m. to £239m. Holdings of long-term government securities fell by nearly £3m. from £12.4m. to £9.7m. In the two years from June, 1929, to June, 1931, £7m. of government securities had been disposed of by the trading banks, and £11m. by the Savings Banks. London funds remained at about £20m., which was still a very low figure, especially as the holding of gold in Australia fell from £2.5m. to nil. Australian notes in the hands of

the trading banks rose from £14m. to £19m., and treasury-bills from £2m. to £7m. Deposits with the Commonwealth Bank increased by £13m. from £19m. to £32m., due to the expansion of central bank credit when the treasury-bill issue was increased from £2.3m. in the second quarter of 1930 to £20.6m. in the second quarter of 1931. The net result of these movements was an increase of some £20m. in cash reserves, and a change in the cash reserve ratio from 23 per cent. to 31 per cent. This marks the first decided improvement, since the depression began, in the liquid position of the banks. The advance-deposit ratio, too, fell from 98 per cent. to 92 per cent., and the banks were no longer in a position where a contraction of lending seemed necessary, although London funds were still low. The contraction in the international part of the liquid resources of the trading banks had been offset by an expansion of the Australian part through central bank action.

185. During this period, between June, 1930, and June, 1931, there was no change in the rates of interest either on deposits or on advances. An analysis of classes of borrowers in June, 1927, and in June, 1931, shows that between these dates the amount of advances to primary producers had increased both absolutely and as a proportion of total advances. On the other hand, total advances to manufacturing, commerce, transport, distribution and building, showed a decrease both absolutely and in proportion. These facts confirm the view that the banks, although restricting new lending, were making some advances to enable their primary producer customers to maintain production. They show, too, that the fall in production, imports, and prices, reduced the demand by some other classes of borrowers for assistance from the banks. In August, 1930, trading banks entered into the exchange mobilization agreement, and in January, 1931, rationing of exchange was finally abandoned, and the rate allowed to go to 130, which relieved some of the strain on London funds.

JUNE, 1931, TO JUNE, 1932.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Cash Reserve Ratio.	Advance—Deposit Ratio
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1931—								
1st ..	260.6	244.6	76.7	21.6	6.5	31.3	29.4	93.9
2nd ..	258.7	238.8	80.5	20.7	6.8	32.1	31.1	92.3
3rd ..	254.5	238.3	78.6	19.8	13.9	22.8	30.9	93.6
4th ..	267.3	233.7	94.8	31.4	20.7	22.1	35.5	87.4
1932—								
1st ..	281.2	224.9	108.7	28.8	26.9	32.8	38.6	80.0
2nd ..	276.1	227.1	104.1	24.0	30.6	28.9	37.7	82.3

186. By the beginning of 1931 it was clear that depression conditions were not confined to Australia, but that a world depression was developing of different intensity in different countries. Export prices moved irregularly after June, 1931, first falling, then rising and later falling again, but between June, 1931, and June, 1932, there was a drop of 7 per cent. Unemployment rose to its highest level of 30.0 per cent. in the second quarter of 1932. Deposits rose from £259m. in the second quarter of 1931 to £276m. in the second quarter of 1932, thus reversing the trend which had been evident since the early part of 1929. Fixed deposits accounted for £11m. of the increase, rising from £178m. to £189m., and current deposits for the other £6m., rising from £81m. to £87m. Some of the increase in deposits was due to the fact that the movement in the exchange rate in January, 1931, induced overseas firms to allow funds to accumulate in Australia in the hope that the rate would come nearer to par. This "fugitive money", as it has sometimes been called, gradually disappeared after the rate changed to 125, and showed no sign of further alteration. Accompanying the general rise in fixed deposits there was a noticeable movement from the longest dated deposits (two years) and the shortest dated (three months) into those of medium terms (six and twelve months). In the case of both fixed and current deposits, there was a slight movement to the larger deposits. Deposits by State Savings Banks with the trading banks rose from £13m. to £15m. Advances continued to fall from £239m. in the second quarter of 1931 to £227m. in the second quarter of 1932, but the fall, which had been continuous since the latter part of 1929, was arrested in the early part of 1932, and the figures for the second quarter showed an increase over the figures for the first quarter. Holdings of long-term government securities in the hands of the trading banks showed little change. London funds increased from £21m. in the second quarter of 1931 to £31m. in the fourth quarter, when the exchange rate was altered from 130 to 125, and fell to £24m. in the second quarter of 1932. Deposits with the Commonwealth Bank fell from £32m. to £29m. Treasury-bills took on a new significance for the trading banks, after the Commonwealth Bank, in June, 1931, had announced its willingness to rediscount at a fixed rate, and to meet the bills if necessary at maturity. Before this announcement, some, at least, of the banks were not inclined to hold treasury-bills, but the change in their attitude is shown by the increase in their holdings from £7m. in the second quarter of 1931 to £31m. in the second quarter of 1932. As a result of these increases in cash reserves the banks found themselves in a very liquid position, the cash reserve ratio rising from 31 to 38 per cent., and the advance-deposit ratio falling from 92 to 82 per cent. In each case the position of the ratios indicated that lending might well be extended.

187. Treasury-bill finance, as we have shown earlier, has the effect both of adding to the cash of the banking system and to the deposits of the trading banks. It was responsible for arresting the decline in deposits which had been going on since 1929. The net increase in the cash reserves of the system came not from the increased holding of treasury-bills by the trading banks, but from their increased issue by the Government to the Commonwealth Bank. The trading banks differed in the way in which they regarded treasury-bills, some regarding them in all respects as cash, other as almost the equivalent of cash. But the holding by the trading banks of larger amounts of treasury-bills did not increase their cash reserves. It merely represented a different and more profitable distribution of a given holding of cash or its equivalent. The real addition to the cash reserves of the system through the mechanism of treasury-bills came from the fact that the Commonwealth Bank took them up, and the total cash reserves of the system remained unaltered whether the Commonwealth Bank held all the treasury-bills or allowed some part of them to be held by the trading banks. For, if the Commonwealth Bank had held all the treasury-bills, the cash reserves of the trading banks would have been expanded to just the same extent, but the increase would have been held in some other form, for example, in deposits with the Commonwealth Bank, or in notes. This would have meant an increase in the cash reserves of the trading banks, and the amount of this increase would have been unaffected if the trading banks had then been allowed to buy treasury-bills from the Commonwealth Bank, and pay for them by drawing on their deposits with the Commonwealth Bank.

188. From January, 1931, when the exchange rate was altered to 130, the banks kept the rate stable. The alteration from 130 to 125 made by the Commonwealth Bank in December, 1931, was carried out without consultation with the trading banks.

JUNE, 1932, TO JUNE, 1934.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Treasury Bills	Deposits with Commonwealth Bank.	Cash Reserve Ratio.	Advance—Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1932—								
1st ..	281.2	224.9	108.7	28.8	26.0	32.8	38.6	80.0
2nd ..	276.1	227.1	104.1	24 0	30 6	28.9	37.7	82 3
3rd ..	267.1	229.5	94.4	19.1	34.6	21.4	35.3	85.9
4th ..	273.7	231.6	103.0	23.6	38.0	22.9	37.6	84.6

TRADING BANKS—AUSTRALIA—*continued*.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Cash Reserve Ratio.	Advance Deposit Ration.
1933—	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1st ..	276.8	230.4	100.4	27.2	35.5	25.3	38.5	83.2
2nd ..	273.8	232.3	99.3	25.4	33.0	23.2	36.3	84.8
3rd ..	207.8	235.3	89.3	20.1	20.2	22.2	33.4	87.9
4th ..	277.9	237.5	96.8	26.6	27.0	24.8	34.8	85.5
1934—								
1st ..	290.5	233.5	112.0	34.9	29.5	30.5	38.6	80.4
2nd ..	290.2	235.4	112.5	30.2	29.3	37.8	38.0	79.5

189. From the beginning of 1933 there were signs that the worst of the depression was over, and evidence of some recovery. Export prices rose sharply, and in January, 1934, were 60 per cent. above the level of June, 1932. Although they fell again, they were, in June, 1934, 30 per cent. higher than in June, 1932. Unemployment began to fall steadily from its maximum of 30 per cent. to 20.9 per cent. in the second quarter of 1934. Deposits increased from £276m. to £296m. Both fixed and current deposits rose, fixed from £189m. to £195m., current from £87m. to £101m. The increase in fixed deposits was most marked in the long-term deposits, and there was a tendency for the shorter dated to fall. Again there was a definite increase in the large fixed deposits, and a reduction in the smaller classes, while current deposits showed an increase in all classes, although the proportion of the smallest class to the total dropped slightly. Deposits by State Savings Banks with the trading banks rose from £15m. in 1932 to £20m. in 1934, while the total deposits in State Savings Banks increased by £5m. Advances showed a fairly steady rise from £227m. in the second quarter of 1932 to £235m. in the second quarter of 1934. Holdings of long-term government securities rose from £10m. to £18m. in the same period. London funds rose from £24m. to £30m. showing in each year a small drop in the third quarter, and a seasonal rise in the first quarter. There was a slight drop in treasury-bills from £31m. to £29m. Deposits with the Commonwealth Bank fell at first from £29m. then rose sharply in the beginning of 1934, reaching £38m. in the second quarter. This movement was accompanied by a fall in the trading banks' holdings of Australian notes from £19m. in the second quarter of 1932 to £13m. in the second quarter of 1934. There were some seasonal movements in the cash reserve ratio, but little significant change, and throughout the period the banks were in a very liquid position. The advance-deposit ratio fell from 82 per cent. to 79 per cent., which suggests that the banks had difficulty in finding suitable borrowers for the money they now were willing to lend.

This is borne out by the fact that the banks had almost doubled their holdings of government securities, and the ratio of advances plus government securities to deposits remained constant.

190. This was a period of falling interest rates. The average rate charged by the banks on advances fell 1 per cent. from 5.8 per cent. to 4.8 per cent., while the average interest paid on all deposits also fell 1 per cent. from 3 per cent. to 2 per cent. The rate of discount on treasury-bills was reduced from 4 per cent. to 2¼ per cent. There was some tendency on the part of the trading banks to oppose this latter fall, on the ground that by reducing the income which the banks received from treasury-bills, it made it more difficult for them to reduce advance rates, but the amount involved was not large enough to have much effect.

JUNE, 1934, TO DECEMBER, 1936.

TABLE.

TRADING BANKS—AUSTRALIA.

Quarter.	Total Deposits.	Total Advances.	Total Cash, Treasury Bills and London Funds.	London Funds.	Treasury Bills.	Deposits with Commonwealth Bank.	Cash Reserve Ratio.	Advance—Deposit Ratio.
	£Am.	£Am.	£Am.	£Am.	£Am.	£Am.	Per cent.	Per cent.
1934—								
1st ..	290.5	233.5	112.0	34.9	29.5	30.5	38.6	80.4
2nd ..	296.2	235.4	112.5	30.2	29.3	37.8	38.0	79.5
3rd ..	289.3	240.9	100.1	23.1	25.5	35.9	34.6	83.3
4th ..	291.2	246.8	95.5	24.9	23.8	30.9	32.8	84.7
1935—								
1st ..	292.1	248.0	91.2	25.4	24.2	26.1	31.2	84.9
2nd ..	290.6	252.2	84.8	22.4	24.0	23.0	29.2	86.8
3rd ..	282.4	256.6	74.9	18.0	22.5	19.7	26.5	90.9
4th ..	288.0	259.2	79.6	21.8	24.4	18.7	27.7	90.0
1936—								
1st ..	291.8	256.9	88.7	30.2	25.1	18.6	30.4	88.0
2nd ..	290.0	260.7	85.1	29.4	24.9	16.3	29.4	89.9
3rd ..	282.9	264.9	75.2	21.6	23.7	15.9	26.6	93.7
4th ..	289.8	265.9	81.0	26.6	23.2	16.9	27.9	91.8

191. The progress of recovery continued in the next two years. Export prices, which had fallen 15 per cent. from June, 1934, to the end of the year, had recovered the lost ground by June, 1935, and were steadily rising. Unemployment figures showed a steady fall from 20.9 per cent. in the second quarter of 1934 to 17.8 per cent. in the second quarter of 1935. Deposits fell slightly from £296m. to £291m., current deposits rising from £101m. to £106m., and fixed deposits falling from £195m. to £185m. The long-term fixed deposits remained unchanged, and the fall occurred in the shorter terms, the three months deposits receding to their pre-depression level, and the six and twelve months deposits remaining at a higher level than before the depression. In current deposits the main rise was in the medium

sized classes, and there was a fall in the largest. Deposits by State Savings Banks with the trading banks rose by £1.3m., from £20.4m. to £21.7m., and total deposits in the States Savings Banks increased by £2.3m. Advances showed a sharp rise from £235m. in the second quarter of 1934 to £252m. in the second quarter of 1935. Holdings of long-term government securities rose from £18m. to £23m. The cash reserve position deteriorated to the extent of £28m. London funds fell from £30m. to £22m., treasury-bills from £29m. to £24m., and deposits with the Commonwealth Bank from £38m. to £23m. This was reflected in the cash reserve ratio which fell from 38 per cent. to 29 per cent., and in the advance-deposit ratio which rose from 79 per cent. to 87 per cent. In the latter part of 1934 several reductions in deposit rates were made, the last of which, in December, was made by the Commonwealth Bank alone. Between 1934 and 1935, the average interest charged on advances by trading banks fell from 4.81 per cent. to 4.54 per cent., and the average cost of all deposits from 1.98 per cent. to 1.69 per cent. With expanding industry, advances had increased rapidly, and once again the banks were becoming less liquid.

192. Export prices rose 15 per cent. from June, 1935, to June, 1936, and at the end of 1936 had risen to their highest point since January, 1929. Unemployment continued to fall, declining to 10.7 per cent. in the fourth quarter of 1936, which was the lowest figure since the second quarter of 1929. Deposits remained fairly constant round about £290m., but with a rising trend in the latter part of 1936. Fixed deposits fell slightly, but showed an upward trend at the end of the year. Current deposits rose from £106m. in the second quarter of 1935, to £109m. in the second quarter of 1936, and to £113m. in the month of December, 1936. There was a movement away from the long-term fixed deposits into other terms, the fall in twenty-four months deposits being much greater than the total fall. Fixed deposits showed little change in relative size, but current deposits showed an increase in the smaller classes. Deposits by the State Savings Banks with the trading banks increased from £21.7m. in June, 1935, to £23.4m. in June, 1936, and the total deposits of State Savings Banks increased by £2.4m. Advances continued to rise, moving from £252m. in the second quarter of 1935 to £261m. in the second quarter of 1936. There was a seasonal fall in the last two months of the year rather sharper than that of the previous year. Holdings of long-term government securities fell from £24m. in March, 1935, to £15m. in March, 1936, and thereafter to the end of the year they have remained practically stationary. London funds rose from £22m. in the second quarter of 1935 to £29m. in the second quarter of 1936, and fell to £27m. in the fourth quarter. But the

monthly figures show a fairly sharp rise towards the end of the year, and December, 1936, showed an increase of £6m. over October, as compared with an increase of £3m. between the same months of 1935. Treasury-bills showed little change, but deposits with the Commonwealth Bank fell by about £6m. There was no appreciable difference between the cash reserve ratio in the second quarters of 1935 and 1936, nor between the cash reserve ratio for the month of December in those years. The advance-deposit ratio rose from 87 per cent. to 90 per cent., between the second quarters of 1935 and 1936. The monthly figures show that while the ratio for October and for November, 1936, was higher than in the corresponding months of 1935, for December it was much the same as in December, 1935. During this period, the average interest charged on advances rose slightly from 4.54 per cent. to 4.59 per cent., and the cost of all deposits fell from 1.69 per cent. to 1.56 per cent.

TRADING BANK INTEREST RATES, 1931 TO 1936.

193. In accordance with the agreement under the Premiers' Plan, fixed deposit rates were, on 26th June, 1931, reduced 1 per cent. by all the trading banks. The further reductions in these rates, which followed in the next few years, appear in the following table:—

TABLE.

RATES FOR DEPOSITS WITH CHEQUE-PAYING BANKS.

Dates during which rates were in force.	Deposits for—			
	Three months.	Six months.	Twelve months.	Two years.
	Per cent. per annum.	Per cent. per annum.	Per cent. per annum.	Per cent. per annum
19th August, 1927, to 27th January, 1930	4	4	4½	5
28th January, 1930, to 25th June, 1931	4½	4¾	5	5¼
26th June, 1931, to 26th November, 1931	3½	3¾	4	4¼
27th November, 1931, to 7th March, 1932	3	3¼	3½	4
8th March, 1932, to May–June 1932 (a)	2½	3	3½	4
May–June, 1932 (a), to 31st October, 1932 (c)	2½	3	3¼	3½
1st November, 1932, to 6th February, 1933	2¼	2¾	3	3¼
7th February, 1933, to 11th April, 1934	2	2½	2¾	3
12th April, 1934, to 8th August, 1934 ..	2	2¼	2½	2¾
9th August, 1934, to 10th October, 1934	1½	2¼	2½	2¾
11th October, 1934, to 16th December, 1934	1½	2	2¼	2½
17th December, 1934, to 23rd March, 1936 (b)	1	1½	2¼	2¾
From 24th March (d)	2	2½	2¾	3

(a) This reduction was not made simultaneously by all banks.
(b) Commonwealth Bank only.
(c) Bank of New South Wales reduced the rates for six, twelve and 24 months terms by one quarter of 1 per cent. from 23rd August, 1932.
(d) Bank of New South Wales, 2nd March and Bank of Adelaide, 3rd March.

Source: Financial Bulletin No. 20, p. 47.

194. Some of the reductions in 1932 were not made simultaneously by all the banks, and on one occasion a trading bank reduced deposit rates some two months before the other trading banks followed. But up to December, 1934, a downward trend in these rates was maintained by all banks usually moving at the same time. In December, 1934, when the Commonwealth Bank reduced its three months and six months deposit rates, the trading banks did not follow. The first upward movement since 1931 in deposit rates took place when the Bank of New South Wales, on 2nd March, 1936, and the Bank of Adelaide on the following day, announced an all-round increase of ½ per cent. On 24th March, the other trading banks made a similar increase, and the Commonwealth Bank moved its three months and six months rates up 1 per cent., and its other rates ½ per cent. Since that date, the rates of the Commonwealth Bank and of all trading banks have been uniform.

195. The process of reducing advance rates in accordance with the Premiers' Plan was not as rapid as that of reducing deposit rates, and some banks moved earlier than others, but by the 1st October, 1931, a reduction of 1 per cent. in the average rate on advances had been made. Further reductions in advance rates were made from time to time. Before the change in 1931, 77 per cent. of advances carried rates ranging from 7 per cent. to 8 per cent., the predominant rate being 7½ per cent. In 1935, 83 per cent. of advances carried rates ranging from 5 per cent. to 5½ per cent., the predominant rate being 5 per cent. All the banks during 1934 and 1935 quoted a maximum rate for advances to primary producers, and two of the banks in the same years publicly advertised a maximum rate of 5 per cent. on all advances. After March, 1936, when the deposit rates of the trading banks were raised, the advance rates were also raised, and in December, 1936, the predominant rate for advances was 5¼ per cent. to 5½ per cent. Some banks increased rates as early as the end of March, and others in succeeding months, but by the 1st July all the banks had made some increases.

GENERAL.

196. This review shows that the depression first affected the banking system through the serious loss of London funds in 1929, which reduced the liquidity of the banks. They became involved in an effort to restore liquidity which lasted until 1931. In spite of their endeavours the ratios at the end of 1929 went to a point which they regarded with apprehension. Aggregate advances could not be reduced easily, and indeed increased until the beginning of 1930. In their own interest the banks had to support their old customers, especially primary producers, who were most

affected by the fall in export prices The banks severely restricted new lending and endeavoured to reduce advances, but there is no evidence that during the depression they forced repayment of their loans on an extensive scale. It was not until 1931, when treasury-bill finance and government expenditure expanded their deposits and added to their cash, that the liquidity of the trading banks was restored almost as suddenly as it had gone. In this way, the loss of London funds and of gold from the banking system was offset, and the banks soon removed their restrictions on new lending. The improvement in the banking position came about much earlier than the general recovery in trade and industry. From 1932 to 1934, the banks attempted to expand their advances, but found at first little response from borrowers despite the added inducement of lower interest rates. Gradually, however, as recovery proceeded, the banks were able to find more borrowers. Additions to cash reserves and to deposits through treasury-bill finance practically ceased after 1932, and changes in the liquidity of the banks again became dependent chiefly on movements in London funds. By the end of 1935, the liquidity of the banks had been reduced, and in 1936 there were signs of a slowing down of advances. It was not until export prices rose sharply, and London funds increased from the end of 1936, that the banking position again became more liquid.

Chapter III.

THE CAPITAL, RESERVES AND PROFITS OF THE AUSTRALIAN TRADING BANKS, 1893 TO 1936.

The Crisis of 1893.

197 During the period 1886 to 1890, boom conditions prevailed in the eastern States of Australia, and in particular in Victoria. These were brought about principally by the lavish expenditure of money borrowed from British lenders, either by the governments in the form of loans, or by private institutions such as land and finance companies, building societies, and some of the trading banks in the form of deposits. It is estimated that in 1891 British deposits in Australian trading banks and building societies amounted to about £45m.

198. By 1888, experienced bankers in Australia were already predicting a collapse, but the inflow of fresh British deposits enabled this to be avoided for two years longer. But by the end of 1890, these deposits had ceased, and the apprehension in the mind of the British depositor created by unfavorable seasonal conditions in Australia, falling export prices, and financial difficulties in London brought about by the failure of Barings Bank, led to a reversal of the stream. The British depositors began to withdraw their deposits. The strain was felt first by the building societies. The first suspension —that of the Premier Building Association, Melbourne—occurred in December, 1890. During the next two years, there occurred the failure of no less than 40 building and financial associations in the cities of Melbourne and Sydney, with liabilities of about £25m. As suspension followed suspension the depositors of those institutions which still appeared to be solvent became more anxious to obtain repayment immediately their deposits matured and this, of course, increased the demand upon the surviving institutions until it could no longer be met.

199. In the beginning of January, 1893, some of the trading banks began to show signs of weakness. The Federal Bank of Australia Ltd. was the first to suspend payment, closing its doors on the 28th January, 1893. A meeting of shareholders was held on the 17th February following, and the accounts showed that the company owed approximately £2,100,000 to depositors and other creditors. The Chairman stated that the suspension was due to the large and increasing demand for the repayment of deposits. Between March, 1892, and January, 1893, withdrawals had amounted to £711,000. An amount of £750,000 was due in the current year and £550,000 in the year following. Steps had been taken to get the associated banks to supervise the winding up with doors open. A long inspection and investigation had been made by expert bankers

but they considered it inexpedient, and beyond their functions, to undertake the liquidation of any bank. He added, however, that the depositors and creditors would be paid in full.

200. The failure of the Federal Bank of Australia Ltd. reduced the number of trading banks to 21. Two of these were incorporated by charter, and the remainder either by special act, or under the general company law of the country or State in which their head offices were situated, viz.:—

England (including two chartered)	4
New South Wales	4
Victoria	6
Queensland	3
South Australia	1
West Australia	1
Tasmania	2
	21

The total capital, reserves, and undistributed profits of these banks as shown by their accounts at the date nearest to the crisis was approximately £22.4m. Their liabilities amounted to approximately £156m., which included about £139m. of deposits. The shareholders' funds and liabilities of each bank are shown in Table 39.* As it will be necessary to compare the aggregate results of the banks which did not suspend, with the aggregate results of those that did, the banks have been arranged in two groups. Group "A" comprises the banks which did not suspend, together with the Commercial Banking Company of Sydney Ltd., for although the latter suspended payment, it is clear that it was never seriously embarrassed. Group "B" comprises the remaining banks, all of which suspended.

201. In the first quarter of 1893, some of the other trading banks were feeling the strain. Large amounts, both of British and local deposits, were withdrawn. The first to admit weakness was the Commercial Bank of Australia Ltd., which sought help both from the other associated banks, and from the Government of the State of Victoria. The Government did nothing. The other banks offered some help, but not enough to save the position, and on the 5th April, 1893, the Bank suspended payment. Within the six weeks following eleven other trading banks closed their doors, pending reconstruction or arrangement with their creditors.

"The height of the storm occurred in the middle of the month of May, and as one bank after another closed its doors the alarm of the depositors grew to a panic, and it seemed at one time that it was utterly impossible that any bank should be able to stand the pressure upon its strength."

* Page 355.

202. By the 21st August following all had reopened for business. The time-table which follows shows the date of suspension and, except in the case of the Federal Bank of Australia Ltd., the date of resumption of business:—

Banks.	Date of Suspension, 1893.	Date of Reopening, 1893.
Federal Bank of Australia Ltd.	28th January	(In Liquidation)
Commercial Bank of Australia Ltd.	5th April	6th May
English, Scottish & Australian Chartered Bank	13th April	21st August
Australian Joint Stock Bank Ltd.	16th April	10th June
London Chartered Bank of Australia	22nd April	10th August
National Bank of Australasia Ltd.	1st May	26th June
Colonial Bank of Australasia Ltd.	6th May	10th July
Bank of Victoria Ltd.	10th May	10th July
Queensland National Bank Ltd.	15th May	2nd August
Bank of North Queensland Ltd.	15th May	10th July
The Commercial Banking Co. of Sydney Ltd.	16th May	18th June
City of Melbourne Bank Ltd.	17th May	19th June
Royal Bank of Queensland Ltd.	17th May	7th August

203. The methods adopted for re-organization were generally similar, though the procedure differed in detail, being governed to some extent by the law of the country or State of incorporation. In every case, the scheme of reconstruction or re-arrangement was submitted to and approved by the Court in the country or State of incorporation and, where English or Scottish depositors were numerous, also by the Court in those countries. Each of the banks incorporated in England, Victoria, and New South Wales, formed a new limited liability company to take over its business. The three banks incorporated in Queensland carried on without formal reconstruction, in accordance with a scheme approved by the Supreme Court of that State and by the Court in England. In the case of each of the English banks, the capital of the new company was less and the uncalled liability on shares greater than that of the old company. In all other cases the capital and uncalled liability were the same as that of the institution which it replaced.

204. In the course of reconstruction or re-arrangement, shareholders' funds were drastically written down. In some cases it was considered that the losses could be met by writing down or writing off reserves and undistributed profits without reducing capital. In

others, capital also was reduced. At the same time depositors were asked to consent to an extension of time for the repayment of their deposits. The arrangements adopted for the postponement and repayment of deposits will be considered later.

205. To reinstate the capital written off, and to provide funds for the additional security of depositors and for carrying on business, calls were made. About £6m. was called up at the time of reconstruction and made payable by instalments, about one-quarter being due in each of the years 1893 and 1894, and the balance by instalments over the next three or four years. Later, additional calls amounting to about £500,000 were made.

206. At the time of reconstruction, the banks which suspended (other than the Commercial Banking Company of Sydney Ltd.) wrote off capital, reserves, and undistributed profits amounting to £4,431,000, or approximately 40 per cent. of the total shareholders' funds as shown by their accounts at or about the time of the crisis. The reports of these banks indicate that this provision was then considered adequate to meet all known and expected losses. But the experience of the years immediately following the crisis showed that the amount required to provide for losses had been seriously underestimated. Between 1894 and 1909, further provisions amounting to £7,409,000 were made to meet losses directly attributable to the crisis. Details of the total amounts written off in 1893 and subsequently are shown in Table 40.* In addition, the reserves and undistributed profits of the Australian Joint Stock Bank Ltd., accumulated after 1893, were applied to write off old losses.

207. The Commercial Banking Company of Sydney Ltd., which also suspended, made no provision to meet losses, for a revaluation of assets made immediately after suspension disclosed a surplus of £225,000, out of which £160,000 was added to reserves, part of the balance being used to defray the expenses of reconstruction, and part added to inner reserves.

208. The City of Melbourne Bank Ltd. was unable to carry on and went into liquidation in 1895. The trading results of this bank have not been taken into consideration.

* Page 356.

209. The following statements summarize the capital re-adjustment of the trading banks included in each group in Table 39*:—

GROUP "A."

NINE BANKS WHICH DID NOT SUSPEND AND THE COMMERCIAL BANKING CO. OF SYDNEY LTD.

—	Capital.	Reserves.	Undistributed Profits.	Total.
	£'000.	£'000.	£'000.	£'000.
Shareholders' funds, 1893	6,303	4,306	97	10,706
Added to reserves, 1893— Commercial Banking Co. of Sydney Ltd.	..	160	..	160
	6,303	4,466	97	10,866
Less amounts written off between 1894 and 1903— Capital	150	..	..	..
Reserves	..	290	..	440
Balance after adjustment	6,153	4,176	97	10,426

GROUP "B."

ELEVEN BANKS WHICH SUSPENDED PAYMENT IN 1893 (NOT INCLUDING THE COMMERCIAL BANKING CO. OF SYDNEY LTD.).

—	Capital.	Reserves.	Undistributed Profits.	Total.
	£'000.	£'000.	£'000.	£'000.
Shareholders' funds, 1893 (Table 39)	7,735	3,687	239	11,661
Less amounts written off in 1893	1,144	3,081	206	4,431
Balance after reconstruction or re-arrangement	6,591	606	33	7,230
Calls on Shares	6,443	..	..	6,443
	13,034	606	33	13,673
Less additional amounts written off after 1893 (all of which relate to losses arising out of the crisis)— Capital	6,824	..	..	..
Reserves	..	585	..	7,409
	6,210	21	33	6,264
Less nominal value of shares forfeited	1,445	..	..	1,445
Balance after completion of readjustments	4,765	21	33	4,819

210. The amounts written off by the suspended banks either at the time of reconstruction or subsequently do not represent the whole

* Page 355.

of their losses. Some were never written off. For instance, a revaluation of the assets of the Queensland National Bank Ltd., made in 1897, disclosed a capital deficiency of about £480,000. A valuation of the assets of the Special Assets Trust of the Commercial Bank of Australia Ltd., made as at 31st December, 1901, showed a capital deficiency estimated at £1,535,000. In both instances these deficiencies were made good out of subsequent profits or other receipts.

211. The previous statements make no provision for the losses sustained by the banks which went into liquidation, namely, the Federal Bank of Australia Ltd. and the City of Melbourne Bank Ltd. The assets of both of these banks were taken over in 1897 by a company formed to complete the liquidation of several insolvent financial institutions. The valuation then made showed in the case of the Federal Bank of Australia Ltd. a deficiency of about £1,360,000, and in the case of the City of Melbourne Bank Ltd., a deficiency of about £2,630,000. The shareholders of both lost all they had invested.

212. The effects of the crisis upon the banks which did not suspend are not visible in their accounts. There is no doubt that they also experienced losses, and it is clear that for several years immediately following the crisis, current profits were applied to make these good. But in no case were the losses serious. No adjustments were made in 1893, but within the next few years one of the smaller banks reduced its capital by £150,000, and several others wrote off reserves aggregating £290,000. These amounts, however, represented less than 5 per cent. of the total shareholders' funds of these banks as at the 31st March, 1893.

213. It is impossible to determine with accuracy the total losses of the various financial institutions and the banks affected by the crisis. But in the statement which follows an attempt is made to estimate the direct losses of the shareholders and depositors of the trading banks alone. Obviously, no estimate of the indirect losses can be made as, for instance, those sustained by depositors of the suspended banks who disposed of their deposit receipts for less than face value.

		£'000
PROVISION MADE DURING 1892 BY CERTAIN BANKS WHICH SUBSEQUENTLY SUSPENDED		660
CAPITAL, RESERVES, AND UNDISTRIBUTED PROFITS WRITTEN OFF—		
At time of reconstruction	4,431	
Between 1894 and 1909	7,409	
		11,840

ESTIMATE OF AMOUNT PAID IN CALLS IN SHARES SUBSEQUENTLY FORFEITED		625
CAPITAL DEFICIENCIES NOT WRITTEN OFF BUT SUBSEQUENTLY MADE GOOD OUT OF PROFITS, PREMIUMS ON SHARES, AND FROM OTHER SOURCES—		
Queensland National Bank Ltd.	430	
Commercial Bank of Australia Ltd. (Special Assets Trust)	1,535	
		1,965
AUSTRALIAN JOINT STOCK BANK LTD.—		
Reserves and profits accumulated after 1893 used to write off losses	132	
Profit on deposit receipts redeemed	242	
Amount written off deposit receipts and inscribed stock at the time of transfer to the Australian Bank of Commerce Ltd.	469	
		843
ESTIMATED LOSSES DUE TO THE FAILURE OF THE FEDERAL BANK OF AUSTRALIA LTD. (IN LIQUIDATION)—		
Capital and reserves	525	
Depositors	1,360	
		1,885
ESTIMATED LOSS OF THE DEPOSITORS OF THE CITY OF MELBOURNE BANK LTD. (IN LIQUIDATION)		2,630
TOTAL ESTIMATED LOSSES OF THE SUSPENDED BANKS ..		20,448
Add capital and reserves written off by banks which did not suspend		440
		20,888

214. We have seen that twelve trading banks with aggregate shareholders' funds of about £12m. suspended payment and eventually lost almost that amount. But ten other banks with aggregate shareholders' funds of about £11m. survived, with little visible loss. The cause is, therefore, not to be found in any fundamental defect in the banking system. It must be sought elsewhere. One of the most important factors was undoubtedly the incompetent direction and management of the smaller financial institutions whose weakness brought about the crisis. But the directors and managers of some of the trading banks were not free from responsibility. These banks competed for both deposits and advances and, in addition, provided finance for some of the smaller institutions. When the latter failed they were inevitably involved. As the crisis developed, other banks which may have been more wisely managed were unable to stand the strain and were forced to suspend.

215. It is possible that a strong central bank (had such then existed) might have been able to limit the unhealthy expansion

that eventually brought about the crisis. It is possible also that when the crisis was imminent prompt and decisive action by a central bank might have limited its effects to those institutions that were actually insolvent, and have gained time for others that were sound to rearrange their affairs in an orderly manner without suspension. But the central bank cannot protect an institution against the consequences of incompetent management, nor can it restore lost capital.

THE DEPOSITS OF THE SUSPENDED BANKS.

216. The aggregate deposits of the banks which suspended payment (other than the Federal Bank of Australia Ltd.) at the dates of suspension amounted to approximately £68.5m. The depositors of these banks were requested, and, by the force of circumstances, compelled, to agree to an extension of time for the repayment of the amounts owing to them. There was much similarity between the proposals made by the banks, though naturally they varied in detail. In nearly every case small deposits not exceeding, say, £50, or in the case of some banks, £100, were immediately released. In some instances, depositors were given an option to convert part of their deposits into preference shares, and, in others, were compelled to do so. Deposit receipts were issued for the balance. These were payable by annual or half-yearly instalments, the first in most instances about five years after the date of reconstruction or re-arrangement. In this way the depositor received a negotiable security which he could sell either on the stock exchange or privately. The market value of these deposit receipts varied from day to day, being influenced by the opinion of the buyer as to the ability of the bank concerned to meet its engagements, the ruling rate of interest, and the dates of repayment.

217. The conditions under which preference shares were issued were also similar, though there were some differences in detail. The following conditions were common:—

(*a*) That the dividend on ordinary shares was not to exceed a specified rate (usually 5 per cent. per annum) for a definite period of years after incorporation or until all deposits had matured or been repaid;

(*b*) That when it became possible for the bank to pay a rate of dividend on ordinary shares in excess of the minimum specified, the rate of dividend on preference shares should also be increased. It was usually provided that in that event the same rate should be paid on both classes of shares;

(c) That preference as to dividend should cease when preference shareholders had received a specified number of dividends (usually 10 half-yearly or 5 yearly) at a certain rate in excess of the minimum provided for in the agreement.

218. In the case of the Commercial Bank of Australia Ltd., these provisions were subsequently modified, and the dividend on preference shares was limited to a maximum rate of 4 per cent. per annum. In the case of all the other banks which issued preference shares, the operations of these provisions eventually removed the distinction between the dividends on preference and ordinary shares.

219. Within two or three years, many of the banks found that they were unable to carry out the arrangements they had made for the repayment of their deposits. Between 1895 and 1897, a number of them sought and obtained the consent of their shareholders to a modification of the original arrangements. These generally provided for an extension of time for repayment and a reduction in the rate of interest.

220. In the case of three banks, however, the depositors were compelled to agree to the conversion of a part of their deposits into interminable securities variously described as debenture stocks, perpetual or irredeemable deposits or inscribed stocks. About half the deposits of the English, Scottish and Australian Bank Ltd. were so converted. The deposits of the Queensland National Bank Ltd. were written down by five shillings in the £, and the whole of the balance was converted into interminable deposits, provision being made for the repayment out of future profits of the amount written off. Payment of this was completed by 1918. The depositors of the Australian Joint Stock Bank Ltd. were also required to accept a substantial part of their deposits in the form of inscribed stock.

221. However described, all these interminable securities had two features in common. The first was that they were repayable only at the option of the bank; the second that the low rate of interest fixed was not subject to revision. In effect, this converted them into fixed capital, entitled only to a low rate of interest. The conditions described are open to adverse criticism on the ground of rigidity. The rate fixed may have been fair at the time and in the circumstances, but it became definitely inequitable in later years when higher rates of interest prevailed and the banks concerned earned large profits.

222. Between 1893 and 1901, substantial progress was made in the repayment of the unconverted deposits. The Commercial Banking Company of Sydney Ltd. released its current accounts

immediately it reopened, and completed the repayment of its fixed deposits within two years. By the end of 1901, the Bank of North Queensland Ltd., the National Bank of Australasia Ltd., the Bank of Victoria Ltd., the Colonial Bank of Australasia Ltd., and the Royal Bank of Queensland Ltd., had each completed the redemption of its deposit receipts. All the other banks had made substantial progress in this direction. By 1904, the English, Scottish and Australian Bank Ltd. had redeemed the whole of its "terminable" deposit receipts, and the Commercial Bank of Australia Ltd. its "A" deposit receipts. The liability for the deposit receipts of the Australian Joint Stock Bank Ltd. was assumed by the Australian Bank of Commerce Ltd. on its formation in 1909, and dealt with in the same manner as the inscribed stocks of the former which is described later.

223. By 1914, the "special assets trust" deposit receipts of the Commercial Bank of Australia Ltd., and the balance of the deposit receipts of the London Bank of Australia Ltd., had been redeemed. There remained only that part of the deposits of the Queensland National Bank Ltd. which had been written off in 1897, and the redemption of these was completed during 1918.

224. Table 41,* which shows the deposits of each of the suspended banks, and the manner in which these were disposed of, may be summarized as under:—

DEPOSITS OF THE SUSPENDED BANKS.

		£'000
TOTAL DEPOSITS AT TIME OF SUSPENSION		68,576
Deduct deposits of the City of Melbourne Bank Ltd. (in liquidation)		3,750
		64,826
Deduct AMOUNTS CONVERTED INTO—		
Preference shares	3,316	
Interminable deposits	5,859	
		9,175
BALANCE REPAYABLE IN CASH		55,651
PAID BETWEEN—		
1893-1901	42,212	
1902-1914	9,699	
1915-1918	789	
		52,700
BALANCE representing deposit receipts of the Australian Joint Stock Bank Ltd. taken over by the Australian Bank of Commerce Ltd.		2,951

* Page 357.

The Capital, Reserves and Profits of the Australian Trading Banks, 1893 to 1936.

225. The following table shows the names of the banks which required their depositors to accept interminable deposit receipts, the amount so issued, and the amount redeemed up to 1936.

INTERMINABLE DEPOSIT RECEIPTS ISSUED AND REDEEMED.

—	Issued.	Redeemed.	Outstanding, 1936.
	£'000.	£'000.	£'000.
English, Scottish & Australian Bank Ltd.—			
4% Debenture stock	999	15	984
3% Perpetual preferred inscribed deposit stock	944	55	889
Queensland National Bank Ltd.—			
3½% Interminable inscribed deposit stock	3,117	366	2,751
	5,060	436	4,624
Australian Joint Stock Bank Ltd.—			
3½% Inscribed stock	799	799	..
	5,859	1,235	4,624

The liability for the inscribed stock and deposit receipts of the Australian Joint Stock Bank Ltd. was taken over by the Australian Bank of Commerce Ltd. on its formation in 1909 at the rate of 17s. 6d. in the £1. Part was converted into ordinary shares, part into new deposit receipts and the balance into new inscribed stock of the Australian Bank of Commerce Ltd. The deposit receipts were paid off by 31st December, 1911. From time to time thereafter, inscribed stock was redeemed and in 1925 nearly the whole of the balance outstanding was converted into ordinary shares at the rate of £2 in shares for £3 in deposits. The redemption of the small amount then remaining was completed by 30th June, 1926.

The Capital of the Trading Banks.

226. The aggregate paid up capital of the Australian trading banks at the beginning of 1893 was £14,038,000, consisting wholly of ordinary capital. With the exception of approximately £260,000, which represents the value of bonus shares issued out of profits by the Bank of New South Wales between 1848 and 1854, the whole amount had been subscribed in cash. The details of this amount are shown in Table 39.*

227. The capital readjustments consequent upon the crisis of 1893 are shown in a previous paragraph. On the completion of these adjustments, which extended over a number of years, during which

* Page 356.

calls amounting to approximately £5m. were received, there remained a total amount of £10,918,000, the details of which are shown in Table 42.*

228. Between 1893 and 1930, a large amount of new capital was issued. During the same period, however, some capital was extinguished as a result of amalgamations. The details of these issues and extinctions are shown in Table 42,* which may be summarized as under:—

		£'000
New Issues 1893 to 1936—		
Deposits converted into—		
Preference capital	3,316	
Ordinary capital	1,644	
For cash	23,606	
From reserves	275	
From premiums	1,175	
To shareholders of acquired banks	4,025	
		34,041
Deduct—		
Capital extinguished by amalgamations		8,423
Net Increase for Period		26,218
Add Capital 1893 (*after completion of readjustments*) ..		10,918
Capital 1936		37,136

229. Preference capital represents a relatively small proportion of the new issues. Deposits converted into shares in circumstances previously described amount to £3,316,000. The balance of about £70,000 was subscribed in cash between 1903 and 1914, by the shareholders of the Royal Bank of Queensland Ltd.

230. The terms upon which preference shares were issued have been described. As the profits of the banks which had issued preference shares increased, the right of these shares to priority of dividend became of little practical importance, and after 1910 the same rate of dividend was paid by all these banks on both preference and ordinary capital except in the case of the Commercial Bank of Australia Ltd., where the rate of preference dividend was limited. The only preference shares now existing are those of the bank named, all others having been extinguished as the result of amalgamations.

231. Ordinary capital represented approximately 90 per cent. of the total amount of new issues. About two-thirds of this amount were subscribed in cash. The balance consists of shares amounting to £1,450,000, which were issued by three banks, between 1920 and

* Page 358.

1925, out of the proceeds of premiums previously received in cash, and of shares issued to the shareholders of acquired banks, or to the holders of inscribed stock converted into shares.

232. The additional capital was required to strengthen the cash resources of the banks and enable them to increase their advances to meet the demand resulting from a general expansion of business. At the same time it helped to maintain a reasonably consistent relation between shareholders' funds and the increased volume of deposits.

233. The following table shows how the total liabilities compare with the total liabilities to the public at the time stated:—

Year.	Total Liabilities to the Public.	Total Shareholders' Funds.	Ratio of Shareholders' Funds to Total Liabilities.
	£'000.	£'000.	Per cent.
1914	198,399	33,850	14.57
1919	256,763	37,620	12.78
1921	285,482	45,020	13.62
1923	300,671	50,785	14.45
1924	303,138	54,401	15.22
1925	320,113	60,962	16.00
1928	343,553	70,305	16.99
1930	333,702	72,168	17.78
1931	318,657	71,767	18.39
1936	345,915	69,818	16.79

234. New capital issues for cash were restricted to shareholders and were made in either of two ways. The first, which was more generally adopted, was to offer the shares at a premium on their nominal value. In some cases the amount of the premium exceeded the nominal value of the shares. For example, in 1919, the Bank of Australasia issued shares of a nominal value of £40 at a premium of £70, but two years later the same bank issued shares of the same nominal value at a premium of £20. The Union Bank of Australia Ltd., in 1919, issued shares of a nominal value of £25 at a premium of the same amount. Subsequently, the shares were sub-divided and in 1928, shares of the same bank of a nominal value of £5 were issued at a premium of £6. In the case of other banks, shares of a nominal value of £5 were issued at premiums ranging from £1 to £3. The ordinary shares of the Commercial Bank of Australia Ltd. have invariably been issued at a premium equal to the nominal value. It is difficult, therefore, to establish the principle upon which the premium is fixed. It is probable that it has usually some relation to the existing reserves, but the instance quoted of the Bank of Australasia shows

that this principle is not always followed. As the premiums are invariably added to reserves, the effect is that each new share issued increases shareholders' funds, not only by the amount of the share capital, but by the amount of the premiums paid.

235. The second method, which has been followed consistently by the Commercial Banking Company of Sydney Ltd. since 1907, and by the Bank of New South Wales since 1912, and at times by some of the other banks, is to offer the shares at par, that is, without a premium. Shares issued in this manner added nothing to the reserves. They conferred on the shareholder, however, a valuable right, that is, to purchase the new shares at a nominal price, usually considerably below that for which they could be bought on the stock exchange. He could either sell this or retain the benefit by taking up his proportion of the new issue. In effect, this was equivalent to the distribution to shareholders of part of the reserves of the bank.

236. The earliest new capital issues during this period were made in 1893 by the Bank of New South Wales and the Commercial Banking Company of Sydney Ltd., the object in each case being to strengthen the position of the bank. During the next fourteen years new capital issues were small, aggregating only £78,000, but between 1907 and 1919 all of the banks which had not suspended raised additional capital, in most cases, at substantial premiums. None of the banks which suspended made any new capital issues for cash until after 1919. After 1919, most of the banks made new issues for cash. The total amount reached a maximum in 1927, when shares having a nominal value of £3,243,000 were issued for cash. Details of all issues made between 1893 and 1931, whether for cash or otherwise, are shown in Table 43.*

237. Table 43,* which shows the net cash additions to shareholders' funds during the period 1893 to 1930 out of new issues and premiums, may be summarized as follows:—

NET CASH ADDITIONS TO SHAREHOLDERS' FUNDS, 1893 TO 1930.

	£'000
New capital issues for cash	23,606
Premiums thereon	10,742
TOTAL CASH RECEIVED	34,348
Less cash paid to shareholders of banks acquired	4,170
NET CASH ADDITION TO SHAREHOLDERS' FUNDS	30,178

Since 1930, no new issues have been made for cash.

* Page 350.

THE RESERVES OF THE TRADING BANKS.

238. The reserves of the trading banks have been created principally by appropriations out of profit, next out of premiums on new capital issues, and to a lesser extent from other sources, as for instance, amounts paid on forfeited shares and retransfers from inner reserves.

239. As a general rule, the reserves are used in the business and not separately invested. In the case of some of the banks incorporated in England, part of the reserves were at one time specifically invested, but in recent years the accounts do not show whether this is still the case.

240. At the time of the crisis in 1893, the total reserves of the trading banks amounted to £7,993,000, of which £4,306,000 was held by the banks included in group "A", and £3,687,000 by those included in group "B". The reserves of the banks included in group "A" were not seriously reduced by the effects of the crisis, the net amount written off being only £130,000, but those of the banks included in group "B" were practically extinguished, and after the completion of the necessary readjustments, only £21,000 remained.

241. The reserves of the banks included in group "A", which, after readjustment, amounted to £4,176,000, had been built up out of profits and premiums on new capital issues. About £1,200,000, or nearly 30 per cent. of the total can be traced as arising from such premiums. No attempt has been made to trace the source of the reserves of the banks included in group "B", but as these disappeared in 1893, this is of no importance.

242. Between 1893 and 1936, the net additions to reserves amounted to £26,254,000. Details are shown in Tables 45* and 46† which may be summarized as follows:—

		£'000
ADDITIONS TO RESERVES—		
From profits	19,717	
From premiums	9,326	
From other sources	233	
TOTAL ADDITIONS		29,276
Less DEDUCTIONS		
Capitalized	275	
Written off	374	
Extinguished on amalgamation	2,373	3,022
NET ADDITIONS TO RESERVES		26,254

* Page 361. † Page 362.

243. Between 1893 and 1904, the total additions to reserves were small. The banks which had suspended were unable to apply any considerable part of their profits to reserves, and it is obvious that those that did not suspend were using profits, which in the ordinary way would have been placed to reserves, to meet undisclosed losses. During the next ten years, the additions to reserves, both out of profits and from premiums, were large. During the war period further substantial additions were made from both these sources, but the maximum was reached during the period 1920 to 1930 when about £17m. was added out of profits and premiums. Since 1930, additions to reserves have been small, and during the five years 1932 to 1936 only £75,000 has been added, wholly out of profits.

244. Since 1930, some of the banks have set aside portion of their reserves either to provide for the depreciation in the sterling values of their Australian and New Zealand assets or for a reduction in the Australian currency value of their London funds which would result if the London-Australia exchange rate were reduced. These transfers, however, have not reduced their total reserves.

PROFITS OF THE TRADING BANKS.

245. The profits of a bank are derived from interest, foreign exchange, and charges made for the collection of cheques and other services. The principal part of the profits is derived from interest on advances, after allowing for the interest paid on deposits. The margin between the average rates on advances and deposits varies from time to time. It is affected by the proportion of fixed deposits and current deposits respectively, and by variations in the average term of the deposits. The banks also derive some interest from their investments in securities and Australian treasury-bills and from the temporary investment of their London funds, but the amount derived from these sources is relatively small.

246. The profit on foreign exchange consists of the bank's charge for negotiating the transaction. At the present time the maximum rate of profit on transactions between Australia and London is 10s. per cent., but the average would be lower, as the full rates are not always charged to customers who regularly remit large amounts. When the exchange transaction is not completed immediately, the rate is affected by interest calculated on the time which will elapse between the date of the transaction and the date of receipt or payment, as the case may be.

THE CAPITAL, RESERVES AND PROFITS OF THE AUSTRALIAN TRADING BANKS, 1893 TO 1936.

247. With fluctuating rates of exchange, the banks may at times be in the position to make substantial profits on the sale of funds accumulated in London at lower rates. But, conversely, a fall in rates may expose them to the risk of heavy loss. Since 1930, some of the banks have at times made substantial profits and at others incurred substantial losses due to variations in the rate of exchange.

248. The charge made by the banks for the negotiation of inland cheques and bills is sometimes referred to as exchange, but it may be more properly described as a charge for collection. The rates are affected to some extent by the time required for collection. The banks also make a charge for keeping current accounts.

249. The accounts considered cover the period 1893 to 1936 and the results are shown in five-yearly totals or averages, as the case may require. In addition, the figures of each year 1925 to 1936, both inclusive, are also shown.

250. The events of the crisis of 1893 have previously been described. The consequences of that crisis affected the banks that suspended, and those that did not, in a very different manner. For several years the profits of the former were seriously reduced by the loss of business resulting from the loss of confidence in their solvency and the limitation of their resources, due in part to the losses they had sustained and in part to their obligation to redeem their deposits at specified dates.

251. Comparison of the aggregate results of the banks comprised in group "A" with those of the banks comprised in group "B" shows clearly that the effects of the crisis of 1893 affected the latter for nearly twenty years. For that reason the aggregate results of all the banks for the period 1893-1914 do not give a correct view of the system as a whole. Therefore, for this period, the results of each group, as well as the aggregate results of all the banks, are shown. After 1914, the distinction between the groups ceases to be significant. The banks which had suspended had overcome the difficulties resulting from their suspension and although some of them continued for several years to appropriate part of their profits to reinstate lost capital and to provide for the repayment of deposits, the amounts used for this purpose represented a comparatively small percentage of the total profits of all the banks.

THE CAPITAL, RESERVES AND PROFITS OF THE AUSTRALIAN TRADING BANKS, 1893 TO 1936.

252. Table 47* shows the aggregate profits of the trading banks for the period 1893 to 1936, and the manner in which these have been applied. While this statement is required as the basis for other figures, it must be realized that it covers a period of 43 years, and that allowance must be made for the capital employed, which includes not only the capital actually paid up, but any reserves and undistributed profits used in the business. The sum of the capital, reserves and undistributed profits constitutes the "shareholders' funds". The earning capacity of a business is best expressed by stating the profits as a percentage on the total shareholders' funds. The market valuation of any bank, ascertained by multiplying the total number of shares by the current market price of the shares, bears a closer relation to the total shareholders' funds than to the actual capital paid up, and the return on shareholders' funds therefore indicates more correctly the return to a prospective shareholder. But it is customary also to state the profit as a percentage on paid up capital, because dividends are declared on capital. Normally the rate of dividend cannot exceed the percentage of profits earned on capital, unless, of course, part of the dividend is paid out of reserves or undistributed profits. Where the reserves and undistributed profits are small, there will be little difference between the percentage of profit on total shareholders' funds and paid up capital respectively, but where the reserves and undistributed profits represent a material proportion of the total shareholders' funds, the difference between these percentages will be considerable.

253. Table 48† shows the shareholders' funds and capital used and percentage of profit earned on each, and also the average rate of dividend paid during each five-yearly period 1893 to 1934, and for each year from 1925 to 1936. Tables 48† and 49‡ show the allocation of the profits during each of these periods of years.

254. For convenience the comparative figures contained in these tables have been summarized in a number of tables which follow. For the period 1894 to 1914 the figures relating to groups "A" and "B" are also shown and where the information is of interest, the figures for the last year preceding the crisis (1892-3) have also been included.

255. The tables which follow should be considered together. The first shows the average annual profit (or in some cases the profit of the year) during the whole period, and the second that profit expressed as a percentage on total shareholders' funds.

* Page 363. † Page 364. ‡ Page 366.

AVERAGE ANNUAL PROFIT, 1893 TO 1936.

—	Group "A".	Group "B".	All Banks.
	£'000.	£'000.	£'000.
Year 1892-93	845	787	1,632
Year 1894	543	342	885
5 Years—1895-99	536	176	712
,, 1900-04	909	400	1,309
,, 1905-09	1,191	543	1,734
,, 1910-14	1,631	764	2,395
,, 1915-19	..	..	2,630
,, 1920-24	..	..	3,037
Year—1925	..	..	4,822
1926	..	..	5,026
1927	..	..	4,996
1928	..	..	4,909
1929	..	..	4,943
1930	..	..	4,409
1931	..	..	2,963
1932	..	..	1,880
1933	..	..	1,953
1934	..	..	1,996
1935	..	..	1,997
1936	..	..	2,098

TOTAL PROFIT EXPRESSED AS PERCENTAGE ON TOTAL SHAREHOLDERS' FUNDS.

—	Group "A".	Group "B".	All Banks.
	Per cent.	Per cent.	Per cent.
Year 1892-93	7.89	6.75	7.29
Year 1894	4.97	3.61	4.34
5 Years—1895-99	4.44	1.46	2.95
,, 1900-04	7.28	3.77	5.67
,, 1905-09	8.55	6.30	7.69
,, 1910-14	9.09	7.62	8.56
,, 1915-19	..	..	7.56
,, 1920-24	..	..	8.77
Year—1925	..	..	8.75
1926	..	..	8.48
1927	..	..	8.38
1928	..	..	7.80
1929	..	..	7.23
1930	..	..	6.33
1931	..	..	4.20
1932	..	..	2.74
1933	..	..	2.85
1934	..	..	2.91
1935	..	..	2.91
1936	..	..	3.05

256. The full effects of the crisis on the banks included in group "B" are not shown in the accounts for 1894 when the profits fell from £787,000 to £342,000. The average profit for the next five years, however, was only £176,000 (representing only 1.46 per cent. on the total funds), and it was during this period that these banks were compelled to seek a revision of the arrangements they had made with their depositors. After 1900, the profits gradually improved and by 1914 the aggregate profits of these banks were about equal to those of 1892-3.

257. The profits of the banks included in group "A" also declined, though not to the same extent. There is no doubt, however, that the confidence created by their ability to avoid suspension enabled these banks materially to increase their business at the expense of those included in the other group, and for that reason their recovery was more rapid. Within ten years they were earning about the same return on their total funds as in 1893 although shareholders' funds had since been increased.

258. After 1914, and up to 1926, the return on shareholders' funds and the profits both steadily increased. The maximum return was shown in the period 1920-1924, when 8.77 per cent. was earned on total shareholders' funds and 16.05 per cent. on ordinary capital. The maximum profit of £5,026,000 was earned in 1926, but increased shareholders' funds had been used during the year and the return on funds and on ordinary capital was slightly lower. There was little variation in the profits of the three years next following which were in each year a little less than the maximum, but the return on funds and on ordinary capital gradually declined owing to the continued increase of shareholders' funds through the introduction of new capital and additions to reserves. The first serious decline came in 1930, when profits decreased by £534,000. In the following year there was a further decline of approximately £1,500,000. Profits fell to their lowest point in 1932, when they amounted to £1,880,000. During the next three years they remained fairly constant at a point a little above the minimum, and it was not until 1936, when the profits were £2,098,000, that an improvement became obvious. The return on shareholders' funds fell to its lowest point in 1932, when only 2.74 per cent. was earned. Since then, there has been a gradual improvement. The return for 1936 was 3.05 per cent.

259. The following table shows the return on ordinary capital as distinguished from total shareholders' funds. This is calculated by deducting from the total profits the preference dividends and expressing the remainder as a percentage on ordinary capital. Generally speaking, it shows the same trends as profits.

RETURN ON ORDINARY CAPITAL.

—	Group "A".	Group "B".	All Banks.
	Per cent.	Per cent.	Per cent.
Year 1892–93	13.4	10.17	11.63
Year 1894	8.56	3.78	6.22
5 Years—1895–99	7.29	1.28	4.06
" 1900–04	12.23	4.01	8.31
" 1905–09	15.28	9.20	13.04
" 1910–14	17.29	11.57	15.22
" 1915–19	..	..	14.30
" 1920–24	..	..	16 05
Year—1925	..	..	16.01
1926	..	..	15.92
1927	..	..	15.43
1928	..	..	14.35
1929	..	..	13.71
1930	..	..	12.11
1931	..	..	8.01
1932	..	..	5.12
1933	..	..	5.33
1934	..	..	5.45
1935	..	..	5.40
1936	..	..	5.75

260. The maximum return of 16.05 per cent. was reached in the period 1920-1924. Since then it has diminished, falling to 12.11 per cent. in 1930, and to 5.12 per cent. in 1932. Each year since 1932 has shown a consistent but small improvement, the return for 1936 being 5.75 per cent.

261. The following figures taken from Table 48 show the benefits to ordinary shareholders arising from the possession of large reserves. They relate to the profits of the banks included in groups "A" and "B" respectively, during the period 1905-1909. The aggregate capitals of the banks included in each group differed by less than £50,000, but those included in group "A" possessed large reserves, whereas those of the banks included in group "B" were relatively small.

THE INFLUENCE OF RESERVES AND UNDISTRIBUTED PROFITS ON EARNINGS.

—	Group "A".	Group "B".
	£'000.	£'000.
Period 1905–1909—		
Ordinary capital	7,795	4,522
Profit available for ordinary shareholders ..	1,191	416
Return on ordinary capital	15.28 per cent.	9.20 per cent.

That this difference is largely due to the use of reserves is shown by a comparison of the return on total funds (which includes reserves and undistributed profits and in the case of the banks comprised in group "B", preference capital) for the same period.

	£000	£000
Total shareholders' funds	13,924	8,615
Total profit	1,191	543
RETURN ON TOTAL SHAREHOLDERS' FUNDS ..	8.55%	6.30%

262. Since 1910, several factors have operated to reduce the profits which the trading banks would otherwise have made. The first in point of time was the substitution of Commonwealth notes for those previously issued by the trading banks. It is probable, however, that this did not materially reduce their profits, because the tax payable to the States on note issues, and the expenses incidental to their use, were not much less than the average rate of interest on deposits. The second, and perhaps the most important factor, was the establishment of the Commonwealth Bank of Australia, which commenced general business in 1913. A third factor, which of course affects business generally, is the increase in expenses and taxation. It is impossible, however, to estimate the extent to which profits have been affected by the operation of these factors, and the only conclusion that can be drawn is that any reduction in earning power or increase in expenses has been reflected in higher rates for overdrafts and, where possible, in charges for services.

HOW THE PROFITS OF THE TRADING BANKS HAVE BEEN DISPOSED OF.

263. We shall now consider how the profits of the trading banks have been disposed of. Table 49* shows the average amount applied in each period to the various purposes stated, and Table 50† shows the percentages which each of these amounts bears to the total.

264. Except in a limited number of cases where the bank was not free to dispose of its profits as it wished, either because it was required to set aside part of its profits for a specific purpose, or because it chose to do so, the greater portion of the profits of each bank, for each year, were distributed as dividends.

265. The circumstances in which preference capital was issued have previously been described. The amount reached its maximum in 1914, when the total preference capital of five banks amounted to £3,370,000. After 1917 the number of banks with this class of capital was gradually reduced as the result of amalgamations, and since 1927 there has been only one bank having preference capital.

* Page 366. † Page 368.

266. When the profits are small, payment of the preference dividend may leave very little for ordinary shareholders. This occurred during the period 1895 to 1899, when the return on ordinary capital was only 1.28 per cent. But as the profits increased, preference dividends absorbed a smaller percentage of the total. Where preference dividends are payable at a low fixed rate, this operates in favour of ordinary shareholders.

267. Between 1895 and 1900, some of the banks were unable to maintain the regular payment of preference dividends, or to pay the minimum rate required by the terms of issue. After 1900, these dividends were regularly paid and as profits increased dividends at higher rates were paid. For several years, preference shareholders received dividends at the rate of 7, 8, 9, and in the case of one bank, 10 per cent. But as the rate of dividend on two-thirds of the preference capital (that of the Commercial Bank of Australia Ltd.) was limited to a maximum rate of 4 per cent., the average rate was reduced, and at no time did it reach 5 per cent.

268. The following table shows the amount of preference dividends paid and the average rate per cent. on preference capital.

DIVIDENDS PAID ON PREFERENCE CAPITAL, 1893 TO 1936 AND THE AVERAGE RATE PER CENT ON PREFERENCE CAPITAL.

—	Amount.	Average Rate.
	£'000.	Per cent.
Year 1894	112	3.38
5 Years—1895–99	67	2.02
„ 1900–04	128	3.80
„ 1905–09	127	3.82
„ 1910–14	146	4.33
„ 1915–19	163	4.95
„ 1920–24	124	4.83
Year—1925	122	4.81
1926	126	4.97
1927	106	4.51
1928	85	4.00
1929 to 1936 (inclusive)	85	4.00

269. Prior to the crisis of 1893, the capital of all the trading banks consisted wholly of ordinary capital. The dividends paid by some of the banks included in group "A" during the preceding

years had been at high rates. For many years the Commercial Banking Company of Sydney Ltd. paid 25 per cent.; the Commercial Bank of Tasmania Ltd., 20 per cent.; the Bank of New South Wales and Western Australian Bank each 17½ per cent.; and the Bank of Australasia and the Union Bank of Australia Ltd., 14 per cent. By 1892, some of the banks had reduced their rates, but the average for that year was still 12½ per cent. Some of the banks included in group "B" had also regularly paid dividends at high rates. The National Bank of Australasia Ltd. for many years paid 15 per cent.; the Commercial Bank of Australia Ltd., 12½ per cent.; and the Queensland National Bank Ltd. from 10 per cent. to 15 per cent. The average for 1892-93 was 9.04 per cent.

270. The average dividend of the banks included in group "A" fell from 12½ per cent. in 1892 to 8.05 per cent. in 1894. But with the exception of the Royal Bank of Australia Ltd., which suspended the payment of dividends until 1897, every bank in this group regularly paid dividends after 1893. The average rate for the period 1895-1899 was 6.82 per cent. Thereafter, the rate progressively increased, and by 1914 it had returned to the average of 1892.

271. The average dividend of the banks included in group "B" fell from 9.04 per cent. in 1892 to 2.05 per cent. in 1894. During the period 1895 to 1899 the average was only 0.41 per cent. Thereafter, there was a steady improvement and for the period 1910 to 1914 the average dividend was 5.04 per cent. Some of the banks in this group retained a substantial part of their profits to make good lost capital or to repay deposits. During the period 1893 to 1921, the Commercial Bank of Australia Ltd. applied the whole of its available profits to make good lost capital. Between 1895 and 1918, the Queensland National Bank Ltd. paid no dividends, its profits being applied to make good lost capital, repay deposits, and build up reserves. Part of the profits of the English, Scottish and Australian Bank Ltd. were also used to purchase deposit receipts. This, of course, reduced the average dividend paid by the group.

272. After 1914, the average rate for all banks progressively increased, reaching its maximum in the period 1925 to 1929, the highest point being 11.94 per cent. in 1928. The average dividends paid for 1929 and 1930 were at a slightly lower rate. In 1931, the average was only 7.84 per cent. and the decline continued, falling to a minimum of 4.99 per cent. in 1933. During the last three years, the rates have been respectively 5.22 per cent., 5.09 per cent. and 5.41 per cent.

RATE OF DIVIDEND ON ORDINARY CAPITAL, 1893 TO 1936.

—	Group "A".	Group "B".	All Banks.
	Per cent.	Per cent.	Per cent.
Year 1892–93	12.5	9.04	10.58
Year 1894	8.05	2.05	5.11
5 Years—1895–99	6.82	0.41	3.38
" 1900–04	9.21	1.53	5.55
" 1905–09	10.94	3.78	8.31
" 1910–14	12.20	5.04	9.61
" 1915–19	..	..	9.88
" 1920–24	..	..	11.14
Year—1925	..	..	11.72
1926	..	..	11.91
1927	..	..	11.81
1928	..	..	11.94
1929	..	..	11.37
1930	..	..	10.79
1931	..	..	7.84
1932	..	..	5.10
1933	..	..	4.99
1934	..	..	5.22
1935	..	..	6.09
1936	..	..	5.41

273. The percentage of the total profits appropriated for the payment of dividends (preference and ordinary) in each period is shown in the following table.

274. Next to dividends, in order of magnitude, are the appropriations to reserves. The policy of the banks in regard to reserves has varied at different times. In the years between 1893 and 1899, the banks included in group "A" appropriated only a very small proportion of their profits to reserves. The appropriations of the banks included in group "B" were on a larger scale, probably because of the need to replace the reserves which had been written off. Thereafter, there was a general increase in the percentage set aside, the maximum being reached in 1924, when 26.04 per cent. was appropriated. From 1925 to 1929, the proportions progressively diminished to 14.46. The appropriations for the next two years were 8.34 per cent. and 5.50 per cent. respectively. Since 1931, only one bank has regularly added to its reserves, and for each of the years 1932 to 1936, less than three-quarters of one per cent of the total profits of the banks, has been appropriated for this purpose.

275. Between 1893 and 1914, a substantial proportion of the profits of some of the banks included in group "B" was applied, either to reinstate lost capital, or to provide for the repayment of deposits. Although some of these banks continued to make these payments after 1914, the amount so appropriated represented a small and diminishing percentage of the total profits of all the banks.

276. Appropriations for purposes other than those specified in the table which follows were small, and require no comment:—

PERCENTAGE OF TOTAL PROFITS APPROPRIATED FOR THE PURPOSES STATED.

—	Dividends.	Reserves.	Capital and Deposits.
	Per cent.	Per cent.	Per cent.
Group "A"—			
Year 1894	94.10	2.40	..
5 Years—1895–99	93.60	5.30	..
" 1900–04	75.35	10.50	..
" 1905–09	71.02	20.53	..
" 1910–14	70.52	26.07	..
Group "B"—			
Year 1894	69.30	10.82	..
5 Years—1895–99	58.20	16.36	28.98
" 1900–04	58.00	15.75	22.00
" 1905–09	54.90	15.84	26.33
" 1910–15	54.39	26.10	18.07
All Banks—			
5 Years—1915–19	71.00	22.39	4.00
" 1920–24	70.34	25.35	2.60
Year—1925	73.91	23.04	1.07
1926	75.42	22.68	1.87
1927	77.06	18.43	1.96
1928	83.61	13.50	1.20
1929	83.22	14.40	..
1930	89.25	8.34	..
1931	93.04	5.50	..
1932	90.57	.79	..
1933	93.90	.76	..
1934	95.70	.75	..
1935	93.54	.75	..
1936	94.33	.72	..

AMALGAMATIONS OF TRADING BANKS.

277. The aspects of amalgamations referred to in this section are those relating to the means employed, the consequences to shareholders, and the effect upon the shareholders' funds of the banking system as a whole.

278. The first alteration, after 1893, in the trading banks which survived the crisis was the conversion, in 1909, of the Australian Joint Stock Bank Ltd. into the Australian Bank of Commerce Ltd. This, however, was not an amalgamation, but a reconstruction. The new bank merely took over the business of its predecessor.

279. Between 1909 and 1917, there were no changes, but in the next fourteen years, twelve amalgamations or absorptions took place. These occurred mainly in three well defined periods, namely, 1917-1918, 1921-1922, and 1927. Only one other amalgamation has occurred since 1927, namely, that of the Bank of New South Wales and the Australian Bank of Commerce Ltd., which took place in 1931.

280. The following is a list of the amalgamations and absorptions since 1917. The details of each are shown in Table 53.*

BANK AMALGAMATIONS AND ABSORPTIONS, 1917-1931.

Name of Bank Absorbed.	Amalgamated with or Acquired by.
1917—Bank of North Queensland Ltd.	Bank of Queensland Ltd.
Royal Bank of Queensland Ltd.	Bank of Queensland Ltd.
City Bank of Sydney Ltd. ..	Australian Bank of Commerce Ltd.
1918—National Bank of Tasmania Ltd. ..	Commercial Bank of Australia Ltd.
Colonial Bank of Australia Ltd. ..	National Bank of Australasia Ltd.
1921—London Bank of Australia Ltd. ..	English, Scottish & Australian Bank Ltd.
Commercial Bank of Tasmania Ltd.	English, Scottish & Australian Bank Ltd.
1922—Bank of Queensland Ltd.	National Bank of Australasia Ltd.
1927—Bank of Victoria Ltd.	Commercial Banking Company of Sydney Ltd.
Royal Bank of Australia Ltd. ..	English, Scottish & Australian Bank Ltd.
Western Australian Bank	Bank of New South Wales
1931—Australian Bank of Commerce Ltd.	Bank of New South Wales

281. All these amalgamations and absorptions appear to have been entered into by both parties only because the arrangement was to their mutual advantage. There is no suggestion that any of the banks taken over would have been unable to carry on business, except in the case of the Australian Bank of Commerce Ltd., which was amalgamated with the Bank of New South Wales in 1931. The profits of the Australian Bank of Commerce Ltd. had fallen from £180,000 in 1930, to £85,000 in 1931. Between June, 1930, and July, 1931, the market value of its shares had fallen from 25s. 9d. to 13s. 9d. At the annual meeting held in July, 1931, the Chairman stated that there had been a drain on deposits, resulting in a substantial reduction in liquid assets. In a circular addressed to shareholders, dated 2nd September, 1931, it was further stated that the Directors had been examining the general economic outlook in relation to the operations of the bank and had unanimously arrived at the conclusion that owing to the general outlook and the reduced turnover on all financial transactions likely to operate during the next few years, the earning of substantial profits would be somewhat difficult. Having come to this conclusion, the Board had given some

* Page 378.

thought to an amalgamation as being of advantage to shareholders and depositors. From these statements it is fair to infer that the bank would have experienced some difficulty in continuing to carry on its business without assistance.

282. Payment for the shares of a bank acquired or absorbed was made in either of three ways—

(1) Wholly in cash.

These amalgamations are more correctly described as acquisitions or purchases, as the shareholders of the purchased bank acquired no interest in the purchasing bank.

(2) Partly in cash and partly in shares of the purchasing bank.

(3) Wholly in shares of the purchasing bank.

283. The following statement shows the total shareholders' funds of each of the banks acquired for cash, as shown by the last published accounts and the amount paid.

Vendor Bank.	Total Shareholders' Funds.	Cash Paid.
	£'000.	£'000.
City Bank of Sydney	458	350
National Bank of Tasmania Ltd.	284	264
Commercial Bank of Tasmania Ltd.	527	616
Bank of Queensland Ltd.	522	520
	1,791	1,750

These figures indicate, in the case of the City Bank of Sydney, a substantial deficiency of capital, and in the case of the Commercial Bank of Tasmania Ltd., substantial inner reserves.

284. The amalgamations in which the consideration was payable partly in cash and partly in shares were as under:—

Bank Absorbed.	Total Shareholders' Funds.	Consideration. Cash.	Shares (Nominal).	Total.
	£'000.	£'000.	£'000.	£'000.
Royal Bank of Queensland Ltd. ..	629	83	288	371
London Bank of Australia Ltd. ..	1,272	109	459	568
Bank of Victoria Ltd.	2,367	1,478	739	2,217
Royal Bank of Australia Ltd. ..	1,444	750	375	1,125
	5,712	2,420	1,861	4,281

The Capital, Reserves and Profits of the Australian Trading Banks, 1893 to 1936.

285. The next summary relates to the amalgamations where the consideration was payable wholly in shares of the purchasing bank—

Bank Absorbed.	Total Shareholders' Funds.	Share Consideration (Nominal).
	£'000.	£'000.
Bank of North Queensland Ltd.	202	162
Colonial Bank of Australasia Ltd.	761	447
Western Australian Bank	2,011	875
Australian Bank of Commerce Ltd.	3,346	1,280
	6,320	2,764

286. Where the consideration consists wholly of cash, the amount paid may be regarded as the value of the assets purchased, but where the consideration consists partly or wholly of shares, the comparison between the shareholders' funds of the absorbed bank and the nominal value of the shares given in payment does not necessarily indicate the value received by the shareholders of the absorbed bank. In such cases, the real effect of the transaction must be measured by the market estimate of the value of the shares of each bank, and when this is done a transaction which at first may appear more advantageous to the shareholders of one bank, may be found to be equitable to the shareholders of both. The following examples will illustrate this:—

Bank of New South Wales—Western Australian Bank.

The last published accounts of the Western Australian Bank showed capital reserves and undistributed profits amounting to £2,010,811. The capital consisted of 700,000 shares of £1 which, immediately prior to amalgamation, were quoted on the stock exchange at £2 14s. per share. On that basis the market valuation of the net surplus assets was £1,890,000. The shareholders of the Western Australian Bank received 43,750 shares in the Bank of New South Wales, fully paid to £20, which at the time of issue were quoted on the stock exchange at £46 10s. Applying market values in each case, the transactions may be stated thus:—

Western Australian Bank—

700,000 shares valued at £2 14s. per share—£1,890,000.

Consideration—

43,750 shares of the Bank of New South Wales, valued at £46 10s. per share—£2,034,375.

The Capital, Reserves and Profits of the Australian Trading Banks, 1893 to 1936.

Bank of New South Wales—Australian Bank of Commerce Ltd.

The last published accounts of the Australian Bank of Commerce Ltd. showed capital, reserves, and undistributed profits amounting to £3,346,267. The capital consisted of 2,208,000 shares of £1 each which, immediately prior to amalgamation, were quoted on the stock exchange at about 14s. per share. On that basis the market valuation of the net surplus assets was only £1,545,600, or less than one-half the book value of its shareholders' funds. The shareholders of the Australian Bank of Commerce Ltd. received 64,000 shares of the Bank of New South Wales, fully paid to £20, which at the time of issue were quoted on the stock exchange at £28 10s. per share. Applying market values in each case, the transaction may be stated thus:—

Australian Bank of Commerce Ltd.—

2,208,000 shares valued at 14s. per share—£1,545,600.

Consideration—

64,000 shares of the Bank of New South Wales, valued at £28 10s. per share—£1,824,000.

In each of these cases, the market value of the shares of the purchasing bank given as consideration is substantially in excess of the market value of all the shares of the bank absorbed.

287. The following table shows the reduction in the total shareholders' funds of the trading banks as the result of amalgamation:—

	£000	Reduction. £000
Capital—		
Capital of the banks taken over	8,423	
New capital issued by the purchasing banks in payment or part payment therefor	4,625	3,798
Reserves—		
Reserves of the banks taken over	5,235	
Accounted for by the purchasing banks ..	2,861	2,374
Profit and loss balances of the banks taken over ..	245	
Accounted for by the purchasing bank	53	192
Total reduction ..		6,364

This amount includes some capital losses incurred prior to amalgamation by the banks taken over, but not disclosed in their published accounts. A substantial proportion of the total would, however, be represented by assets for which the purchasing banks did not account by an increase in their paid up capital or disclosed reserves. The amount by which the value of the assets acquired exceeded the *nominal value of the consideration* therefore constituted an addition to the inner reserves of the purchasing banks.

288. The latest amalgamation—that of the Bank of New South Wales and the Australian Bank of Commerce Ltd.—reduced the Australian trading banks to nine, and since then there has been no further reduction in their number.

THE TRADING BANKS IN 1936.

289. The aggregate assets and liabilities of the nine Australian trading banks in 1936, according to their published accounts, are shown in the following table, which summarizes Tables 52A and 52B*:—

AGGREGATE LIABILITIES AND ASSETS OF THE NINE AUSTRALIAN TRADING BANKS, 1936.

	£000	Per cent.
LIABILITIES—		
Shareholders' Funds—		
Capital paid up	37,136	8.93
Reserves	30,450	7.32
Undistributed profits	2,232	.54
	69,818	16.79
Liabilities to the Public—		
Notes	176	.04
Bills payable and other liabilities	18,461	4.44
Debenture stocks and interminable deposits	4,624	1.11
Deposits	322,054	77.62
	345,915	83.21
Total liabilities	415,733	100
ASSETS—		
Cash, bullion and money at short call	72,123	17.35
Securities and investments	32,020	7.70
Bills and remittances	23,820	5.73
Advances	278,884	67.08
Premises and real estate	8,886	2.14
Total assets	415,733	100

290. The total amount employed by all the banks is approximately £416,000,000, of which the shareholders have provided approximately £70,000,000 in the form of paid-up capital, reserves and undistributed profits, and the public approximately £346,000,000, mainly in the

* Pages 371 and 372.

form of deposits. Expressed as a percentage, the amount provided by the shareholders represents 16.79 and the amount provided by the public, 83.21 of the total. In other words, the public has provided approximately £5 for each £1 provided by the shareholders.

291. It should be noted, however, that three of the banks include their provision for contingencies and doubtful debts with "Bills payable and other liabilities". The effect of this is to understate shareholders' funds and to overstate liabilities to the public, with the result that ratios based on these amounts are not strictly correct.

292. The liability to the public varies within rather wide limits. The following table shows in the case of each bank the amount owing to the public for each £1 of shareholders' funds:—

AMOUNT PROVIDED BY THE PUBLIC FOR EACH £1 OF SHAREHOLDERS' FUNDS, 1936.

	£	s.	d.
The Bank of Adelaide	2	19	8
The Union Bank of Australia Limited	3	18	2
The Commercial Bank of Australia Limited	4	2	9
The Queensland National Bank Limited	4	8	2
The Bank of Australasia	4	9	0
The National Bank of Australasia Limited	4	10	6
English, Scottish & Australian Bank Limited	5	9	6
The Commercial Banking Company of Sydney Limited	5	9	8
Bank of New South Wales	6	6	10
Average all banks	4	10	1

293. In the following table, the shareholders' funds and the liabilities to the public of the nine Australian trading banks for 1936 are compared with the relevant figures of the "big five" English banks for the same year:—

COMPARISON BETWEEN SHAREHOLDERS FUNDS AND LIABILITIES TO THE PUBLIC OF NINE AUSTRALIAN TRADING BANKS AND THE "BIG FIVE" (ENGLAND), 1936.

—	Nine Australian Trading Banks.		The "Big Five".	
	£'000.	Per cent.	£'000.	Per cent.
Total Shareholders' Funds	69,818	16.79	116,000	5.08
Total Liabilities to the Public	345,915	83.21	2,102,880	94.92
	415,733	100	2,218,880	100
Amount owing to the Public for each £1 of Shareholders' Funds	£ s. d. 4 19 1	..	£ s. d. 18 2 5	..

THE CAPITAL, RESERVES AND PROFITS OF THE AUSTRALIAN TRADING BANKS, 1893 TO 1936.

294. An examination of the ratios of shareholders' funds to total liabilities shows that, since 1893, the average ratio of shareholders' funds to total liabilities of all the banks has varied from about 12½ per cent. to about 18½ per cent. The ratio of some banks has at times been higher and at others lower than these averages. The ratio tends to fluctuate in accordance with business conditions. There is a general, though not a fixed, relation between deposits and advances. An increase in advances due to greater business activity is usually reflected in an increase in deposits, and as deposits increase, the ratio of shareholders' funds to total liabilities diminishes until it is adjusted by the introduction of new capital. But a decrease in advances due to the falling off in business activity is usually accompanied by a reduction in deposits, and as the banks cannot in practice reduce their shareholders' funds, the ratio of the latter to total liabilities tends to increase. During the period 1915 to 1936, shareholders' funds were at a minimum of 12.78 per cent. in 1919. Between 1920 and 1929, the ratio increased as the result of the introduction of new capital and the accumulation of reserves. During the depression, the additional shareholders' funds could not be fully employed, and by 1931 the ratio had increased to 18.39. Thereafter, until 1934, the average diminished progressively but since 1934 it has increased slightly.

295. As the principal part of the profits of a bank is derived from interest on advances, and as the ability of a bank to make advances depends mainly upon its deposits, we should expect to find that, other things being equal, the return on shareholders' funds should vary in proportion to the amount of creditors' money used by the bank or, in other words, the bank which uses the largest amount of creditors' money should earn the largest profit. Generally speaking, this conclusion is borne out by the results of the Australian banks for 1936, and by the results of the English banks subsequently referred to.

296. On the other hand, a bank which uses a lower proportion of creditors' money is in a better position to meet a sudden demand upon its resources. But while the ratio of shareholders' funds to total liabilities is some indication as to whether a bank is overtrading, too much reliance must not be placed upon it. In 1893, there was little difference between the aggregate ratio of the banks which suspended and of those which did not. Yet those in the first category lost many millions, while those in the second lost practically nothing. A bank which maintains a very liquid position may be justified in increasing the percentage of its liabilities to the public, as the figures of the English banks would appear to indicate. In the last resort, however, the solvency of a bank depends not upon this ratio, but upon the soundness of its advances.

THE CAPITAL, RESERVES AND PROFITS OF THE AUSTRALIAN TRADING BANKS, 1893 TO 1936.

Liabilities to the Public.

297. These consist of notes, bills payable and other liabilities, and deposits. As the banks no longer issue their own notes, this liability is small. "Bills payable and other liabilities" includes, in the case of three banks, "Provision for contingencies and doubtful debts". If these were deducted, the remainder would be relatively small. The greater part of the liabilities consists of "deposits", of which £4.6m. are debenture stocks and interminable deposits, and £322.6m. are current and fixed deposits. The accounts of some of the banks do not distinguish between current and fixed deposits, but on the basis of the Australian deposits only, approximately 40 per cent. would be current and 60 per cent. fixed for various terms. The proportion of deposits to total liabilities varies in the case of each bank, the minimum being 73.10 per cent. and the maximum 82.69 per cent.

Assets.

298. We pass next to consideration of the assets. The variation in the ratios of "Coin, bullion and money at short call" and "Securities and investments", respectively, to total assets, suggests a difference in classification, that is, certain assets are classified by some banks as "Money at short call" and by others as "Investments". The assets included in both groups represent 25.05 per cent. of the total assets, but the variation is considerable, ranging from 21.41 per cent. to 31.52 per cent. "Bills and remittances" are relatively small.

299. *Advances.*—As six of the banks deduct from their advances the provision for "bad and doubtful debts", and three do not, the aggregate ratio is not strictly correct, nor are the ratios of all the individual banks comparable with each other. Subject to this qualification, advances represent 67.08 per cent. of the total assets. The ratios of the individual banks range from 61.60 per cent. to 71.82 per cent.

300. The ratios of the Australian banks differ considerably from those of the English banks. In 1936, the advances of the "big five" represented only 38.5 per cent. of their total assets as compared with 67.08 per cent. in the case of the nine Australian banks. If the advances are expressed as a percentage of deposits and other liabilities, the disparity is even greater, the ratios being 38.6 per cent. for the "big five" and 85.21 per cent. for the nine Australian banks. In comparing the advances of the English and Australian banks, however, allowance should be made for the difference in business conditions. Some of the funds provided by Australian banks in the form of overdrafts are provided by the English banks in other forms, as, for example, loans at short call and commercial bills. Therefore, Australian banks are obliged to invest more of their

funds in advances, and, because of some lack of other facilities, borrowers are compelled to rely to a greater extent for their requirements on overdrafts. While it is not the policy of a trading bank to make loans for fixed periods, many loans are granted in circumstances which indicate that both the banker and the borrower understand that repayment will not be made, or indeed cannot be made, for some years. Other advances which, when made, were regarded as ordinary commercial loans, have become "frozen" owing to circumstances beyond the control either of the borrower or the bank. Loans in either of these categories, while nominally repayable on demand, are in effect "long-term" loans, and should be so regarded by the banks. It is not suggested that these advances may not be fully secured, but it is obvious that they reduce the liquidity of the advances as a whole. Provided, however, that such advances do not constitute an unduly large proportion of the total advances, they do not impair the strength of the banks.

301. *Premises and other real estate* represent 2.14 per cent. of the total assets, the variation between different banks being from 0.82 per cent. to 3.83 per cent. It is clear that, in the case of some of the banks, these assets have been written down to a figure which is far below their true value. This practice is discussed in that part of Chapter VIII. which relates to "Inner reserves". Premises represent 12.73 per cent. of shareholders' funds.

*Inner Reserves.**

302. The information supplied to the Commission shows that the inner reserves of all the banks at the date of the last published accounts amount to approximately £22m. The assets, in respect of which these and other reserves have been provided, are valued in the published accounts at approximately £343m.

303. These reserves are not represented by cash or notes. They are, in effect, the differences between the disclosed and undisclosed valuations of certain assets. For example, they include provision for loss on advances which are doubtful, and interest which may not be received. At the date of the last published accounts, the aggregate debts due to the trading banks amounted to approximately £302m. In addition, these reserves include provision for the depreciation of investments valued at the same date at about £32m. and bank premises valued at about £9m. The inner reserves have been built up over a long period, extending, in the case of some of the banks, for more than 50 years, and in others since their recovery from the depression of 1893. Our inquiries have shown that little has been added to aggregate inner reserves since 1929, but that on the other hand some banks have drawn upon their reserves since that time.

* Dissent by the Chairman and by Mr. Nixon.

304. The position in 1936 was that deposits and other liabilities of the nine Australian banks, amounting to approximately £364m., were protected by assets valued, according to the balance-sheets, at £416m., and by the undisclosed or inner reserves of the banks, together with uncalled capital and reserve liability amounting to approximately £31m. The ability of the banks to realize assets without serious loss, or to reduce advances without causing serious hardship, and a general dislocation of business, would, of course, depend to a very great extent upon conditions which would, in turn, be materially affected by central bank action.

305. The following table shows the disclosed "Return on shareholders' funds and on capital" respectively of the nine Australian trading banks for the year 1936:—

RETURN ON SHAREHOLDERS' FUNDS AND ON CAPITAL RESPECTIVELY OF THE NINE AUSTRALIAN TRADING BANKS—1936.

—	Shareholders' Funds. (Note.)	Capital.	Profit.	Return on Shareholders' Funds.	Return on Capital.
	£'000.	£'000.	£'000.	Per cent.	Per cent.
The Bank of Adelaide ..	2,270	1,250	58	2.54	4.64
The Bank of Australasia ..	9,157	4,500	301	3.29	6.69
The Commercial Bank of Australia Limited ..	6,458	..	..	3.24	..
Preference	..	2,117	85	..	4.00
Ordinary	..	2,000	124	..	6.20
The Commercial Banking Company of Sydney Ltd.	9,160	4,739	273	2.97	5.76
English, Scottish & Australian Bank Limited ..	6,549	3,000	222	3.39	7.40
The National Bank of Australasia Limited ..	8,458	5,000	264	3.12	5.28
Bank of New South Wales	15,050	8,780	470	3.12	5.35
The Queensland National Bank Limited ..	2,629	1,750	71	2.70	4.00
The Union Bank of Australia Limited ..	8,068	4,000	228	2.54	5.70
	68,708	37,136	2,096	3.05	*5.75

* Return on Ordinary Capital.

(NOTE.—"Shareholders' funds" is the sum of capital, reserves, and undistributed profits at the beginning of the financial year, less appropriations for dividends, &c., made out of profits brought forward.)

For comparison we include also the relevant figures of the "big five", English banks, for the same year—

The "Big Five" ..	£115,145	£64,716	£9,603	8.34	14.84

SAVINGS AND STATE BANKS.

306. The purpose of a Savings Bank is to provide for the investment of small savings; but a useful development, in Australia, has been the direction of a substantial proportion of these savings into loans upon mortgages of homes, farms, and the like. This form of investment is unsuitable for a trading bank, and in entering this field the Savings Banks, in several of the States, have rendered valuable service to the community; but as the demand for accommodation has exceeded the supply, and, as a matter of general policy, most of the States have established public institutions to assist persons of moderate means to acquire or improve their homes or properties.

307. The largest of all the Savings Banks is the Commonwealth Savings Bank, which operates in all the States. It is now the only Savings Bank in the States of New South Wales, Queensland, and Western Australia, but in the other States it is in competition with the Savings Banks operating under State law.

308. The Savings Banks and other institutions operating under State law are as follows:—

In New South Wales—The Rural Bank of New South Wales, which comprises—
 (i) The Rural Bank Department;
 (ii) The Advances for Homes Department; and
 (iii) The Government Agency Department.

In Victoria—The State Savings Bank of Victoria, which comprises the Savings Bank proper, and the Credit Foncier Department.

In South Australia—The Savings Bank of South Australia, and the State Bank of South Australia, which comprises the Credit Foncier and the General Banking Departments.

In Queensland—The State Advances Corporation.

In Tasmania—The Hobart Savings Bank, the Launceston Bank for Savings, and the Agricultural Bank of Tasmania.

In Western Australia—The Agricultural Bank of Western Australia.

The Commonwealth Savings Bank of Australia.

309. Under section 35B of the *Commonwealth Bank Act* 1911-1932, the Commonwealth Savings Bank of Australia has power to carry on the general business of a Savings Bank. Certain investments are specified and authorized, including loans on the security of land, and fixed deposits with the Commonwealth Bank. The Commonwealth Savings Bank considers that it is prohibited from investing upon fixed deposit with other banks. The Statute leaves the rate of interest and maximum amount on which interest is paid to be declared by the bank from time to time. The present rate is 2 per

cent. on deposits up to £500, and $1\frac{3}{4}$ per cent. upon any excess up to £1,300, except in Queensland where the maximum was raised to £2,000 upon the ground that there was no other Savings Bank in that State.

310. Under the agreements made with the various State Governments on the absorption of their Savings Banks, the Commonwealth Savings Bank is under some restriction with respect to the investment of its funds. A percentage of any increase in the deposits received in the States of Queensland, Western Australia, or Tasmania, has to be lent to the Government of the State to form part of its loan moneys under the Financial Agreement. A similar arrangement with New South Wales expired at the end of 1936.

311. Under the same agreements, the Bank's profits or losses in New South Wales are shared with the Rural Bank, and in Queensland, Western Australia, and Tasmania, with the Government of the State. The balance of the Savings Bank's profits are then distributed equally between the Commonwealth Savings Bank's Reserve Fund and the National Debt Sinking Fund. In 1935-36, the gross profit of the Commonwealth Savings Bank was £563,000, of which £229,000 was paid to State Governments or institutions, pursuant to the agreements referred to. Of the remainder, half (£167,000) was carried to the Reserve Fund, and half was paid to the National Debt Sinking Fund on account of the Commonwealth Government's contribution to the fund.

312. Its association with the Commonwealth Bank enables the Commonwealth Savings Bank to carry on its operations with a lower cash ratio than is usual in the other savings banks. On 30th June, 1936, its balance-sheet stood as follows:—

Liabilities.		Assets.		Percentage of Total Assets.
	£'000.		£'000.	
Reserve Fund	2,257	*Coin, notes, cash balances,* and money at short call	14,828	10.5
Deposits	133,832	Government Securities ..	89,786	03.5
Other Liabilities ..	5,506	Securities of Municipalities and other public bodies	32,696	23.1
		Mortgages	2,045	1.4
		Landed and house property	1,008	0.7
		Other assets	1,232	0.8
	141,595		141,595	100.0

(NOTE.—A capital reserve of about £3,000,000, *taken over from the* Government Savings Bank of New South Wales, is included in "Other Liabilities".)

The money at short call includes some £7.3m. in treasury bills, and taking these as cash or liquid assets, the ratio to deposits is about

11 per cent. This is much lower than the ratios for the other savings banks in Australia, which range from 26 per cent. to 31 per cent., but the Commonwealth Bank is able to work on this low ratio by virtue of its close association with the central bank. For this reason, in dealing with the ratios mentioned, we shall hereafter exclude the figures of the Commonwealth Savings Bank. The Bank's loans on mortgage are a diminishing quantity. In 1931-32, the Bank acquired, from the State institutions which it absorbed, mortgages to the amount of £2,659,000. By June, 1936, these had been reduced to £2,045,000. The fact is that the Bank has never encouraged this class of business, although it assists the Rural Bank of New South Wales by financing its operations, as provided by the agreements under which the business of the Government Savings Bank of New South Wales was acquired.

313. In 1929 and 1930, loans were made to various "housing authorities" to enable them to carry on operations during the period of depression. The total advanced was £1,365,000. The Bank is not advancing on this account at the present time. There has been some overlapping with the activities of State institutions, and the Bank regards this branch of its business as no longer necessary.

The State Savings Bank of Victoria.

314. The State Savings Bank of Victoria is controlled by Commissioners appointed by the Governor in Council, without limitation of tenure. The General Manager is appointed by the Commissioners with the approval of the Governor in Council. The Bank has no capital apart from the reserves which have been built up out of profits. Repayment of the deposits is guaranteed by the Government of Victoria. Fixed deposits with banks are made for a period of two years and are so spread that they fall due at regular intervals. Practically all government securities held by the Bank are for periods of five years. Substantial sums held with various banks carry a low rate of interest, and may be drawn against on demand. The Bank is, therefore, well equipped to meet any emergency that may arise. Of recent years, it has been the practice of the Bank to make to the Victorian Government an annual rebate of interest, amounting to £100,000, which is equal to about ⅓ per cent. per annum on the loans made to the Government.

315. The Bank is conducted in two departments, namely, the Savings Bank and the Credit Foncier, which present separate accounts of their transactions. The Savings Bank Department engages in the ordinary business of a savings bank. It invests to a certain extent in loans upon fixed mortgage, and to a much greater extent in the debentures and stock of the Credit Foncier Department.

The Credit Foncier Department obtains its capital by the issue of debentures and stock, of which about 60 per cent. is held by the Savings Bank Department, and the balance by the public. The function of the department is to lend the money raised in this way upon a system of repayment by regular instalments, covering principal and interest, extending over a long period of years.

316. In the Savings Bank Department, the deposits on 30th June, 1936, were £64.4m. The Reserve Fund stood at £3.0m., which together with an interest fluctuation account, and undistributed profits brought the total of the reserves up to £4.1m. The funds in this department were held as follows:—

—	£'000.	Percentage of Total Assets.
Cash on hand and at bankers and fixed deposits with other banks	20,139	28.9
Government securities	29,806	42.8
Securities of public bodies	3,978	5.7
Credit foncier debentures and stock	13,092	18.8
Mortgage securities, &c.	1,717	2.4
Premises	960	1.4
Total	69,752	100.0

The balance-sheet of the Credit Foncier Department at 30th June, 1936, shows debentures and stock with interest to date at £21.5m., including £13.1m. held by the Savings Bank Department. There is a depreciation fund of £290,000, and a reserve fund of £537,000. The funds in this department at 30th June, 1936, were held as follows:—

—	£'000.	Percentage of Total Assets.
Mortgage securities, &c.	21,580	95.2
Cash on hand and at bankers and on fixed deposits with other banks	1,047	4.6
Other assets	39	0.2
Total	22,666	100.0

The extent of the activities is shown by the following figures:— Farm loans £4.6m., House and shop loans £11.2m., Housing and Reclamation loans £5.2m. The rate charged upon loans is 4½ per cent.

317. The Credit Foncier Department was originally established to provide long term capital for the purchase and improvement of farms. Its activities have been greatly extended, and substantial assistance is now given to home builders. Waste land close to the

City of Melbourne has, by the Department's operations, been converted into a "garden city", and a suburban Council has been financed in the building of dwellings to replace dilapidated homes. Farm loans, which are for a maximum period of 31½ years, are limited, by law, to £4,000, and cannot exceed 75 per cent. of the valuation. Conditions vary for loans on dwellings and shops. The maximum cost of a house in respect of which an advance is made is £1,300. The maximum terms are from 20½ to 22¼ years. Special provision is made for persons with incomes not exceeding £400 per annum, to whom loans are made up to 80 per cent. of the value of homes they wish to acquire.

318. The rate of interest in the Savings Bank Department is fixed from time to time by the Commissioners with the consent of the Governor in Council. The present rate is 2 per cent., which is paid upon deposits of £1 to £1,000, but this limit does not apply to friendly societies. The policy of the Bank is to offer a rate of interest upon call deposits which is lower than the twelve months deposit rate of trading banks. The Bank can also accept fixed deposits up to £1,000, at a higher rate of interest, but it is not at present accepting fixed deposits.

Savings Bank of South Australia.

319. The Savings Bank of South Australia is controlled by Trustees appointed by the Governor in Council for a term of six years, and retiring in rotation. The Bank has no capital, apart from its reserves. In the event of its inability to repay its deposits, the Treasurer of the State, with the consent of the Governor, is authorized to pay the deficiency out of the general revenues of the State. By virtue of this provision in its Statute, the Bank announces that it is guaranteed by the Government. On the 30th June, 1936, the liability to depositors was approximately £22.6m., and the total of its Reserve Fund, Special Appropriation, and undistributed profits, was £1.7m. The funds were held at that time as follows:—

—	£'000.	Percentage of Total Assets.
Cash on hand and at bankers and on fixed deposit with other banks	5,887	23.9
Government securities	12,320	50.1
Other stock, debentures, &c.	512	2.1
Mortgage loans	5,533	22.5
Interest accrued on investments	245	1.0
Other assets	101	0.4
Total	24,598	100.0

320. The Bank pays interest upon deposits from £1 to £1,000; but the limit does not apply to Friendly Societies and Building Societies. The Statute provides for an interest rate, which is fixed for each financial year shortly before the end of that year. The Trustees are authorized to carry to reserve not more than one-fifth of the profits, and are required to distribute the remainder in the form of interest to the depositors. Generally, the rates have been higher than those paid by similar institutions. From 1926 to 1930, the rate was 4¾ per cent. on deposits up to £500, and 4½ per cent. on the excess over £500, from 1927, when the limit was extended up to £1,000. For the two years ending 30th June, 1936, the rate has been 2¾ per cent. on all deposits up to the limit allowed, except for the year ended 30th June, 1935, when amounts over £500 bore a rate of 2½ per cent.

Hobart Savings Bank.

321. The Hobart Savings Bank is under the management of a General Committee, which elects half-yearly six of its members as an Executive Committee.

322. Deposits on 31st August, 1936, were £2,994,000, and the total of the Reserve Fund and Profit and Loss Account was £212,000. At that date the funds were held as follows:—

—	£'000.	Percentage of Total Assets.
Cash on hand and at bankers and on fixed deposit with other banks	845	26.3
Commonwealth Government securities	1,276	39.8
Securities of municipalities and public bodies	361	11.2
Loans on mortgage	689	21.5
Other assets	39	1.2
Total	3,210	100.0

Interest at the rate of 2¾ per cent. is paid on deposits repayable on demand, and at 3 per cent. on deposits fixed for twelve months. The maximum amount of deposit on which interest is paid is £300.

323. Loans on mortgage are made to approximately 60 per cent. of the Bank's valuations, for periods of three years, but mortgages are allowed to remain overdue on expiry so long as circumstances are considered satisfactory. Assistance is given for the purchase of houses and farms. The rate of interest charged on mortgage loans is 4¼ per cent.

Launceston Bank for Savings.

324. The Launceston Bank for Savings is controlled by a general committee of thirty members, appointed by a Judge of the Supreme Court. This Committee elects half-yearly seven of its members as an Executive Committee. Deposits in the Bank on 31st August, 1936, amounted to £1,944,000, and the total of its reserve and undistributed profits was £173,000. On that date the funds were held as follows:—

—	£'000.	Percentage of Total Assets.
Cash on hand and at bankers and on fixed deposit with other banks	560	26.4
Commonwealth Government securities	950	44.8
Municipal securities	126	5.9
Loans on mortgage	465	21.9
Other assets	22	1.0
Total	2,123	100.0

The rate of interest paid is 2¾ per cent. on current accounts, and 3 per cent. on deposits fixed for twelve months. These rates are fixed half-yearly, on the basis of the Bank's profits. The maximum deposit on which interest is paid is £300.

325. The rate of interest for mortgage loans does not at present exceed 4½ per cent. Home builders are assisted, loans being made for a maximum of six months; but the mortgage is not disturbed if conditions are satisfactory—in fact, some mortgages have been in existence for 40 years.

Savings Banks 1926-1936.

326. Table 23 in the Appendix shows the movement in the funds of the Savings Banks from 1926 to 1936. During the first three years, deposits rose steadily from £196m. in 1926 to £226m. in 1929. In this period the ratio of total cash, Treasury-bills and deposits with banks and State Treasuries, to total deposits was allowed to fall slightly, but this was not characteristic of every bank.

327. After 30th June, 1929, the deposits began to fall. In 1929-30, the total fell from £226m. to £218m. The reduction was substantial in all the States except Western Australia, where there was a slight gain, and Queensland and Tasmania, where the loss was insignificant.

328. The effect of the withdrawals during this period is shown in Table 23 in the Appendix. Speaking generally, the banks stopped lending; but there was, on the whole, little realization of securities. The £8m. withdrawn by depositors was taken from the cash and the deposits with other banks, and also, to the extent of £1.4m., from the deposits with State Treasuries. The result was a definite fall in liquidity. The aggregate ratio, excluding the Commonwealth Saving Bank, fell from 20.11 per cent. to 16.87 per cent. In the State Savings Bank of Western Australia, the ratio was allowed to fall from 11.86 per cent. to 7.61 per cent. The fall was not due to any withdrawal of deposits, which increased by £93,000.

329. In 1930-31, as the depression developed and spread throughout the community, the rate of withdrawal of savings bank deposits was naturally accelerated; but a contributing factor throughout the Commonwealth was the subscription to internal loans, in the latter part of 1930. For instance, in the Government Savings Bank of New South Wales, the Commonwealth loans accounted for withdrawals of at least £1.2m. in July and £1.8m. in December, 1930, and in all probability the withdrawals in other States were correspondingly large. On 30th June, 1931, the total deposits had fallen from £218m. to approximately £194m., a fall of 11 per cent. In New South Wales, the fall was about 15 per cent.; in Victoria and South Australia it was about 10 per cent. In Queensland, Western Australia, and Tasmania, it was less.

330. On 22nd April, 1931, the Government Savings Bank of New South Wales suspended payment, and was subsequently absorbed by the Commonwealth Savings Bank. The circumstances attending the failure are considered in greater detail later in this chapter.

331. The total reduction of savings bank deposits in 1930-31 was £24m., and in order to meet this, upwards of £10m. was taken out of cash and deposits, and to provide for the balance, securities were realized to the extent of about £12.2m. The principal movements in the cash items were that the deposits with the trading banks were reduced by £11.8m., and the deposits with the Commonwealth Bank increased by £2.3m. There was a reduction of £1.4m. in the deposits held with the Governments of Victoria and South Australia by the Savings Banks in those States, and an increase of £700,000 in the deposits by the Government Savings Bank with the Government of New South Wales. The principal item in the realization of investments was the sale or repayment of Government stock to the value of £10.4m. By 30th June, 1931, the aggregate ratio, excluding the Commonwealth Savings Bank, of cash, Treasury-bills and deposits with banks and State Treasuries, had fallen to 15.75 per cent.

332. In 1931-32, notwithstanding the anxiety arising from the failure of the Government Savings Bank in New South Wales, the position was improving, except in Western Australia, where the State Savings Bank got into difficulty, and was absorbed by the Commonwealth Savings Bank. The main cause was the illiquid position of the

Bank itself, but there is no doubt that the failure of the Government Savings Bank of New South Wales added to its difficulties. The ratio of cash and bank deposits to its deposits had been allowed to fall to 6.31 per cent. on 30th June, 1931, and it had no reserve to meet contingencies.

333. On 30th June, 1932, the total savings bank deposits had risen by £4.6m. to £198.5m. and the liquidity had improved. Since that date, the deposits have risen year by year until, on 30th June, 1936, they reached £225.8m., which is only about £500,000 less than the point reached in 1929. On the 30th June, 1936, the aggregate ratio was 29.82 per cent., which is higher than before the depression.

334. At 30th June, 1936, as compared with 30th June, 1929, there has been some re-arrangement of the investment. This is due partly to the absorption by the Commonwealth Savings Bank of two State institutions, and partly to other causes. The Commonwealth Savings Bank holds deposits with the Commonwealth Bank, and Treasury-bills, and in recent years some of the State Savings Banks have maintained deposits with the Commonwealth Bank. The amount held by the savings banks upon deposit with the trading banks has fallen by £6m. Their holding of Australian Government and other public securities has risen by nearly £12m. to approximately £185m., and the loans on mortgage have fallen by £1.8m.

335. The following table shows the total of the mortgage loans of the savings banks at various dates from 1927 to 1936, and the distribution in urban and rural districts. The mortgage loans of the Credit Foncier Department of the State Savings Bank of Victoria are not included in this table:—

SAVINGS BANKS—AUSTRALIA—DISTRIBUTION(a) OF MORTGAGE LOANS BETWEEN URBAN AND RURAL DISTRICTS.

—	30th June, 1927.(b)		30th June, 1931.(b)		30th June, 1935.(b)		30th June, 1936.(b)	
	Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.
	£'000.		£'000.		£'000.		£'000.	
Urban ..	7,783	78.8	9,091	77.5	7,887	76.2	7,962	76.4
Rural ..	2,089	21.2	2,641	22.5	2,469	23.8	2,458	23.6
Total ..	9,872	100.0	11,732	100.0	10,356	100.0	10,420	100.0

(a) Partly estimated.
(b) At 31st August for Hobart Savings Bank and Launceston Bank for Savings.

State or Rural and Agricultural Banks.

336. These State institutions differ widely in constitution and functions. The State Advances Corporation in Queensland and the Agricultural Bank in Tasmania are, in effect, State Government

Departments, charged with the administration of public moneys advanced for various purposes, but principally for assisting rural industry or the building or buying of homes. These State activities are analogous to those which in other States are under the direct control of the Executive Government. The Agricultural Bank of Western Australia is in much the same position. It is concerned with the administration of funds provided out of the proceeds of government loans. The State institutions which are engaged in banking, are the Rural Bank of New South Wales and the State Bank of South Australia.

Rural Bank of New South Wales.

337. The Rural Bank of New South Wales was established in 1933 to take over the Rural Bank Department and the Advances for Homes Department, which were carried on by the Government Savings Bank of New South Wales up to the time of its suspension in April, 1931. It is controlled by three Commissioners, appointed by the Governor in Council, who are required to devote the whole of their time to their duties.

338. Provision was made in the amalgamation agreements, to assist the Rural Bank, which up to that time had depended very largely upon funds supplied by the Government Savings Bank. Under the first agreement, the inscribed stock of the Rural Bank Department, which was then held by the Savings Bank Department, was cancelled, and, in lieu thereof, inscribed stock and debentures of the Rural Bank were issued to the Commonwealth Savings Bank. The amount involved was £14m. At a later stage the Commonwealth Bank agreed to give further assistance. Under the second agreement the current and fixed deposits held by the public with the Rural Bank were taken over by the Commonwealth Bank, the deposits held by the Rural Bank with certain trading banks and the State Treasury were transferred to the Commonwealth Bank, and inscribed stock and debentures of the Rural Bank, representing the difference between these assets and liabilities, were issued to the Commonwealth Bank. The amount issued under this agreement was £10m., making in all £24m. under the two agreements. Subject to any agreement which may be made for an extension, this stock is redeemable by 40 half-yearly payments commencing on 30th November, 1936. There is a special provision with respect to the rate of interest, which is 1 per centum above the highest rate allowed by the Commonwealth Savings Bank to its depositors during the half year. The present rate is therefore 3 per cent. per annum. Under the terms of the amalgamation, the interest which the Rural Bank allows to its depositors cannot exceed the rate which the Commonwealth Bank allows for deposits of the same class.

339. The business of the Rural Bank is transacted in separate departments, which present separate accounts of their transactions—

(1) The Rural Bank Department carries on the business of banking, that is, it receives deposits for a fixed term or on current account, and lends for a fixed term or by way of overdraft. But the advances are restricted to agricultural and primary producers and individuals or societies engaged in or associated with rural pursuits. The Bank does not encourage borrowers who merely require fixed loans. It gives preference to customers who borrow on overdraft, with or without a fixed loan.

(2) The Advances for Homes Department lends money for the building or buying of homes upon mortgages of the land.

(3) The Government Agency Department administers funds entrusted to it by the Government of the State.

340. The balance-sheet of the Rural Bank Department for 30th June, 1936, is as follows:—

LIABILITIES.	£'000	ASSETS.	£'000
Stock and debentures—		Cash on hand and at bankers	500
Commonwealth Bank and/or Commonwealth Savings Bank	12,750	Investments—	
Other issues	1,243	Commonwealth Government securities ..	543
Reserve Fund	694	Other securities ..	78
Special Reserve Account	613	Reserve Fund investments—	
Deposits, Fixed	68	Commonwealth Government securities ..	596
Current Account	996	Other securities ..	60
Other liabilities	415	Due by other departments ..	14
Due to other departments ..	120	Loans and advances to customers	14,563
Guarantee and other funds ..	80	Sundry debtors and other assets	172
		Bank premises	442
	16,979		£16,979

341. The proportion of long-term loans is about 40 per cent. of the total loans and advances to customers. The rate of interest is $4\frac{1}{2}$ per cent. on all advances, with the exception of those to some co-operative and rural societies, which pay $4\frac{1}{4}$ per cent. The main factor which influences the rate charged by the Rural Bank is the rate payable upon the stock held by the Commonwealth Savings Bank and the Commonwealth Bank, which represents 75 per cent. of the total funds of the Rural Bank. The margin between the interest paid on this stock and the interest which the Bank charges is $1\frac{1}{2}$ per cent.

342. The balance-sheet of the Advances for Homes Department on 30th June, 1936, is as follows:—

LIABILITIES.	£'000	ASSETS.	£'000
Stock and debentures—		Cash on hand and at bankers	212
Commonwealth Bank and/or Commonwealth Savings Bank	10,441	Commonwealth Government securities ..	74
Other issues	1,622	Reserve Fund investments ..	622
Reserve Fund	719	Other Securities	60
Due to other Departments ..	16	Loans and advances to customers	12,673
Other Liabilities	843		
	£13,641		£13,641

The interest charged by the Advances for Homes Department is $4\frac{1}{2}$ per cent., except in the case of loans made out of money provided by the Commonwealth Savings Bank under the *Commonwealth Housing Act* 1927, for which the Bank pays $3\frac{1}{2}$ per cent., and charges $4\frac{3}{4}$ per cent.

State Bank of South Australia.

343. The State Bank of South Australia is controlled by a Board of five members appointed by the Governor in Council for a term of five years. It was established under the *State Advances Act* 1895, as a mortgage bank upon the Credit Foncier principle, but its activities have been extended from time to time. It is entrusted with the administration of public funds provided for a variety of purposes; but, for the purpose of our report, we are concerned only with the General Banking and the Credit Foncier departments.

344. The General Banking Department was established under the *State Bank Act* 1925, which gave the Bank power to carry on the general business of banking, subject to a limitation which is implied in the provision which authorizes it to make advances to individuals and associations engaged in rural or primary production, or in activities concerned with the processing or marketing of rural products.

	£
On the 30th June, 1936, the capital was	3,476,283
But there was on deposit with the State Treasury the unexpended balance of an advance of £500,000 amounting to	404,240
	3,072,043

This capital had been provided by inscribed stock, debentures and mortgage bonds held by—

(a) The Government of the State	2,132,960
(b) The Savings Bank of South Australia ..	200,000
(c) Other financial institutions and the general public	739,083
	3,072,043

In addition to the capital account the Bank had—

Bank Reserve Fund	276,725
Bank Redemption Fund	67,118
	343,843

The total of these reserve funds is the balance of accumulated profits in the Credit Foncier Department (£430,087) less accumulated losses in the General Banking Department (£86,244). The form in which the accounts are presented creates some difficulty of interpretation, and they would be easier to follow if transactions between the different departments were clearly indicated, and if similar terms were employed for similar items in the departmental and the combined accounts.

345. The capital employed in the General Banking Department is £2,000,000. At 30th June, 1936, the current and fixed deposits were £450,000 from the public and £107,000 from the other departments. Cash and fixed deposits with other banks amounted to £129,000. The debts due to the Bank were £2,338,000. The advances in this department are upon overdraft; but it is possible for a customer to arrange for a mortgage, which covers a fixed loan from the Credit Foncier Department and an overdraft from the Banking Department. The rates charged upon overdraft allow a margin of 2 per cent. to 2½ per cent. above the cost to the Bank of its capital funds.

346. The Credit Foncier Department employs a capital of approximately £1,000,000. Its balance-sheet on 30th June, 1936, shows—

	£	£	£
Advances	4,851,008		
Less repayments	3,781,470		
Advances outstanding		1,069,538	
Less instalments due and outstanding		65,200	
			1,004,239
Properties reverted to Board			42,255
Sundry debtors for arrears of principal and interest, and insurance			107,600

The Credit Foncier loans to Primary Producers' Department is a recent addition, and its transactions up to the present are relatively insignificant.

STATISTICS.

347. The following tables give aggregated figures for the Rural Bank of New South Wales (Rural Bank Department and Advances for Homes Department); the Credit Foncier Department of the State Savings Bank of Victoria; and the State Bank of South Australia (General Banking Department and the Credit Foncier Department):—

THREE RURAL OR CREDIT FONCIER BANKS—AUSTRALIA.
AGGREGATES OF PRINCIPAL LIABILITIES AND ASSETS AT 30TH JUNE, 1926, TO 1936.

At 30th June—	Liabilities.		Assets.
	Debentures and other Securities Outstanding.	Deposits.*	Loans and Advances Outstanding.
	£'000.	£'000.	£'000.
1926	31,027	5,002	35,839
1927	34,741	6,714	40,102
1928	38,814	8,017	45,074
1929	43,730	9,367	51,406
1930	48,152	10,025	57,352
1931	47,135	11,644	56,538
1932	54,601	661	54,379
1933	52,847	437	52,330
1934	50,060	857	50,846
1935	51,167	1,113	50,920
1936	50,033	1,514	51,072

* Excluding deposits of Credit Foncier Department with General Banking Department of the State Bank of South Australia.

THREE RURAL OR CREDIT FONCIER BANKS—AUSTRALIA.
AGGREGATES OF PRINCIPAL LIABILITIES AND ASSETS AT 30TH JUNE, 1936.

	£'000	£'000
1. Debentures and other securities outstanding—		
(a) Held by State Treasury	2,133	
(b) Held by State Savings Bank, Commonwealth Bank, or Commonwealth Savings Bank ..	30,483	
(c) Held by public	12,017	
Total		50,033
2. Deposits by the public*		1,514
3. Reserve funds		3,242
4. Loans and advances outstanding		51,672
5. Government and other securities held		2,063
6. Cash in hand and bank deposits		1,897

* Excluding deposits of Credit Foncier Department with General Banking Department of the State Bank of South Australia.

Of the total loans and advances of nearly £52m. outstanding at 30th June, 1936, it appears that slightly more than half was owing by borrowers in rural areas.

BANK FAILURES.

348. During the year 1931, two banks, and one institution which carried on some banking activities, suspended payment. The Government Savings Bank of New South Wales suspended payment on 23rd April, 1931, the Primary Producers' Bank of Australia Limited on 24th August, 1931, and the Federal Deposit Bank Limited on 4th September, 1931.

Government Savings Bank of New South Wales.

349. During the year ended 30th June, 1930, withdrawals exceeded deposits, but the net reduction, after crediting interest for the year, was not sufficient to cause any apprehension. In July, 1930, deposits were reduced by £2.5m., a large part of the withdrawals, estimated at £1.15m., being invested in the Commonwealth loan closing towards the end of that month. Further reductions occurred in August, and on a smaller scale in September. Towards the end of the latter month, a State election campaign commenced, and in the course of that campaign, statements were made by candidates, and in political advertisements, as to the results which would follow a victory by the Labour party, and these created alarm in the minds of depositors. The net withdrawals for October were approximately £1.5m. After the election, at which the Labour party was returned, withdrawals continued, but not at the previous high rate, and it was concluded that most depositors who had been fearful for their deposits had acted before the election. The withdrawals for December, however, were very large, the net decrease exceeding £2.5m., but nearly £2m. of that amount was withdrawn for investment in the Commonwealth loan which closed during that month. In January and February, the withdrawals continued to exceed deposits, though on a lower scale. In the latter month, the State Treasury defaulted in the payment of interest due to the Bank on its investments and deposits, and failed to comply with a request for the repayment of some of the call deposits. By some means these facts became known and were published in the press, and led naturally to a revival of the fears which the election campaign had started months before. About the same time the State Government put forward financial proposals which so increased the alarm of depositors that no re-assurance given by the Bank could allay it. During March, withdrawals exceeded deposits by approximately £2.5m. Towards the end of March, the State defaulted in the payment of interest to British holders of New South Wales Government stocks, and this increased the uneasiness of depositors and led to a run on the bank. Between the 1st and 22nd April, the excess of withdrawals over deposits amounted to about £4m. of which £1,678,000 was withdrawn on 22nd April. The Bank's

cash resources then being exhausted, there was no alternative but to suspend further payments, and it was closed to business after 22nd April, 1931.

350. The following table shows the withdrawals from the Commonwealth Savings Bank, the Government Savings Bank of New South Wales, and all other savings banks respectively, during the year ended 30th June, 1931.

ALL SAVINGS BANKS.

EXCESS OF WITHDRAWALS OVER DEPOSITS, JULY, 1930, TO JUNE, 1931.

(Excluding deposit interest added on 30th June, 1931.)

—	Commonwealth Savings Bank.		Government Savings Bank of New South Wales.	All Other Savings Banks.	Total.
	Increase.	Decrease.			
	£'000.	£'000.	£'000.	£'000.	£'000.
1930—					
July	..	1,487	2,550	2,625	6,562
August	..	55	528	15	598
September	263	..	417	210	373
October	297	..	1,472	478	1,653
November	..	369	885	900	2,154
December	..	2,028	2,594	4,731	9,353
1931—					
January	..	293	604	278	1,175
February	..	52	832	85	969
March	848	..	2,420	185	1,757
April	1,385	..	4,085	891	3,591
May and June ..	..	206	1,082	1,749	3,036
	2,793	4,550	17,469	11,965	31,191
Deposits 30th June, 1930 ..		50,050	70,633	97,409	218,092
Excess of withdrawals over deposits for year ended 30th June, 1931 ..		1,757	17,469	11,965	31,191
Percentage of excess of withdrawals to deposits 30th June, 1930 ..		3.51	24.73	12.28	14.30

351. It is clear from this table that during this period there was a general tendency towards the reduction of savings bank deposits throughout Australia. To some extent this was due to the depression, which compelled depositors to use their savings. A further part of the reduction is accounted for by investment in the Commonwealth loans which closed in July and December, 1930. But in the case of New South Wales a large proportion of the reduction

must be attributed to the apprehension caused in the minds of depositors by the circumstances previously described. The net reduction in deposits for the year (excluding deposit interest added on 30th June, 1931), in the case of all other savings banks in all States, was approximately 12 per cent., whereas in New South Wales it was approximately 25 per cent. It is evident that considerable amounts drawn from the Government Savings Bank of New South Wales were lodged with the Commonwealth Savings Bank, where the net reduction was only 3.5 per cent.

352. The Commissioners of the Government Savings Bank of New South Wales fully appreciated the situation. As early as October, 1930, they informed the Board of the Commonwealth Bank that they anticipated something in the nature of a run on the Bank towards the end of that month, and inquired if the Commonwealth Bank would come to their assistance if necessary, and to what extent. It was indicated in the reply that the request was then too nebulous to be dealt with in a practical manner. The need for assistance, however, did not arise at this stage. Early in March, 1931, the President of the Government Savings Bank of New South Wales drew the attention of the Commonwealth Bank Board to the serious loss of funds by his institution, and arranged with the Commonwealth Bank to discount fixed deposits of the Commonwealth and other banks, amounting to about £3m. Towards the end of March, the President of the Savings Bank again requested assistance from the Commonwealth Bank. When asked to state definitely what he required, he stated that the return of confidence was the first necessity, that as depositors had lost confidence in the State, a statement of the Commonwealth Bank, supported by financial accommodation, was the only solution. The Governor of the Commonwealth Bank replied that the request could not be complied with, as it carried with it a full guarantee of about £60m. deposits. A few days later, the Chairman of the Commonwealth Bank (Sir Robert Gibson), speaking unofficially to the President, suggested that, if the State Government approached the Commonwealth Bank with a view to amalgamation, either before or after stoppage of payment, the matter would be considered subject to the approval of the Commonwealth Treasurer.

353. The substance of these conversations was reported to the State Premier, and after Cabinet consideration, a letter, dated 21st April, 1931, was sent from the Government of New South Wales to the Commonwealth Bank requesting amalgamation. The publication of this information in the press on the 22nd April, 1931, led to such heavy withdrawals that the Bank was forced to suspend payment from that date.

354. The following table shows the liabilities and assets of the Bank at the 30th June, 1930, and the 30th April, 1931:—

GOVERNMENT SAVINGS BANK OF NEW SOUTH WALES.

(Thousands of pounds.)

—	30th June, 1930.	30th April, 1931.
	£'000.	£'000.
Liabilities—		
Deposits	70,633	56,098
Other Banks	570	623
	71,212	56,721
Reserves	1,500	1,500
Mortgages and Investments Depreciation	62	258
Guarantee Funds	76	77
Profit and Loss	20	264
	72,870	58,820
Assets—		
Cash in hand and deposits with other banks at call	4,903	226
Fixed deposits with other banks	5,464	..
Deposits with State Treasury, fixed or at call	6,591	7,218
Government Securities—New South Wales	29,211	25,513
Government Securities—Commonwealth	3,809	3,798
Other State Government Securities	4	5
Inscribed Stock, Rural Bank Department	4,423	4,190
Inscribed Stock, Advances for Homes Department	10,820	10,445
Deferred Stock	24	23
Municipal Loans	3,017	2,902
Mortgages	2,834	2,677
Sundry Debtors	20	39
Bank Premises	1,750	1,784
	72,870	58,820

After crediting interest from the 1st July to the date of suspension, deposits had been reduced by approximately £14.5m. To meet the demands of depositors, cash on hand and at bankers had been reduced by approximately £12.5m., and State Government securities by about £3.7m. On the 4th May the Bank re-opened its doors for payment to depositors in necessitous circumstances. Funds were provided by the Commonwealth Bank.

355. On 28th May, the Commonwealth Bank submitted its views upon amalgamation to the State Premier. Negotiations followed, in the course of which the State Premier suggested certain amendments. These were not accepted by the Commonwealth Bank, which submitted counter proposals. Negotiations continued during the next few weeks, but, in the words of Sir Robert Gibson, then Chairman of the Commonwealth Bank, the matter became "the shuttlecock of politics". On 21st July, 1931, the Commonwealth Bank Board

notified the State Premier that, if acceptance or rejection of the proposed agreement was not received by the 25th July, negotiations would be ended by the Bank Board. No reply having been received, the negotiations were formally terminated on 27th July.

356. During the following month a Bill was placed before the New South Wales Parliament to provide for a "new division" of the Government Savings Bank of New South Wales. The Bill was passed, and the new division opened on 7th September, 1931. The volume of business was, however, relatively small, and it was evident that new deposits would not be sufficient to facilitate a release of the balances of the old depositors. On 21st October, 1931, it was announced that the negotiations with the Commonwealth Bank would be resumed, and a month later an agreement was reached. Legislation to ratify this agreement was enacted early in December, and on 15th of that month the agreement became effective.

357. An examination of the Bank's position shows that its assets were ample to meet its liabilities, although it had insufficient liquid assets to meet the entirely exceptional demands made upon it. The failure does not reflect discredit upon the management of the Bank. The cause of the failure was political rather than financial, and the responsibility must be borne by those whose conduct created apprehension in the minds of the depositors. The position is aptly summarized in the evidence of the President of the Government Savings Bank of New South Wales in the following words:—

"Looking back, with a calm review, I consider that the tragedy of the closing of the Government Savings Bank can be attributed to a conjunction of forces, some of which were economic and unavoidable, and others which could have been avoided had political and party considerations been less short-sighted, and had the Government, against which suggestions of political interference with the Bank were made, not justified those forecasts by acts or proposals which weakened the Bank's resources and financial stability, and thereby precipitated unnecessary withdrawals by the depositors on the principle of safety first."

The Primary Producers' Bank of Australia Ltd.

358. The Primary Producers' Bank of Australia Ltd. was incorporated in Queensland in February, 1923, and was the successor of a company known as Lands Credits Ltd., formed to make loans to farmers and graziers. Within twelve months the Bank had established 42 branches and agencies in the various States. At the time of suspension in August, 1931, the paid-up capital was £449,000, of which all but £22 consisted of preference capital issued at a premium. There were between 9,000 and 10,000 shareholders; the shareholdings were usually small. No dividends were ever paid. In April, 1931, the Directors interviewed the Commonwealth Bank and asked for

assistance to meet the demand which they expected in consequence of the suspension of the Government Savings Bank of New South Wales. The Commonwealth Bank agreed to advance £145,000 against certain securities. During May or June, one of the trading banks was approached and asked to consider absorption, but, after investigation, the trading bank in question declined to consider the suggestion. Prior to the suspension, some consideration was given by the Commonwealth Bank to a proposal that it should take some joint action with the trading banks to prevent closure. Meanwhile, withdrawals continued until, on 24th August, 1931, the Bank was forced to suspend payment.

359. An examination of the accounts of the Bank shows that the deposits reached their maximum in February, 1929. During the following year the changes in the accounts were not significant, but from that time the position rapidly became worse. The following table shows the movement in the principal liabilities and assets between February, 1929, and the date of suspension:—

PRIMARY PRODUCERS' BANK OF AUSTRALIA LTD.

COMPARATIVE BALANCE-SHEETS.

—	28th February, 1929.	28th February, 1930.	28th February, 1931.	28th September, 1931.
	£'000.	£'000.	£'000.	£'000.
Liabilities—				
Deposits	1,905	1,896	1,484	1,213
Bills and other liabilities	63	44	48	40
Mortgage on premises	50	45	40	40
Bank overdraft	..	..	..	146
Total Liabilities	2,018	1,985	1,572	1,439
Capital paid-up	434	439	439	439
Reserves	90	90	91	32
	2,542	2,514	2,102	1,910
Assets—				
Notes and coin	57	47	38	16
Due by other banks	140	81	88	154
Commonwealth bonds	171	213	145	133
Bills receivable, &c.	93	60	13	19
Money at short call	208	192	92	..
Total Liquid Assets	669	593	376	322
Advances, &c.	1,770	1,805	1,502	1,444
Furniture and fittings	17	17	16	21
Bank premises	86	99	118	123
	2,542	2,514	2,102	1,910

Between 1st March, 1929, and 28th September, 1931, deposits fell by £691,000, but advances were reduced by only £326,000. The demands of the depositors were met by realizing liquid assets, and borrowing from the Commonwealth Bank on overdraft on the security of Commonwealth bonds. When further realization or borrowing was impossible, the Bank was forced to suspend.

360. The immediate cause of the failure was the loss of nearly 40 per cent. of its deposits in eighteen months, and the inability of the Bank to obtain repayment of its advances. A very large proportion of the borrowers were primary producers, who suffered severely from the fall in the value of their products, and were unable to discharge their obligations to the Bank. For the same reason, primary producers, who had money on deposit, were compelled to withdraw it. Others did so because they had lost confidence in the Bank. It appears also that insufficient provision had been made for doubtful debts.

361. The balance-sheet prepared immediately after suspension showed that the Bank was not in a hopeless position. Its capital was still intact, and some reserves remained. The first report of the liquidators showed an estimated surplus of assets over liabilities of about £379,000 after providing for anticipated losses. No doubt many of the advances were "frozen", but had these been nursed, it is probable that a substantial proportion would have been recovered. Had it been possible to allow debtors time to get their affairs into order, there is no doubt that a larger amount would have been realized, and that shareholders would have received a substantial proportion of their capital. But a liquidator cannot, in justice to the creditors, carry on debtors indefinitely. The debts were sold, the creditors received 19s. 9d. in the £1, and the shareholders received nothing.

362. The circumstances of this liquidation show that, if a bank has to be liquidated, it is desirable, in the interest both of the depositors and of the shareholders, that there should be an orderly realization under the direction of the Commonwealth Bank.

The Federal Deposit Bank Limited.

363. This institution, incorporated in Queensland, and operating in Brisbane, was really a building society, although it carried on some banking functions. It received deposits and made advances. Normally about half its deposits were on current account, and half on fixed deposit for periods not exceeding two years. Its advances were partly on overdraft and partly on fixed long-term loans under building society tables. The latter were estimated to be between two-thirds and three-fourths of the total advances.

364. At the 30th September, 1930, the deposits amounted to £986,000, and the advances to £992,000. Having regard to the terms

on which deposits were accepted, and loans made, there is no doubt that the advances were too large. The general uneasiness caused by the suspension of the Government Savings Bank of New South Wales, and later by the suspension of the Primary Producers' Bank of Australia Ltd., resulted in an increasing demand for the repayment of deposits, and even where fixed deposits were not withdrawn on maturity, they were frequently placed on deposit at call.

365. A few weeks before the suspension the Directors of the Bank sought assistance from one of the large trading banks, which released the amounts which it held on fixed deposit, and advanced up to 80 per cent. of the value of Commonwealth Government securities held by the Federal Deposit Bank. This proved to be inadequate, and an application for assistance was made to the Commonwealth Bank, which came to the conclusion that the circumstances were not such as justified Commonwealth Bank action. The Federal Deposit Bank was notified of this decision on 3rd September, 1931, and payment was suspended next day.

366. The following table shows the balance-sheets of the Bank at 30th September, 1930, and the date of suspension (4th September, 1931) :—

THE FEDERAL DEPOSIT BANK LIMITED.

—	30th September, 1930.	4th September, 1931.
	£'000.	£'000.
Liabilities—		
Capital	328	328
Reserves	85	85
Profit and loss	25	25
	438	438
Bank overdraft	..	165
Deposits	980	690
Creditors	15	6
	1,439	1,299
Assets—		
Debtors	2	10
Investments	1	1
Government securities	218	248
Fixed deposits	94	..
Bank	5	77
	390	336
Loans and advances	993	904
Premises	56	59
	1,439	1,299

From these it will be seen that, while deposits had been reduced by £295,000, advances had been reduced by only £88,000. The demands of depositors had been met by realizing liquid assets, and by means of an overdraft of £164,000 granted by one of the trading banks. Eventually the business of this Bank was taken over by the Brisbane Permanent Building and Banking Company Ltd. Arrangements were made to pay the depositors in full by instalments extending over a number of years, and it is expected that, on completion of these payments, shareholders will receive in cash and shares of the Brisbane Permanent Building and Banking Company Ltd. an amount approximately equivalent to the nominal value of their shares.

CHAPTER IV.

THE AUSTRALIAN FINANCIAL SYSTEM IN 1936.

367. The Australian financial system consists of the Commonwealth Bank of Australia, the trading banks, the savings banks, and a number of other financial institutions of various types It is proposed only to indicate briefly the functions of each of the types of banks and other institutions, and to show the part of each in the system.

COMMONWEALTH BANK OF AUSTRALIA.

368. The Commonwealth Bank of Australia is the publicly-owned and controlled central bank of Australia. It was established by an Act of the Federal Parliament in 1911. The development of its structure and functions has been traced in Chapter II. It comprises a General Banking Department, a Note Issue Department, and a Rural Credits Department. In addition, the Commonwealth Savings Bank of Australia, although legally a separate institution, is under the control of the Board of the Commonwealth Bank.

369. The Commonwealth Bank is governed by a Board of Directors, consisting of the Governor of the Bank, the Secretary to the Commonwealth Treasury, and six other Directors appointed by the Commonwealth Government. The management of the Bank is in the hands of the Governor, who is the chief executive officer. The capital of the Bank is £4,000,000, which was, in 1924, transferred from the bank Reserve Fund and Redemption Fund to the Capital Fund. The profits of the General Banking Department are allocated equally to the Bank Reserve Fund and to the National Debt Sinking Fund, and the profits of the Note Issue Department are appropriated to the Treasury. On 31st December, 1936, there were 259 branches in Australia, two in London, and one in Rabaul, in New Britain. The summarized accounts of the various departments of the bank are set out in tables 54 to 56 of the Appendix.

THE NINE TRADING BANKS.

370. The following list shows the nine trading banks in the order of their establishment:—

	Year.
Bank of New South Wales	1817
The Commercial Banking Company of Sydney Limited	1834
The Bank of Australasia	1835
The Union Bank of Australia Limited	1837
English, Scottish & Australian Bank Limited ..	1852
The National Bank of Australasia Limited	1858
The Bank of Adelaide	1865
The Commercial Bank of Australia Limited ..	1866
The Queensland National Bank Limited	1872

The capital structure of these banks is set out in Table 51, and may be summarised as follows:—

	£'000
Total authorized capital	62,030
Less unissued capital	8,355
CAPITAL SUBSCRIBED	53,675
Less uncalled capital	16,539
CAPITAL PAID UP	37,136

371. The uncalled capital of the English, Scottish & Australian Bank Limited, and of the National Bank of Australasia Limited, may be called up at any time. The uncalled capital of the Commercial Banking Company of Sydney Limited and the Union Bank of Australia Limited, and the reserve liability of the Bank of Adelaide, the Bank of Australasia, and the Bank of New South Wales, can be called up only in certain contingencies. The words used to describe these differ to some extent, but the general purport is that the amounts can be called up only in the event, and for the purpose, of liquidation if the proceeds of the assets are insufficient to meet the liabilities.

372. Each of these banks is controlled by a board of directors elected by the shareholders. The constitution of the Commercial Banking Company of Sydney Limited, the National Bank of Australasia Limited, and the Bank of New South Wales, provides that no person shall be eligible or qualified to be or to act as a director if he is a director or paid officer of any other bank of issue. This is not contained in the constitution of the other banks, but in practice that principle is followed, in that no director of any of the nine trading banks is also a director of any other trading bank carrying on business in Australia.

373. Some of the directors of each of the banks incorporated in England, and some of the members of the London Boards of Advice of banks incorporated in Australia, are also directors of British banks which do not carry on business in Australia, including the Bank of England, Lloyd's Bank, the National Provincial Bank, the Chartered Bank of India, Australia and China, the Peninsular & Oriental Banking Corporation, the Westminster Bank Ltd., the Westminster Foreign Bank Ltd., and the Standard Bank of South Africa. Many of the directors of the banks incorporated either in England or Australia are also directors of other financial institutions, such as Pastoral Companies, Life Assurance Companies, and Trustee

Companies. In the case of the banks incorporated in England, the control of policy lies with the directors in that country. Extensive powers are delegated to the principal officer in Australia, and it is assumed that in determining its policy the board will be guided to a very great extent by his recommendation. The policy of the banks incorporated in Australia is determined by the directors in Australia. Some of the banks incorporated in Australia have local Boards of Advice, either in London, or in Australian capital cities other than that in which their head office is situated, but the functions of these are merely advisory.

374. The following table shows the domicile of shareholders and the percentage of the total capital held by each group:—

NINE TRADING BANKS—AUSTRALIA.—DOMICILE OF ISSUED SHARE CAPITAL AND OF SHAREHOLDERS, 1935-36.

Domicile of Shareholding.	Six Banks with Head Office in Australia.		Three Banks with Head Office in England.	
Amount of Capital.*	Amount.	Percentage of Total.	Amount.	Percentage of Total.
	£A.		£Stg.	
In Australia	21,550,463	78.6	2,772,420	20.6
In New Zealand	2,642,303	9.6	2,042,980	15.1
Elsewhere	3,243,596	11.8	8,684,600	64.3
Total	27,436,362	100.0	13,500,000	100.0
Number of Shareholders.	Number.	Percentage of Total.	Number.	Percentage of Total.
In Australia	31,638	68.7	4,255	17.0
In New Zealand	6,450	14.0	5,063	20.2
Elsewhere	7,946	17.3	15,725	62.8
Total	46,034	100.0	25,043	100.0

Average Nominal Shareholding per Shareholder.	£A.	£Stg.
In Australia	681.2	651.6
In New Zealand	409.7	403.5
Elsewhere	408.2	552.3
Total	596.0	539.1

* Excluding uncalled capital of the Commercial Banking Company of Sydney Ltd (£A.4,739,000) and of the Union Bank of Australia Ltd. (£Stg. 8,000,000), which are really in the nature of reserve capital, in that they may be called up only in the event of, and for the purposes of, liquidation.

375. This table shows the analysis of shareholdings, irrespective of domicile—

NINE TRADING BANKS—AUSTRALIA.—ANALYSIS OF SHAREHOLDINGS, 1935-36.

	Number of Shareholders.	Percentage of Total Shareholders.	Nominal Share Capital.*	Percentage of Total Share Capital.	Average Nominal Share-holding per Shareholder.
Six Banks with Head Offices in Australia.					
	No.	Per cent.	£A.	Per cent.	£A.
Not exceeding £500 ..	34,068	74.01	6,080,384	22.18	178.7
£501 to £1,000	6,102	13.45	4,583,613	16.71	740.2
£1,001 to £2,500 ..	4,063	8.83	6,296,372	22.95	1,549.7
£2,501 to £5,000 ..	1,184	2.57	4,077,030	14.86	3,443.4
Exceeding £5,000 ..	527	1.14	6,392,063	23.30	12,130.0
Total	46,034	100.00	27,436,362	100.06	596.0
Three Banks with Head Offices in England.					
	No.	Per cent.	£Stg.	Per cent.	£Stg.
Not exceeding £500 ..	18,830	75.19	3,869,060	28.66	205.5
£501 to £1,000	3,390	13.54	2,461,700	18.24	726.2
£1,001 to £2,500 ..	2,067	8.25	3,266,380	24.20	1,580.3
£2,501 to £5,000 ..	529	2.11	1,845,860	13.67	3,489.3
Exceeding £5,000 ..	227	0.91	2,056,400	15.23	9,059.0
Total	25,043	100.00	13,500,000	100.00	539.1

* *Excluding uncalled capital of the Commercial Banking Company of Sydney Ltd. (£A4,739,000) and the Union Bank of Australia Ltd. (£Stg.8,000,000), which are really in the nature of reserve capital in that such may be called up only in the event of, and for the purposes of, liquidation.*

The table showing the analysis of shareholdings is, however, subject to the qualification that in every case, shares held in trust by the same nominee are aggregated, and included in the class appropriate to that number. If each of these beneficiaries were regarded as an individual owner, the number of shareholders in the lower categories would be increased, and the number in the higher categories diminished.

376. In the case of some of the banks, there is a limitation of the number of shares which any individual shareholders may hold. No member of the Commercial Banking Company of Sydney Limited, may hold more than 12,000 shares (that is, about 3 per cent. of the total number issued). The largest individual holding is less than 7,000. No member of the Bank of New South Wales may hold more than 17,560 shares. The largest individual holding is 2,108 shares. No member of the Queensland National Bank Limited may hold more than 5,000 shares, or about 1½ per cent. of the total number issued. Subject to the foregoing, there is no restriction on shareholdings, other than the power generally conferred upon the directors by the Articles to decline to register any transfer.

377. The voting rights of members differ in the case of the various banks. The general rule is that every shareholder present at a general meeting is entitled to one vote. In the event of a poll, shareholders of the Bank of Adelaide, the Bank of Australasia, the Commercial Bank of Australia Ltd., and the English, Scottish & Australian Bank Limited, have one vote for each share held. In the case of each of the other banks there is a limitation on the number of votes which a shareholder may exercise, namely:—

	Votes.
The National Bank of Australasia Limited ..	100
The Union Bank of Australia Limited	4
The Commercial Banking Company of Sydney Limited	25
Bank of New South Wales	200
The Queensland National Bank Limited	10

378. The trading banks are engaged mainly in financing commerce and industry. They receive deposits from many sources, and make loans to persons engaged in trade, industry and finance, and to others.

379. The banks accept both fixed or term deposits, and free or current accounts. Deposits, both fixed and current, represent the savings and working capital of many sections of the community. Fixed deposits are accepted for terms varying generally from three to twenty-four months. The deposit cannot be withdrawn until the end of the term, except with the consent of the bank. The rate of interest is graduated according to the length of the period for which the money is deposited. Rates are varied from time to time in general conformity with the rise and fall of other interests rates, but the rate carried by a deposit when it is lodged applies until its maturity. Current deposits are balances of customers' credit accounts, withdrawable by cheque, and repayable on demand.

380. Advances are made in the form of overdrafts, which are not granted for definite periods, but are repayable on demand. In practice, however, many overdrafts, particularly those against the security of landed property, are allowed to continue for long periods. It is usual to require security to be lodged for overdrafts, but they are sometimes granted without security. A limit as to amount is usually arranged, but interest is charged only on the daily balance. Advance rates are not fixed for a definite period, but may be altered by the bank at any time. The rates vary somewhat, according to the type of account and the class of security held by the bank, and are influenced by the rates paid on fixed deposits.

381. The trading banks assist in financing overseas trade in several ways. Through their London offices and their representatives abroad, they issue letters of credit and arrange for the presentation or issue of drafts relating to Australian export or import transactions, in any commercial centre in the world. This enables Australian exporters to obtain payment in Australian currency immediately goods have been shipped and enables importers to pay for imports *in Australian* currency. The corresponding settlements overseas are effected by the banks in sterling or foreign currencies.

382. As sub-underwriters to the Commonwealth Bank, the trading banks have helped to float public loans, and they participate in the Exchange Mobilization Agreement, by means of which funds are provided in London to meet government commitments there.

383. Among other services to their customers are the safe custody of securities, the collection of interest coupons, and assistance to customers in handling their business affairs. They provide cheque facilities, and also facilities for the transfer of funds from one point to another in Australia and between Australia and overseas countries. The great bulk of the commercial and financial transactions in Australia are settled by these means.

384. The business of the trading banks is carried on over a wide area through branches and agencies. Authority is delegated to the managers of branches in accordance with their status and experience. Agencies are under the control of branch managers. The following table shows the number of branches and agencies within Australia of these banks at 30th June in each year from 1926 to 1936:—

TRADING BANKS(a)—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA.

NUMBER OF BRANCHES AND AGENCIES WITHIN AUSTRALIA.

At 30th June—	Branches.	Agencies and Receiving Offices.	Total.
	No.	No.	No.
1926 (b)	2,180	799	2,979
1927 (b)	2,227	840	3,067
1928 (b)	2,317	842	3,159
1929 (b)	2,424	917	3,341
1930 (b)	2,455	921	3,376
1931 (b)	2,408	793	3,201
1932	2,201	799	3,000
1933	2,300	713	3,013
1934	2,305	721	3,026
1935	2,314	705	3,019
1936	2,352	717	3,069

(a) Nine trading banks, including banks amalgamated since 1926 with any of these nine.
(b) Figures for these years are, to a slight extent, estimated.

385. Inter-bank clearings of cheques are made through clearing houses established in every capital city and in some of the larger country towns, and settlements are effected by cheques on the Commonwealth Bank. Each bank contributes to a pool as a guarantee against default in settlements. This is vested in trustees and the total amount in the various "pools" throughout Australia is approximately £2.5m.

386. The organization described as "The Associated Banks of Victoria", consists of the five trading banks which have their head office or principal Australian office in Melbourne. The Bank of New South Wales and the Commercial Banking Co. of Sydney Ltd. are also members in respect of their Victorian business. The association has no formal constitution, nor is it registered as an association. Representatives meet regularly each month, or oftener if necessary, to discuss matters of common interest. Decisions are not binding upon dissentient members, and the association is not in any sense a controlling body. There is no association quite similar in any other capital city, though in some the managers of the banks meet, when required, for the discussion of local matters of common interest.

OTHER TRADING BANKS.

387. In addition to the nine trading banks there are four other banks which carry on trading bank functions, though on a limited scale:

The Ballarat Banking Company Limited.

388. This Bank carries on business only in Ballarat and the surrounding districts. It is a limited company, incorporated in 1865. At 30th June, 1936, its balance-sheet showed the following particulars:—

	£
Capital paid up	153,000
Reserves and undistributed profits	107,000
Deposits	477,000
Advances	600,000

Bank of New Zealand.

389. This Bank has two branches in Australia, which mainly handle the Australian business of the Bank on behalf of its New Zealand and London branches. There is a local director in Melbourne and also one in Sydney. For the quarter ended 30th June, 1936, the average advances in Australia were £1.75m. and the average deposits in Australia £1.52m.

Comptoir National D'Escompte de Paris.

390. This Bank is incorporated in France. It has two branches in Australia, but there are no Australian shareholders or directors. The

Bank accepts but does not seek deposits, and makes few advances. Its main function is to facilitate trade between Australia and France. The Bank's rates in Australia for deposits and advances conform to those of the Australian banks. It deposits its available funds with the Commonwealth Bank.

The Yokohama Specie Bank Limited.

391. This Bank is incorporated in Japan. Its only Australian office is in Sydney. The Bank has no Australian shareholders or directors. Its Australian deposits and advances are on a small scale, and most of its customers are Japanese nationals. Its main function is to facilitate trade between Australia and Japan. It follows the rates of the Australian banks for deposits and advances. It deposits its available funds with the Commonwealth Bank.

392. The figures of the four banks last mentioned have not been used in any of the statistics included in our Report.

SAVINGS BANKS.

393. The largest of the savings banks is the Commonwealth Savings Bank of Australia, which operates in all the States. In Victoria, South Australia, and Tasmania there are savings banks incorporated under the State law and managed by Commissioners or Trustees appointed or approved by the State Government.

394. The only funds in the nature of capital consist of accumulated profits which have been carried to reserves. Otherwise, the whole of the funds controlled by these institutions consists of deposits.

395. The original function of the savings banks was to encourage thrift and attract deposits from persons possessing small or moderate means. In recent years progressive increases in the amount of the deposits upon which interest is payable, have encouraged many persons to place comparatively large amounts of money on deposit with the savings banks. As savings bank deposits are repayable on demand, or at very short notice, this provides a profitable avenue for the investment of call money at a rate of interest close to that paid by the banks on some fixed deposits. In this way savings banks compete with trading banks for short-term deposits.

396. The savings banks deposit substantial amounts with the Commonwealth Bank or with the trading banks, usually on fixed deposit. In this respect the savings banks play an important part in the general financial system, because they collect and make available to the trading banks an aggregation of small deposits. Savings banks also invest in mortgages or fixed loans, either directly or through the medium of a Credit Foncier Department, and in Government or Municipal securities.

RURAL AND AGRICULTURAL BANKS.

397. In every State some special type of organization has been established, mainly to provide fixed loans for primary producers. In New South Wales this is done by the Rural Bank of New South Wales, and in South Australia by the State Bank of South Australia. Each of these banks is controlled by Commissioners appointed by the State Government, and its funds are mainly provided by the issue of debentures guaranteed by the State, or by advances made by the State, and to a small extent by deposits from the public.

398. In Victoria this function is performed by a Department of the State Savings Bank, known as the Credit Foncier Department. Its funds are provided by the issue of debentures, some of which are held by the Savings Bank and some by the public. In Queensland, Western Australia and Tasmania, the corresponding institutions are, in effect, State Government departments.

399. In addition to the organizations described, some of the State Governments have set up departments to make advances to returned soldiers and others for the purpose of establishing and maintaining them on the land. These form no part of the banking system, although they provide credit which, if they did not exist, would have to be obtained from other sources.

PASTORAL FINANCE COMPANIES.

400. The part played by the pastoral finance companies in the financial system may be described as that of providing both short-term and long-term capital for primary producers, mainly to wool-growers. As the greater proportion of their funds is provided by share or debenture capital and reserves, they supplement the credit facilities provided by the banks.

401. The basis of the activities of these companies is the sale of wool, and their financial operations have been built up as a complement to this. Most of them act as agents for the buying and selling of their clients' livestock, and for the sale of station properties. These companies also perform a variety of other services including—

(*a*) Storage and other facilities for the handling and display of wool before sale and for shipment after sale. Similar facilities are provided for other commodities, for example, skins, hides, tallow, grain, live-stock, &c.

(*b*) The sale to pastoralists, farmers, and others, of station supplies, farm requisites, &c., including a wide range of general merchandise.

402. The chief Australian pastoral finance companies are twenty in number, and include some of the largest public companies in Australia. Many of the directors are also directors of banks, insurance companies, and other commercial or trading companies.

403. Pastoral finance companies borrow on overdraft at certain times during the year when their customers' demands are at the maximum. They do not usually seek deposits from the public but accept them from their own customers.

404. Short-term or seasonal advances are made usually to pastoralists or farmers who will use the services of the companies. These advances are made some time before the produce is sold, and are generally used by the primary producer as working capital. The total amount of seasonal advances outstanding varies considerably during the year, usually reaching a peak in the third quarter, and falling to the lowest point during the first three months of the year.

405. It is not the practice of the companies to make long-term loans, but loans repayable on demand are frequently carried on for an indefinite period. Interest is usually charged on the daily balances, and the rate may be varied from time to time during the currency of a loan. In this respect, these loans resemble advances made by the trading banks.

406. Some of the companies permit a limited number of their clients to draw orders upon them which, in many respects, are equivalent to cheques, but with the extension of banking facilities the use of these orders is diminishing. Most of the foreign exchange business of the companies is transacted through the banks.

406A. The following table shows the aggregate amount of the chief liabilities and assets of the twenty principal pastoral finance companies for the year 1936:—

TWENTY PASTORAL FINANCE COMPANIES—AUSTRALIA.

PRINCIPAL LIABILITIES AND ASSETS, 1936.

(In thousands of pounds.)

Particulars.	1936.	
	£'000.	£'000.
Total share capital paid up	..	15,802
Debenture capital—		
(i) In Australia	212	
(ii) Overseas	10,994	
Total debenture capital	11,206	11,206
Reserves and undistributed profits	..	9,008
TOTAL CAPITAL AND RESERVES	..	36,016
Deposits and customers' credit balances—		
(i) Bearing interest	3,842	
(ii) Not bearing interest	326	
Total deposits and customers' credit balances..	4,168	4,168
TOTAL LOANS OUTSTANDING IN AUSTRALIA ..	..	25,232

LIFE ASSURANCE SOCIETIES AND COMPANIES.

407. Most of the large concerns which carry on the business of life assurance are mutual societies or companies, but some have a share capital which is relatively small. They are controlled by directors elected by the policy holders or shareholders as their constitution may provide. Many of the directors are also directors of banks and other companies.

408. Life assurance societies differ in certain respects from the financial institutions previously described. They regularly receive a large income from premiums and interest on investments which is normally in excess of their immediate requirements. They rely upon the banks only for occasional overdraft accommodation, as for example, when large investments have temporarily depleted their banking accounts.

409. The influence of the life assurance societies upon the financial system is due to the magnitude of their funds, which are the amounts retained and invested to provide for the eventual payment of life and endowment policies. Under normal conditions these funds increase each year and as a result these societies usually have large amounts available for investment. Their investments mainly consist of Government securities, loans on mortgage and loans on policies. They do not, as a rule, make loans repayable on demand. In recent years there has been a tendency to prefer Government securities to mortgages, partly because of moratorium legislation and partly because of uncertainty in regard to the values of real property.

410. A development in recent years is a combination of a mortgage loan with a life policy. A collateral endowment policy is attached to the mortgage which provides for the repayment of the mortgage at the expiration of a specified term of years, or, in the event of the death of the mortgagor, if that should first happen. The term may extend up to twenty years, and a lower rate than usual is charged for the endowment policy. These loans provide the company with an investment and a premium income.

411. The accounts of the societies or companies that carry on business only in Australia are stated in Australian currency. In the accounts of those that carry on business out of Australia, Australian pounds, English pounds and New Zealand pounds are all treated as being of the same value. This is explained on the grounds that premiums and policies are payable in the currency of the country in which the policy was effected, and that the assets retained in each country bear some relation to the liability of the society under its policies payable in that country. It is considered, therefore, that it is unnecessary to convert all amounts to a uniform currency.

The Australian Financial System in 1936.

411A. The following tables, compiled from figures published by the Commonwealth Statistician in the Finance Bulletin, show details of the Australian assets, and of the Australian receipts and expenditure, of these companies for the years 1926 to 1936.

LIFE ASSURANCE COMPANIES—AUSTRALIA.

(a) Australian Assets, 1926 to 1936.

(In millions of pounds.)

Year.	Government and municipal Securities.	Mortgages.	Loans on Companies' Policies.	Landed and House Property.	Other Investments and Loans.	Outstanding *premiums*, Interest, Dividends and Rents.	Cash.	All Other Assets.	Total Australian Assets.
	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.
1926	60.4	24.1	10.5	4.1	2.8	1.9	2.1	3.1	109.0
1927	62.2	29.1	11.6	4.5	2.9	2.1	2.6	3.3	118.3
1928	65.2	32.4	12.7	4.9	3.2	2.3	2.7	3.6	127.0
1929	70.6	34.6	13.9	5.3	3.3	2.5	2.0	2.4	134.6
1930	72.8	37.8	16.8	5.7	3.6	2.7	2.2	2.4	144.0
1931	74.3	37.4	19.1	6.0	3.4	2.7	3.1	2.3	148.3
1932	79.5	36.6	19.8	6.3	3.9	2.6	2.9	2.2	153.8
1933	82.3	36.6	20.3	6.7	4.4	2.7	3.2	2.2	158.4
1934	88.4	38.5	20.6	7.3	4.6	2.6	3.7	2.6	168.3
1935	94.9	40.9	20.8	8.4	5.6	2.7	3.0	2.8	179.1
1936*	99.6	45.1†	21.1	9.8	6.3	2.7	2.3	3.0	189.9

* Partly estimated.
† About half the mortgage loans were in rural districts, and about half in urban districts.

(b) Australian Receipts, 1926 to 1936.

(In millions of pounds.)

Year.	Assurance, Endowment, and Annuity *Premiums*.	Interest, Dividends and Rents.	All other Receipts.	Total Australian Receipts.
	£m.	£m.	£m.	£m.
1926	11.5	6.0	0.3	17.8
1927	12.1	6.5	0.3	18.9
1928	13.1	7.1	0.7	20.9
1929	13.8	7.6	0.3	21.7
1930	14.1	8.0	0.4	22.5
1931	13.6	7.3	0.4	21.3
1932	13.6	6.4	0.4	20.4
1933	14.1	6.6	0.3	21.0
1934	15.1	6.9	0.3	22.3
1935	16.0	7.2	0.1	23.3
1936*	17.4	7.8	0.1	25.3

* Partly estimated.

(c) Australian Expenditure, 1926 to 1936.

(In millions of pounds.)

Year.	Claims and Annuities.	Surrenders.	*Cash* bonuses paid to policy-holders.	Commission.	Expenses of Management.	All Other Expenditure.	Total Australian Expenditure.
	£m.	£m.	£m.	£m.	£m.	£m.	£m.
1926	5.6	1.2	0.4	1.5	1.3	0.6	10.6
1927	6.2	1.1	0.5	1.5	1.3	0.6	11.2
1928	6.4	1.2	0.5	1.7	1.4	0.8	12.0
1929	6.9	1.4	0.6	1.8	1.4	1.2	13.3
1930	7.0	2.1	0.8	1.6	1.4	2.1	15.0
1931	7.4	3.0	0.9	1.4	1.4	2.7	16.8
1932	7.6	2.6	0.7	1.4	1.5	1.8	15.6
1933	7.8	2.3	0.6	1.5	1.5	1.6	15.3
1934	8.1	2.1	0.3	1.7	1.5	0.8	14.5
1935	8.8	1.8	0.3	1.9	1.6	0.7	15.1
1936*	9.3	1.8	0.3	2.1	1.7	0.7	15.9

* Partly estimated.

Trustee Companies.

412. Trustee companies constitute an important factor in the investment market. They are all limited liability companies, incorporated under State law. Many directors of these companies are also directors of banks and other companies. The shareholders' funds of the trustee companies are relatively small. They do not accept deposits, and make only occasional use of bank overdrafts. Their importance lies in the large volume of trust funds which they control, which aggregate approximately £220m.

413. The investment of trust funds is governed by the State laws, which prescribe the type of investment allowed. Where the company has discretion, the trust funds are usually invested either in Government securities or upon mortgage. In recent years, there has been a tendency to prefer Government securities, partly because of moratorium legislation, and partly because it has been difficult to find an adequate supply of suitable mortgages.

413A. The following tables show the liabilities and assets of the twenty-one trustee companies carrying on business in Australia, and the amount and method of investment of the trust funds which they control, for each of the years 1927, 1931, 1935 and 1936.

TRUSTEE COMPANIES—AUSTRALIA.

(a) LIABILITIES AND ASSETS OF THE COMPANIES.

(In millions of pounds.)

—	1927.*	1931.*	1935.*	1936.
	£m.	£m.	£m.	£m.
Liabilities—				
Capital paid-up	1.15	1.36	1.36	1.36
Reserves and undistributed profits ..	0.01	1.08	1.15	1.10
Other liabilities	0.14	0.15	0.16	0.15
Total Liabilities	2.20	2.59	2.67	2.70
Assets—				
Government and Municipal Securities	0.78	0.79	0.86	0.83
Mortgage and other loans	0.36	0.48	0.46	0.50
Real property	0.80	1.05	1.08	1.11
Other assets	0.26	0.27	0.27	0.26
Total assets	2.20	2.59	2.67	2.70

* Partly estimated.

(b) APPROXIMATE INVESTMENT OF TRUST FUNDS ADMINISTERED BY THE COMPANIES.

(In millions of pounds.)

Trust Fund Assets.	1927.*	1931.*	1935.*	1936.*
	£m.	£m.	£m.	£m.
Government and Municipal Securities	30	47	60	62
Mortgage and other loans†	28	30	38	37
Real property	30	44	51	51
Other assets (including shares in companies)	39	66	65	69
Total Trust Fund Assets ..	136	186	213	219

* Figures for each year, especially 1927 and 1931, are partly estimated.
† About 45 per cent. of the mortgage loans were in rural districts, and about 55 per cent. in urban districts.

BUILDING SOCIETIES.

414. Building societies exist in every State, and are usually incorporated under the statute law of the State concerned. Their function is to assist people to acquire homes or business premises for occupation or investment. The capital provided by the shareholders may be augmented by subscriptions for terminable or participating shares which from time to time are repaid. This results in some variation of the aggregate capital invested in this type of company. The shareholders are usually small. Few of the directors are also directors of banks or the larger financial institutions.

415. Most of the capital used by these companies is provided by their shareholders. They make relatively small use of overdrafts, usually only to meet a temporary emergency. Some seek deposits; others will accept deposits but do not seek them.

416. A low rate of interest is paid on call deposits. The rate on fixed deposits is a little higher than the rate paid by the trading banks for a like term. The rate charged on loans is limited to some extent by the competition of private mortgagees and the credit foncier institutions. Most of the loans are made under Building Society Tables, that is to say, the amount borrowed, with interest, is repayable by periodical equal instalments (usually fortnightly or monthly) over a term of years. The rate of interest charged on these loans is usually higher than that charged on other mortgages. To some extent this is explained by the increased cost of collection and supervision, and by the fact that the private lender does not seek this class of business owing to the difficulty of re-investing the small amounts of capital included in each payment. The proportion of loans on mortgages, that is, where the whole of the principal is repayable at a fixed date, is relatively small.

416A. The following tables, compiled from figures published by the Commonwealth Statistician in the *Finance Bulletin*, show the magnitude of the operations of registered building and investment societies in Australia for the years 1927 to 1935.

BUILDING SOCIETIES—AUSTRALIA.

LOANS MADE AND REPAID, AND LIABILITIES AND ASSETS, 1927 TO 1935.

Year.	Loans Granted during year.	Repayment of Loans during year.	Liabilities.				Assets.		
			Capital and Reserves.	Deposits.	Other Liabilities.	Total Liabilities.	Advances on Mortgages.	Other Assets.	Total Assets.
	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.
1927 ..	2.2	2.0	6.0	2.7	0.5	9.2	8.6	0.6	9.2
1928 ..	2.5	2.5	9.2	2.8	0.6	12.6	11.4	1.2	12.6
1929 ..	2.8	2.8	9.6	2.9	0.7	13.2	12.0	1.2	13.2
1930 ..	2.4	2.6	10.0	3.0	0.6	13.6	12.4	1.2	13.6
1931 ..	1.3	2.1	10.1	2.8	0.4	13.3	11.9	1.4	13.3
1932 ..	1.0	1.8	10.1	2.6	0.3	13.0	11.4	1.6	13.0
1933 ..	1.2	1.9	9.8	2.5	0.4	12.7	11.0	1.7	12.7
1934 ..	1.5	2.1	9.8	2.6	0.2	12.6	10.9	1.7	12.6
1935 ..	1.8	2.2	9.6	2.5	0.4	12.5	10.8	1.7	12.5

FINANCE AND CASH ORDER COMPANIES.

417. In recent years several types of companies have been established to provide relatively short-term credit for particular purposes. These may be divided into two classes:—

(a) The finance companies, which provide funds to finance the sale and purchase of specified goods on hire purchase terms, as for example, motor cars and trucks, radio sets, refrigerators and electric domestic appliances. Some of these companies also finance the purchase of stock for traders, and of plant and machinery for small manufacturers. They also discount book debts.

(b) The cash order companies, which provide cash orders or cash loans on personal security without any stipulation as to the type of goods or services to be purchased. These loans are repayable by instalments extending over a period usually not exceeding six months. The cash orders are mainly used for the purchase of drapery, clothing and boots.

418. The cash order business is widely diffused throughout Australia and is carried on by a large number of companies and individuals. It is impossible to estimate its volume, but the evidence indicates that it varies with economic conditions, being greater in times of prosperity and less in times of depression. The companies included in both these classes provide most of the funds required out of shareholders' capital and reserves, but make some use of bank overdraft.

THE STOCK EXCHANGES.

419. The main function of the Stock Exchanges is to provide facilities for bringing together those who desire to buy or sell Government or other securities, and shares in listed or approved companies. They also provide facilities for obtaining subscriptions to new issues of Government securities and shares in companies. The Stock Exchanges as organisations do not provide capital for industry.

GENERAL.

420. Most of the finance required by commerce and industry is provided by the organisations described, but there is, in addition, a large volume of private finance provided directly by individuals and indirectly by solicitors and agents on behalf of clients. Most of the payments pass through the banks, either as deposits or withdrawals, but the capital thus provided is subject to little control or direction by the banks.

PART II.

CHAPTER V.—PROPOSALS FOR MONETARY REFORM.

CREATION OF CREDIT.

CHAPTER V.

PROPOSALS FOR MONETARY REFORM.

421. In the course of our inquiry, our attention has been directed to a number of proposals for the reconstruction, or amendment, of the economic and financial systems. We have been impressed by the manifest sincerity with which many of these views were propounded. Upon examination, however, we were of opinion that some of the proposals were outside the terms of our reference, but, in this part of our report, we deal with the more important of the proposals that fall within them.

DOUGLAS SOCIAL CREDIT.

THE OUTLINE OF THE THEORY.

422. In the first instance, we may set out the proposals which it is convenient to group together as "Social Credit", or "the Douglas Social Credit movement". This group covers a diversity of individual opinions, and it will be necessary to amplify the outline later, but it appears that the common ground, or basic principles, can be briefly stated as follows:—

(*a*) the advocates point to the "paradox of poverty in the midst of plenty", and to the wastage and destruction of produce, and the restriction of production, at times when many are in want;

(*b*) they say that this state of affairs is due to a permanent tendency towards a shortage of purchasing power—i.e., money in some form or other—and that the community is therefore unable to buy all the consumable goods produced;

(*c*) they mean by this that the aggregate value, at retail prices, of all the consumable goods and services put on the market, is always—or nearly always—greater than the aggregate money income received by consumers (for example, wages, dividends and interest) which is available to purchase the aggregate output. The A + B theorem is offered as a proof of these contentions;

(*d*) they propose that this shortage should be met by government control of credit, and by either, or both, of the following methods:—

(i) a national dividend in the form of a weekly or monthly payment to every individual in the community;

(ii) the sale of consumable goods at the "just price", which is a price less than the cost, including a margin of profit. The sellers of such goods would then be compensated for the amount lost by them through selling at this reduced price;

(e) the money or credit for national dividends and compensatory payments would be issued by a "National Credit Authority", such as the Commonwealth Bank;

(f) For the purpose of ascertaining the shortage of purchasing power in any period, a national accounting would be undertaken;

(g) The shortage so ascertained would represent approximately the amount of credit or money that would be made available by the National Credit Authority, either in the form of a national dividend, or compensatory payments, or by both these methods.

THE SHORTAGE OF PURCHASING POWER.

423. The fundamental idea of social credit is that there is a permanent tendency towards a shortage of purchasing power, but the expression—shortage of purchasing power—can be used in different ways, and it is necessary to have a clear understanding of what is alleged. If purchasing power is used in the sense of money income, nobody denies that, at all times, there is some shortage of purchasing power, so far as particular individuals are concerned. There are always some people who never have enough money to buy what is necessary for a reasonable standard of living. It is quite clear, also, that in times of depression, the total purchasing power (or money income of the community) is less than in times of prosperity. In this sense, it may be said that there is a general shortage of purchasing power in a depression as compared with the amount available in other times. But it must be clearly understood that the social credit theory is not concerned with any shortage of money in either of these senses.

424. The social credit contention is that—save possibly in a period of boom or of exceptional export—the economic system, as a whole, does not, and never can, distribute to individual consumers all the money which the producers have to spend in the course of production. In other words, it is alleged that—save possibly in these exceptional periods—the community, as a whole, never gets enough money, in the form of income, to buy all the commodities that are produced.

THE NATIONAL CREDIT ACCOUNT.

425. The first plank of the social credit platform is the "Government control of credit", or—as some say—the "National control of money". The advocates of social credit say that in the interests of the community, it is not desirable that banks, whose principal motive for existence is the making of profits, should have the power to expand or contract credit—or as the Douglas Credit advocates put it—the power to create money in the form of a debt to the banking system, and to destroy it when repaid. This power, it is contended, should be in the hands of a national credit authority.

426. There seems to be some difference of opinion amongst these advocates as to how far this particular proposal should be carried. Some would prohibit any trading bank from making advances out of the money deposited with it. But this is not included in the proposal, as generally outlined in the writings to which we have been referred. In this form, the proposal is that the Commonwealth Bank, or some other authority, specially appointed for that purpose, should keep a national credit account, as the measure of the credit or money available for issue.

427. This account would be "credited with the value of the community's assets, both public and private, and with the commercialized value of the population". This means that a valuation would be made of the capital assets of the country, e.g., land, roads, railways, waterworks, drainage, buildings, plant, and machinery. No distinction would be made between public and private property. Property would be taken at replacement value, if in use, or, if not in use, at market value. To this would be added a sum to represent "the commercialized value of the population", or, as we understand it, a capitalization of the earning capacity of every member of the community. On the other side of the account, we gather that there would be a debit for a sum representing the existing supply of money.

428. From time to time, for example, annually, the national credit account would be credited with amounts representing the value of the total national production, which includes—

(a) capital goods and consumable goods produced, at cost including profit;
(b) imports;
(c) capital appreciation (the increase in value) of land, works, buildings, and the like,

and debited with amounts representing the value of the total national consumption, which includes—

(*d*) total national consumption;
(*e*) exports;
(*f*) capital depreciation of land, works, buildings and the like.

Any money issued from time to time would be debited to this account, and the credit balance would be regarded as a fund from which the national credit authority would issue credit or money for—

(i) "National dividends"; or
(ii) payments to compensate the sellers of consumable goods for selling them at the "just price";

and also (according to some advocates) for—

(iii) the finance of national and semi-national undertakings, and social services;
(iv) the reduction of the national debt;
(v) the relief of taxation.

The extent of the issue for any of the last three purposes would be determined by the Government, or entrusted to the discretion of the national credit authority.

THE NATIONAL DIVIDEND.

429. The national dividend can be briefly explained. It involves the payment of some fixed sum to every member of the community, weekly, monthly, or quarterly as may be determined. These payments would be made by the national credit authority—presumably the Commonwealth Bank—in legal tender money, or by cheques or vouchers which could be cashed if required.

THE JUST PRICE SUBSIDY.

430. The "just price" subsidy requires more detailed treatment. The proposal is as follows:—

(*a*) the advocates assume that the figures appearing in the national credit account as the "Total National Production" and "Total National Consumption", when taken over any particular period, would show some substantial excess of production over consumption, and this would be regarded as the measure of the shortage of purchasing power to be made up by the "just price" subsidy, either alone, or in conjunction with some scheme of national dividend.

(*b*) taking these figures as a guide, the Government or the national credit authority would then fix some percentage—say 25 per cent.—by which the retail prices of consumable goods would have to be reduced below cost in order to qualify for the subsidy;
The cost referred to, is the cost to the retailer, plus a margin of profit, fixed or regulated by the proper authority;

(*c*) When the goods had been sold to the consumer at this reduced price, the retailer would, in due course, apply to the national credit authority for payment of the subsidy. Some system would have to be devised for checking the sales and verifying compliance with the conditions—i.e., that the price had been reduced and the fixed margin of profit not exceeded;

(*d*) When the national credit authority was satisfied on these points, it would pay to the retailer as subsidy the difference between his "cost" price and the price at which the goods had been sold;

(*e*) the payment would be made by a cheque or order, which might be cashed or credited through the banking system.

There has been some hesitation, upon the part of some of the social credit advocates, in regarding these payments as money; but it is clear from the evidence of Major Douglas before the Macmillan Committee that he regards them as money.

SHORTAGE OF PURCHASING POWER EXAMINED.

431. Having set out the proposals, we can now proceed to examine the arguments in support of the theory that there is a permanent tendency towards a shortage of purchasing power. No statistics exist which, in our opinion, serve to establish the truth of this theory. We invited the advocates, who appeared before us, to provide us with such statistics, but they were unable to do so.

THE A + B THEOREM.

432. The ordinary view is that whatever is paid out by the producer as the costs of production must sooner or later be paid to some one who receives it as income, which he can spend, if he so desires, on consumable goods.

433. Major Douglas, the founder of this school of thought, contests this view, and purports, by what is known as the A + B theorem,

to demonstrate that there is a permanent tendency towards a shortage of purchasing power. His statement is as follows:—

> A factory or other productive organization has, besides its economic function as a producer of goods, a financial aspect—it may be regarded on the one hand as a device for the distribution of purchasing power to individuals, through the media of wages, salaries, and dividends; and on the other hand, as a manufactory of prices—financial values. From this stand-point, its payments may be divided into two groups—
>
> Group A.—All payments made to individuals (wages, salaries, and *dividends*).
>
> Group B.—All payments made to other organizations (raw materials, *bank charges, and other external costs*).
>
> Now, the rate of flow of purchasing power to individuals is represented by "A", but since all payments go into prices, the rate of flow of prices cannot be less than "A" plus "B". Since "A" will not purchase "A" plus "B", a proportion of the product at least equivalent to "B" must be distributed by a form of purchasing power which is not comprised in the description grouped under "A".

434. *The first observation to be made upon this, as a logical* demonstration, is that it lacks precision where precision is essential. The theorem may refer to—

(*a*) The payments, and prices of the products of only those factories or organizations which produce consumers' goods.

(*b*) The payments and prices of the products of all factories or organizations irrespective of whether they produce consumers' goods or producers' goods.

(*c*) The payments of all factories or organizations, but the prices of the products of only those factories which produce consumers' goods.

Consumers' goods or products are the commodities (such as food and clothing) which are purchased by individual consumers—the public—for their own consumption or use. Producers' goods are the commodities (such as machinery, tools, and materials) which are purchased by other factories or organizations for the purposes of manufacture of other products for sale, either to the public or to yet another factory.

435. It will be easier to follow our interpretation and criticism of the social credit theory by reference to the accounts of three associated productive organizations, each of which, for convenience, we shall call a "factory". The statement which follows is based upon an investigation of the actual accounts of a baker, a flour-miller and a farmer for the year ending 30th June, 1936. It shows in a summarized form the cost of manufacturing and selling the bread, the cost of manufacturing and selling the quantity of flour used by

the baker to make the bread, and the cost of growing the quantity of wheat used by the miller to make the flour. For the present purpose a summary is sufficient. In due course these costs will be considered in greater detail.

SUMMARIZED STATEMENT OF COSTS.

—	Baker.	Miller.	Farmer.	Total.
	£	£	£	£
Value of production—				
Baker—bread	9,010	..	..	9,010
Miller—				
Flour	..	2,825	..	..
Offals..	..	805	..	3,030
Farmer—wheat	..	..	2,747	2,747
	9,010	3,030	2,747	15,387
Cost of production—				
"A" payments—				
Wages and salaries	2,966	310	345	3,621
Profits	917	226	269	1,412
Total "A" payments ..	3,883	536	614	5,033
"B" payments—				
Flour	2,825	..	..	2,825
Wheat	..	2,747	..	2,747
Other..	2,302	347	2,133	4,782
Total "A" + "B" payments	9,010	3,630	2,747	15,387

436. If the first of the three interpretations of the A + B theorem is intended, the statement that the "A" payments from the factories producing consumers' goods are less than the total prices of the goods which they produce, cannot be disputed. The "A" payments of the baker, which amount to £3,883, are in themselves not sufficient to buy the whole of the bread which he produces, valued at £9,010. In fact, this position must always arise, for it is clear that the "A" payments of any factory must always be less than the total value of its production. But the "A" payments of any factory do not constitute the whole of the income distributed to consumers and available to purchase its production. Sooner or later, its "B" payments will appear as "A" payments in some other stage of production. We shall deal with this later.

437. *If the second interpretation is intended*, the theorem means that the purchasing power distributed by all factories to individuals as "A" payments is not enough to purchase all the commodities which these factories produce (that is, both producers' and consumers' goods). This also is true. For instance, in the example given, the

total "A" payments amount to £5,033, while the value of the total production amounts to £15,387. But the cost of wheat forms part of the cost of flour, and the cost of the flour in turn forms part of the cost of the bread. The consumer of bread is not required to pay both for the finished product and for the raw materials from which it is made. Therefore, if the amount paid by the baker to the miller for flour, and by the miller to the farmer for wheat, be deducted from the value of the total production, the position is as follows:—

	£	£
Value of production—		
Baker—bread	9,010	
Miller—offals	805	
		9,815
Cost of production—		
"A" payments	5,033	
"B" payments (other than wheat and flour)	4,782	
		9,815

This is exactly the position we shall have to consider when we discuss the third interpretation in the next following paragraph.

438. We come finally to the third interpretation of the theorem. In this, different meanings are given to the letter "A" when it is used alone and when it is used in the expression "A + B". When "A" is used alone it refers to the income, amounting to £5,033, distributed as wages and profits by *all* the factories. But when "A" is used in the expression "A + B" it refers only to the wages and profits of the baker amounting to £3,883, and, therefore, the expression "A + B" in this case means the prices created only by the factories producing consumers' goods, costing £9,815. While it is clear that direct payments of £5,033 will not purchase goods costing £9,815, the truth or falsity of the assumption made in this interpretation depends, as in the first interpretation, upon the distribution of the "B" costs, and if it is shown that these ultimately become purchasing power, no shortage can arise. If there is a shortage, therefore, it must be due to either or both of the following causes:—

(*a*) That some of the costs incurred by the factories producing consumers' goods are *never* distributed as purchasing power to individual consumers.

(*b*) That although all the prices created (or costs incurred) by the factories producing consumers' goods are sooner or later distributed as purchasing power to individuals, some of the purchasing power distributed in their production has been spent by the time the consumers' goods come on the market, and some of it may not then have been either distributed or spent.

439. The questions raised by all of these interpretations may, therefore, be stated as follows:—

(*a*) Is there any cost which is incurred in the production of consumable goods, or services, which is not either paid as income to individuals or else passed on, so that, ultimately, it appears as purchasing power in the hands of some one?

(*b*) Is there a shortage on account of the fact that the purchasing power, distributed as costs, comes into the hands of the consumer at different times, and, therefore, that some of it may be spent before the consumable product is put on the market, and that some of it may not become available until later? and

(*c*) Does the practice of saving necessarily produce any such shortage as is alleged?

We shall consider each of these in due course.

440. We have now set out what we consider to be the important questions raised by the A + B theorem. But some advocates of social credit do not rely entirely upon this theorem. Their views, however, raise the same questions, and our examination will cover both their arguments and the A + B theorem.

THE DISTRIBUTION OF COSTS.

441. The obvious method of approaching the first question—whether there is any cost which is not ultimately represented by purchasing power—is to take the items one by one and see what becomes of the money. For this purpose it is convenient to refer to the foregoing "Summarized statement of costs", which covers the whole of the costs relating to the production and sale of bread. It is clear that the "A" payments, consisting of wages, salaries, and profits, are purchasing power which recipients can spend as they choose. We are not at the moment concerned with the fact that some of the payments may have been made, and the money spent, before the bread is available for sale, or some of it saved, or with the fact that some of the profits may be undistributed. These aspects will be considered later.

442. The "B" payments may be considered under two headings. The first group consists of the raw material of the industry, which constitutes the whole or greater part of the income of the factory from which it is purchased. For example, the amount paid for flour by the baker appears as income of the miller, and the amount paid for wheat by the miller appears as income of the farmer. It is clear, therefore, that these amounts create purchasing power when received

by the miller or farmer. Some part of them will be paid to other individuals or organizations for goods or services, and is purchasing power in their hands. The balance will represent the profit of the miller or farmer which he is free to use as he chooses. The question, therefore, resolves itself into an examination of the distribution of the other "B" payments of all the businesses, which amount to £4,782. These are set out in detail in the table which follows. The amount paid by the baker for flour and by the miller for wheat are excluded. The statement does not show the total other "B" costs of the miller and farmer, but only that proportion of these charges which relates to the quantity of flour sold to the baker, and to the number of bushels of wheat required to make it.

OTHER "B" PAYMENTS, EXCLUDING FLOUR AND WHEAT.

—	Baker.	Miller.	Farmer.	Total.
	£	£	£	£
(a) Goods—				
Materials	457	..	..	457
Seed wheat purchased.. ..	..	..	5	5
Superphosphates	..	..	101	101
Sacks	..	41	178	219
Horse feed	285	..	..	285
Firewood	227	41	..	268
Petrol	..	..	90	90
Total goods	969	82	374	1,425
(b) Services—				
Electric power	29	..	..	29
Cartage	..	82	52	134
Rail freight	..	..	392	392
Insurance	56	14	2	72
Telephone	17	7	11	35
Travelling expenses	..	31	30	61
General expenses	12	24	96	132
Printing and stationery ..	17	15	5	37
Repairs and maintenance ..	103	34	129	266
(c) Rent	364	6	310	680
Interest	28	..	414	442
(d) Flour tax	555	..	..	556
Land taxes and rates	61	5	60	125
(e) Depreciation	101	47	249	397
Total	2,302	347	2,133	4,782

443. Payments of a similar nature have been classified in groups. The first group includes other materials of various kinds purchased by any of the factories. The amounts so paid form part of the income of the person to whom, or organization to which, they are paid, and that income may be dissected into "A" and "B" payments in the same manner as in the account we are now considering. A little consideration will show that a large proportion of many of these

payments must consist of wages. In some cases practically the whole amount is expended in that manner, as for instance, in the case of firewood. In others, wages may not form such a large proportion, because some of the raw material used has been purchased from other organizations, which in turn distribute part of their income as wages. Superphosphates, sacks and petrol are in this class.

444. The next group deals with services. Here, the percentage of wages is probably higher than in the case of materials, and the conditions described in the last preceding paragraph apply with equal or even greater force to these payments. Analysis would also show that a substantial proportion of the "B" payments of these organizations will in turn be also eventually distributed to some one as wages.

445. The third group includes rent and interest. If these are paid to an individual, there is no doubt that they are purchasing power in his hands. If paid to an organization, they form part of its income from which salaries and other expenses are paid. The balance is profit, which the proprietors are free to use as they choose.

446. The fourth group includes certain forms of taxation; in this case flour tax, land taxes and rates. These payments do not result in any wastage of purchasing power. The money provided by taxation is distributed by the Government or municipality in such forms as salaries, wages, pensions or bounties, or as interest on loans, or payments for materials or services.

447. The last item is the amount of the depreciation included in the costs of each of these businesses. There appears to be a great deal of misunderstanding about the effect of depreciation upon purchasing power. The amount charged for depreciation is an estimate of the loss of value in the assets used for production, either by wear and tear or by the passage of time. The effect of charging depreciation as a cost is to provide that an equivalent amount shall be withheld from distribution, and thus in time provide a fund for the replacement of these assets or for the eventual return of the capital invested in them. It is not usual for the amount set aside for depreciation, or as reserves for other purposes, to be withdrawn from the business and separately invested. In nearly every case the amount is retained in the business, and used as working capital, out of which wages and expenses are paid and materials are purchased. It is clear, therefore, that in these circumstances the amount set aside for depreciation is not lost as purchasing power.

448. There is, however, another argument which may be used to show that amounts set aside for depreciation do not necessarily reduce purchasing power. In the ordinary course every factory

is continually replacing something, and in any particular year it may spend, in that way, more than it has set aside for depreciation out of the profits of that year. Whilst some factories are spending less than they are setting aside for depreciation, others will be spending more. The failure to replace may reduce the purchasing power distributed by the industries which supply replacements, but the purchasing power represented by the unspent amount is not lost. It remains in the business, and is used in the manner previously described. If, however, the amount spent upon replacements exceeds the amount set aside, there is an increase in the purchasing power distributed by the industries which supply replacement goods, but on the other hand the working capital of the business is necessarily reduced. If there is a difference between the amount set aside and the amount spent this indicates a transfer of purchasing power, and not a loss. The question of expenditure upon replacements is, however, closely allied to the larger question of capital expenditure which will be considered later.

449. It is clear, therefore, that, sooner or later, every "B" payment becomes the income of a consumer, which he can spend as he chooses. The fact that some part of the "B" payments and profits may eventually come into the hands of some one in another country does not affect the truth of these statements. In some cases, the change from a "B" to an "A" payment takes place almost immediately. In others it takes longer, because the payments pass from one factory to another. This brings us to the consideration of another factor, namely, the effect of "time" upon the distribution of purchasing power.

THE TIME ELEMENT.

450. We have now to consider whether there is a shortage on account of the fact that the purchasing power distributed as costs comes into the hands of the consumer at different times, and, therefore, that some of it may be spent before the consumable product is put on the market, and that some of it may not become available until later.

451. The example we have given can again be used in the examination of this question. The wages paid by, and the profits of, the baker, the miller, and the farmer are available to buy bread. But it is clear that all the wages paid by the farmer while the wheat is growing, and by the miller during the process of producing the flour, and all the profits will not be available to buy the bread when it is offered for sale. If we consider one industry at a particular moment or period of time, it would no doubt be true that the goods cannot be sold unless the purchasing

power distributed as costs is then in existence and used for that purpose. But that is an unreal position. No industry is self-contained. It is part of a complicated, continuous, and inter-locking system. The available purchasing power at any period depends upon the continuity of industry as a whole. If each industry continues to carry on its operations, the available purchasing power consists of the whole of its wages, salaries and profits, and these in turn will at least equal the total cost of the commodities produced. A shortage can only arise if there is an interruption in the process, and the factories in the earlier stages either reduce their "A" payments, or cease production. The conditions of any industry, or of industry as a whole, are subject to fluctuations which operate at times to reduce employment and production, but this does not prove a *permanent* tendency towards a shortage of purchasing power.

452. At this stage it is convenient to refer to the question of borrowed money. Speaking generally, it makes no difference to the purchasing power of the community as a whole whether a business man uses his own or borrowed money. If he uses borrowed money, he pays interest to the lender. If he uses his own money, his profits are increased by an amount equal to the interest. The purchasing power represented by the additional profit, or the interest, is differently distributed, but its aggregate volume is not diminished. When money is paid, it makes no difference to the person who receives it whether he has been paid out of a credit balance or an overdraft. The purchasing power of the money is the same.

453. The aspect with which we are most concerned is the variation in the supply of money available to be borrowed, or, in other words, the contraction or expansion of credit. It is customary for advocates of the social credit theory to refer to the repayment of a bank overdraft as the "cancellation of credit". It is true that the debt of the borrower is thereby reduced or extinguished, but the question is not whether individual accounts are cancelled, but whether the total volume of bank credit in use by industry is reduced or any part of it cancelled. Provided that the bank is able and willing to lend the money to some other borrower, the repayment of a bank advance or overdraft has no more effect upon the purchasing power of the community as a whole than has repayment to any other lender. If, however, the banks are unable or unwilling to make fresh loans, there is a tendency for the purchasing power of the community to contract, just as there is a tendency for it to expand when bank advances are increasing. The point is that both of these are temporary conditions which do not prove the existence of a *permanent* tendency towards a shortage of purchasing power.

SAVINGS.

454. The last of our three questions is concerned with the question of savings. In the argument presented by Mr. J. C. Foley, on behalf of the Tasmanian branch of the Douglas Social Credit Association, it was contended that—

"The total costs of industry can certainly be recovered if the incomes of consumers are sufficient in the aggregate to purchase all final products at prices which cover costs of production, and if all incomes are used for this purpose."

455. It is well known that all consumers do not use the whole of their incomes to purchase consumers' goods. Some are able to purchase all they require without using the whole of their income. Others can only save by forgoing consumption. Still others require to spend the whole of their incomes on consumers' goods, and cannot save.

456. Savings may be regarded as purchasing power withheld from the market by refraining from consumption. The most common reason for saving is to provide security against the ordinary risks of life. A great part of the savings consists of amounts paid to life assurance companies, superannuation funds, and friendly societies, or lodged on deposit with banks. Of the amounts paid to the life assurance companies, superannuation funds and the friendly societies, part is distributed in the form of salaries and expenses and benefits. The balance is invested in some form, as for instance in government loans or other securities, or on mortgages. These amounts furnish the borrower with funds which are expended to provide employment, or to purchase materials or capital goods. Bank deposits provide a basis for bank advances which are used for similar purposes. No doubt part of the bank deposits at any time consists of money awaiting investment, but such amounts are available to the owner either on demand or at a certain date.

457. At any given moment, some are saving out of income, others are spending past savings, and others again are borrowing against future income for the purpose of buying consumable goods. At all times, considerable amounts are being distributed to individuals in the form of superannuation allowances, friendly society benefits, and the proceeds of life assurance and endowment policies, all of which represent savings, or the result of savings, made in the past. These examples show that the supply of purchasing power is affected by many influences to which the advocates of the social credit theory do not appear to attach sufficient weight.

458. It is not denied that the relation between saving and spending may materially increase or decrease purchasing power. If the rate at which purchasing power is being withheld from the market by saving is not equalled by the rate at which it is being put back into the market by the production of capital goods, there will be a decrease of purchasing power and a tendency for prices to fall. If, on the other hand, the production of capital goods exceeds the rate of saving, there will be an increase of purchasing power, and a tendency for prices to rise. But both these conditions are temporary, and afford no justification for the conclusion that the practice of saving, in itself, creates a *permanent* tendency towards a shortage of purchasing power.

459. The fact that some persons enjoy an income which is more than sufficient to purchase all that they need in the form of consumers' goods, while others cannot purchase the consumers' goods that they require to maintain a reasonable standard of living, indicates an unequal distribution of income. But that is a condition which the social credit proposals do not attempt to alter.

THE REMEDIES.

460. The social credit theory is based on the assumption that there is a permanent tendency towards a shortage of purchasing power. To remedy this it is proposed that purchasing power should be increased either by giving to the retailer, who sells goods at the "just price", a compensatory payment, or, by the payment of a "national dividend", or by both these means. But as we have shown that this tendency does not exist, we cannot accept the proposed remedies as a solution of the problems which the social credit theory purports to solve. The social credit remedies are intended to be applied, not only in a depression, but at any time. The amount of credit proposed to be distributed is not insignificant, for although no attempt has been made to calculate the alleged shortage, social credit advocates speak of a compensatory payment of 25 per cent. of selling prices. The remedies therefore are merely a method of credit expansion, and as this subject is discussed in another part of our report, further comment is unnecessary.

461. The items included in the national credit account, and the method of its preparation, have been described and need not be repeated. Our first criticism is that the practical difficulties which must arise, both in obtaining the necessary information, and in measuring the value of each asset, are so great that any result disclosed by the account would be useless for the purpose for which it is intended. No doubt some reasonably correct estimate could be made of some of the items, but any estimate of others would be unreliable, and any attempt to calculate "the commercialized value of the population" would be merely a guess.

462. The idea underlying the national credit account is that the property of the community may be used as security for an issue of credit up to the full amount of its value. There is no recognition of the fact that some of the property may already have been pledged as security for loans, or that it may be so used subsequently. In that event, the same property would be the security for two separate and distinct advances, one being the issue of credit by the national credit authority, and the other any loan arranged privately by the owner.

The National Dividend.

463. The national dividend is proposed by the advocates of social credit as a remedy for the alleged shortage of purchasing power. There is some similarity between the national dividend and the social services now provided by the Commonwealth and by the States. In each case, those who receive the payment have their purchasing power increased, but the fundamental difference is that the present social services are provided out of taxation, whereas the proposed national dividend would be provided out of an expansion of credit.

The Just Price.

464. According to the theory, the "just price" would be determined by reference to the annual debits and credits in the national credit account. But, in practice, it would be impossible to determine the exact amount of the compensatory payment in this manner, and for that reason the advocates of the social credit theory appear to be satisfied to estimate the percentage to be allowed.

465. The difficulties of applying this proposal have been underestimated. The variation in the prices at which goods even of the same quality are bought and sold under different conditions, and in the margins of profit, would create many difficulties, and it is probable that it would be necessary to regulate both wholesale and retail prices and therefore the retailer's margin of profit, and to institute, at a considerable cost, an elaborate check over the accounts of the retailer.

CONCLUSIONS.

466. We have given full and careful consideration to all the material to which our attention has been called, or which we have been able to discover for ourselves, upon this subject. We fully appreciate what has been urged upon us with respect to the problem of poverty, but we are unable to find that the social credit theory offers any solution.

467. Our conclusions are as follows:—

(*a*) There are always some people in the community who have not enough money to buy what is necessary for a reasonable standard of living. In this sense there is,

at all times, a shortage of purchasing power. The total purchasing power of the community is less at some times than at others. In times of depression, for example, the money income of the community is less, and the number of people unable to purchase necessaries is greater, than in times of prosperity. In this sense there is, at some times, a shortage of total purchasing power.

(*b*) The social credit theory does not refer to a shortage in either of these senses. It alleges that there is a permanent tendency towards a shortage of purchasing power, in other words, that the economic system can never distribute to consumers all the money which producers have to spend in the course of production.

(*c*) There is no permanent tendency towards a shortage of purchasing power.

THE FREE ECONOMY MOVEMENT (GESELL).

468. Our attention has been called to the proposals for "free money", as formulated by Silvio Gesell in *The Natural Economic Order*, and supported by the Free Economy Federation in Great Britain and the Australian Free Economy League. The proposals in *The Natural Economic Order* fall under two heads, namely "Free Land" and "Free Money"; but the subject of the first part is outside the terms of our reference, and our attention has, therefore, been confined to the proposals for free money.

469. The objective of these proposals is to cure industrial depression. In Gesell's view, the real cause of depression is the hoarding of money, which prevents the rate of interest from falling. He contends that the rate would fall to zero, if people were not allowed to hold wealth in the form of money, which does not deteriorate, instead of goods, which do. His remedy is free money, that is, money which would deteriorate as he claims that goods deteriorate. He maintains that this would stop hoarding, allow the rate of interest to fall to zero, and cure industrial depression.

470. In this argument industrial depression is explained as follows:—

(*a*) In time of prosperity there is an increase of capital investment, i.e.:—

"The greater the production of wares, the greater the increase of the means of producing wares (so called real capital)."

(*b*) As the capital investment increases, the rate of return to the owners of capital diminishes—

"But from these investments, from real capital, interest is expected, and the rate of interest falls if the proportion of real capital to population increases."

(c) And then—

"As soon as capital ceases to yield the traditional interest, money strikes, and work comes to a standstill, and depression follows;"

or, in other words—

"When men are industrious and inventive, when harvests are favoured by sun and rain, when many products are available to multiply houses and factories —this is the time that money . . . chooses to withdraw and wait. And because money withdraws, because demand is lacking, prices fall and a crisis occurs."

471. Upon this basis, Gesell argues that people would still save, but, if there were no money, they would accumulate goods which they would be glad to lend, without any return in the nature of interest. He thinks that they would be satisfied if the goods were cared for and returned, in good order, or, in the case of wasting or consumable commodities, if goods of the same quantity and quality were restored to the lender, at the appointed time. He says that the only reason why the same thing does not happen under a monetary system is that money is indestructible, and that people can hold their wealth in the form of money, and refuse to lend it, unless interest is paid. On this argument, Gesell's remedy is free money, or, in other words, he would deprive money of this quality of indestructibility, which gives its owner this advantage over the owner of destructible goods. He contends that under a system of free money there would be an uninterrupted circulation of currency, leading to a gradual decline in the rate of interest, as money lost its power of exacting interest, until, if free money were adopted universally, interest would entirely disappear.

472. The idea of free money is, therefore, that money should become perishable, and Gesell's plan is to subject it to a tax, in the nature of demurrage. For this purpose, the only legal tender (apart from a token coinage) would consist of currency notes, which would be issued yearly or half-yearly, as determined, and replaced by a new issue at the end of that period. Every note would have spaces, marked with the appropriate dates, for stamps to be affixed, weekly or monthly, as the case might be, and, at each date, the holder would have to attach a stamp for the prescribed amount in order to keep the note at its full face value. The rate of tax or demurrage, as suggested by Gesell, is approximately 5 per cent. per annum; but higher percentages have been advocated.

473. Under this scheme the supply of money would be controlled by a national currency office, which would issue and withdraw currency as required. The supply of currency would depend upon the movement of prices, i.e., currency would be issued when prices tended to fall, and withdrawn when prices tended to rise.

474. In Gesell's proposals, commercial banking is not prohibited, and bank deposits, as such, are not taxed; but every bank would be required, as in the case of any other holder, to stamp the notes which might happen to be in its possession, upon every appointed or "demurrage" day. Gesell does not deal with the question of deposits in a nationally-owned central bank; but it is difficult to see how his scheme could be applied if these deposits were not taxed, and some means of charging the tax on these deposits could no doubt be devised.

475. Upon this brief survey of the proposals it seems that the following questions arise:—

(a) What are the practical difficulties in the application of this scheme to the Australian economy?

(b) Would it effect its purpose in—

(i) abolishing interest, and

(ii) curing industrial depression?

We propose to examine these questions without entering upon any critical discussion of the theory or the argument, beyond anything that is necessary for that purpose.

476. In seeking to apply this scheme to Australia, we think that its advocates have underestimated the practical difficulties. The recall and replacement from time to time of dilapidated notes, when partially stamped, and the replacement of the whole issue, at stated periods, present technical problems which could be overcome; but we think that the expenses of administration, and the inconvenience to the public, would be considerable.

477. The effect upon trade in normal times is problematical. We can safely assume that every one would try to avoid the tax, or else to pass it on. For this reason, we should expect that retail trade would go by fits and starts as the demurrage days came round. Traders would no doubt accommodate themselves to the new conditions, but there would be some inconvenience to all concerned, and costs might be increased.

478. So far as the trading banks were concerned, they too would have to adapt themselves to the new conditions, or else go out of business. But we cannot agree with Gesell that the public would voluntarily forgo the convenience of the cheque system. On the contrary, we think that cheques would be used as the most obvious of means for avoiding a substantial proportion of the tax.

479. Business could hardly be carried on, under the conditions of modern industry, without something in the nature of a banking system. We should, therefore, assume that the banks would pay

the tax upon the currency held in reserve to meet the demands of their customers, and make an additional charge to their customers covering the proportion of the tax attributable to the deposit of every customer. The result would be that any one who kept his money in the bank would avoid the greater part of the tax. Any person who deposits money in a bank is permitting the bank to make a loan to some one who wants to use it. So far as the money is lent out in this way, Gesell's purpose of putting the currency back into circulation is served. But a point which has to be noticed is that all that free money could force out of the banking system would be the cash reserves held against the deposits, and not the total of the deposits. The forcing out of this money might have some tendency to lower the rate of interest, but the result would not be appreciable.

480. Apart from deposits in the banking system, we have no doubt that other means would be devised for avoiding or evading the tax. For this purpose some people would no doubt seek to convert their notes into token coinage, and it is difficult to see how this could be entirely prevented. It is not inconceivable that, in some circumstances, the token coinage might be worth more than its face value in notes. Another means of avoiding the tax would be to buy goods which do not deteriorate rapidly, if at all, e.g., precious stones. Yet another method would be by holding sterling or foreign currency.

481. In this connexion, it is necessary to notice another practical difficulty in the application of this scheme to Australia. The idea of stabilizing price levels by regulating the supply of currency is not peculiar to Gesell, and we do not propose, at this stage, to discuss the arguments for, or against, this, as a possible objective of monetary policy. It is sufficient to say that, for the purposes of external trade, it would be necessary to choose between the stabilization of internal prices and that of foreign exchange. Gesell admits that under free money the national currency office would be compelled to choose between the policy of stabilizing home prices and that of stabilizing foreign exchange.

482. Passing from these practical difficulties and objections to the scheme, it remains to consider whether free money would abolish interest or prevent depression. We should say, at the outset, that we see no reason for supposing that money is hoarded to any considerable extent, and it follows that we do not anticipate that any great effect would be produced by forcing the hoarded money into investment. But, assuming that hoarding is far more common than we have any reason for believing that it is, there is no reason why the rate of interest should fall to zero if all opportunity for hoarding were removed. On the other hand, there are reasons why it should

not. With a falling rate of interest it is reasonable to anticipate, at the same time, a considerable extension of the demand for capital goods, a disinclination to save, and a tendency for people, who have saved in the past, to spend their savings for current consumption. In these circumstances of a rising demand and a falling supply, we should expect a definite resistance to any further fall in rates, with the possibility of a reaction towards higher rates.

483. If free money fails in this way to effect its purpose of abolishing interest, it is difficult to see how it would prevent industrial depression. Its use as a measure of recovery from an industrial depression is a different question. Free money is designed to increase the velocity of circulation of money. In some circumstances it may be possible to give a temporary stimulus to trade in this way, and it is not impossible that some use might be made of the principle of free money in a period of depression. But the obvious question would be whether the same or better results could not be achieved by an expansion of the supply of money, which would not present the difficulties to which we have referred.

484. Our attention has been directed to reports of the application of Gesell's plan at Swannenkirchen, in Bavaria, and at Wörgl, in Austria. The information supplied does not enable us to pronounce any opinion upon the result of these experiments; but we gather that in each case the free money was issued as a measure of relief in a period of deep depression, and also, as an addition to the currency then in circulation. If this is so, it was only a partial application of Gesell's plan, as the depreciating currency issued did not completely take the place of the existing currency. It was the issue of additional money in the form of a depreciating currency. It is a debatable question how far the results which were apparently achieved should be attributed to the expansion of credit, or to the form in which the new money was issued. We have no information which enables us to discuss that question.

OTHER PROPOSALS.

485. It will be sufficient to refer very briefly to other proposals which were presented for our consideration. In the first place, reference must be made to the proposals submitted by Mr. A. V. Boisen—the "Boisen plan"—in Queensland, and by Mr. L. T. Watson —the "Watson plan"—in New South Wales. The basis of both these plans is the same, and it may be paraphrased as follows. The principal exportable commodities would be acquired or controlled by some national authority. The internal prices, i.e., the prices to the producer and for home consumption, would be stabilized at some average level, determined by reference to world prices over a period

of years. The exportable surplus would be marketed overseas, and any profit or loss upon these operations would be paid or debited to an equalization account established for that purpose.

486. Upon consideration of these proposals, we think that they are outside the scope of our reference. They are essentially schemes for the marketing of exportable products, which could be carried out *without any alteration of the monetary and banking systems as now* existing.

487. For the same reason, we have not found it necessary to report upon other proposals in which the suggested alterations in the monetary system depend upon, or are merely incidental to, other suggestions for the reconstruction of the whole economic structure. The proposals to which we refer are those made by Mr. A. V. Greenwood and the Equation League of Australia, and by Mr. L. G. De Garis.

CREATION OF CREDIT.

488. In the course of our inquiry, stress has been laid upon the fact that the existing supply of money is, from time to time, expanded or contracted under the banking system, and in view of the public interest which has been attracted to this subject, we propose to give a brief explanation of the mechanism of the Australian banking system, and of the manner in which this expansion or contraction takes place. But it must be understood that this exposition is a simplified statement, which necessarily avoids reference to many of the minor complications and qualifications that would require to be noticed in a more extended treatment. In the first instance, our attention will be directed to the trading banks.

TRADING BANK CREDIT.

489 The main business of a trading bank is to take deposits and to make advances. The deposits are of two kinds, namely, fixed deposits, and deposits on current account. The fixed deposits are repayable at the end of the term for which they are made, three, six, twelve or twenty-four months, as the case may be, and interest is paid at rates which vary according to the length of the term. The convenience of a fixed deposit is that, *instead of having to search* for another form of investment, any one who wishes to invest money for a short period can leave it with the bank at interest, and receive the same sum at maturity. In the case of a deposit on current account, the banks usually allow no interest, but undertake to repay the money whenever called upon to do so, by meeting the cheques of every customer, upon presentation, up to the amount of his deposit. The convenience of a current account is that money which is not immediately required can be left with the bank, and that payments

can be made or received by means of cheques, which the bank will pay or collect. By this means the customer can make or receive *payments without the trouble and risk involved in handling the cash.*

490. The bank's undertaking is to repay the amount of the deposit in legal tender money upon demand or on the due date; but, in the meantime, the deposits provide a source from which, within limits, the bank can make advances. In this way the trading banks are a link between the people who have money which they are not using, and the people who want to borrow.

491. In London, where the practice is to make advances in the form of a "bank loan", the whole amount advanced is credited immediately as a deposit to the borrower's account, which is reduced as the borrower draws upon it. In Australia, where the practice is to advance upon the overdraft system under which the borrower is allowed to borrow up to a limit, the advance consists only of the amount owing to the bank from day to day, and no part of it appears as a deposit to the borrower's account. Under either system, the bank undertakes to meet the borrower's cheques in legal tender money, if required, up to the amount arranged.

492. As a business undertaking, a bank is concerned with making profits for its shareholders, and in the bank's own interest, if for no other reason, it is bound to provide security for its depositors. It must therefore see that its assets are in the long run sufficient *to cover its liabilities, and that it holds sufficient "cash reserves"* (that is cash and assets which can be readily turned into cash) to enable it to meet any demand that is likely to be made upon it. The total which can be advanced by a trading bank is limited by the necessity for keeping these cash reserves.

493. To explain the effects which the making and repayment of bank advances have upon bank deposits, it is convenient to trace what would happen if the whole business of the trading banks were concentrated in a single bank. When an advance is granted, the borrower is authorized to draw cheques upon the bank. Some of the cheques so drawn will be paid in as deposits to the bank by other people. Other cheques will be paid in cash, for example, cheques to pay wages, &c. But much of the cash so obtained will, when spent, be paid in as deposits to the bank, for example, by storekeepers. (In a selected week in 1936, 88 per cent. of the amount paid into trading banks in Australia was in the form of cheques, and 12 per cent. in the form of notes and coin).* In this way the money advanced by the bank will tend to return to the bank in the form of deposits. The increased deposits provide a source from which further advances can be made, and the general tendency of an expansion of

* See Table 32 in the Appendix.

advances is to increase the deposits. But the process does not increase the bank's cash reserves, and the limit of expansion is set by the necessity for maintaining adequate cash reserves.

494. It is obvious that this process of expansion requires customers who deposit, and customers who borrow. The bank cannot lend unless credit-worthy borrowers are forthcoming; nor extend its lendings, unless the loans are returned to the bank as deposits.

495. In practice the whole of the loans will not invariably return as deposits. There are several reasons why this would not happen. In the first place, the cheques drawn by the borrower may be used to repay, or reduce, an existing advance. In this case, the loan has had no effect upon the total of advances, and has no effect on the deposits. The liability to the bank has merely been transferred from one borrower to another. Secondly, when a cheque is cashed, for wages or other purposes, there is no certainty that all the cash will find its way back into the bank as a deposit. Some of it may be held by the public as money in circulation. In times of prosperity there is a tendency for the public to hold more cash. And thirdly, there is the possibility that the borrower may use his advance to pay for imports, and that the bank has to provide for this out of English money which it holds in London. As this English money is part of the bank's cash reserves the effect of the advance, in this case, is the same as if the bank had paid out cash which will not reappear as a deposit. It follows that it could never be said of any particular advance that it must necessarily affect the deposits. What could be said is that within certain limits the bank, by increasing its advances would, in the course of time, build up its deposits.

496. The converse to this process of expansion is the contraction of deposits which occurs when the total of advances is reduced, whether by the bank calling in its advances or for any other reason. An advance may be repaid by cheque or by cash. Some of these cheques will be drawn upon deposits, and some of the cash will come from deposits. In either case, deposits are reduced and the general tendency of a reduction of advances is therefore to decrease deposits. In practice, however, the repayment of an advance may not decrease deposits for the following reasons. It may have been made out of an advance granted to another customer. It may have been made out of cash formerly held by the public. Lastly, the advance may be repaid with English money, that is money which the customer holds in London, usually the proceeds of export, in which case the effect is the same as if the bank has been paid in cash which does not come from any deposit. In all these cases the repayment of an advance does not reduce deposits. In any case, a reduction brought about

by repayment of any advance will be merely temporary if the bank is able to restore the total of its advances and deposits by lending to another customer a sum equal to the amount repaid.

497. For the sake of simplicity, we have omitted any reference to the increase or decrease in the bank's holding of securities, for example, Government stocks. This operates in much the same way as an increase or decrease respectively, in advances.

498. The fact that the business of banking is in the hands of a number of banks, and not concentrated in a single bank, does not affect the argument with respect to the influence which any increase or decrease of the total of the advances of all the banks will have upon the total of their deposits. What applies in the case of one bank applies in the case of a number.

499. When one of a number of banks is advancing to its customers, some of the cheques drawn upon it will be paid into other banks. This may increase their deposits, but the lending bank will be called upon to meet these cheques by setting them off against its right to payments in cash from other banks and by settling the balance in cash. When all the banks are increasing advances, and are following a fairly uniform policy, the deposits of the system can be increased without any one bank losing cash, but if one bank seriously departs from the general policy by advancing more freely than the others, it will be faced by a drain of cash which is likely to prove embarrassing. On the other hand, if a bank lends less freely than the others, its accumulation of cash from other banks will be likely to prove unprofitable.

500. The limit to the process of expanding advances and deposits is set by the necessity for keeping what, in the opinion of the banks, are adequate cash reserves. The amount of cash reserves which any bank will hold in proportion to its liabilities, is a matter decided in practice from its own experience as to the kind of demands made upon it in the past and from its expectation as to the future. The practice of the Australian trading banks has been described in Chapter 2.

501. The cash reserves of the trading banks include cash, and assets which can readily be turned into cash. They consist of:—

(1) Coin and notes.
(2) Deposits with the Commonwealth Bank.
(3) Treasury bills.
(4) London funds.

Coin and notes, which are cash in the strict sense of the word, are the only legal tender money. Deposits with the Commonwealth Bank can be drawn at once in legal tender money. Treasury bills are three months promissory notes issued by the Government to the Commonwealth Bank. Some of the bills are sold to the trading banks, which can at any time obtain legal tender money for them by discounting them with the Commonwealth Bank. London funds are English money held in London by the trading banks for which they can obtain Australian legal tender money by sale to the Commonwealth Bank at the current rate of exchange.

502. Trading banks need cash in order to pay their customers in legal tender money as required. The banks, as a whole, can increase their cash (notes and coin) by drawing on their deposits with the Commonwealth Bank, by receiving notes for their treasury-bills, or by selling London funds to the Commonwealth Bank. Another possible but less important way is to induce the public to hold less cash. Apart from central bank action an increase in the cash reserves of the banks as a whole can come about only because the public holds less cash, or because cash reserves have come into the system from outside, as when London funds increase.

CENTRAL BANK CREDIT.

503. The central bank in the Australian system is the Commonwealth Bank of Australia. This bank is a public institution engaged in the discharge of a public trust. As the central bank, its special function is to regulate the volume of credit in the national interest, and its distinctive attribute is its control of the note issue. Within the limits prescribed by law, 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.

504. Because of this power, the Commonwealth Bank is able to increase the cash of the trading banks in the ways we have pointed out above. Because of this power, too, the Commonwealth Bank can increase the cash reserves of the trading banks; for example, it can buy securities or other property, it can lend to the Governments or to others in a variety of ways, and it can even make money available to Governments or to others free of any charge.

505. If it buys securities, the seller receives a cheque which will usually be deposited with a trading bank. When the cheque is presented to the Commonwealth Bank for payment, whether it is cashed or added to the trading bank's deposit with the Commonwealth Bank, the cash reserves of the trading bank are thereby increased. The same result follows from the adoption of any of the other methods.

506. On the other hand, the power of the Commonwealth Bank to increase the cash reserves of the trading banks is not unlimited. The Bank is bound to pay in legal tender money whenever called upon. So long as its power to issue notes is restricted by law, its power to purchase securities or other property, and to lend or grant money to Governments or others, is limited. Apart from the legal limitation, there is a practical limit to the note issue, in that the Bank has to consider how far it is in the general interests of the community to expand credit.

507. A bank deposit is a form of bank credit, that is to say, the bank undertakes to pay in legal tender, up to the amount of the customer's credit with the bank. Anything that is habitually accepted by the public as payment, or in exchange for goods or services, can be termed money, and a bank credit, or, in other words, the right to obtain legal tender from the bank, is money in this sense. The expansion (or contraction) of advances and deposits is therefore an increase (or decrease) in the supply of money in the community.

508. A decrease in the supply of money results in some people having less ability to buy goods and services than they had before. They are forced to spend less, which results in a reduction of the incomes of the people from whom they usually purchase. This lessened demand is thus transmitted through the community, and results in some restriction of the total volume of production, and in some unemployment of men and resources.

509. An increase in the supply of money results in some people having greater ability to buy goods and services. If these people spend their increased incomes, the increased demand for goods is transmitted through the community. So long as unemployed men and resources are available, the increased demand for goods will result in some increase of production, with some consequent increase in the employment of men and resources.

510. A general contraction of advances, however, is sometimes necessary to check the development of boom conditions; and a reduction in the advances to a particular industry may be necessary to check an unwarranted degree of expansion in that industry. On the other hand, unemployment or depression in a particular industry cannot necessarily be cured by a general expansion of advances.

511. But if the increase in the supply of money is continued when there are few unemployed men or resources available, and the expansion of production in some industries makes it necessary to withdraw men and resources from others, higher prices will be offered, and the money prices of labour, materials, and plant will be forced up by this competition. The increase in money may be carried to such a stage that, although prices rise, there is little or no increase in the total volume of production.

512. The effect on prices of an expansion or contraction of money depends on the particular circumstances and is not easy to predict. In general terms, an increase in the supply of money tends to

raise prices, and a decrease tends to reduce them. But if there is considerable unemployment of men and resources, a large increase in the supply of money may have little or no immediate effect in raising prices. On the other hand, if there is full employment, a small increase in the supply of money may have the effect of raising prices considerably. Conversely, some reduction in the supply of money may not reduce prices at a time when business activity is low, or even when it is recovering from a low level.

513. More important than the effects on prices, are the effects of expansion and contraction of money on the volume of production, and on the distribution of production between different classes of industry. For example, an increase of bank loans is likely to cause an increase in the production of capital goods rather than consumers' goods, and later to cause some disequilibrium. Moreover, if money is easy to obtain, the growth of speculative concerns is likely to be encouraged, though their failure may be inevitable. The probability of results such as these is the chief reason against an undue expansion of money, for it produces changes in the structure of production which later will necessarily destroy the equilibrium of the economy.

PART III.

CHAPTER VI.—THE DESIRABLE OBJECTIVES, STRUCTURE, AND FUNCTIONS OF A MONETARY AND BANKING SYSTEM FOR AUSTRALIA.

CHAPTER VII.—THE EXTENT TO WHICH THE EXISTING SYSTEM CONFORMS TO THESE STANDARDS.

CHAPTER VIII.—CONCLUSIONS AND RECOMMENDATIONS.

Chapter VI.

THE DESIRABLE OBJECTIVES, STRUCTURE AND FUNCTIONS OF A MONETARY AND BANKING SYSTEM.

514. Our purpose in this chapter is to set out briefly what, in our opinion, is the ideal objective of a monetary and banking system for Australia, and the structure and functions of the system which would best achieve that objective. In the next chapter, we propose to examine the existing system in the light of these ideals.

515. In Chapter I., we have called attention to the characteristics of the Australian economy, and the ideal system as we see it is one that takes those characteristics into account. Since Australian conditions differ from those of many other countries, the structure and functions of other monetary and banking systems cannot safely be accepted as models, although they may offer useful points of comparison or contrast. As we see it, the Australian economy is subject to external influences, such as movements in world prices for foodstuffs and raw materials, which form our chief exports, and to internal influences in the form of seasonal fluctuations, which affect the volume of primary production. It is therefore essential that the monetary and banking system which has to serve an economy of this kind should be kept as flexible as possible to allow the necessary response to changes in these conditions.

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. This means the fullest possible employment of people and resources under conditions that will provide the highest standard of living. It means, too, the reduction of fluctuations in general economic activity. 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.

517. The next question is, what kind of monetary and banking system will best achieve this objective. In our opinion this result in the present circumstances of Australia will be most likely to follow from a system of central banking in which trading banks and other financial institutions are integral parts of the system, with a central bank which regulates the volume of credit and currency.*

518. The question then arises, what should be the ideal structure and functions of the component parts of the central banking system, and their relations one with the other.

* Mr. Chifley dissents.

I.—THE CENTRAL BANK.

A.—Organization.

519. The central bank should be the Commonwealth Bank, organized mainly in the form in which it exists at present. Because its sole concern is the general public interest, the central bank should be publicly owned and controlled. It is sometimes said that a central bank should not make profits, but we do not accept this view. In choosing and in carrying out its policy, it should pay little regard to considerations of profit, but the central bank should be in such a position that profits will normally arise from its activities. This should enable it more easily to treat profits as a minor consideration, and to carry out operations which it considers will benefit the community, even though they result in a loss to the central bank. It would be unfortunate if in any year a central bank made a net loss, because its prestige might be weakened by the criticism of those to whom profit is the only criterion of success.

520. The members of the Board of the Commonwealth Bank should be chosen not only for their wide financial knowledge, proved capacity and determination, but also for their breadth of outlook, and for those qualities which make it likely that they will obtain the co-operation of other institutions and of governments in their task of administering the affairs of the central bank.

B.—Structure.

521. The present structure of the Commonwealth Bank, consisting as it does of a central bank with trading bank powers and a savings bank, is, in our opinion, essential to the efficient exercise of its functions as a central bank.

C.—Functions.

522. The function of the Commonwealth Bank should be to regulate the volume of credit and currency in the light of the general objective of the monetary and banking system. The Commonwealth Bank should endeavour to regulate the volume of credit to the banks, so that the latter will be induced to maintain a level of advances and deposits which will best serve the general objective of the Australian economy. Moreover, it is the duty of the Commonwealth Bank to see that the credit provided is made available at appropriate rates of interest. Although we consider that these should be the main functions of the Commonwealth Bank, we think it desirable that the Bank should pay some regard to the distribution by the banks of the volume of credit amongst different industries. The Commonwealth Bank should also regulate the currency so that in kind and in amount it is always adequate to the requirements of the community. The Commonwealth Bank should, therefore, have at its disposal powers sufficient for the discharge of these responsibilities.

D.—Policy.

523. It has been suggested in evidence that the Commonwealth Bank should pursue a policy of attempting to stabilize the purchasing power of money, or as it is sometimes put, to stabilize the price level. The idea is that a given level of prices should be selected, and that the aim of monetary policy should be to prevent any departure from that level. The method usually suggested is to select some price index number, for example of wholesale prices or of cost of living, and to shape monetary policy according to variations in the price index number. If the price index number shows a tendency to fall or to rise, the appropriate action is to expand or to contract credit respectively. It is difficult, if not impossible, to choose an index number which ought to be kept stable in all circumstances. Any price index number which purports to show movements in a general level of prices is only a rough guide. The stabilization of a general price level might be undesirable if it checked a fall in prices which would otherwise have followed more efficient production. More important than this is the practical difficulty that, although expansion and contraction of credit are often accompanied by rising and falling prices respectively, so many factors enter into the determination of prices that there is no guide as to how much change in the volume of credit will suffice for a given rise or fall in the selected price level. We do not think, therefore, that the Commonwealth Bank should adopt a policy of expanding and contracting credit according to the movements of some selected price index number. Price fluctuations are little more than symptoms, and their prevention or modification is to be sought in other ways. As we point out, however, the Commonwealth Bank should pay attention to movements in prices, and use them as one of the guides in shaping and carrying out its policy.

524. Another policy which has been proposed for the Commonwealth Bank is that of maintaining stability of exchange. In practice this means stability of exchange with sterling, and therefore with all currencies which maintain stability with sterling. The policy is not one of stability at all costs. It means that small movements in London funds would not be allowed to affect the exchange rate, nor even large movements if it were expected that they would be reversed in a reasonably short space of time. But if there are permanent and decisive changes in economic conditions at home or

abroad, imposing a strain on the exchange rate, the policy involves an alteration of the rate and its maintenance at the new level. It is clear that the maintenance of a stable exchange rate with sterling has advantages both to exporters and importers, who are able to carry on their business free from the risk of loss arising from movements in the rate. The policy of a stable exchange rate is easy to understand, and its success or failure is easily tested, but the steps necessary to carry out the policy may be by no means simple. We think that the maintenance of stability of exchange with sterling will be, apart from exceptional circumstances, a wise policy for the Commonwealth Bank. But we do not consider that it should be the single or even the central aim of the Commonwealth Bank, and we hold that, with all its importance, it should be subordinate to another policy to which we now turn.

525. The Commonwealth Bank should make its chief consideration the reduction of fluctuations in general economic activity in Australia, thereby maintaining such stability of internal conditions as is consistent with the change which is necessary if economic progress is to take place. Such a policy is less precise than the policy of stability of exchange, and is also one the success of which is much more difficult to test, but we consider that the idea underlying it is of fundamentally greater importance. The policy will demand different action at different times. Expansion of credit is appropriate when it is required to raise the level of business activity and employment, and contraction when it is required to prevent the development of boom conditions which are likely to end in a depression.

526. As part of this policy, the exchange rate would generally be kept stable. The policy is not to fix the exchange rate and require the economy in ordinary circumstances to adjust itself to that rate, but to keep the economy reasonably stable and to move the exchange rate, if necessary, as one means to that end. The Commonwealth Bank would have to choose, from the information at its disposal, the factors to be considered in deciding what credit policy to pursue. It would require to pay attention to movements, for example, in internal prices, the volume and prices of exports and imports, the balance of payments, interest rates, unemployment, government finance, wage rates, profits, and real and money incomes. The Bank would have to decide, taking all factors into account and allowing due weight to each, how far its policy should be one of expansion or contraction. For this purpose, it is essential that the Bank should have the fullest information as to general trends in business conditions both at home and abroad, and that it should be able to obtain, from banks and from other sources, any necessary information.

527. We have drawn a distinction between the policy of stability of exchange and the policy of reducing fluctuations, but in practice there may not be much difference at times between the results of either policy. The policy of exchange stability requires measures to be taken which will affect the internal stability of the economy. It will sometimes happen that these measures are also those which would have to be taken under the other policy. Under either policy the exchange rate will not vary greatly unless there is a change in the general situation, but one policy may require an earlier change or a greater change than the other. In other words, the policies may run parallel for some time, but, if they diverge, our preference is for the policy of reducing fluctuations.*

E.—Relations with Governments.

528. There are limitations on the power of a central bank to reduce fluctuations and to maintain reasonable stability in the internal economy. Too much should not be expected, even from the most enlightened policy of an all-powerful central bank. Much will depend upon the relations established between the Commonwealth Bank and the Commonwealth Government, which is responsible for monetary policy. In Australia the Federal Parliament is given, by Section 51 of the Constitution, "power to make laws for the peace, order and good government of the Commonwealth with respect to: (xii) Currency, coinage and legal tender; and (xiii) banking, other than State banking; also State banking extending beyond the limits of the State concerned, the incorporation of banks, and the issue of paper money". In part, the responsibility for monetary policy is delegated to the Commonwealth Bank by the Federal Parliament in the legislation under this section establishing the Bank and conferring upon it certain powers, but in part the responsibility is with the Commonwealth Government.

529. Where responsibility is divided between two authorities, the question may arise as to which authority is to decide upon monetary policy. An answer to this question might be to provide that the Commonwealth Bank shall be at all times under the direction of the Government. In this case there can be no conflict between the two authorities. But where the Commonwealth Bank is not under this direction, the question arises as to which view is to prevail if the Government's view and that of the Bank differ on a matter of monetary policy. An answer to this question might be that, in exercising the authority delegated by Parliament, the Commonwealth Bank should be entirely independent and should refuse to accept

* Note by Mr. Pitt, page 268, and by Mr. Abbott, page 271.

direction from the Government. Then, if the Government is determined upon a policy which the Bank Board will not accept, the Government will have to obtain any legislation required, and if necessary appoint a board which will carry out that policy.

530. Neither of these answers commends itself to us. In our view, the proper relations between the two authorities are these. The Federal Parliament is ultimately responsible for monetary policy, and the Government of the day is the executive of the Parliament. The Commonwealth Bank has certain powers delegated to it by statute, and the Board's duty to the community is to exercise those powers to the best of its ability. Where there is a conflict between the Government's view of what is best in the national interest, and the Board's view, the first essential is full and frank discussion between the two authorities with a view to exploring the whole problem. In most cases this should ensure agreement on a policy to be carried out by the Bank which it can reconcile with its duty to the community, and which has the approval of the Government. In cases in which it is clear beyond doubt that the differences are irreconcilable, 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.* This does not imply that there should at any time be interference by the Government or by any member of the Government, in the administration of the Commonwealth Bank. Once the question of authority is decided, there should be little difficulty in preserving close and cordial relations between the Commonwealth Government and the Commonwealth Bank.

531. Although the State Governments are not responsible for monetary policy, their operations affect it and are affected by it. It is therefore desirable that similar relations should be established between them and the Commonwealth Bank. State banking is controlled by State Parliaments, and not by the Federal Parliament. The only means, therefore, that the Commonwealth Bank has of influencing the State savings banks and other State banks is indirectly through persuasion and directly through competition. Public borrowing, which is controlled by the Loan Council, representing the Commonwealth and the States, may materially affect the monetary and banking system. It is essential, therefore, that the Commonwealth Bank should have close and cordial relations with the Loan Council as well as with the Commonwealth Government.

* The Chairman accepts this statement subject to reservation, and Mr. Pitt dissents.

II.—TRADING BANKS.

532. In a central banking system, the central bank regulates the volume of credit and currency, and the trading banks distribute credit to credit-worthy borrowers. In discharging this responsibility, it is the duty of the trading banks to safeguard the deposits entrusted to them. The organization of these banks on a profit-making basis may be accepted as part of such a system provided that their charges for service to the community are reasonable. But the efficient operation of a central banking system requires some limitation upon the powers of the trading banks in the general interest of the community. It may be in the interest of any trading bank, influenced by considerations of profit and liquidity, to expand or contract credit at a time when the general interest requires different action. It is not to be expected that a trading bank will take action entirely opposed to its own interest, especially if it has competitors ready to take business from it. It is for the Commonwealth Bank to regulate credit in such a way as to make the interest of the trading banks conform to the general interest.

533. In their function of distributing the volume of credit, the trading banks play an important part in the economy. They provide facilities for operating on bank deposits by cheque, and they also collect some of the savings of the community, and lend to commerce and industry for working capital, and to a less extent for fixed capital. The reason usually given for this preference is that they accept deposits either at call or on short term, and it is therefore dangerous for them to make long-term loans. It is, however, a matter for individual banks, subject to the influence of the central bank over the distribution of credit, to decide how far it is wise to make loans for what are, in fact, long periods.

534. If the Commonwealth Parliament cannot entirely control the assets of any trading bank by reason of its incorporation outside Australia, it may be necessary to take action to bring such a bank within its control. The trading banks, in our opinion, should disclose in their published accounts information appropriate to their position, which closely approaches that of public utilities. For this reason, the published accounts of all banks should be easily comparable one with the other, should be expressed in the same currency, and should refer to the same date and period.

III.—THE SAVINGS BANKS.

535. It is the function of the savings banks to collect the small savings of individuals, and to invest them safely. It is desirable in general that they should be publicly owned and managed. They are

chiefly concerned with the small saver, who uses them to make provision against the future, and it is important that this type of thrift should be encouraged, but the encouragement should not extend to larger amounts, for which there are more appropriate avenues of investment. The rates on small savings bank accounts should be high enough to induce saving, irrespective of whether they compete with current deposits or short-term fixed deposits with the trading banks. But where the amounts are large, it is not desirable that they should carry rates of interest which approximate to the lowest rate paid on fixed deposits. It might be better for the monetary and banking system of Australia, as a whole, if all the savings banks were subject to more control by the central bank.

IV.—Mortgage Banks and Provision for Industrial Loans.

536. One of the functions of the banking system should be to provide fixed and long-term loans. In the Australian system, as we shall point out, the facilities for this type of lending are insufficient, and in our conclusions and recommendations we propose to indicate how adequate facilities could be provided.

V.—Other Institutions.

537. Credit for industry and commerce is provided otherwise than by banks. There is no reason why these facilities should not be provided either by public institutions or private enterprise, so long as the Commonwealth Bank is able in general to regulate the volume of credit.

VI.—Relations between the Commonwealth Bank and other Banks and Financial Institutions.

538. The Commonwealth Bank should be in a position to give a lead which the trading banks and other financial institutions will follow, and if necessary to give assistance in its capacity as the lender of last resort. To do this successfully, it must possess ample resources which it can use at its discretion, its prestige must stand high, its capacity for leadership be proved and recognized, its policy be understood and accepted, and its powers be such that in the last resort it can enforce its policy. On their part, the trading banks and other financial institutions must co-operate with the Commonwealth Bank. It should be open to them to discuss freely with the Commonwealth Bank any matter of common interest, and to make representations or criticisms on the facts disclosed to them, but in the end the responsibility must rest on the Commonwealth Bank to enforce its policy, and on the trading banks and other institutions to conform to the policy and to assist in carrying it out.

Chapter VII.

THE EXTENT TO WHICH THE EXISTING SYSTEM CONFORMS TO THESE STANDARDS.

539. In deciding how far the monetary and banking system of Australia has conformed to the ideal outlined in the preceding chapter, it is necessary to bear in mind several considerations. The period 1929 to 1936 was one in which a severe depression was followed by a slow and painful recovery. Before the depression, there existed in Australia only the rudiments of a central banking system. The Commonwealth Bank was performing some central bank functions, but, apart from its savings bank activities, it was in the main a publicly-owned trading bank. During the period of stress, which followed the onset of the depression, the Commonwealth Bank developed fully into a central bank, and the trading banks became component parts of a central banking system. But there is no universally accepted method of central banking; the full development of the Commonwealth Bank into a central bank was compressed into a few years; and the situation in which the Bank found itself was always unprecedented and often acute. In these circumstances, it was only to be expected that subsequent events should prove the action or inaction of the Bank in some cases to have been unwise. To pronounce a course of action or inaction unwise from the standpoint of later knowledge is not necessarily to pronounce it unwise in the circumstances as they appeared at the time.

540. Without attempting an analysis of the causes of booms and depressions, it is imperative, before we comment upon the behaviour of the Australian monetary and banking system, to express our views as to the part which monetary measures played in the depression and recovery in Australia. No action by the monetary and banking system of Australia could have avoided some depression, although the system together with the governments, and, indeed, the community as a whole, must share some responsibility for the extent of the depression. The development of boom conditions could have been checked, and the depth of the depression could have been lessened. Monetary measures alone did not produce recovery, but their effects would have been greater had they been taken earlier.

541. The appropriate policy to prevent or to meet a depression calls for the co-operation of other authorities as well as those who direct monetary policy. In general, the proper policy for the governments to pursue if a depression is developing is to expand public works, refrain from increasing taxation, and avoid a general contraction of government expenditure, even

although deficits are incurred. When conditions have improved as private enterprise revives and full employment is approached, the proper policy is to contract public works expenditure, maintain or increase taxation, budget for surpluses, and reduce the debt which has been incurred through the depression policy. We emphasize the view that the policy which we have outlined above is one requiring action in prosperous times, as well as in times of depression. It is wholly unwise in our view to wait until a boom or depression occurs before taking action, and the extent to which measures have to be taken when a depression develops will largely depend upon the extent to which proper action has been taken in the earlier stages. The assistance which can be given by the central bank in meeting or preventing a depression is to expand or contract credit in conformity with the general policy. If an expansion of central bank credit is to be successful in promoting recovery, the credit must be used, and this comes about mainly through government spending as a supplement to private spending.

542. The Commonwealth Bank Board—

"regards the main central bank objectives as the regulation, within the limits of its powers both statutory and practical, of (*a*) internal credit and (*b*) the external value of the currency".

In aiming at these objectives, the general monetary policy accepted by the Board is expressed by the resolution adopted by the World Economic Conference, in 1933, that central banks—

"should endeavour to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead central banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation".

These represent the considered views of the present Board, but it does not follow that they were either recognized or formulated in an earlier period. This policy is somewhat different in emphasis from the policy we have accepted of reducing fluctuations and maintaining reasonable stability in the internal economy, but the fundamental idea is the same.

543. The proper policy for the Commonwealth Bank, as the depression developed, was one of expansion, using any necessary powers in that direction, and enabling the trading banks to do their share. As conditions improved, the proper policy was to cease expanding credit, and, if necessary, to contract, using any appropriate powers to bring the trading banks into line. Two of the most important

monetary measures taken during the depression were the expansion of central bank credit by means of treasury-bills in 1931 and 1932, and the movement in the exchange rate in January, 1931. In each case, in our opinion, the depression would have been lightened, and some of its worst effects avoided, if these measures had been taken earlier.

TREASURY-BILLS.

544. Treasury-bills were used to finance government deficits, and to provide funds for public works. The expenditure of the proceeds of the bills helped to sustain consumers' incomes, and to stimulate private enterprise. Such an expansion of central bank credit could have been brought about by the issue of treasury-bills, whether interest-bearing or not, or by the issue of notes. Whichever method was used, the amounts represented by the treasury-bills or notes would have been expended, and the deposits of the public with the trading banks, and of the trading banks with the Commonwealth Bank would have been increased.

545. The method adopted was the issue of interest-bearing treasury-bills to the Commonwealth Bank, which sold some to the trading banks. This enabled the latter to exchange part of their unproductive balances with the Commonwealth Bank for liquid securities which contributed to their revenues, and probably had some influence in reducing their advance rates. If, however, the Commonwealth Bank had chosen to retain all the bills, the revenue of the Commonwealth Bank would have been larger, the revenue of the trading banks would have been less, and their advance rates possibly higher. If trading banks are not allowed to hold treasury-bills, they may choose to hold some of their increased cash reserves in the form of notes, or of London funds. If they hold them in the form of notes the Commonwealth Bank must hold more of its London funds earmarked against the note issue. If they hold them in the form of London funds, it may cause some embarrassment to the Commonwealth Bank. But if the Commonwealth Bank holds ample London funds, neither of these ways of holding cash reserves materially affects the Bank.

546. If central bank credit had been issued in the form of an interest-free loan to the governments by notes or treasury-bills, the revenue of the Commonwealth Bank would have been less; next, the trading banks, holding no treasury-bills, would have had less revenue, and this might possibly have affected their advance rates. The trading banks, too, would have had the option of holding their increased cash reserves in the form of deposits with the Commonwealth Bank, notes, or London funds. Moreover, if notes had been issued, the increased

holdings might have caused some embarrassment by requiring the Commonwealth Bank to set aside more of its gold or London funds as a reserve against the note issue. One practical objection to issuing notes or interest-free treasury-bills was that it would have been easier to make these methods appear a dangerous form of inflation than was the case with that adopted.

547. In our opinion, it would have been better had the expansion in central bank credit come earlier. It should have been undertaken as a matter of policy when there was a serious contraction in London funds at the end of 1929, and should have been continued on a larger scale in 1930, when there was a loss of gold from the Australian banking system.*

548. Between 1929 and 1931, treasury-bills were taken up reluctantly by the Commonwealth Bank, which called a halt in the process at the beginning of 1931, because it feared the effects that mounting deficits would have on the monetary system. Even after the Premiers' Plan of June, 1931, the Bank appears to have been rather reluctant in undertaking the required expansion. It would seem that the Bank was inclined to regard treasury-bills much more as a method of assisting governments than as a method of expanding credit.

549. From July, 1932, the Bank urged upon the Loan Council the desirability of funding treasury-bills by public loan, and in 1932-33 and 1933-34 succeeded in bringing about some reduction in the total issue by this means. The Board may have been more concerned to reduce the volume of short-term debt than to contract credit, but the operation of funding contracted credit in the same way as if securities had been sold on the open market. As the trading banks were in a very liquid position at this time, the contraction of credit meant little to them, but if the amount raised and used for funding restricted the use of credit by reducing the amount raised below the sum which it was then desirable to spend on public works, the process would have retarded recovery. With the possible exception of the funding in November, 1932, it cannot be said that the funding actually carried out retarded recovery.

550. The offer to the public in February, 1936, of £1m. of treasury-bills by the Commonwealth Bank from its own holdings would, insofar as the bills were taken up, have resulted in a contraction of credit, for the transaction was equivalent in its effect to the sale of securities in the open market. There was, moreover, the suggestion of further issues, and these would be likely to afford a regular investment for money which would otherwise have gone into three months deposits with the trading banks which then carried

* Reservation by Mr. Pitt.

a rate of 1½ per cent. as compared with the discount rate of 1¾ per cent. on treasury-bills. The Commonwealth Bank wished to obtain information as to the possibility of an open market for treasury-bills, and was not averse from any resulting contraction of credit, because it wished for some restriction of imports to lessen the strain on London funds. But the experiment was not likely to give much guidance on the question of an open market, because the offer was at a fixed rate. Even if the public had subscribed the full amount this would have had little direct effect in contracting credit. In fact, only £315,000 of the bills were taken up, but interest rates had risen, and this increase may have had some indirect effect in contracting credit. The circumstances incidental to the offer indicated no disposition to co-operate with the Commonwealth Bank in this matter, on the part of the Bank of New South Wales, which first raised deposit rates, and of the Bank of Adelaide, which followed next day.

EXCHANGE RATE.

551. The movement in the exchange rate in January, 1931, was one of the major contributions of monetary policy to recovery in Australia. It increased the returns to exporters in terms of Australian currency which tended to increase the volume of export production, and it tended to restrict imports. Had the movement come earlier, the fall in the national income would have been less, and the task of recovery easier.

552. The Commonwealth Bank joined the trading banks in 1929 and 1930 in resisting the movement of the exchange rate. The force of the tradition of equality with sterling was powerful, the reluctance of governments to add to their budget difficulties was great, and the fear of inflation and flight of capital was strong. The future of export prices and of prices generally could not be foretold. Weight had to be given to all these considerations, and there was some justification in 1929, and in the early part of 1930, for the Bank's attitude to the exchange rate. The arguments for a serious change in the rate were not as cogent as they were later; but, after the middle of 1930, it was unwise for the Commonwealth Bank and the trading banks to attempt to hold the rate.

553. While it was a wise action in 1929 on the part of the Bank to recommend the mobilization of the monetary gold in Australia, and its use as a means of meeting overseas commitments, yet the attitude of the Bank towards gold tended to obscure recognition of the fact that Australia had departed from a gold standard.

554. In the belated movement of the official exchange rate to 130 in January, 1931, the initiative was taken by the Bank of New South Wales. By that time, the Commonwealth Bank should have

realized the value of exchange depreciation as a means of meeting an emergency, and have raised the rate to a height which would have restricted imports and maintained exports. In the light of events, a higher rate might have been justified, but actually the rate was determined by outside market quotations. The Commonwealth Bank, as the central bank, should have taken charge of the rate at that time, increased it, if necessary, and have been prepared to buy and sell freely.* Then the Bank would have been in a better position to protect and to build up London funds as circumstances permitted, and to replace some of the international reserves (including gold) which had been used in the crisis. In December, 1928, these reserves in gold and London funds had amounted to some £90m., but by December, 1930, they had fallen to about £40m. But the Commonwealth Bank, in regard to the exchange rate, merely acted as an ordinary trading bank until December, 1931, when it assumed control, fixed the rate at 125, and began to buy and sell freely.

555. A more difficult question is whether the alteration of the rate to 125 was justified. The general problem was to hold the rate at an appropriate level having regard not only to the requirements of the internal economy, but also to external relations. As compared with the lower rate, the maintenance of a rate of 130 would have been better for export production, rendered debt adjustment a less pressing problem, and generally have allowed a somewhat easier adjustment of the Australian economy to the forces of the depression. There was some expectation that the rate would fall, as was shown by the outside market quotations. External relations had changed; export prices had risen; imports had fallen off much more than exports, and England had left gold in September. Any reduction might be taken as a gesture to indicate that, in assuming control over the rate, the Commonwealth Bank was setting its face against competitive currency depreciation. In that event, the reduction would have the effect of reassuring countries trading with Australia, and of encouraging investment from overseas. On the other hand, it might be interpreted as the first move in an attempt to restore the old parity with sterling. The alteration eased the immediate budgetary problem of overseas payments. Weighing all these considerations, and having regard to the information then available, we think that the reduction from 130 to 125 was justified in the circumstances, but in the light of subsequent events, we think that it might have been better to have held the rate at 130 until internal conditions showed more definite signs of improvement.† But whether the rate were held at 130 or 125, the aim of the Commonwealth Bank should have been to build up its London funds and thereby to make its position stronger.*

* Reservation by Mr. Pitt.
† Professor Mills dissents.

556. In a memorandum of 18th December, 1931, the Governor of the Commonwealth Bank described the position on 30th November in these words—

"The Board of the Commonwealth Bank was then faced with the alternative of seeing a complete collapse of the exchange rate or of assuming full responsibility and fixing a rate at which it might hope to hold the exchange."

But the only "collapse" which could have occurred was a movement towards parity with sterling. This could not have happened so long as the Bank was willing to buy all sterling offered at 130. In those circumstances no dealer in an outside market could have bought sterling for less than this rate. The Commonwealth Bank could have maintained the rate at 130 if it had been prepared to buy with Australian currency all sterling offering, as it did with a rate of 125. At the time, however, the Commonwealth Bank had no confidence in its ability to maintain the rate without making a serious loss on its London funds.

557. The Chairman of the Bank, Sir Robert Gibson, in a letter to the Prime Minister, Mr. Lyons, on the 13th January, 1932, wrote—

"The Bank Board decided, so as to prevent a complete collapse of exchange, to determine the rate of exchange itself, from time to time, and buy or sell all exchange offering at these rates. This arrangement came into operation as from 30th November, 1931, with the consequence that the Commonwealth Bank is now accumulating London funds, purchased upon the basis of 25 per cent. premium. So long, therefore, as the present policy is maintained and there is an excess of funds available in London over the demands, the Commonwealth Bank must continue to accumulate London funds. With the exchange at par there would be no risk to the Commonwealth Bank in such an accumulation, and, indeed, it would be in accordance with the policy of the Bank to accumulate funds under such conditions. It will be obvious, however, that the Commonwealth Bank cannot take the risk of accumulating large funds in London at a high premium, unless it has a reliable prospect of being able to dispose of them without serious loss."

558. Since December, 1931, the Commonwealth Bank has kept the exchange rate stable. The Bank states that for some time the central aim of its policy has been that of preventing undue fluctuations in business activity rather than of maintaining stability of exchange. This allows to the Bank more freedom to use its power over the exchange rate as an instrument of policy in case of necessity than if it aims merely at stability of exchange. But, during the past five years, it is probable that, whichever policy had been adopted, much the same stability in internal conditions and in exchange would have been achieved.

INTEREST RATES.

559. Since 1930, the Commonwealth Bank, as a matter of policy, has restricted its trading bank activities. The Bank has not refused

credit accounts, but it has not sought clients from a trading bank where it considered that the latter was giving satisfactory service. The Bank's view has been that its trading bank activities are "a favorable adjunct to central bank control in the power they confer to influence interest rates, to expand advances, if necessary, and to provide facilities which the trading banks may refuse or may not be in a position to supply". In our opinion this is a proper practice for a central bank to adopt.*

560. As the depression developed, the proper policy, as a supplement to expansion, was for the Commonwealth Bank to use its powers to reduce interest rates. But the Bank, along with the trading banks, raised its deposit rates in February, 1930, although its advance rates remained unaltered, with the exception of advances by the Rural Credits Department, which were raised by ½ per cent. in July, 1930. After June, 1931, this attitude changed, and the Bank appears to have realized the desirability of using its powers to lower interest rates. The Bank reduced the rate of discount on treasury-bills by stages from 6 per cent. to 1¾ per cent. After the Premiers' Plan was adopted in June, 1931, the Bank reduced its rates on deposits and on advances. Since that time it has followed the appropriate policy of assisting expansion by low interest rates. Reductions continued to be made until December, 1934, and the rates were maintained until March, 1936, when the trading banks raised their deposit and advance rates, and the Commonwealth Bank raised its deposit rates.

561. In our opinion, it is the responsibility of the Commonwealth Bank to determine generally in what direction and to what extent interest rates should move. On the whole, between June, 1931, and March, 1936, little exception can be taken to its action in regard to interest rates. But in March, 1936, the Bank allowed itself to be placed in a position in which, when interest rates rose against its expressed wish, it conformed to the actions of some of the trading banks. If the Commonwealth Bank was firmly of opinion that it was of the utmost importance that a rise in interest rates should not occur, it should have used its central banking powers to compel the trading banks to conform to its policy. If, however, its view was that the rise was not a matter of great importance at the time, there was some justification for raising its own deposit rates: otherwise it would have lost deposits.†

562. A rise in interest rates is sometimes regarded as one of the appropriate methods of checking expansion, but the Commonwealth Bank may have felt some difficulty because of the effect of high interest rates upon government finance. In 1938, and subsequently,

* Mr. Chifley dissents. † Note by Mr. Chifley, p. 266.

considerable amounts of internal loans mature. If rates of interest are allowed to rise, the difficulties of renewal will be increased. One of the present problems facing the Commonwealth Bank is how to prevent boom conditions from arising without taking action which will inevitably raise interest rates.

563. There is, however, a clear instance where the trading bank powers of the Commonwealth Bank were used to influence certain rates through the financing of some of the pastoral finance companies. The Commonwealth Bank usually quotes a rate for advances lower than the ruling rate for trading bank advances. In November, 1934, the Bank brought its overdraft rate for all customers down to 4½ per cent. Certain pastoral companies were customers of the Bank. When a pastoral company makes a loan to a customer, it is not so much attracted by the rate of interest as by the commission and other business which the loan brings. It will therefore lend its funds either at cost or with a very small margin. When the Commonwealth Bank lent money to its customer companies at 4½ per cent., and this money was re-lent at approximately the same rate, it tended to bring down the rate at which money was lent by other pastoral companies. While this continues, the Bank influences the rate of interest on seasonal loans in the pastoral industry. Where the trading banks make this type of seasonal advance, pastoral companies compete with them, and in that particular field of their operations the action of the Commonwealth Bank influences their rates, but in relation to other types of loans which the companies do not seek, this form of indirect competition with the trading banks does not operate.

OPEN MARKET OPERATIONS.

564. With the exception of the purchases of securities by the Commonwealth Savings Bank in 1935, the Commonwealth Bank has not undertaken any open market operations. While credit was being expanded, for example, in 1931, through the issue of treasury-bills, there was no need to supplement this by the purchase of securities. Later, when conditions had somewhat improved, and the Bank was urging the funding of treasury-bills, some contraction of credit could have been secured, if then thought desirable, by the sale of securities. There are, however, some difficulties in regard to open market operations. The Bank gives as the reason for not using these powers its view that the market for government securities is narrow, and that any extensive operations would affect the prices of government stock and rates of interest. If the Bank, desiring to check incipient boom conditions by contracting credit, were to sell government securities to any extent, and thereby make the position of the trading

banks less liquid, the price of government stocks would fall and rates of interest rise, to the possible embarrassment of the Government.

TRADING BANKS.

565. Along with other parts of the system, the trading banks must bear some responsibility for the extent of the depression. In the more prosperous times preceding the depression, they went with the tide and expanded credit. There was then no central bank to guide their policy, but, even in its absence, the banks might have taken concerted action which would have helped to check the boom, and thereby have lessened the extent of the depression. At the outset of the depression, the trading banks, in the interest of their depositors and of their own solvency, were forced by the general conditions and by the reduction of their London funds, due to the fall in export values and the cessation of overseas borrowing, to adopt a policy of contraction which intensified the depression. As pointed out in another part of our report, there are limits to the powers of trading banks to expand or to contract advances. In the absence of a central bank they can, by concerted action, do more to restrain a boom than to lessen a depression. From 1932, the trading banks expanded advances, but the increase in cash reserves which enabled them to do so came in part from central bank credit, and in part from increases in London funds due to higher export prices. There is no justification for the view that the trading banks, in order to enlarge their profits, deliberately expanded credit to produce a boom and then contracted so as to produce a depression. In their efforts to contract advances, the trading banks in some cases caused hardship by forcing realization of assets, and by refusing credit to some credit-worthy borrowers, but there was little alternative open to the banks while their cash reserves remained low, and there is no evidence of a general policy of forcing the realization of assets. By the end of 1931, the liquid position of the banks had been restored. After the middle of 1932, they were granting advances more freely, and, after the middle of 1933, they adopted an active lending policy.

566. During 1930, the trading banks, with the Commonwealth Bank, resisted the pressure on the exchange rate and rationed exchange; but in January, 1931, it was a trading bank which took the initiative in raising the rate to 130. The trading banks participated in other measures taken during the depression. They voluntarily entered into and carried out the exchange mobilization agreement of 1930. In 1931, they reduced deposit and advance rates under the Premiers' Plan, and they made further reductions up to 1934. Before the alteration, in June, 1931, which made treasury-bills practically the equivalent of cash, the trading banks had taken up bills to the extent of some £7m. The trading banks assisted in underwriting and subscribed to the government loans issued from November, 1932, onwards, which were an essential part of the recovery programme. At the time, their position was very liquid, and there was a lack of other suitable investments. In the development of the Commonwealth Bank into a central bank reponsible for the regulation of credit, which may be considered to have been accomplished by the end of 1931, the actions of the trading banks contributed in some measure to the change. Thereafter, for the most part, they co-operated with the Commonwealth Bank. At times there have been differences of opinion with the Commonwealth Bank as to the appropriate course of action, and at times the element of co-operation has been difficult to discover, but on the whole there has been a considerable development from a system of independent trading banks in 1929 to a system of central banking in 1936.

567. At the end of January, 1930, the trading banks, along with the Commonwealth Bank, raised the rates of interest on new fixed deposits, and advance rates rose accordingly. In our opinion this increase was inappropriate. No doubt it was essential for the banks, having regard to their position, to check advances, but it would have been better to have done this by discrimination between customers and restriction, without raising the rates.* The process of reducing advance rates in 1931, in accordance with the Premiers' Plan, took longer than that of reducing rates on new fixed deposits. The Commonwealth Bank and all the trading banks reduced rates for new fixed deposits on 26th June, 1931, and the Commonwealth Bank reduced its advance rate on 1st July. Some of the trading banks made early reductions in advance rates, but the average reduction of 1 per cent. was not complete for all of them until 1st October. The rates on existing deposits were changed only as the deposits matured and were renewed. In our opinion, all the banks should have promptly followed the lead of the Commonwealth Bank in reducing advance rates, as some did, even if this resulted in loss. From June, 1931, to October, 1934, a downward trend in deposit rates was maintained by all the trading banks and the Commonwealth Bank usually moving at the same time. In December, 1934, the trading banks should have followed the lead of the Commonwealth Bank and reduced their three-months and six-months deposit rates accordingly, but we attach little significance to this incident. In March, 1936, apart altogether from the offer of treasury-bills to the public, the trading banks were expecting deposit rates to rise, especially in view of the fairly steady upward trend of the yield on long-term government securities in Australia. But there was no

* Note by Mr. Chifley, p. 265.

sufficient justification for the rise coming when it did in opposition to the official view of the Commonwealth Bank that the time was not appropriate. The rise in deposit rates led to an increase in advance rates, in which those banks which were quicker to move might well have moved at the pace of the slower.

568. It is commonly said that the trading banks do not compete with one another. It would be more correct to say that the trading banks do not indulge in unrestrained or cut-throat competition with one another. Reference has been made in evidence to a "gentlemen's agreement" between the banks not to compete. Some banks acknowledge the existence of some understanding of this kind, but view its obligations differently. Other banks do not recognize any such understanding. It is usual for all the trading banks to publish and quote the same rates for deposits, but they will in some circumstances compete for deposits. Rates on advances are not usually published by the banks, and they vary according to the nature of the advance, the estimation of the risk, and the value of other business brought to the bank by the customer. There are generally, however, ruling rates for advances which are similar for all trading banks and apply to most advances. It has been said in evidence that the banks do not compete in the rates charged on advances. This statement does not mean that one bank will never offer an advance at a rate lower than another bank is charging. The competition for advances at times may go to the length of rate-cutting and taking customers away from another bank. The usual form of competition, however, is not by cutting rates, but by offering other inducements to the borrower. There is no evidence to suggest that there is any organization or association of the trading banks for the purpose of eliminating competition with one another. There is competition between them, of the kind to be expected from semi-monopolistic institutions. Each bank refrains from unlimited competition because it fears to spoil the market and to provoke similar competition from the other banks which might be ruinous.

FIXED AND LONG TERM LENDING.

569. Our attention has been directed to the facilities for borrowing for fixed terms upon land and improvements in the cities, towns and country districts. The chief sources for loans of this type are assurance companies, trustee companies, building societies, trustees and private lenders. Loans on real property are made in New South Wales by the Rural Bank, in Victoria by the Savings Bank directly and through the Credit Foncier Department, and in South Australia by the State Bank and the Savings Bank of South Australia. The Commonwealth Savings Bank has never made a practice of lending on this class of security. In the capitals and the other larger cities there are greater facilities for the borrower who wishes to obtain money for a term of years than are available to the borrower in country towns and rural areas. According to the evidence there is a definite reluctance on the part of many of these institutions to lend money in country areas. The reasons are—

(a) That it is expensive and difficult to supervise the securities in towns and districts far removed from the office of the lender.

(b) That if the borrower fails to meet his obligations, there might be difficulty in realizing on the security.

570. In these circumstances, many borrowers in country districts requiring fixed-term loans are forced to obtain accommodation on overdraft from the trading banks or pastoral finance companies. While the overdrafts are repayable on demand, they are in many cases granted with the knowledge that they may not be repaid for several years, and that they are in effect long-term loans. The method of financing by overdraft is not generally appropriate to fixed capital purposes or term finance, as the term and the rate are both uncertain. In some circumstances, the fact that the borrower is allowed to pay off his debt in whole or in part, and that interest rates may be easier, is in his favour. But, in other circumstances, the liability of the borrower to have the loan called up, or the rates of interest raised, is, from his point of view, a very serious matter. It may mean that at the very time when he is unable to make other arrangements, he is burdened with heavier interest charges than he anticipated; and he may even be faced with the necessity for realization. In the case of the individual this may be a matter of hardship, but when these cases are sufficiently multiplied, something more than individual hardship is involved. In other words, there is a strain on the whole system.

571. In the case of the small borrowers other than those resident in large towns, these difficulties are accentuated. The borrowers need the money for some fixed term with the option of repaying portion of the money annually. This is a class of business in which the banks do not engage, apart from the fact that they do not provide loans on fixed terms. Private investors are reluctant to undertake this class of lending, firstly, because they are uncertain of the value of small holdings outside large towns; secondly, because small sums do not appeal to them; and, thirdly, because most private investors dislike repayment by instalments. Therefore, it will generally be found that small loans of this type have to bear a high rate of interest.

EXTENT TO WHICH EXISTING SYSTEM CONFORMS TO STANDARDS.

572. There is also a lack of facilities for the provision of long-term capital for persons of limited means who have been successful on a small scale in a secondary industry which is capable of expansion and deserving of encouragement in the public interest. The requirements of this type of borrower are too small to justify a public issue of shares, and in most cases a public issue is not likely to be successful. Bank advances are usually very difficult to obtain for any purpose of this kind, and being subject to repayment on demand are unsuitable in most cases, as there is no prospect of repayment for a period of years. Unless the proprietors are able to raise the money privately, the business can expand only out of re-invested profits. In the initial stages, it is improbable that these would be sufficient to provide for the necessary expansion. It is usually very difficult for such a business to raise money privately, and other facilities should be provided which would enable loans to be made for periods of from three to ten years at appropriate interest rates.

573. At a later stage in our report, we propose to show how further *facilities could be provided for fixed and long term lending.*

CHAPTER VIII.

CONCLUSIONS AND RECOMMENDATIONS.

THE COMMONWEALTH BANK.

574. The full development of the Commonwealth Bank into a central bank, which occurred in a few crowded years, has contributed greatly to the strength of the Australian banking system. It was not to be expected that the Bank should have been able, at the commencement of the depression, to produce a fully considered and appropriate policy to meet it. During the next few years, as the Bank developed the exercise of its central bank powers, mistakes were made, but this does not detract from our conclusion that the existence of the Commonwealth Bank, exercising central bank powers, has been of the utmost importance to the banking system and to the community.

THE COMMONWEALTH BANK BOARD.

575. The present method of government of the Commonwealth Bank is by a Board, appointed by the Commonwealth Government, and consisting of a Governor, the Secretary to the Treasury, and six Directors, who hold office for a term of years and retire in rotation. The Board elects its own Chairman. We are of opinion that this method of government is generally satisfactory.

576. We recommend—

(1) The Governor should be Chairman of the Board by virtue of his office* and should possess qualifications and receive a salary commensurate with the importance of the office. The appointment of the Governor should not be made on the basis of seniority, nor is it even essential that he should already be in the service of the Bank.

(2) The six Directors other than the Governor and the Secretary to the Treasury should be appointed for a term of six years, instead of seven as at present, one should retire each year, and be eligible for re-appointment, but provision should be made that no director shall continue to hold office after reaching the age of 70.

(3) The limitation on the field of choice of directors in Section 11 (2) (*b*) of the Act should be removed. The members of the Board should be selected for capacity and diversity of experience and contact, and not as representatives of special interests.†

* The Chairman and Mr. Nixon dissent.
† Reservation by Mr. Abbott.

(4) The "Commonwealth Bank Act 1911-1932", Section 12B, which provides that there "shall be" a Board of Advice in London, should be made permissive. This Board is not at present constituted, and there seems to be no necessity for such a Board in present circumstances.

STRUCTURE OF THE COMMONWEALTH BANK.

577. Although it is unusual for a central bank to carry on trading bank activities and to control a savings bank, we consider it desirable that the Commonwealth Bank should do both. Through its trading bank activities it possesses powers of competing with the trading banks which can be exercised as and when required. Similarly, its savings bank activities add to its ability to regulate the volume of credit and enable it to compete, if necessary, with the State savings banks. We are of opinion that the use of its trading bank activities as an adjunct to central banking policy is in keeping with its central bank functions and is to be approved.*

578. We recommend—

(5) The provision in the Commonwealth Bank Act, Section 35E, for the separate control of the Commonwealth Savings Bank, should be repealed.

(6) Power should be given to the Commonwealth Savings Bank to make deposits with trading banks if the Board so chooses.

We consider that the present separation of the Note Issue Department from the General Banking Department, and the present method of allocating profits, are satisfactory, and should be continued.†

NOTE ISSUE RESERVE.

579. The present position is that the Commonwealth Bank is compelled by law to hold in the form of gold or English sterling a reserve of 25 per cent. of the notes issued. If an emergency arises, as in 1931, in which the Bank wishes to be free from this restriction, legislation is required. Wherever there is a legal restriction of this kind there is a tendency to hold a reserve in excess of the legal minimum. In the absence of such restriction, the Bank would be able to use these reserves in any way it chose. Formerly, when the holder of a note was entitled to exchange it for gold, it was necessary that some gold "backing" for the notes should be kept, and it was customary to limit the amount of the note issue by reference to the gold held. Now, however, that the note carries with it no such obligation, there is no need for such "backing" except as a method of limiting the volume of notes. But for this purpose the reserve limitation, as at

* Mr. Chifley makes a reservation.
† Professor Mills, Mr. Chifley and Mr. Abbott dissent.

present interpreted, is of little use. For if the Bank wishes to increase the volume of the note issue, it can, by raising the exchange rate, increase the value in Australian currency of the note issue reserve, whilst keeping within the legal limits. On the other hand, the reserve limitation may cause embarrassment to the Bank if circumstances arise in which it wishes to reduce the exchange rate. It is desirable that some limit should be placed on the note issue, but the issue should be capable of some expansion when necessary.

580. We recommend—

(7) The statutory provisions which require the Commonwealth Bank to hold gold or sterling in proportion to the amount of Australian notes on issue should be repealed.*

(8) The note issue should be limited by law to a fixed maximum (for example, £60m.) subject to the right of the Bank to exceed the maximum by a stated amount (for example £10m.) with the consent of the Treasurer.*

POWERS OF THE COMMONWEALTH BANK.

581. We have pointed out that the chief function of the Commonwealth Bank, as a central bank, is the regulation of the volume of credit, and for this purpose it is essential that the Bank should possess adequate powers. Action by the Commonwealth Bank to expand or contract credit mainly depends for success, first, upon the effect which the action has on the cash reserves of the trading banks, and next, upon the response of the trading banks to the movement in cash reserves. The question arises whether the powers possessed by the Commonwealth Bank are such as enable it to produce the changes in the cash reserves, and in the policy of the trading banks, which are requisite to the amount of expansion or contraction desired. In this connexion, the most important powers of the Bank arise from its relation to the governments, particularly with respect to treasury-bills, from its ability to buy and sell government securities on the open market, and from its trading activities. By increasing the issue of treasury-bills on the one hand, or funding them by public loan on the other hand, the cash reserves of the trading banks can be increased or decreased, but although the Commonwealth Bank has some control over an increase in the issue of treasury-bills, it cannot determine when or by how much that volume shall be decreased by funding. If open market operations could be effectively used, this would be a useful way of increasing or decreasing the cash reserves of the trading banks, but there are limits to the extent of the operations which are possible at any one time. The width of the market for government securities is difficult to estimate. Some opinions have

* The Chairman consents subject to reservation. Mr. Pitt dissents.

been expressed to us that the market is wider than the Bank's view would suggest, but other opinions support the Bank. In our view the market is narrow, but its extent depends upon so many circumstances that no estimate can safely be made of the amount of securities which could be sold at any time without seriously affecting their price.*

582. By the use of its trading bank powers the Commonwealth Bank can decrease the cash reserves of the trading banks, if, for example, it can attract deposits from them. On the other hand, it can increase their cash reserves, for example, by expanding its own advances.

583. Apart from the direct effect on the cash reserves of the trading banks, the Commonwealth Bank, through its trading bank and savings bank activities, can bring about alterations in interest rates which may supplement other actions to regulate credit. But in Australia the variation of interest rates is probably not so important in producing either expansion or contraction of credit as is the direct variation of the volume of credit.

584. When action taken by the Commonwealth Bank has altered the cash reserves of the trading banks, the extent of the contraction or expansion of the volume of advances will depend on how far the trading banks conform to the Bank's policy, and allow the changes in their cash reserves to affect their policy. If the trading banks adhered strictly to rigid cash reserve ratios, and expanded or contracted advances accordingly, any changes in cash reserves brought about by Commonwealth Bank action would be reflected in changes in the volume of advances. The Australian trading banks, however, have never maintained rigid cash reserve ratios, but have allowed them to vary considerably from time to time. Even though some of this variation is due to seasonal movements, yet it is possible for the banks to counteract central bank action, which increases or reduces their cash reserves, by allowing their ratios to change, and to that extent the policy of the Commonwealth Bank will be unsuccessful in its object of regulating the volume of credit.

585. In these circumstances, the success attending the attempts of the Commonwealth Bank to regulate credit ultimately depends mainly upon the extent to which the trading banks conform to its policy. One way in which this conformity may be achieved is by co-operation. This requires wise leadership on the part of the Commonwealth Bank and its acceptance by the trading banks. The Commonwealth Bank should encourage co-operation by making clear to the trading banks both the aim of its policy and the action proposed. The trading banks should then have the opportunity for

* Reservation by Professor Mills and Mr. Abbott.

critical discussion with the Bank, both of the aim and of the means The responsibility of deciding on the policy must then rest with the central bank, and responsibility for assisting to carry out the policy must rest with the trading banks. If by this method the Commonwealth Bank could be certain of the complete co-operation of the trading banks in carrying out its policy, there would be no need for any compulsory powers over the trading banks.

586. The Commonwealth Bank Board considers that, in order to make the Bank's powers adequate to its functions as a central bank, it requires in addition to its present powers—

(a) An obligation on the trading banks to maintain with the central bank not less than a fixed percentage of their liabilities to the public; and

(b) The right to call upon the overseas funds of the Australian banking system.

The reasons given for the first proposal are—

(1) The maintenance of these deposits would ensure that the Commonwealth Bank would have adequate resources, with which to buy the funds in London, and the securities in Australia, required for its control of the exchange rate and internal credit.

(2) Unless these deposits are required by law, experience shows that some of the banks will hold their liquid reserves in the form of treasury-bills, or funds in London, instead of on deposit with the Commonwealth Bank.

This means:

(a) that the Commonwealth Bank's power to regulate the rate of interest on treasury-bills in the event of the establishment of an open market may be less than is desirable;

(b) that the trading banks are enabled to hold funds in London which would be better held by the Commonwealth Bank;

(3) The necessity to maintain not less than a certain fixed percentage of their liabilities to the public with the Commonwealth Bank would force the banks to borrow occasionally from the Commonwealth Bank and thus strengthen the Commonwealth Bank's control of their credit policy.

587. The trading banks are unanimous in their opposition to the proposal and give the following reasons:—

(1) If fixed minimum deposits were compulsory, the trading banks would have to protect their position by holding deposits with the Commonwealth Bank over and above the minimum. They would therefore hold more idle cash, advance rates would rise, and in the end the burden would fall on borrowers, and the Commonwealth Bank would have no more control than at present.

(2) Since cash reserves vary with seasonal movements, the fixed minimum would be ineffective at some times, and a serious burden to the banks at other times. Moreover, it would be likely to be more onerous for some banks than for others.

588. We are of opinion that the regulation of credit by the Commonwealth Bank will in general be best achieved through the exercise of existing powers and the development of the practice of co-operation between the Commonwealth Bank and the trading banks. We realize, however, that there is no certainty that complete co-operation will always be obtainable, and we are of opinion that the situation can best be met, not by imposing a permanent obligation upon the trading banks to keep fixed minimum deposits with the Commonwealth Bank, but by the grant of a special power to be exercised only with the consent of the Treasurer. We contemplate that this power will be exercised reasonably and with due sense of responsibility, and for that reason prefer not to specify the percentage that may be required, which should be sufficient only to accomplish the purpose sought to be attained, which is that every bank will conform to central bank policy.

589. **We recommend—**

(9) The Commonwealth Parliament should legislate to provide that the Commonwealth Bank Board, with the consent of the Treasurer, may require every trading bank to keep with the Commonwealth Bank a deposit of an amount not less than a percentage, specified in the requisition, of the liability of that bank to its depositors in Australia.*

(10) Each trading bank should be required to keep on deposit the same percentage. The Board should have power at its discretion to vary the percentage from time to time within the limit fixed by the consent of the Treasurer.

* The Chairman and Mr. Pitt dissent.

(11) The authority to requisition should not remain in force for more than six months after the consent of the Treasurer has been given, but the Treasurer should have power to consent to its extension for a further period not exceeding twelve months. In any period of two years, the power should not be exercised for a longer period or periods than eighteen months.

LONDON FUNDS.

590. The London funds of the banks form practically the whole of Australia's international reserves available to meet adverse conditions, such as those arising from a heavy fall in export prices, or a severe drought. Since 1929, most of the monetary gold has left the Australian system, and this loss has not been made good by an increase in London funds. For these reasons it is desirable that London funds should be built up.

591. The Commonwealth Bank holds London funds for the purposes of the note issue reserve and for other purposes. Trading banks hold the rest of the London funds as part of their own resources. Even if the Commonwealth Bank were free to use, for other purposes, the London funds now held against the note issue, it appears to us that the total holding of the Commonwealth Bank would still be insufficient to meet a heavy drain.

592. It is important, therefore, to consider the methods which can be adopted for increasing the total amount. The normal way is to take advantage of high prices for exports, and other favorable circumstances, to accumulate and maintain balances, but it would take some time for this method to bring about any considerable increase of London funds. This process involves deliberate action if the balances are to be maintained. Every addition to their London funds increases the cash reserves, and therefore the liquidity, of the trading banks. This increase in liquidity allows an expansion of advances which tends to increase imports, and therefore to reduce London funds. If one part of the cash reserves is thus increased, and an expansion of advances is not desired, the remedy is to reduce another part of the cash reserves, for example, by arranging for the funding of some treasury-bills.

593. Another method which has been suggested to us is the flotation by the Commonwealth Government of a loan in London to repay some or all of the short-term debt incurred by the Governments in London and now owing to the Commonwealth Bank. This would increase the London funds of the Commonwealth Bank, but would not affect the London funds of the trading banks, and would therefore not result in an expansion of advances in Australia. It should be

pointed out that a loan floated in London and used to finance government expenditure in Australia would be unlikely to serve the purpose of accumulating and maintaining London funds.*

ACCESS TO LONDON FUNDS.

594. The Commonwealth Bank Board has stated in evidence that one of the additional powers which it requires in order to act effectively as a central bank is "the right to call upon the overseas funds of the banking system". The reason given was that the distribution of London funds between the Commonwealth Bank and the trading banks hampers the effective use of the London funds of the system. "The central bank might from time to time be faced with the embarrassing possibility of its London funds being exhausted whilst some of the Australian trading banks were still more than adequately supplied with funds in London". The Bank does not wish to have access to the whole of the London funds, but only to such portion as it may require, and it must be presumed that the Board, in the exercise of this right, would act with discretion and not in an arbitrary fashion. Two other proposals have been put to us in evidence. One is that the Commonwealth Bank might be given the right to demand a loan for a maximum period of, say, six months of a trading bank's London funds in excess of a fixed amount. We do not recommend this. The other is that the Commonwealth Bank should widen the margin between its buying and selling rates in order to encourage or discourage offers of London funds by the trading banks. The value of this method is clearly limited.

595. We think that in order to provide for the requirements of the Commonwealth Bank, the Exchange Mobilization Agreement should be reconsidered and extended. The existing agreement has worked well, but it is terminable by any of the parties at any time, and it makes no provision for contributions in excess of the amount required for the oversea debt service. It seems to us that it should be possible for the parties to come to some agreement, binding for a term of years, and providing for the debt service, and also for additional contributions to assist the Commonwealth Bank in the performance of its central bank functions. We contemplate an agreement which would provide for the oversea debt service as at present, and for some additional amount to enable the Commonwealth Bank to build up its reserves of London funds.

596. It is difficult to specify any definite figure for the latter purpose, but we think it should be possible to provide not less than £500,000 sterling per month. In the case of the additional amounts

* Professor Mills makes a reservation.

required for building up its reserves, the Commonwealth Bank should be prepared to pay the trading banks the rates at which they are willing to sell to their most favoured customers.

597. We recommend—

(12) A new Exchange Mobilization Agreement on the lines suggested, binding for a period of years, should be entered into between the Commonwealth Bank and the trading banks.*

PUBLICATION OF LONDON FUNDS.

598. Most of the witnesses who have expressed their views with respect to publishing aggregate figures of the London funds of the banking system agree that regular publication is desirable, but there is a conflict of opinion as to when the figures should be published. Generally speaking, economists have urged that the figures should be published as soon as possible. The reasons given are that well-informed people can now make a fairly correct guess based on published information, that it is less dangerous to provide accurate information than to keep people in ignorance, and that, since speculation is always likely to occur, it is better that it should be based on accurate information. On the other hand, the view of the majority of the trading banks is that the figures should not be published until an interval of at least a year has elapsed. The reasons given are that the figures are liable to be misinterpreted and may mislead the public, that early publication may encourage speculation, and that if the figures at any time showed undue depletion, their publication might lead to panic and a flight of capital.

599. We recommend—

(13) The aggregate figures of the London funds of the banking system should be published regularly.

(14) The figures should not be published until at least six months after the date to which they relate.†

TREASURY-BILLS.

600. The volume of treasury-bills, and the rate of discount at which they are issued, are important both in relation to the monetary and banking system, and in relation to public finance. Treasury-bills are, from the point of view of Governments, a useful method of short-term borrowing at low rates. The trading banks regard them as a convenient method of holding part of their cash reserves in an interest-bearing security. The volume of treasury-bills is a matter of some concern to the Commonwealth Bank. The Board considers that treasury-bills are a source of weakness in the banking system,

* Mr. Abbott and Professor Mills dissent.
† Professor Mills, Mr. Chifley and Mr. Pitt dissent.

because their issue has changed the composition of the cash reserves of the trading banks. Before 1929, these cash reserves consisted mainly of international reserves, that is, gold and London funds, and only to a less extent of Australian reserves, that is, token coins, notes, and deposits with the Commonwealth Bank. Owing to the disappearance of gold from the system, and to the expansion of central bank credit through the issue of treasury-bills, the cash reserves of the trading banks now consist mainly of Australian reserves, including treasury-bills, and only to a less extent of international reserves. A reduction in London funds will, in the long run, exercise a restraining influence on the expansion of advances by the trading banks. Before 1929, a reduction which would not seriously affect the aggregate amount of the international reserves of the Australian banking system, was nevertheless large enough to cause some restriction of advances. The Board is of the opinion, however, that the practice of the trading banks, because of the changed composition of their cash reserves, now results in London funds being reduced to an unduly low level before the banks are forced by their cash position to exercise any restraining influence on the expansion of advances. On the other hand, treasury-bills may serve to strengthen the power of the Commonwealth Bank, because it may be easier to regulate credit by persuading Governments to fund treasury-bills than to achieve the same result by the sale of government securities on the open market.

601. The effects of funding treasury-bills may be considered in so far as they relate first to public finance, and next to the banking system. At present, all Australian treasury-bills are issued on account of the States, and under the Financial Agreement new loans for States carry a sinking fund of ½ per cent. provided equally by the Commonwealth and the States, but those raised to meet a revenue deficit carry 4 per cent. from the State concerned without contribution from the Commonwealth. The rate of interest on treasury-bills is usually much lower than that on long-term securities. Where a long-term loan is raised to fund treasury-bills, the Government revenues have thus to meet the additional interest, and have also to provide substantial sinking funds. The effect of funding treasury-bills, therefore, is to increase the demands on Government revenues.

602. The effects on the banking system will depend in part upon the method of funding adopted, in part upon the amount funded, and in part upon the time at which the funding takes place. If the method adopted is "private funding", that is where the Commonwealth Bank subscribes the full amount of the funding loan and takes new securities in place of the treasury-bills, there will be little or no effect upon the banking system.

603. But if the method of funding by public loan is adopted the result will be that the deposits and the cash reserves of the trading banks are reduced so that they are in a less liquid position than before. If the amount funded is small this is not likely to have any serious effect. If the time chosen for funding is when the cash reserves of the system are large or are increasing, for example, as the result of an increase in London funds, the loss of liquidity due to funding will have less influence on the banks.

604. Since the funding of treasury-bills means on the one hand higher interest and other payments for the Governments, and on the other hand a less liquid position of the trading banks, it is easy to see that considerations of public finance and of monetary policy may conflict both as to the time of flotation and the amount of funding loans to be raised. The Commonwealth Bank might be of opinion that an increase in cash reserves, for example, London funds, made it desirable to reduce the liquidity of the trading banks, but the Governments might find it inconvenient to use loan moneys for funding. In these circumstances it would be difficult to decide whether considerations of monetary policy or of Government finance should prevail.

OPEN MARKET FOR TREASURY-BILLS.

605. At present, treasury-bills are issued at a fixed rate of discount and taken up by the Commonwealth Bank, which uses its discretion as to who should be allowed to purchase them. Practically the whole of the bills sold by the Commonwealth Bank are held by the trading banks. It has been proposed, however, that an open market for treasury-bills should be established. There is some difference of opinion as to what is necessary to constitute an open market. It has been contended that the three requisites are first, a plentiful supply of bills, such as now exists in the holdings of the Commonwealth Bank and of the trading banks, next, a large supply of liquid resources available for investment in treasury-bills, and, lastly, the growth of a class of brokers who would bring together the buyer and seller of treasury-bills. In this view, there should be regular tenders by the public in order to establish a market rate of interest, but the Commonwealth Bank should not make a practice of tendering regularly in such a way as to prevent the ascertainment of a market price. In the view of the Commonwealth Bank, the two important changes from the present system would be, first, that public tenders should be called regularly, and next, that the rate should be determined by the tenders received. The Bank would then be at liberty to tender under the same conditions as any member of the public for the full issue, for any less amount, or for various amounts at different

rates. *Usually its tender would be for a substantial part of the* issue, but the fact of its tendering would not necessarily be disclosed to the public.

606. The effects upon the banking system of the establishment of an open market in either of these senses would depend upon the extent to which the bills were bought by the general public. If the public invested in treasury-bills, payment would usually be made from deposits with the trading banks, unless money were attracted from overseas, which is improbable. The trading banks, therefore, would lose cash and deposits, and to that extent would become less liquid.

607. If an open market were established, and the public as well as the trading banks were accustomed to holding and dealing in treasury-bills, the power of the Commonwealth Bank to regulate credit might be strengthened through the opportunity to buy or sell treasury-bills, and through its rate of rediscount. The Bank might buy bills from the public to expand credit, and sell to the public to contract. In the first case, the cash reserves and deposits of the trading banks would be increased when the seller of the treasury-bills paid the proceeds into his trading bank. In the second case, the cash and deposits of the trading banks would be decreased. It would probably be easier for the Commonwealth Bank to buy and sell treasury-bills in this way than to buy and sell other Government securities. Treasury-bills would be an alternative way of holding resources which might otherwise be held in short-term fixed deposits. A slight change in rates might therefore induce a movement as between these deposits and treasury-bills. Alterations in the rate of rediscount would be an indication of the Commonwealth Bank's view of the direction in which other interest rates should move. It is probable that the amount invested by the public in treasury-bills would fluctuate over the year. The public would be likely to hold the greatest volume of treasury-bills at the times when their liquid resources, and hence those of the trading banks, were highest. If so, this fluctuating demand would serve to reduce the cash reserves of the trading banks at a time when they were seasonally large, and to increase them when they were small, thus reducing somewhat the seasonal fluctuations in the cash reserves of the trading banks.

608. The effects of an open market upon Government finance would depend upon the result which it had on the rate of discount. It is very doubtful in the present circumstances whether there would be any appreciable change, although the rate would be certain to fluctuate somewhat.

609. In our opinion, it would be desirable to have an open market for treasury-bills in the form of regular offers of the bills for public tender at rates to be determined by the tenders received. We think it essential that the Commonwealth Bank should be free to tender for any amount. Such a market could be established only gradually, and for this purpose the Commonwealth Bank would need the co-operation of the Governments.

610. We recommend—

(15) The Governments and the Commonwealth Bank should explore the possibility of establishing an open market for treasury-bills by way of regular offers of bills for public tender.*

RELATIONS WITH GOVERNMENTS.

611. In Chapter VI., we have indicated our views as to the relations which should exist between the Commonwealth Government and the Commonwealth Bank, and we make no further recommendation on this subject. In the same chapter, we point also to the desirablity of preserving close and cordial relations between the Commonwealth Bank and the Governments of the States, and again we make no recommendation, but point out that the relations between them are at present not as close as may be desirable. Since the successful working of monetary policy in Australia involves co-operation between the Governments and the Commonwealth Bank, we think there should be some permanent machinery for the Loan Council which would enable the Loan Council, the Commonwealth and the State Treasuries, and the Commonwealth Bank, to establish and maintain close contact with one another.

PREVENTION OF BANK FAILURES.

612. The solvency of any banking system depends ultimately upon the ability of the banks to repay their call deposits on demand and their time deposits as they become due. The failure of one bank to meet demands for the repayment of its deposits, even though it may have ample assets with which to meet all its liabilities if allowed time, may bring about a condition which may seriously threaten the stability of the whole system. For that reason it would appear to be the responsibility of the central bank to consider whether the actions of any bank are in conformity with the general interest. To enable it to discharge this responsibility, it is essential that it be regularly supplied with such information as it requires.

613. If, in the opinion of the Board of the Commonwealth Bank, a bank is acting in such a manner as to endanger the whole system, it may be the duty of the Board to intervene and to point out to those

* Mr. Pitt dissents.

in control the possible consequences of their actions. It is probable that this would be sufficient, but if it were not it might be necessary for the Commonwealth Bank to exercise some of its powers to make it difficult or impossible for the offending institution to continue the course to which objection was taken.

614. We prepose now to consider the action to be adopted in the case of a bank which is unable to meet its immediate obligations. This may be due to the refusal of that bank to accept the advice of the Commonwealth Bank, or it may be due to circumstances beyond its control. In such a case, we are of opinion that the Commonwealth Bank should take prompt action in order to prevent serious consequences to the whole system. Its first duty would be to make a complete investigation of the affairs of the bank in question, and as soon as possible to announce the result of its investigation. If the investigation shows that the bank is in a sound position, though temporarily embarrassed by insufficiency of liquid assets, a reassurance by the Commonwealth Bank to that effect would probably be sufficient to allay public alarm and prevent the development of a panic. In such a case, the Commonwealth Bank might go even further and undertake to guarantee the deposits, provided that it were given adequate security and some control over the bank, pending extrication from its difficulties.

615. If, however, the investigation shows that the Bank is in an unsound position, other action will be necessary. In such a case we think that the Commonwealth Bank should take control of the unsound institution, either by the appointment of a person who would stand in the position of a receiver for the depositors, or by the appointment of some of its own officers to control the affairs of the bank. As soon as it is in a position to do so, it should announce its estimate of the amount which the depositors may expect to receive, and make arrangements for the release of part of their deposits to those in need. It might also be practicable to issue deposit receipts, which, being negotiable, could be realized by the depositors.

616. Each case must, however, be decided upon consideration of the circumstances, and it is impossible to lay down any general rule. We desire to emphasize the point that our suggestion is made with the object of safeguarding the banking system as a whole. In our opinion this can best be achieved by providing the utmost security for depositors. We are not concerned with the interests of shareholders, as it is within their power to safeguard their own interests. The failure of any business other than a bank affects mainly those directly interested and does not threaten the banking system. We do not, therefore, suggest that the Commonwealth Bank should intervene except in the case of a bank.

617. We recommend—

(16) In the public interest, the Commonwealth Bank should take control of the affairs of any bank which is unable to meet its immediate obligations, and should be given any additional powers which it may require for this purpose.

STATISTICS.

618. In carrying on its operations as a central bank, the Commonwealth Bank has been hampered by the scarcity of information upon which to base its judgment. For example, it is essential for the Bank to be able to discern as soon as possible the trend of economic conditions. For this, accurate figures of employment and unemployment are necessary, but for Australia as a whole they are lacking. The Bank has succeeded in collecting valuable information on business trends in Australia and elsewhere. For the most part, the figures which it has needed of trading bank activities have been forthcoming on request, but the Bank has no power to require from the trading banks, or from any other authority, statistics which may be necessary.

619. We recommend—

(17) The Commonwealth Bank should be given statutory power, similar to that of the Commonwealth Statistician, to obtain statistics which it requires for its purposes as a central bank, and it should take steps to obtain such statistics.

(18) The Commonwealth Bank should publish a monthly bulletin containing such statistics as the Board thinks fit, together with explanatory comment, and other information and advice which may be of value to the public.

DISTRIBUTION OF CREDIT.

620. We have indicated in Chapter VI. that the Commonwealth Bank "should pay some regard to the distribution by the banks of the volume of credit amongst different industries". We consider that as the Commonwealth Bank develops its intelligence service, and has at its disposal a body of useful information, it should be in a position to advise the trading banks as to the directions in which it is desirable, in the national interest, that advances should be made. For example, when it has regularly before it the analysis of trading bank advances according to industries, together with information as to economic trends at home and abroad, it should be in a position to indicate industries which should be encouraged to expand and others which should not. We do not suggest that the Commonwealth Bank should interfere in any way with the granting of particular advances by trading banks, but rather that it should advise as to the general direction of advances.

621. We recommend—

(19) In order to promote a wise distribution of credit, the Commonwealth Bank should equip itself with all possible facilities for ascertaining economic trends in Australia and abroad, so that it can advise trading banks as to the directions in which it is desirable in the national interest that advances should be made.

RECRUITMENT AND TRAINING OF STAFF.

622. The functions of the Commonwealth Bank, as the central bank, are of such importance to the community that it is essential for the Board to take all necessary steps to ensure that the staff of the Bank is recruited from the best material available and is adequately trained. In our opinion, candidates for the Bank's service should normally have reached a standard of education equivalent to Leaving Certificate. Candidates with higher qualifications should not be barred from entry to the service simply on the ground of age.

623. The Board should give every encouragement to those wishing to continue their studies beyond the standard required for entrance to the Bank's employ, and in particular should train the more promising members of its staff with the object of fitting them adequately for executive positions.

TRADING BANKS.

624. The system of branch banking in which there are large banks, with a great number of branches and widespread interests, appears to be better than that in which there are a great many separate and independent banks with mainly local interests. A large institution is able to bear risks which might be too great for a smaller one, and it is easier in practice for a central bank to deal with a few trading banks as units of a central banking system than with a large number. So far as they have gone, amalgamations do not appear to have lessened the competition between trading banks, which, as we have already pointed out, is in some measure restricted.

THE ACCOUNTS OF THE TRADING BANKS.

625. With the exception of certain statistics relating to the Australian assets and liabilities of the trading banks which are regularly supplied to and published by the Government departments, most of the information available to the public relating to the position and profits of the trading banks is contained in their published accounts. These show the total assets and liabilities wherever situated, and the total profits wherever derived. In the case of some of the banks, the ex-Australian assets and liabilities and

profits are substantial; in the case of others whose business is mainly confined to Australia, they represent a comparatively small proportion of the whole.

626. It is sometimes asserted that the published accounts of the banks do not disclose their true position and results. This is based on the belief that the banks, or some of them, regularly make excessive provision for the purpose of building up their inner reserves. We shall refer to this later, but before doing so, shall comment upon certain characteristics of these accounts which impair their value as a basis for criticism and comparison.

627. The first is that particular assets and liabilities of any bank are not strictly comparable with those of any other bank, owing to the practice of grouping under a general heading a number of assets or liabilities of a similar type. As the classifications adopted are not uniform, correct comparisons are impossible, and any comparison or aggregation of assets or liabilities can be made only under broad headings. For example, some of the banks include in "Deposits" certain other liabilities, and in "Advances" certain other assets. Provision for doubtful debts and contingencies are in some cases added to "Deposits" or "Other liabilities", and in others deducted from "Advances". Where necessary, the Commission has obtained additional information which is not disclosed in the published accounts.

628. The second is that the balance-sheets of a number of banks include items expressed in currency units of the same name, but of different values. In the accounts of only one bank is it stated: "The balance-sheet figures are stated in Australian currency." No indication of the currency in which an item is stated is given in the accounts of any of the other banks, which take into account pounds Sterling, pounds Australian, and pounds New Zealand as being of the same value. The sum of a number of items expressed in currency units of the same name, but of different values, cannot be described in terms of any currency. It would be reasonable to expect the banks incorporated in England to express their accounts in sterling, and to expect the banks incorporated in Australia to express their accounts in Australian currency, but the use of different currencies in the same account cannot be justified. The fact that the banks incorporated in England have made provision in their accounts for the depreciation of Australian currency does not affect this conclusion. If accounts stated in different currencies were converted to a uniform currency, some difference would result which would probably be relative to the magnitude of the ex-Australian business. But the lack of information in the published accounts precludes an estimate.

629. The third is that the balance-sheets are made up as at varying dates: Two banks balance in March, four in June, and one each in August, September and October. Having regard to the influence of seasonal movements on banking figures, it follows that the position disclosed by one bank which balances in October may not be comparable with that disclosed by another which balances in March. Between October and March, considerable amounts will have been received from the proceeds of primary products exported, and the effect of this will be to reduce advances, convert advances into deposits, or increase deposits. In these circumstances it is impossible to prepare an aggregate balance-sheet which will show the position of the trading banks as a whole at the same date.

630. Generally speaking, the profit and loss accounts are not informative. Four of the banks merely show the net profit for the current year, with the balance brought forward, and certain appropriations for dividend, &c. Some others show the "gross" profit after deduction of certain undisclosed expenses and provisions for contingencies, and on the other side of the account certain expenses, but as these are different in each case, comparisons cannot be made. Two banks give considerably more information about expenses than any of the others. Some banks make appropriations to officers' provident funds, and to write down premises, before disclosing their net profit. Others make these appropriations out of their disclosed profits. The amount appropriated for either of the purposes represents a relatively small percentage of the total disclosed profits, but the different methods of treating these provisions render exact comparison impossible. Since 1930, the position has been further complicated by the use of different currencies in the accounts.

631. We recommend—

(20) In addition to any accounts required by the law of the country or State in which it is incorporated, every bank should supply, to a prescribed authority, accounts relating to—

(a) Its liabilities in Australia and its liabilities elsewhere than in Australia incurred in respect of its Australian business.

(b) Its assets in Australia and its assets out of Australia in respect of its Australian business.

(c) Its liabilities elsewhere than in Australia and its assets elsewhere than in Australia, in either case not being in respect of its Australian business, either in detail or in an aggregate amount.

(d) Its capital, reserves, and undistributed profits, and

(e) A profit and loss account.

(21) Such accounts should be in a form to be prescribed, by legislation or regulation made in accordance therewith, and should in the case of the balance-sheet be made up as at the date prescribed and in the case of the profit and loss account cover the period prescribed, and insofar as the particulars relate to its Australian business shall be expressed in Australian currency. Where an item is not expressed in Australian currency, the nature of the currency used should be indicated.

These accounts should be published in the "Commonwealth Gazette".

THE PROFITS OF THE TRADING BANKS.

632. Elsewhere we examine in detail the profits of the banks during the period 1893 to 1936. In this part we shall direct our attention to the profits of the last twelve years, namely, 1925 to 1936. This period includes the years in which both the highest and lowest profits were earned by the trading banks since 1909. The first five years covered a period of prosperity, and the latter years, periods of depression and recovery.

633. We have previously stated that some of the banks deduct from the disclosed profit certain appropriations for provident funds and the writing down of premises, while others make these appropriations before disclosing their profits. The appropriations to provident funds represent a very small percentage of the total disclosed profits, and call for no comment. The amount appropriated to write down premises varies, being usually small in the years when profits are low, and larger in the years when profits are high. The average percentage of the disclosed profits appropriated to write off premises during each of the periods stated was as under:—

	Per cent.
1915-1919	1.21
1920-1924	1.93
1925-1929	3.86
1930-1935	2.90

634. In order completely to eliminate appropriations for these purposes, the amounts disclosed have been deducted from the total profits of each year.

635. The following statement shows the shareholders' funds, capital, and profits of the trading banks as a whole, during the period 1925-1936, as shown by their published accounts, and certain ratios based thereon. These ratios are, of course, an average of all the banks. The ratios of some banks are higher and of others lower than the average, but unless the circumstances of a bank are abnormal, the

difference between its ratios and the average of all the banks will not be considerable, and will indicate only the relative advantages or disadvantages or the efficiency of one bank as compared with another.

STATEMENT OF FUNDS AND CAPITAL USED, AND PERCENTAGE OF PROFIT EARNED AND DIVIDENDS PAID, 1925 TO 1936.

Year.	Total Funds.	Total Profits.	Return.	Preference Capital.	Preference Dividend.	Rate	Ordinary Capital.	Profit available.	Return.	Ordinary Dividends.	Rate.
	£'000.	£'000.	%	£'000.	£'000.	%	£'000.	£'000.	%	£'000.	%
1925	55,073	4,822	8.75	2,534	122	4.81	29,360	4,700	16.01	3,442	11.72
1926	59,277	5,026	8.48	2,534	120	4.97	30,762	4,900	15.92	3,665	11.91
1927	59,582	4,996	8.38	2,326	100	4.51	31,685	4,890	15.43	3,744	11.81
1928	64,063	4,999	7.80	2,117	85	4.00	34,241	4,914	14.35	4,090	11.94
1929	68,322	4,943	7.23	2,117	85	4.00	35,437	4,858	13.71	4,029	11.37
1930	69,603	4,409	6.33	2,117	85	4.00	35,687	4,324	12.11	3,850	10.79
1931	70,504	2,963	4.20	2,117	85	4.00	35,947	2,878	8.01	2,820	7.84
1932	68,571	1,880	2.74	2,117	85	4.00	35,019	1,795	5.12	1,787	5.10
1933	68,550	1,953	2.85	2,117	85	4.00	35,019	1,868	5.33	1,749	4.99
1934	68,620	1,996	2.91	2,117	85	4.00	35,019	1,911	5.45	1,827	5.22
1935	68,654	1,997	2.91	2,117	85	4.00	35,019	1,912	5.46	1,783	5.09
1936	68,708	2,098	3.05	2,117	85	4.00	35,019	2,013	5.75	1,894	5.41

636. For several years after the crisis of 1893, the profits of all the banks were adversely affected, but soon after the commencement of the present century, they began to improve, and up to 1926 the profits and the return on shareholders' funds both steadily increased. The maximum return was shown in 1925, when 8.75 per cent. was earned on total shareholders' funds and 16.01 per cent. on ordinary capital. The maximum profit of £5,026,000 was earned in the following year, but increased shareholders' funds had been used during the year and the return on funds and on ordinary capital was slightly lower. There was little variation in the profits of the three years next following, which were in each year a little less than the maximum, but the return on funds and on ordinary capital gradually declined owing to the continued increase of shareholders' funds through the introduction of new capital and additions to reserves. The first serious decline came in 1930, when profits decreased by £534,000. In the following year there was a further decline of approximately £1,500,000. Profits fell to their lowest point in 1932, when they amounted to £1,880,000. During the next three years, they remained fairly constant at a point a little above the minimum, and it was not until 1936, when the profits were £2,098,000, that an improvement became obvious. The return on shareholders' funds fell to its lowest point in 1932, when only 2.74 per cent. was earned. Since then, there has been a gradual improvement. The return for 1936 was 3.05 per cent.

637. It is customary for a bank to set aside, before disclosing its profits, certain amounts which are used to create or increase reserves, variously described as "Inner Reserves", "Secret Reserves", "Reserves for Contingencies" or "Contingencies." The nature and amount of these reserves are not disclosed in the published accounts. Inner reserves are usually created by charging against profits a provision for the depreciation of premises or investments, or for bad and doubtful debts, in excess of the amount actually required for that purpose. The result is that the asset in question appears in the balance-sheet at less than its true value. The accounts may, but usually do not, indicate the existence of inner reserves in respect of premises or investments, but it is the general practice to indicate that provision has been made for doubtful debts or for "Contingencies", or for both these purposes. "Contingencies" is not defined.

638. That provision should be made for any ascertained or even probable depreciation of premises and investments, or for doubtful debts, is not arguable. The question arises, however, whether these provisions should not be shown in the published accounts. The importance of the question is due to the fact that it is easy to obscure the profits of any year by making provision for the purposes stated, or by taking into profits some of the provisions set aside in previous years. It is almost impossible for any business (including for this purpose a bank) to continue to build up secret reserves without ultimately disclosing their existence. In our opinion, the accounts of any bank over a long period of years disclose a reasonably correct view of the trend of its operations. When the figures of all the banks for a number of years are considered as a whole, it is possible to say with a great deal more certainty that the aggregate results disclose, with a fair degree of accuracy, the profits and trends of the trading banks.

639. In order to ascertain the extent to which the trading banks have made use of inner reserves during the period of ten years 1926-1935, we have obtained from each bank a statement showing its income from all sources for each of these years, which at our instance had been submitted to and certified as correct by the Federal Deputy Commissioner of Taxation. The income of each bank, as certified, less a deduction for federal income tax, has been compared with its profits as shown in the published accounts for the same period, and the comparison is shown in the following table:—

(Thousands of pounds.)

Period.	Income.	Federal Income Tax.	Net Amount.	Published Profits.
1926-1930	27,007	979	26,028	23,838
1931-1935	14,150	1,662	12,488	10,951
Total	41,157	2,641	38,516	34,789

640. The following statement shows the ratio of the published profits of each bank to its certified income, less tax. The banks are arranged in a different order in each period according to the magnitude of the ratio.

	1926-1930.	1931-1935.
	108.9	111.7
	102.0	111.2
	100.0	110.3
	98.0	96.5
	93.9	92.5
	91.8	84.8
	88.4	75.4
	83.1	75.1
	75.3	63.1
All banks	91.6	87.7.

641. It should be pointed out that "income" and "profits" have different meanings. The "profit" of a business is the amount remaining after allowance has been made for all business expenses, but "income" is an amount determined in accordance with income tax law, and only certain expenses are allowed as deductions. Amongst the expenses which may not be allowed to be deducted are federal income tax, and alterations to and depreciation of buildings. A difference also arises in regard to doubtful debts. A bank may make provision for doubtful debts before arriving at its profits, but in calculating income for purposes of taxation such provisions are disallowed and only debts which have been found to be bad are deducted. Several years may elapse between the time when provision is made for a doubtful debt and the time when it becomes a bad debt. Adjustments are also made in respect of interest in suspense. In the case of a bank the items referred to usually aggregate a substantial amount, hence there is always a considerable difference between "income" and "profits".

642. We have previously stated that the amount of an inner reserve is the difference between the book value and the true value of the asset in respect of which it has been created. But valuations are a matter of individual opinion. The extent to which opinions may fairly differ varies with the nature of the asset.

643. The valuation of premises does not present any unusual difficulty. There are good reasons why buildings erected for special purposes, such as bank premises, should be valued on a conservative basis. To some extent the amount expended on premises is in the nature of

an advertisement. A building intended for other purposes could be erected for less money and would produce a larger return on the capital cost. When bank premises in country towns are no longer required, and are offered for sale, some loss is usually made. The same factors may to some extent also affect the value of premises in the cities. It is desirable, therefore, that some provision should regularly be made to write down the book value of premises to their estimated value. In addition, there is, as in the case of any other building, a certain amount of wear and tear for which provision should be made.

644. For many years it was the practice of some of the banks to write down their premises consistently and heavily, and in some cases this was done to excess. In 1921, the balance-sheet valuation of the premises in England, Australia and New Zealand of one of the banks had been reduced to less than £8,000. It is difficult to justify this course. Other banks have not written down the value of their premises to the same extent.

645. A comparison of the book values of the premises of the trading banks with their Federal Land Tax Returns shows that some of the banks have substantially written down their premises and that others have not. But the amounts written off have been spread over many years, and in most cases the effect upon the profits of any year would not be considerable.

646. The valuation of investments presents little difficulty, as most of the investments held by the banks are quoted on the stock exchanges.

647. The principal difficulty arises in respect of the provision to be made for bad and doubtful debts, including unpaid interest. In considering this question, so many possibilities must be taken into account that only an approximate estimate can be made. But if an estimate of bad and doubtful debts is honestly made by those qualified to make it and in possession of all the material facts, it is not easy to suggest any grounds upon which the estimate may be questioned.

648. The origin and use of inner reserves cover such a wide field of circumstances, that a decision as to whether they have been properly or improperly made or used can be arrived at only after full consideration of the facts in each individual case. Where a company carries on an ordinary business, the existence and use of inner reserves is a matter which principally concerns the shareholders, and if they desire disclosure the remedy is in their hands. But in the case of a bank, other considerations arise, namely, the interests of the depositors, who provide a much larger proportion of the total funds than the shareholders. The depositors have no voice in the management of the bank, and are powerless to insist upon the disclosure of information which may have a vital bearing upon the safety of their **deposits.**

649. In recent years, and in particular since the Royal Mail Steam Packet case, in which the question of secret reserves was exhaustively considered, the best modern accountancy practice in England and the Dominions appears to incline towards the view that the amount of the *inner reserves is not as important as the extent to which they may* be used to obscure the true result of an accounting period. This was clearly expressed by Lord Plender, a Past President of the Institute of Chartered Accountants in England and Wales, in a paper read before the Insurance Institute of London on the 1st February, 1932, *that is, some months after the decision in the Royal Mail Steam Packet* case. He said—

> "I think that in the preparation of the Profit and Loss Accounts certain general principles should be followed in order to ensure as far as possible that the net results fairly attributable to the year's operations upon a basis comparable year by year should be shown and that extraneous and abnormal items should be stated separately."

Applying these principles to the special circumstances of the *trading banks*,

650. **We recommend—**

(22) (*a*) Before arriving at the profits of any accounting period, the directors should be entitled to make reasonable provision for debts which are doubtful, and interest which may not be received, without disclosure, except in the circumstances referred to in (*f*), provided that such provision does not exceed the amount required to cover the anticipated losses under these headings.

(*b*) If the directors desire to make any additional provision for either of these purposes, or for other contingencies, such additional provision should be made out of disclosed profits, as is the present practice of one of the trading banks.

(*c*) Provision for the depreciation of premises or to write down the value of premises or for depreciation of investments should be made out of disclosed profits.

(*d*) Transfers from inner reserves to the credit of the profit and loss account during the accounting period should be disclosed.

(*e*) The existence of inner reserves should be indicated in a similar manner in the accounts of all the banks.

(*f*) (NOTE.—These recommendations are subject to our further recommendation, included in "Banking legislation", that the Treasurer be given power to direct the Auditor-General to investigate the affairs of any bank.)

REGULATION OF BANK PROFITS.

651. The statistical tables included in the report show that for many years the trading banks made large profits and built up large reserves. Since the commencement of the depression the profits have been small and the appropriations to reserves negligible. But consideration of the profits of the years preceding the depression raises the question as to whether it is desirable in the public interest that banking profits should be regulated or limited.

652. The power of the central bank to exercise some control over the interest rates may tend to reduce the profits of the trading banks. But, on the other hand, the position of the trading banks is now stronger than when they were acting individually as units of an uncontrolled system, firstly, because it will be the duty of the central bank to strive to reduce fluctuations in the Australian economy, and, secondly, because in the public interest the central bank must use every endeavour to prevent the failure of any bank. This should enable the trading banks to reduce to some extent their appropriations to reserves.

653. Under modern industrial conditions practically no branch of industry can be carried on without adequate supplies of bank credit. In practice this is controlled by the trading banks, and in our opinion, therefore, these banks should be regarded as enjoying a privileged position which closely resembles that of a public utility. They are entitled to a fair return for the services which they render. If our recommendations relating to the statement of the profit and loss account are adopted, the actual profits will be disclosed. If these are found to exceed what may be regarded as a fair return for the services rendered, the Government should consider whether the profits of the trading banks should be regulated or limited as in the case of some public utilities.*

STATISTICS RELATING TO TRADING BANKS.

654. At present, the only published statistics relating to the operations of the trading banks, apart from their balance-sheets and profit and loss accounts, are quarterly averages of their assets and liabilities within the Commonwealth and within each State (under Commonwealth and State law), and the total of bank clearings (published weekly by the Clearing House in each capital city).

655. We are of opinion that this information is inadequate. We suggest that additional statistics should not be limited to the matters mentioned in our recommendation, but we think that the scope and form of such statistics could best be determined by the Commonwealth Statistician after consultation with officers of the Commonwealth Bank.

* Mr. Chifley makes a reservation.

656. We recommend—

(23) The Commonwealth Statistician should obtain from the trading banks, and publish, statistics covering at least—

(a) monthly averages of assets and liabilities within Australia, analysed in more detail than the existing quarterly averages, e.g., showing separately treasury-bills, deposits with Commonwealth Bank, and advances;

(b) monthly totals of debits to customers' accounts within Australia;

(c) monthly figures of assets and liabilities outside Australia, in respect of Australian business (subject to our recommendation relating to the publication of London funds);

(d) an annual analysis of total advances within Australia, classified according to industries.

BANKING LEGISLATION.

657. We are of opinion that full effect cannot be given to what is recommended in this Report, without further Federal legislation upon the subject of banking.

658. It seems unnecessary to disturb the terms or conditions upon which the various trading banks have been incorporated, or to require them, or other banks, to be incorporated under Federal law. There are ample facilities, under the existing law, for the incorporation of companies formed for the purpose of banking. It should be sufficient for the Commonwealth Parliament to legislate for the control of banking (other than State banking) in Australia, and to require compliance by the banks operating in Australia, wherever and however constituted.

659. For this purpose it should be unlawful to carry on the business of banking in Australia without a licence or authority, which would be terminable in the event of any wilful or persistent failure to comply with the provisions of the statute. This prohibition would also serve to give the Commonwealth Government the control, which we think that it should exercise, over the establishment of new banks.

660. In the case of the existing banks, the licence should be given, in the first instance, as a matter of course; but any proposal to establish a new banking business should be considered upon its merits, whether the company is formed or incorporated in Australia or elsewhere. Certain conditions should, however, be prescribed. No new banking company should be authorized to carry on business unless it has adequate capital. We suggest a subscribed capital of at least £500,000, of which at least £250,000 has been paid up in

money. In the case of a company incorporated elsewhere than in Australia, provision should be made for the appointment of an attorney resident in the Commonwealth, and for recording its memorandum and articles of association, or other instrument of incorporation.

661. There may be some difficulty in defining the scope of the Act. State banks, which do not extend beyond the limits of the State concerned, will, of course, be excluded pursuant to the Constitution, and it may be necessary to provide specific exemptions for the pastoral finance, and other companies and firms, which undertake some banking activities, although their main business is *not* banking. It will be difficult to frame any definition of banking that does not bring in large pastoral finance companies which take deposits, make advances, and give their customers the facility of a cheque account, but it is evident that the obligations proposed for the trading banks are unnecessary, or inappropriate, in the case of these companies or firms, whose banking activities are merely incidental to the carrying on of another business. We think that the prohibition against carrying on the business of banking, without licence or authority, should be directed against cheque-paying banks, and savings banks; but it should be so expressed as to include any branch opened in Australia by any bank established elsewhere, and provision should be made for exempting pastoral finance and similar companies and firms from obligations which are only intended to apply to trading banks.

662. It is undesirable that the title "bank" should be used without authority. The title should be reserved for the banks authorized under the statute, the State banks and savings banks established under State law, and mortgage or other banks, if approved by the Treasurer. We think that it should be unlawful for any other person, firm or company to assume or use the title "bank", or any name or designation representing, or suggesting, that it is a banking institution of any kind.

663. For the purpose of giving effect to what has already been recommended, the statute should provide for the following matters:—

(a) Minimum deposits.

(b) The publication of annual accounts and balance-sheets, in the form prescribed by the Act or by regulation.

(c) A statutory declaration to the effect that—

(i) these accounts are true in every particular;

(ii) any provision which has been made for debts which have become bad or doubtful since the date of the last preceding accounts does not exceed the amount required to cover the loss anticipated;

(iii) the profits disclosed by the accounts have not been reduced by any other appropriation to, or increased by any appropriation from, any inner or secret reserve.

(*d*) Power to the Treasurer to direct the Auditor-General to investigate the affairs of any bank and to report upon such matters as the Treasurer directs.

We are of opinion that compliance with these statutory provisions may well be regarded as a condition attaching to the right of any bank, wherever incorporated, to trade in Australia, and, therefore, that there should be power to withdraw the licence or authority to carry on the business in the event of wilful or persistent failure to conform.

664. Amongst other matters which might well be included in the statute are—

(*a*) Provision for the appointment by any bank, whose head office is not in Australia, of an attorney in Australia upon whom any process or notice may be served.

(*b*) Approval of the Treasurer to the appointment of any official liquidator appointed to liquidate any bank.

(*c*) Power to proclaim bank holidays.

(*d*) Restriction upon loans by a bank to its directors, auditors, or principal officers.

(*e*) Provision with respect to unclaimed moneys.

665. Statistics with respect to banking activities in the various States are collected under State law. The information may be valuable to the States concerned, as well as to the central bank, and there is no reason why the practice should not continue, unless, as a matter of convenience, it is considered expedient to collect the same statistics under the Federal Act.

666. **We recommend—**

(24) The enactment by the Commonwealth Parliament of banking legislation upon the following lines:—

(*a*) Prohibit any person, firm, or company, from carrying on the business of a bank without licence or authority from the Treasurer of the Commonwealth. For this purpose, include any cheque-paying bank or savings bank and any branch established in Australia by any bank founded elsewhere; but exclude any State bank which does not extend beyond the limits of the State concerned.

(*b*) In the case of any institution carrying on the business, when the Act comes into force, provide for the authority being given, in the first instance, as a matter of right.

(*c*) Give discretion to grant or refuse any application to establish a new business, but prescribe conditions (*a*) as to capital, in the case of a company wherever formed, and (*b*) as to registration of an attorney, and of the constitution, in the case of any company formed outside Australia.

(*d*) Define "trading bank" and "savings bank" by reference to schedules of the existing institutions, but provide for additions thereto by proclamation.

(*e*) Prohibit the use of title "bank" except by—

(i) State banks and trading or savings banks authorized under the Act; or

(ii) other banks with the consent of the Treasurer.

(*f*) Provide, in the case of trading banks, for—

(i) Minimum deposits in the circumstances and in the manner recommended.*

(ii) Publication of annual accounts and balance-sheets in the form prescribed by the Act or by regulations.

(iii) A statutory declaration in the form prescribed.

(iv) Power to the Treasurer to direct the Auditor-General to investigate the affairs of any bank and to report upon such matters as the Treasurer directs.

(*g*) Give the Treasurer power to withdraw the licence or authority in the event of wilful or persistent failure to comply with the provisions set out under (*f*).

BANK CHARGES.

667. The scale of charges by the banks for the collection of cheques and on drafts within the Commonwealth appears to be a survival of an earlier time when communications were less highly developed, and to be full of anomalies as between State and State and district and district. It is true that some reductions have been made from time to time, but in our opinion a comprehensive and systematic revision of these charges is necessary.

CLEARING POOL.

668. In each capital city there is a clearing house agreement between the trading banks, providing, amongst other things, for a deposit of notes by each trading bank in a pool as a guarantee against default in settlement of clearing balances. Formerly each bank contributed gold to the pool, but when the trading banks handed

* Subject to dissents from that recommendation.

over gold to the Commonwealth Bank in 1929, the gold in the pool was replaced by £1,000 notes. At the end of June, 1936, £2.47m. was held by the pool in the form of these notes, which remain as part of the cash reserves of the banks, but are earmarked for the purposes of the pool. If the trading banks think it necessary to guard in this way against a default of one of their number on clearing transactions, it seems to us better that this pool should be kept in the form of deposits with the Commonwealth Bank, which would allow of a reduction in the note issue.

NATIONALIZATION OF BANKING.

669. We have not entered into the arguments for and against the nationalization of banking in Australia. By general invitation issued through the press, opportunity was offered to those interested to give evidence on this and other subjects. But we have had no evidence from political organizations, and little evidence from individual witnesses, either for or against nationalization. The view of the Commission, as set out in Chapter V., is that the most desirable banking system in the present circumstances of Australia is one which includes privately-owned trading banks. The system which we contemplate is one in which a strong central bank regulates the volume of credit, and pays some attention to its distribution. We are of opinion that the adoption of our recommendations will place the Commonwealth Bank in that position. We are satisfied to leave the distribution of credit to privately-owned trading banks, working for profit, but regulated in the manner indicated in our recommendations. A strong central bank, publicly owned, and not dominated by the desire to make profit, will exercise the necessary control over the activities of the trading banks, and the organization of these banks on a profit-making basis will conduce to efficiency, while the area of choice afforded to borrowers will be greater than if all banking were nationalized and brought under one control. We think that in this way the national interest will best be served.*

SAVINGS BANKS.

670. Savings banks render a valuable service in collecting small savings, and they make part of them available to the banking system through the deposits which they make with the trading banks. In our opinion certain disadvantages arise from the fact that the maximum amounts on which interest is paid are high. In the first place this means that large amounts, exceeding what might be considered thrift accounts, are subject to withdrawal at very short notice. In the next place, the comparatively high rates paid on large sums at call tend to force up interest rates.

* Mr. Chifley dissents.

671. We recommend—

(25) The savings banks should consider the desirability of lowering the maximum amounts on which interest is paid for deposits at call or very short notice, and of encouraging the conversion of any excess over this maximum into fixed deposits with themselves.

THE SAVINGS BANK OF SOUTH AUSTRALIA.

672. Under the State law by which this bank is constituted, the Trustees are required to deal with the profits in each year, by allocating not more than one-fifth to reserve, and distributing the balance in the form of interest to the depositors. We are of opinion that, in this respect, the power of the Trustees is unduly limited. We think that it would be better if the Trustees were given a wider discretion. We think that the amount to be carried to reserves ought not to be limited to any fixed proportion of the profits, but left to the discretion of the Trustees, and, further, that the Trustees should be allowed to establish an interest equalization fund, and to declare their rate of interest from time to time, as is the common practice. If this were done, the Trustees would be free to consider the possible effect of their rate upon the general structure of interest rates.

673. We recommend—

(26) The Government of South Australia should consider the question of an amendment of the State law for the purpose of—

(a) giving the Trustees of the Savings Bank of South Australia a wider discretion over the allocation of the profits, and

(b) authorizing them to declare a current rate of interest.

MORTGAGE BANKING.

674. In a previous part of our report we have shown that there is a lack of facilities for fixed and long-term borrowing. One method of providing these facilities is mortgage banking. A mortgage bank differs from a trading bank in that it lends on land for fixed terms, and for that purpose raises part of its funds by issues of bonds. The trading bank accepts deposits only for short periods or at call, and only lends on overdrafts repayable on demand or by discounting bills for short periods.

675. The mortgage bank, through its large field of investment in mortgages, can spread its risks over a wide area and the mortgage bond is therefore a good security. In normal circumstances these bonds are readily negotiable. The holder of the bonds can realize his capital

promptly by selling his bonds without disturbing the borrowers. In other countries* where mortgage banks exist, the procedure generally adopted is to make the first parcel of mortgage loans out of the capital of the bank. The mortgages are then deposited with trustees and bonds are issued against them in such denominations and with such maturities as may be convenient. When the money received from the sale of these bonds has been lent, a further issue of bonds is made on the security of the second parcel of mortgages. This process can be repeated until the bonds reach the maximum prescribed by custom or law which is generally from ten to twenty times the capital of the bank. The mortgage bond is repayable on a fixed date, and payment is secured by the mortgages held in trust and the other assets of the bank. An important difference between a mortgage and a mortgage bond is that whereas the mortgage is secured on a specific piece of land, the mortgage bond is secured by a general charge over all the mortgages comprised in the security.*

676. There are various types of mortgage bank which might be established in Australia. These may be divided into three classes—

(1) Those in which the capital is provided by a public company, or by the public. For example, one trading bank might establish a mortgage bank as a separate unit, using its own offices and staff. Alternatively, several trading banks might combine to establish a mortgage bank, or a new company for the same purpose might be formed, the whole of the capital being provided by private investors.

(2) Those in which the capital is provided by a Government, the Commonwealth Bank, the Commonwealth Savings Bank, or by a State Savings Bank or State Bank, or by some of these in conjunction. In any of these cases the mortgage bank might be administered as a separate institution, or as a department of an existing institution.

(3) Those in which the capital is provided partly by any of the institutions named in paragraphs (1) and (2) and partly by private investors.

677. The adoption of one type of mortgage bank would not necessarily exclude the adoption of others. It might be found convenient to establish a number of mortgage banks, of different types.

678. As it is important that the mortgage bonds issued by the banks should be regarded as a first class security, thus enabling the

* For development of Mortgage Banking in various countries, see *The Mortgage Bank* by Joseph L. Cohen (Pitman) 1931.

bank to borrow and to lend at the cheapest possible rates, legislation for the regulation of these banks in the following matters is desirable.

(1) The amount of capital to be subscribed and paid up before the bank is permitted to commence operations.

(2) The limitation on the amount of bonds to be issued. The limit would presumably be some multiple of its subscribed capital.

(3) The conditions upon which loans may be made, prescribing—

  (*a*) the minimum and maximum term.

  (*b*) that money shall be lent only on first mortgage.

  (*c*) the proportion between the valuation and the loan.

  (*d*) the remedies of the bank in the event of non-payment of interest or capital instalments.

(4) The nature of the returns to be made.

679. The bonds might be issued upon the security of all the mortgages held by the bank, with a collateral security over any other assets of the bank. Alternatively, they might be issued in series, in which case it would be necessary to specify the security for each series and the order of priority if the specified security is found to be inadequate. The bonds might be of different denominations to suit various types of investors. If the bank is a company, its constitution should be such as to comply with the requirements of the stock exchanges, in order that the bonds may be listed and readily negotiable. The bonds should be trustee securities.

680. We think that if the trading banks were enabled to transfer to a mortgage bank some of their present overdrafts, which are in the nature of long-term loans, and take in exchange the mortgage bonds issued by the mortgage bank, the position of the trading banks themselves might be strengthened.

681. We recommend—

(27) A mortgage bank or mortgage banks should be established to provide facilities for fixed and long-term lending.

VARIABLE RATES OF INTEREST.

682. In the course of the evidence, several proposals have been made to us for the adoption of some system of variable rates of interest upon fixed or long term loans. It has been pointed out that, particularly in the case of primary producers, a rate of interest which has been fixed in a time of high prices may become burdensome if prices fall, and it has been suggested that there should be some facilities for borrowing at a rate of interest which would vary with changes in some price index number.

683. Another suggestion, which has been made to us, is that other institutions should adopt some such practice as that already instituted by the Commonwealth Savings Bank, in certain cases, of lending for a fixed term at a rate of interest which rises or falls with the rate upon its deposits.

684. One difficulty will be to find lenders who are prepared to lend upon these conditions. Another is that lenders would be inclined to charge rather more than the current rates of interest. We think that these suggestions are worthy of consideration by the institutions which specialize in loans for fixed or long terms.

CAPITAL FOR SMALL SECONDARY INDUSTRIES.

685. To meet the needs of small concerns in secondary industries, it is desirable to provide facilities either in the form of a new institution specially established for the purpose, or by some adaptation of an existing institution. It would be necessary for any such institution to have available the services of technical advisers, firstly to examine the prospects of the business, and, if a loan is made, to advise the owners on such matters as manufacturing methods, factory lay-out, costing and marketing. Since the object of the institution is to enable industries to be developed in the national interest, profit should not be its main consideration, but there is no reason why it should not make profits.

686. As the industries we have in mind may be aided as a matter of national policy or local policy, the provision of the necessary machinery and funds might fall to either the Commonwealth or a State Government, according to the circumstances.

687. We recommend—

(28) The Governments, with the assistance of the Commonwealth Bank, should investigate the problem of setting up institutions to supply the needs of small concerns in second industries.

DECIMAL COINAGE.

688. Too little attention has been given in the past to the denomination and forms of our token coinage. In our view, the division of the pound into twenty shillings, each of twelve pence, is antiquated. Most modern currencies are based upon the decimal system, which has great advantages. With its introduction, money calculations of all kinds would be simplified and shortened, and a great deal of time and trouble would be saved in industry and in commerce. More of the time of school children, too, could be devoted to other subjects. The chief difficulties to be overcome are tradition, inertia, and the inconvenience and cost of the transitional period.

Opposition will come from those who prefer the old system because they are accustomed to it, and from those who would deprecate a break with the custom followed by Great Britain. On the other hand, some parts of the Empire have for long used a decimal system of coinage. The introduction of decimal coinage would provide an opportunity for a reconstruction of the whole of the token coinage from the point of view of shape, weight and design. The threepence, for example, is a coin of convenient denomination but inconvenient size. It would be easy to combine a decimal system with a new coinage, more convenient to handle than the present coinage, even if other metals than silver and bronze, and other shapes, than the present, were introduced.

689. We recommend—

(29) A system of decimal coinage should be introduced based upon the division of the Australian pound into one thousand parts.

MINTS.

690. The British Government appoints the officers of the Mints, but the State Governments of Victoria and Western Australia, respectively, own the lands and buildings, receive the revenues and bear the expenses of the establishments.

691. We recommend—

(30) The Commonwealth should take over from the States of Victoria and Western Australia their interests in the Mints.

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692. This report represents the views of a majority of the Commission, and the dissents and reservations of individual members are expressed in memoranda attached thereto.

693. The report has therefore been signed subject to such dissents and reservations.

J. M. NAPIER (Chairman).
E. V. NIXON.
R. C. MILLS.
J. B. CHIFLEY.
H. A. PITT.
J. P. ABBOTT.

W. T. HARRIS (Secretary). 16th July, 1937.

DISSENTS AND RESERVATIONS.

MEMORANDA OF DISSENT AND RESERVATION BY THE CHAIRMAN.

Relations of the Commonwealth Bank Board to Government (para. 530):

1. I am unable to accept the conclusion on page 126 without some qualification. From every point of view it is highly desirable that the administration of the central bank should be removed from the sphere of party politics. As the law now stands, the Board is bound to form its own opinion, and to exercise its discretion, but it is manifest that it cannot disregard the policy or the actions of the Government of the day. If it is unable to move the Government by advice or persuasion, the Board will be faced with a choice of evils. If it insists upon its own opinion, the Board will be brought within the sphere of party politics, and, presumably, into conflict with the Parliament from which its authority is derived. Speaking generally, I have no doubt that the Board must subordinate its own opinion to the considered policy of the Government. If it does not, the system of independent control is plainly unworkable, and will break down. The conclusion of the majority of the Commission is, therefore, a sound working rule. But, although it may be difficult to contemplate the circumstances in which the Board might be justified in acting otherwise, I am not prepared to say that they could not arise.

Recommendation (1)—The Commonwealth Bank Board (para. 576):

2. I am unable to agree with the recommendation that the Governor of the Commonwealth Bank should be, *ex officio*, the Chairman of the Board. In my opinion there should be no interference with the present practice by which the Board elects its own Chairman. The main ground of my objection to the proposal is that the status and responsibility of the directorate would be seriously impaired by the alteration.

Recommendations (7) and (8)—Note Issue Reserve (para. 580):

3. I assent to the recommendations with respect to the limitation of the note issue; but I am of opinion that the Commonwealth Bank should be required to hold a reserve, in gold or sterling, of some stated amount, subject to power given to the Treasurer to consent to some reduction for a period of (say) six months, renewable from time to time, but not for more than (say) two years, without the approval of Parliament. I think that the external value of the currency should be backed by a reserve, which ought not to be expended without Ministerial authority and responsibility.

Recommendations (9) and (10)—Powers of the Commonwealth Bank (para. 589):

4. I cannot agree with these recommendations in their present form, which would give power to requisition up to the full amount of the deposits. I think that this goes beyond the necessities of the case, and I am of opinion that it is a power which Parliament ought not to delegate. I think that the line should be drawn between a power to exert pressure, with a view to control, and an arbitrary power of coercion. It seems to me that this power to require minimum deposits would be a useful instrument of central bank control if the power to requisition were limited to a moderate percentage. In this connexion it should be pointed out that, in order to carry on its business, every trading bank would have to provide for a deposit with the Commonwealth Bank in excess of the percentage required, and, in addition, it would have to hold till money.

5. Apart from the absence of any limitation upon the amount, I am of opinion that the power to requisition should be limited by some provision for reasonable notice.

Inner Reserves (paras. 302-303):

6. I agree with the views expressed by Mr. Nixon, and have nothing to add to his memorandum, upon this subject.

J. M. NAPIER.

DISSENT BY PROFESSOR MILLS, MR. CHIFLEY AND MR. ABBOTT.

Structure of the Commonwealth Bank—Note Issue Department (para. 578):

1. In our opinion, the present separation of the Note issue Department from the General Banking Department of the Commonwealth Bank should be discontinued. The Bank could then treat its central bank activities as one, and would not have to show separately the accounts for each department. We can see no good reason why the profits of the note issue, which is a central bank function, should be separate from the profits of the General Banking Department. If it is desired that the present allocation of profits should not be disturbed, we are of opinion that the profits of the General Banking Department, after it has absorbed the Note Issue Department, should be divided between the National Debt Sinking Fund and the reserves of the Bank in some such proportion as two-thirds and one-third respectively.

R. C. MILLS,
J. B. CHIFLEY,
J. P. ABBOTT.

DISSENT BY PROFESSOR MILLS, MR. CHIFLEY AND MR. PITT.

Recommendation (14)—Publication of London Funds (para. 599):

1. The majority of the Commission recommends the regular publication of these figures, with an interval of six months after the date to which they relate. In our opinion, the figures should be published as soon as they are available.

R. C. MILLS,
J. B. CHIFLEY,
H. A. PITT.

RESERVATION BY PROFESSOR MILLS AND MR. ABBOTT.

Powers of the Commonwealth Bank—Open Market Operations (para. 581):

1. The Commission has assumed that the purchase and sale of securities by the Commonwealth Bank on the open market will be a normal method of regulating credit. We have only to add that, in our opinion, since this power is one ordinarily associated with central bank action, some opportunity might have been found by the Bank in the past six years for testing the width of the market. Even if the market be as narrow as the Bank's view suggests, this is a ground for caution rather than inaction.

R. C. MILLS,
J. P. ABBOTT.

DISSENT BY PROFESSOR MILLS AND MR. ABBOTT.

Recommendation (12)—Exchange Mobilization Agreement (para. 597):

1. The Exchange Mobilization Agreement was arranged to meet an emergency, and has worked well on a voluntary basis, but now that the emergency has passed it has lost much of its significance. If the banks wish to make a binding agreement covering the debt service and any other matters, there is, in our opinion, no objection to this course, but we think that the matter should be left to their discretion. The agreement merely relates to the selling by trading banks of London funds to the Commonwealth Bank at a fixed rate, and there need be no fear that, even in the absence of an agreement, funds will cease to be provided for the debt service.

R. C. MILLS,
J. P. ABBOTT.

DISSENT BY MR. E. V. NIXON.

Recommendation (1)—Commonwealth Bank Board (para. 576):

1. I am unable to agree with the recommendation that the Governor of the Commonwealth Bank should be, *ex officio*, Chairman of the Directors.

2. I am of the opinion that the Chairman should be chosen by the Board as the Commonwealth Bank Act now provides. The Governor should be eligible to be chosen, but should not be entitled to the office as of right.

Inner Reserves (paras. 302-303):

3. I dissent from the decision to disclose the amount of the inner reserves of the trading banks without such other information as will enable these reserves to be viewed in their proper perspective.

4. Inner reserves may be considered from two points of view; first, their effect on profits and, next, their adequacy or inadequacy.

5. The effect on profits cannot be determined without information as to the time during which the inner reserves have been accumulating and the sources from which they have been derived. Profits are not the only source from which inner reserves may be created. A substantial proportion of those now existing is attributable to amalgamations.

6. The adequacy or inadequacy of reserves cannot be determined without a knowledge of the nature and extent of the contingencies for which they are intended to provide.

7. Without all this knowledge any conclusions based merely upon the amount of the inner reserves must be worthless and may be detrimental to the banking system as a whole.

8. For these reasons I am not convinced that the disclosure of the amount of the inner reserves, without other information such as that described, is in the public interest or even that it serves any useful purpose.

9. I may add that if other recommendations made by this Commission are adopted, the effect of inner reserves upon the profits of any subsequent year will be clearly discernible.

EDWIN V. NIXON.

DISSENT AND RESERVATION BY PROFESSOR MILLS.

Exchange Rate, December, 1931 (para. 555):

1. In dealing with the reduction of the exchange rate by the Commonwealth Bank in December, 1931, the majority of the Commission states: "We think that the reduction from 130 to 125 was justified in the circumstances, but in the light of subsequent events we think it might have been better to have held the rate at 130 until internal conditions showed some more definite signs of improvement." I am unable to agree with this view. In my opinion, the circumstances of the time did not justify the reduction. The argument that holding the rate at 130 would have allowed an easier adjustment of the Australian economy outweighs, in my opinion, all the arguments

in favour of a reduction. If the Commonwealth Bank had taken control, held the rate at 130, and announced its determination to refrain from any competitive depreciation, any fears on the part of overseas traders and investors would have been allayed.

London Funds (*para.* 593):

2. The majority of the Commission has considered the proposal for a loan in London to build up London funds, but has made no further comment. In my opinion, the flotation at an appropriate time of a loan in London for the sole purpose of paying off short term debt held by the Commonwealth Bank should be considered as an additional method of increasing the London funds of the Commonwealth Bank.

R. C. MILLS.

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

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, only 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

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

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.

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

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

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 8 per cent. per annum on paid capital, whichever is the less.

J. B. CHIFLEY.

DISSENT AND RESERVATIONS BY MR. H. A. PITT.

Central Bank Objectives (para. 527):

1. I accept the objectives of the Commonwealth Bank as suitable for present conditions. It is easy to over-rate the importance of banking functions, and there is a tendency to believe that a central bank can effectively check conditions which lead to undesirable results, or that it can promptly remedy those results. The world's monetary system is disorganized. This is largely due to the policy pursued by leading nations of throttling trade and bottling gold. When more friendly relations between nations are restored, it appears likely that gold will resume its function as an international medium of exchange, though not on the same basis as existed before nations left the gold standard. If some form of gold standard be adopted by leading countries, it will be the duty of the Commonwealth Bank to endeavour to maintain the stability of the currency as part of a general system of avoiding currency fluctuations, and so assisting to ensure a flow of trade between nations.

Criticisms of Commonwealth Bank (paras. 547, 554 and 555):

2. I dissociate myself from criticisms of the conduct of the Commonwealth Bank during the period of acute depression. My personal view is that the terms of the Commission do not require expressions of opinion of such a nature, and that there is little value in making them. Apart from this, it must be borne in mind that the Commonwealth Bank Board had to face a time of unexampled difficulty. It is quite possible that the Board did not at all times act with perfect wisdom, but on the other hand it is doubtful if any other body of men placed in such a position would have done more effective work for Australia. In particular, I dissent from the suggestion that the Board acted unwisely in reducing the exchange rate from 130 to 125. I do not consider that the consequences of this reduction were detrimental.

Differences of Opinion between Government and Commonwealth Bank (para. 530):

3. I do not agree that when differences of opinion are irreconcilable the Commonwealth Bank Board should subordinate its judgment to that of the Government of the day. It is important that the public should not only have faith in the judgment of the Board, but should be satisfied that it will be prepared to preserve its spirit of independence. Sacrifice of independence will involve loss of prestige. Confidence in the administration of a central bank is essential, and this may be disturbed if it is thought that the administration is in the hands of a gelatinous Board which may set aside its judgment on pressure from the Government. The Board should not lightly disregard the views of the Government and should do all it reasonably can to avoid conflict, but occasions may arise when it considers it essential in the public interest not to sacrifice its judgment. The Bank is the creation of Parliament and not of the Government of the day. Parliament can be asked to give effect to the Government's wishes if a conflict arises.

Recommendations Nos. (7) and (8)—Note Issue Reserve (para. 580):

4. I think it advisable to retain the existing provision that a specified proportion of the note issue should be held in reserve in the form of gold or sterling.

Recommendations Nos. (9) and (10)—Powers of the Commonwealth Bank (para. 589):

5. I am of opinion that the legislation on the lines recommended by the Commission should specify a maximum deposit to be lodged by the trading banks. The uncertainty as to possible requirements

may cause some restriction of advances by the trading banks. Provision should at least be made for reasonable notice in the event of a decision to requisition.

Recommendation No. (15)—Treasury-bills—Open Market (para. 610):

6. I differ from the view that the Commonwealth Bank should make tests to ascertain the nature of the response to an offer of treasury-bills on the open market. I do not regard the Commonwealth Bank as an experimental station. Experience gained at one offer might be little guide for a later offer. The volume of treasury-bills is large, and there has been little evidence of the likelihood of a regular demand for them. The present rate of discount for what is practically a continuing loan does not appear disadvantageous to governments, and there seems little prospect of gain by open market tendering. It would be no advantage to governments to have it indicated that the true rate in the public estimation was higher than the present regulated rate. And it is possible that a higher discount rate might be followed by a general rise in interest rates.

H. A. PITT.

RESERVATION AND ADDENDA BY MR. J. P. ABBOTT.

Recommendation (3)—The Commonwealth Bank Board (para. 576):

1. While I am generally in agreement with the recommendation that the limitation on the field of choice of directors of the Commonwealth Bank Board should be removed, I feel that the Government should appoint one director who is resident in the State of Western Australia. After listening to the evidence given in Perth I have come to the conclusion that the problems of that State are in many respects different from those in the eastern States. The distance from the eastern States is so great that unless there is direct representation on the Bank Board for Western Australia its problems may not have due consideration given to them. Air travel has considerably shortened the time for an individual to travel from the west to the eastern States, so that there should be little difficulty for such a director to attend meetings of the Bank Board. While I agree that there should be no special representation of accredited interests I feel that the members of the Board should be chosen as widely as possible from men who are experienced in the problems of the major industries of Australia, and particularly the export ones. I think, too, that some of the members of the Board, providing they have the necessary qualifications, should be drawn from the ranks of younger men. I understand that this is the practice of the Bank of England.

The Australian Sterling Exchange Rate (para. 527):

2. While I agree with the policy of the other members of the Commission that the Commonwealth Bank should make its chief consideration the reduction of fluctuations in general economic activity, and that as part of this policy the exchange rate would generally be kept stable, I disagree along with the other members in the proposition put forward by one witness that the exchange rate should be kept fixed with sterling and the economy made to adjust itself to this fixed rate although not at all costs. My view is that the rate would generally be kept stable, but that it should be used as a means to prevent either excessive boom or depression conditions overseas being carried into the Australian economy. Just as in the depression the high rate of exchange assisted the export industries by sheltering them to some extent from the devastating fall in overseas prices, so I think if the prices of exports are very high in those markets and appear likely to remain so for some time then the exchange rate should be lowered. This would have two effects. Firstly, it would bring about some contraction of the Australian credit base, since the London funds of the Australian banking system would be brought into the accounts of the system at a lower valuation than with a high rate. Secondly, it would act directly upon the export industries by preventing unhealthy boom conditions from developing in them, and would tend to check an excessive rise in land values and also very high valuation of many types of mining shares.

Fixed and Long-term Lending—Mortgage Banking (paras. 569-571):

3. The Commission has stressed the lack of facilities which exist, outside the metropolitan areas in Australia, for fixed term and long term borrowing. With regard to this I do not propose to add anything.

4. In the conclusions of our report, it is stated "that if the trading banks were enabled to transfer to a mortgage bank some of their present overdrafts, which are in the nature of long term loans, and take in exchange the mortgage bonds issued by the mortgage bank, the position of the trading banks themselves might be strengthened".

I desire to amplify this statement.

5. There was a general concensus of opinion among the bankers who gave evidence before the Commission, that "the banker must keep his funds liquid, and the only way to have these funds liquid is to have them at call". Although the trading banks hold this opinion, and subscribe to it by making all their advances repayable on demand, the fact is that a large proportion cannot be so repaid

because very many advances are used to purchase land in towns and in rural districts, and repayment could only be effected by realization of the properties. In times of depression even this might not produce sufficient cash for the purpose.

6. The following extracts from the evidence of two general managers of banks in different States illustrate this practice:—

*(1) "Do you make loans on land?—Yes.

To buy properties?—Yes, to purchase properties.

Do you consider that is a sound policy?—We consider that land is a prime security.

†(2) As to the funds you lend on farms, pastoral properties, and leasehold lands, would you lend a man additional funds to buy another property, if you thought it was a good business proposition?—Yes. We are doing that nearly every week. *It is part of our definite policy to do that in this State.*

Do some of these farming loans run for years and years?—Yes, for 10, 15, and 20 years, gradually working down, or sometimes up and down with a certain amount of elasticity.

Although they are ostensibly loans which are on call, in practice they are long-term loans?—Yes.

Is it a function of banking to lend on long terms on land?—No."

7. The banks' practice of **lending money repayable on demand** *against land and fixed assets* seems to have arisen in the early days of Australia. The reasons given for it by another banker were as follows:—"I think it is something more than tradition, and arises from the necessity that existed in the early history of Australia when the banks found it necessary to lend against land, which really is against the canons of banking in highly developed countries such *as England for example*".

8. To the question, "Is the practice not peculiar to Australia," he replied "Yes".‡

9. *Although this method of lending* has continued since the early days of Australia, I think the trading banks might now consider whether it is not desirable to increase the liquidity of their assets.

* See Evidence, page 340. † See Evidence, page 518. ‡ See Evidence, page 406.

But before giving my views on this, I would like to compare Australian banking practice with that of England in the matter of *advances to the pastoral and agricultural industries.* The two following tables illustrate the comparison:—

THE REPORT OF THE COMMITTEE ON FINANCE AND INDUSTRY (1931) (THE MACMILLAN REPORT).

TABLE 8.

London Clearing Banks and Scottish Banks.—Classification of Advances on Various Dates from 22nd October, 1929, to 10th March, 1930.

	London Clearing Banks.	Scottish Banks.
	£	£
Agriculture and fishing	68,630,471 ..	7,023,448
Representing	6.0% ..	7.2%
of total advances under all categories	987,711,344 ..	105,170,031

TABLE 10 OF THIS REPORT.

Classification of Advances of Australian Trading Banks, 1936.

	£	
Agricultural and pastoral industries ..	125,048,000	representing 47.7% of all advances.
Total advances under all categories ..	262,233,000	

10. It should be remembered that, although there is a great deal of difference between the conditions and circumstances in the two countries, yet agriculture is Britain's *third most important industry.* After making all allowances the tables show that the Australian banks lend relatively to a much greater extent to the pastoral and agricultural industries than do the English banks.

11. Another factor affects the position of the Australian banks in comparison with the English ones. We have pointed out in our Report that in 1936 the advances of the Australian trading banks represented 67 per cent. of their total assets, while in England for the same year, the advances of the "Big Five" represented only 35 per cent. of their total assets. Put in another way, 33 per cent. of the total assets of the banks in Australia is held in cash reserves and investments, while in England the "Big Five" hold 65 per cent. of their assets in this manner. The difference between the Australian banks and the English ones, to use a military expression, is that of a heavily fortified shallow front as contrasted with a defence by depth. The Australian banks hold a higher percentage of cash reserves than the British banks, but the latter hold a far higher percentage of investments.

12. The results which follow from the Australian practice are, that whenever the banks find their cash reserves being depleted, they put up the rate of interest on their advances in order, as one banker put it, "to warn their customers", and they must call on their borrowers to reduce their advances. Both actions impose a strain on the community which causes shocks throughout the whole economic structure.

For the banks, the position becomes dangerous if the cash reserves are greatly reduced, as the advances are not liquid, and are very hard to realize in a time of stress. This is clearly shown in our Report in the section headed "Bank failures" with regard to the Primary Producers' Bank of Australia. No matter how good the advances on land may be, unless there is an orderly realization, in a time of stress, the banks would stand to make heavy losses.

13. There are not the avenues for investment by banks in Australia that exist in England, but the position here can be remedied to a very large extent if the banks adopt the recommendations in our Report with regard to mortgage banking. If a trading bank were to form its own mortgage bank and issue bonds against the mortgages, the bank could transfer a large percentage of its advances to its mortgage bank, and invest a corresponding proportion of its funds in the bonds of the mortgage bank. These bonds would be negotiable securities, and therefore a more liquid form of investment than the present advances. The issue of bonds would also enable many of the institutions which do not lend in rural areas to do so safely, and to avoid the worry and cost of policing their loans.

14. If conditions became difficult, the central bank would be able to assist any trading bank by buying some of its investments held in the form of mortgage bonds. On the other hand, by buying or selling mortgage bonds, the central bank would have additional powers to control fixed term rates of interest should it desire those rates to change.

15. The trading banks are ideally situated to operate mortgage banks through their 2,352 branches in Australia. I believe that the present position is rather too much one of borrowing short and lending long, and that it would be better both for the banking system and for the people of Australia if this were altered.

J. P. ABBOTT.

SUMMARY OF RECOMMENDATIONS.

COMMONWEALTH BANK.

(a) Directorate.

(1) The Governor should be Chairman of the Board by virtue of his office* and should possess qualifications and receive a salary commensurate with the importance of the office. The appointment of the Governor should not be made on the basis of seniority, nor is it even essential that he should already be in the service of the Bank. (Para. 576.)

(2) The six Directors other than the Governor and the Secretary to the Treasury should be appointed for a term of six years instead of seven as at present, one should retire each year, and be eligible for re-appointment, but provision should be made that no director shall continue to hold office after reaching the age of 70. (Para. 576.)

(3) The limitation on the field of choice of directors in Section 11 (2) (b) of the Act should be removed. The members of the Board should be selected for capacity and diversity of experience and contact, and not as representatives of special interests. (Para. 576.)

(4) The "Commonwealth Bank Act 1911-1932," Section 12B, which provides that there "shall be" a Board of Advice in London, should be made permissive. This Board is not at present constituted, and there seems to be no necessity for such a Board in present circumstances. (Para. 576.)

(b) Savings Bank.

(5) The provision in the Commonwealth Bank Act, Section 35E, for the separate control of the Commonwealth Savings Bank, should be repealed. (Para. 578.)

(6) Power should be given to the Commonwealth Savings Bank to make deposits with trading banks if the Board so chooses. (Para. 578.)

(c) Note Issue Reserve.

(7) The statutory provisions which require the Commonwealth Bank to hold gold or sterling in proportion to the amount of Australian notes on issue should be repealed.* (Para. 580.)

(8) The note issue should be limited by law to a fixed maximum (for example, £60m.) subject to the right of the Bank to exceed the maximum by a stated amount (for example £10m.) with the consent of the Treasurer.* (Para. 580.)

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* Majority decision.

(d) Deposits by Trading Banks with Commonwealth Bank.

(9) The Commonwealth Parliament should legislate to provide that the Commonwealth Bank Board, with the consent of the Treasurer, may require every trading bank to keep with the Commonwealth Bank a deposit of an amount not less than a percentage, specified in the requisition, of the liability of that bank to its depositors in Australia.* (Para. 589.)

(10) Each trading bank should be required to keep on deposit the same percentage. The Board should have power at its discretion to vary the percentage from time to time within the limit fixed by the consent of the Treasurer. (Para. 589.)

(11) The authority to requisition should not remain in force for more than six months after the consent of the Treasurer has been given, but the Treasurer should have power to consent to its extension for a further period not exceeding twelve months. In any period of two years the power should not be exercised for a longer period or periods than eighteen months. (Para. 589.)

LONDON FUNDS OF THE AUSTRALIAN BANKING SYSTEM.

(a) Commonwealth Bank's Requirements.

(12) A new Exchange Mobilization Agreement on the lines suggested, binding for a period of years, should be entered into between the Commonwealth Bank and the trading banks.* (Para. 597.)

(b) Publication of Amount of these Funds.

(13) The aggregate figures of the London funds of the banking system should be published regularly.

(14) The figures should not be published until at least six months after the date to which they relate.* (Para. 599.)

TREASURY-BILLS.

(15) The Governments and the Commonwealth Bank should explore the possibility of establishing an open market for treasury-bills by way of regular offers of bills for public tender.* (Para. 610.)

* Majority decision.

RELATIONS BETWEEN GOVERNMENTS AND THE COMMONWEALTH BANK.

There should be some permanent machinery for the Loan Council which would enable the Loan Council, Commonwealth and State Treasuries, and the Commonwealth Bank to establish and maintain close contact with one another. (Para. 611.)

PREVENTION OF BANK FAILURES.

(16) In the public interest the Commonwealth Bank should take control of the affairs of any bank which is unable to meet its immediate obligations, and should be given any additional powers which it may require for this purpose. (Para. 617.)

STATISTICS.

(17) The Commonwealth Bank should be given statutory power, similar to that of the Commonwealth Statistician, to obtain statistics which it requires for its purposes as a central bank, and it should take steps to obtain such statistics. (Para. 619.)

(18) The Commonwealth Bank should publish a monthly bulletin containing such statistics as the Board thinks fit, together with explanatory comment, and other information and advice which may be of value to the public. (Para. 619.)

DISTRIBUTION OF CREDIT.

(19) In order to promote a wise distribution of credit the Commonwealth Bank should equip itself with all possible facilities for ascertaining economic trends in Australia and abroad, so that it can advise trading banks as to the directions in which it is desirable in the national interest that advances should be made. (Para. 621.)

TRADING BANKS.

(a) Accounts.

(20) In addition to any accounts required by the law of the country or State in which it is incorporated, every bank should supply, to a prescribed authority, accounts relating to—

(a) Its liabilities in Australia and its liabilities elsewhere than in Australia incurred in respect of its Australian business.

(b) Its assets in Australia and its assets out of Australia in respect of its Australian business.

(c) Its liabilities elsewhere than in Australia and its assets elsewhere than in Australia, in either case not being in respect of its Australian business, either in detail or in an aggregate amount.

(d) Its capital, reserves, and undistributed profits, and

(e) A profit and loss account. (Para. 631.)

(21) Such accounts should be in a form to be prescribed, by legislation or regulation made in accordance therewith, and should in the case of the balance-sheet be made up as at the date prescribed and in the case of the profit and loss account cover the period prescribed, and insofar as the particulars relate to its Australian business shall be expressed in Australian currency. Where an item is not expressed in Australian currency, the nature of the currency used should be indicated.

These accounts should be published in the "Commonwealth Gazette." (Para. 631.)

(b) Disclosure of Profits.

(22) (a) Before arriving at the profits of any accounting period, the directors should be entitled to make reasonable provision for debts which are doubtful, and interest which may not be received, without disclosure except in the circumstances referred to in (f), provided that such provision does not exceed the amount required to cover the anticipated losses under these headings.

(b) If the directors desire to make any additional provision for either of these purposes, or for other contingencies, such additional provision should be made out of disclosed profits, as is the present practice of one of the trading banks.

(c) Provision for the depreciation of premises or to write down the value of premises or for depreciation of investments should be made out of disclosed profits.

(d) Transfers from inner reserves to the credit of the profit and loss account during the accounting period should be disclosed.

(e) The existence of inner reserves should be indicated in a similar manner in the accounts of all the banks. (Para. 650.)

(f) (Note.—These recommendations are subject to our further recommendation, included in "Banking legislation", that the Treasurer be given power to direct the Auditor-General to investigate the affairs of any bank.)

(c) Regulation of Profits.

If trading banks' profits are found to exceed what may be regarded as a fair return for services rendered, the Government should consider whether these profits should be regulated or limited.* (Para. 653.)

(d) Statistics.

(23) The Commonwealth Statistician should obtain from the trading banks, and publish, statistics covering at least—

(a) monthly averages of assets and liabilities within Australia, analysed in more detail than the existing quarterly averages, e.g., showing separately treasury-bills, deposits with Commonwealth Bank, and advances;

(b) monthly totals of debits to customers' accounts within Australia;

(c) monthly figures of assets and liabilities outside Australia, in respect of Australian business (subject to our recommendation relating to the publication of London funds);

(d) an annual analysis of total advances within Australia, classified according to industries. (Para. 656.)

BANKING LEGISLATION.

(24) The enactment by the Commonwealth Parliament of banking legislation upon the following lines:—

(a) Prohibit any person, firm, or company, from carrying on the business of a bank without licence or authority from the Treasurer of the Commonwealth. For this purpose, include any cheque-paying bank or savings bank and any branch established in Australia by any bank founded elsewhere; but exclude any State bank which does not extend beyond the limits of the State concerned.

(b) In the case of any institution carrying on the business, when the Act comes into force, provide for the authority being given, in the first instance, as a matter of right.

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* Majority decision.

(c) Give discretion to grant or refuse any application to establish a new business, but prescribe conditions (a) as to capital, in the case of a company wherever formed; and (b) as to registration of an attorney, and of the constitution, in the case of any company formed outside Australia.

(d) Define "trading bank" and "savings bank" by reference to schedules of the existing institutions, but provide for additions thereto by proclamation.

(e) Prohibit the use of title "bank" except by—
   (i) State banks and trading or savings banks authorized under the Act; or
   (ii) other banks with the consent of the Treasurer.

(f) Provide, in the case of trading banks, for—
   (i) Minimum deposits in the circumstances and in the manner recommended.*
   (ii) Publication of annual accounts and balance-sheets in the form prescribed by the Act or by regulations,
   (iii) A statutory declaration in the form prescribed.
   (iv) Power to the Treasurer to direct the Auditor-General to investigate the affairs of any bank and to report upon such matters as the Treasurer directs.

(g) Give the Treasurer power to withdraw the licence or authority in the event of wilful or persistent failure to comply with the provisions set out under (f). (Para. 666.)

BANK CHARGES.

A comprehensive and systematic revision of charges by banks for the collection of cheques and on drafts within the Commonwealth is considered necessary. (Para. 667.)

CLEARING POOL.

If continuance of the guarantee provided by each bank by way of a deposit of notes, against default in settlement of clearing balances, is considered necessary, it is thought better that the guarantee should take the form of deposits with the Commonwealth Bank, which would allow of a reduction in the note issue. (Para. 668.)

*Majority decision.

NATIONALIZATION OF BANKING.

The most desirable banking system in the present circumstances of Australia is one which includes privately-owned trading banks. The system contemplated is one in which—

I. a strong central bank regulates the volume of credit and pays some attention to its distribution;

II. the distribution of credit is left to privately-owned trading banks, working for profit, but regulated in the manner already indicated.* (Para. 669.)

SAVINGS BANKS.

(25) The savings banks should consider the desirability of lowering the maximum amounts on which interest is paid for deposits at call or very short notice, and of encouraging the conversion of any excess over this maximum into fixed deposits with themselves. (Para. 671.)

THE SAVINGS BANK OF SOUTH AUSTRALIA.

(26) The Government of South Australia should consider the question of an amendment of the State law for the purpose of—
   (a) giving the Trustees of the Savings Bank of South Australia a wider discretion over the allocation of the profits, and
   (b) authorizing them to declare a current rate of interest. (Para. 673.)

MORTGAGE BANKING.

(27) A mortgage bank or mortgage banks should be established to provide facilities for fixed and long-term lending. (Para. 681.)

CAPITAL FOR SMALL SECONDARY INDUSTRIES.

(28) The Governments, with the assistance of the Commonwealth Bank, should investigate the problem of setting up institutions to supply the needs of small concerns in secondary industries. (Para. 687.)

DECIMAL COINAGE.

(29) A system of decimal coinage should be introduced based upon the division of the Australian pound into one thousand parts. (Para. 689.)

MINTS.

(30) The Commonwealth should take over from the States of Victoria and Western Australia their interests in the Mints. (Para. 691.)

*Majority decision.

APPENDICES.

APPENDICES—CONTENTS.

A. TABLES.

B. GRAPHS.

C. WITNESSES; AND OTHERS FROM WHOM STATEMENTS WERE RECEIVED

TABLE 1.—COMMONWEALTH BANK OF AUSTRALIA.—NOTE ISSUE DEPARTMENT AND GENERAL BANKING DEPARTMENT TAKEN TOGETHER.

LIABILITIES WITHIN AUSTRALIA.

QUARTERLY AVERAGES OF WEEKLY FIGURES.

Quarter Ended.	Liabilities.								
	Notes in Circulation.	Special Reserve Premium on Gold Sold.	Deposits Bearing Interest.		Deposits Not Bearing Interest.			Other Liabilities.	Total Liabilities.
			Governments.	Others.*	Governments.	Trading Banks.	Others.*		
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926—March	53,890	..	2,269	0,946	10,493	5,237	6,879	630	86,344
June	53,890	..	2,284	7,135	16,216	6,044	7,142	517	93,228
September	51,506	..	1,906	7,238	10,879	6,394	7,013	367	85,303
December	49,890	..	1,432	8,078	9,959	6,902	6,595	443	83,299
1927—March	50,008	..	1,469	7,741	8,611	7,847	7,405	395	83,476
June	48,393	..	1,324	7,843	12,798	7,305	7,037	525	85,825
September	48,393	..	1,237	8,336	11,093	8,723	7,406	415	85,003
December	48,762	..	1,160	9,096	8,512	10,555	7,748	747	86,586
1928—March	47,322	..	1,423	9,393	9,596	12,706	7,757	503	88,700
June	44,800	..	1,536	9,434	7,002	12,054	7,900	500	83,232
September	44,297	..	1,497	9,907	11,759	9,732	8,636	598	86,426
December	45,041	..	1,257	11,232	7,406	12,498	8,789	792	87,615
1929—March	46,095	..	1,462	12,033	6,662	14,196	9,990	919	91,357
June	43,101	..	1,249	11,765	8,086	9,225	9,393	415	83,234
September	41,836	..	1,350	12,335	8,376	7,509	8,721	431	81,058
December	43,212	..	1,057	13,119	6,980	8,413	8,473	527	81,781
1930—March	43,095	..	1,201	11,815	6,468	13,476	7,734	458	84,337
June	44,567	..	1,271	11,819	4,862	16,938	7,417	449	87,323
September	44,772	..	1,363	12,088	4,975	15,666	6,630	330	85,824
December	45,563	..	903	12,648	1,121	20,824	0,526	634	88,219
1931—March	46,076	..	737	13,057	1,330	29,716	6,577	493	97,986
June	49,730	..	732	14,054	1,702	32,235	6,726	455	105,634
September	51,523	..	708	15,974	1,398	22,961	7,415	409	100,388
December	52,400	..	712	17,687	937	22,233	7,994	466	102,429
1932—March	52,226	..	672	25,582	1,136	32,100	7,907	723	120,346
June	52,015	..	305	26,245	1,487	29,119	7,121	714	117,066
September	49,669	522	322	26,902	1,031	21,878	4,781	1,339	106,444
December	49,130	649	291	28,940	1,001	23,189	5,089	448	108,737
1933—March	48,092	719	312	29,869	1,003	25,578	5,248	672	111,493
June	47,869	3,667	2,230	30,858	1,114	23,553	5,229	1,505	116,025
September	47,051	3,895	2,268	29,733	1,082	22,612	5,199	497	112,337
December	47,609	3,895	3,099	29,137	1,043	25,059	5,597	261	110,300
1934—March	47,282	3,895	2,294	25,572	880	30,875	8,708	353	110,859
June	46,609	3,895	2,487	26,103	3,823	38,367	8,551	420	130,255
September	46,473	3,895	3,430	27,534	1,775	36,559	8,614	389	128,669
December	48,050	3,895	4,803	28,259	1,527	31,358	9,003	330	127,225
1935—March	47,467	3,895	6,628	27,099	904	26,140	8,978	425	121,536
June	47,358	3,895	6,130	27,407	2,554	23,682	9,204	321	120,557
September	47,045	3,895	5,973	25,305	1,031	20,536	9,260	284	113,329
December	47,949	3,895	7,256	24,068	1,203	19,509	10,104	441	114,425
1936—March	47,410	4,666	7,020	23,276	1,048	19,339	10,264	307	113,939
June	47,506	7,753	8,770	24,914	1,865	16,938	10,129	463	118,338
September	47,039	7,753	8,231	24,627	2,366	16,767	11,997	312	119,092
December	47,731	7,753	8,125	20,159	2,351	17,738	14,085	515	124,457

* Including deposits of savings banks and of quasi-government bodies.

TABLE 1.—COMMONWEALTH BANK OF AUSTRALIA.—NOTE ISSUE DEPARTMENT AND GENERAL BANKING DEPARTMENT TAKEN TOGETHER—*continued.*

ASSETS WITHIN AUSTRALIA.

QUARTERLY AVERAGES OF WEEKLY FIGURES.

Quarter ended.	Assets.											
	Coin and Bullion.	Australian Notes.	Securities.		Advances, Discounts, &c.						Other Assets.	Total Assets.
			Australian Government.	Municipal and Other.	Banks.	State Government and Quasi-Government Bodies (Short Term Loans Only).	Commonwealth Government.		Others.	Total Advances, Discounts, &c.		
							* Treasury Bills.	Other.				
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926—March ..	34,241	7,458	27,440	..	72	11,859				11,931	3,689	84,659
June ..	32,881	12,152	27,411	..	441	11,908				12,349	3,642	88,435
September	26,494	9,560	28,635	..	95	11,241				11,336	3,162	79,187
December	23,130	7,083	29,847	..	96	12,134				12,230	3,304	75,594
1927—March ..	23,245	5,838	29,613	..	573	15,896				16,469	3,307	78,472
June ..	23,161	7,010	26,359	..	573	15,599				16,172	3,514	78,216
September	22,245	7,563	28,713	231	600	17,883				18,483	2,742	79,967
December	21,873	5,911	28,015	365	1,396	19,097				20,493	2,230	78,836
1928—March ..	22,540	4,024	29,645	300	303	22,184				22,487	2,008	81,004
June ..	23,044	4,427	29,789	300	128	15,527				15,655	1,977	75,192
September	23,228	4,626	28,412	132	26	15,466				15,492	1,870	73,760
December	22,748	3,720	27,770	..	40	15,626				15,666	2,031	71,935
1929—March ..	23,218	4,619	26,615	..	139	19,371				19,510	1,965	75,927
June ..	23,276	4,216	26,526	..	935	14,222				15,157	1,822	70,997
September	24,460	4,166	26,891	226	416	16,081				16,497	1,714	73,954
December	22,282	4,150	26,124	258	1,829	18,407				20,236	1,921	74,071
1930—March ..	23,573	4,940	25,946	242	1,089	20,797				21,886	1,945	78,532
June ..	22,175	5,744	25,848	230	138	15,293				15,431	1,948	71,385
September	21,068	6,894	26,526	389	..	12,836				12,836	1,882	69,595
December	16,889	6,058	26,800	389	446	14,237				14,683	2,749	67,568
1931—March ..	16,314	6,050	28,015	389	27	2,649*	6,021	2,175	11,797	23,569	2,515	76,852
June ..	15,876	4,136	27,778	389	..	4,051	15,409	918	12,023	32,401	2,225	82,805
September	12,608	4,039	27,952	295	..	4,786	10,281	681	12,423	28,171	2,027	75,152
December	11,233	5,033	29,988	469	..	3,440	7,381	323	11,184	22,328	2,411	72,062
1932—March ..	11,239	5,712	29,609	9,899	..	3,085	7,311	315	10,220	20,931	3,291	80,681
June ..	11,410	6,028	28,790	9,734	4	2,706	5,809	325	9,687	18,531	4,011	78,513
September	9,852	6,531	28,597	9,625	..	2,913	7,411	57	6,417†	16,798	2,341	73,744
December	9,340	5,771	27,689	10,153	..	2,137	6,770	125	6,109	15,141	2,569	70,669
1933—March ..	8,722	5,290	27,208	9,415	..	1,650	10,160	344	6,808	18,962	2,097	71,694
June ..	1,670	5,002	25,959	8,928	..	1,201	11,212	15	6,050	18,478	2,242	62,870
September	1,378	5,347	27,094	8,968	..	1,250	8,939	17	5,601	15,807	2,095	61,289
December	1,283	4,705	27,216	8,889	..	1,175	11,822	..	5,323	18,320	1,940	62,353
1934—March ..	1,325	5,230	27,140	8,898	..	1,247	9,224	87	5,871	16,429	1,847	60,869
June ..	1,345	6,387	27,726	8,805	..	1,089	8,032	..	6,200	15,318	1,866	61,537
September	1,334	5,900	27,670	8,836	..	460	9,929	54	6,173	16,616	1,810	62,166
December	1,227	5,070	27,221	8,861	..	132	12,822	43	6,087	19,084	1,777	63,240
1935—March ..	1,352	5,384	27,464	8,983	..	170	13,403	346	6,853	20,772	1,870	65,825
June ..	1,320	5,011	27,339	8,977	30	178	12,932	..	6,659	19,799	1,918	64,364
September	1,336	5,557	27,484	9,106	286	218	11,985	46	7,169	19,704	1,760	64,956
December	1,241	4,710	27,177	8,926	754	245	13,246	..	7,465	21,710	2,209	65,973
1936—March ..	1,025	4,857	27,187	9,033	90	421	13,283	99	8,217	22,110	1,899	66,111
June ..	1,423	5,185	27,188	9,008	346	189	12,963	20	8,524	22,042	2,107	66,953
September	1,470	5,354	27,705	8,913	140	154	14,689	..	8,894	23,877	1,891	69,210
December	1,376	4,310	27,806	8,576	..	125	18,728	..	8,948	27,801	2,169	72,038

* Prior to March Quarter, 1931, it is not possible to separate Advances, &c., to Governments from Other Advances, &c.

† *This fall in balances is due to a change in system whereby credit balances allowed as set-offs are deducted from the gross advances.*

TABLE 2.—COMMONWEALTH BANK OF AUSTRALIA.—NOTE ISSUE DEPARTMENT AND GENERAL BANKING DEPARTMENT TAKEN TOGETHER.

ASSETS AND LIABILITIES IN LONDON.

(In thousands of pounds sterling).

Date. (Last Monday in month.)	Assets.						Liabilities.			Excess of Assets over Liabilities.		
	Money at Short Call (including British Treasury Bills).	Government and Municipal Securities.		Government Overdrafts.	All Other Assets.	Total Assets.	Deposits on account of Conversion Loans.	All Other Liabilities.	Total Liabilities.	Total Excess of Assets over Liabilities.	Of which :—	
		Australian Government and Municipal.	Other Government.								Australian Government and Municipal Securities and Government Overdrafts.	Other (" Net London Funds ").
	£ Stg.'000. (a).	£ Stg.'000. (a).	£Stg.'000.	£ Stg.'000.	£ Stg.'000.	£ Stg.'000.	£ Stg.'000. (b).	£ Stg.'000.	£ Stg.'000.	£ Stg.'000.	£ Stg.'000.	£ Stg.'000.
1926—June ..	13,211	..	84	1,344	2,317	16,956	..	7,062	7,062	9,894	1,344	8,550
September	13,246	244	3,506	..	1,355	18,351	..	6,066	6,066	12,285	244	12,041
December	12,122	244	4,871	..	2,875	20,112	..	6,238	6,238	13,874	244	13,630
1927—March ..	9,828	244	4,871	296	2,702	17,941	..	6,194	6,194	11,747	540	11,207
June ..	7,460	244	4,871	2,901	1,926	17,402	..	5,119	5,119	12,283	3,145	9,138
September	11,844	244	4,871	..	1,161	18,120	..	8,040	8,040	10,080	244	9,836
December	13,837	244	4,871	1,631	2,511	23,094	..	7,689	7,689	15,405	1,875	13,530
1928—March ..	12,021	244	4,086	1,236	2,512	20,099	..	8,237	8,237	11,862	1,480	10,382
June ..	16,092	244	3,823	760	1,308	22,227	..	9,147	9,147	13,080	1,004	12,076
September	25,878	510	3,649	..	708	30,745	..	7,805	7,805	22,940	510	22,430
December	20,825	1,058	3,646	..	852	26,381	..	3,156	3,156	23,225	1,058	22,167
1929—March ..	19,518	1,198	3,173	..	735	24,624	..	4,329	4,329	20,295	1,198	19,097
June ..	18,923	1,133	3,173	..	486	23,715	..	5,610	5,610	18,105	1,133	16,972
September	9,920	1,015	3,174	342	324	14,775	..	1,899	1,899	12,876	1,357	11,519
December	10,825	1,015	3,174	3,867	317	19,198	..	3,099	3,099	16,099	4,882	11,217
1930—March ..	7,929	1,019	..	9,393	204	18,545	..	4,087	4,087	14,458	10,412	4,046
June ..	10,794	1,014	..	15,613	410	27,831	..	2,007	2,007	25,824	16,627	9,197
September	6,084	1,014	..	16,683	2,875	26,656	..	1,095	1,095	25,561	17,697	7,864
December	12,061	1,014	..	18,865	210	32,150	..	2,755	2,755	29,395	19,879	9,516
1931—March ..	7,583	25,231	..	410	471	33,695	..	3,696	3,696	29,999	25,641	4,358
June ..	8,432	25,822	..	..	270	34,524	..	4,027	4,027	30,497	25,822	4,675
September	6,487	31,440	..	..	353	38,280	..	3,321	3,321	34,959	31,440	3,519
December	13,885	31,613	..	..	320	45,818	..	6,134	6,134	39,684	31,613	8,071
1932—March ..	22,075	31,613	..	..	811	54,499	..	4,754	4,754	49,745	31,613	18,132
June ..	15,227	31,613	..	..	379	47,219	..	6,070	6,070	41,149	31,613	9,536
September	15,707	31,168	..	..	265	47,140	..	3,652	3,652	43,488	31,168	12,320
December	20,251	31,284	..	..	272	51,807	..	5,076	5,076	46,731	31,284	15,447
1933—March ..	29,271	30,237	..	..	314	59,822	1,985	4,176	6,161	53,661	30,237	23,424
June ..	40,021	30,237	..	..	294	70,552	5,309	6,340	11,649	58,903	30,237	28,666
September	40,379	30,339	..	..	393	71,111	6,534	4,350	10,884	60,227	30,339	29,888
December	35,909	30,339	..	..	259	66,507	76	4,006	4,082	62,425	30,339	32,086
1934—March ..	42,939	30,339	..	..	306	73,584	95	2,827	2,922	70,662	30,339	40,323
June ..	48,164	30,339	..	..	324	78,827	686	4,025	4,711	74,116	30,339	43,777
September	43,076	30,404	..	..	230	73,710	..	2,845	2,845	70,865	30,404	40,461
December	35,814	33,204	..	..	1,294	70,312	897	4,138	5,035	65,277	33,204	32,073
1935—March ..	46,564	33,204	..	..	365	80,133	14,486	5,582	20,068	60,065	33,204	26,861
June ..	33,319	33,204	..	..	386	66,909	307	7,459	7,766	59,143	33,204	25,939
September	28,545	32,954	..	..	385	61,884	412	6,512	6,924	54,960	32,954	22,006
December	25,910	32,954	..	..	1,710	60,574	..	4,547	4,547	56,027	32,954	23,073
1936—March ..	31,469	32,954	..	..	438	64,861	5,805	4,217	10,022	54,839	32,954	21,885
June ..	28,015	32,954	..	..	1,175	62,144	946	5,330	6,276	55,868	32,954	22,914
September	27,690	32,905	..	..	234	60,829	407	4,268	4,675	56,154	32,905	23,249
December	29,059	32,274	..	..	411	61,744	..	6,190	6,190	55,554	32,274	23,280

(a) Including short-term debentures and money at short call substituted for Australian Government securities in connexion with Conversion Loans.
(b) Including deposits offset against Australian Government securities in connexion with Conversion Loans.

TABLE 3.—COMMONWEALTH BANK OF AUSTRALIA.

CLASSIFICATION OF ADVANCES WITHIN AUSTRALIA AT 30TH JUNE, 1929, 1931, 1935 AND 1936.

—	30th June, 1929.	30th June, 1931.	30th June, 1935.	30th June, 1936.
	£'000.	£'000.	£'000.	£'000.
Government Accounts ..	..	903	..	..
Local Government Bodies ..	4,192	6,851	2,875	3,161
Churches, Hospitals, Societies, &c.	471	385	427	515
Mining Interests	15	67	3	35
Graziers	65	306	205	202
Agriculturalists	912	1,804	1,378	1,726
Merchants and Storekeepers ..	2,082	2,042	1,765	2,544
Professions	422	452	536	652
Freeholders	710	501	792	1,002
Miscellaneous Companies and Bodies	1,052	3,227	967	1,118
Other Advances	883	732	712	1,079
Total Advances ..	11,404	17,270	9,660	12,214

TABLE 4.—COMMONWEALTH BANK OF AUSTRALIA.

CLASSIFICATION OF FIXED DEPOSITS IN AUSTRALIA ACCORDING TO TERM OF DEPOSIT, AND AVERAGE RATES OF INTEREST PAID ON FIXED DEPOSITS.

A. Government Fixed Deposits.

Date (end of month).	3 months.	6 months.	12 months.	24 months.	Total Government Fixed Deposits.	Average Rate of Interest Paid on Government Fixed Deposits.
	£'000.	£'000.	£'000.	£'000.	£'000.	per cent.
June, 1927 ..	..	..	..	520	520	5.00
June, 1928 ..	..	250	..	520	770	4.68
June, 1929 ..	..	..	..	520	520	5.00
June, 1930 ..	151	..	..	522	673	5.04
June, 1931 ..	..	..	..	400	400	5.25
June, 1932 ..	..	..	..	..	..	..
June, 1933 ..	..	..	..	..	..	..
June, 1934 ..	10	50	20	..	80	2.28
December, 1934	4,010	210	20	..	4,240	1.52
June, 1935 ..	2,750	200	30	..	2,980	1.03
December, 1935	3,250	200	30	..	3,480	1.03
June, 1936 ..	5,000	200	..	..	5,200	1.97
September, 1936	5,300	210	20	..	5,530	1.98
December, 1936	5,300	200	10	..	5,510	1.98

B. Private Fixed Deposits.

Date (end of month).	3 months.	6 months.	12 months.	24 months.	Total Private Fixed Deposits.	Average Rate of Interest Paid on Private Fixed Deposits.
	£'000.	£'000.	£'000.	£'000.	£'000.	Per cent.
June, 1927 ..	71	702	843	3,471	5,177	4.75
June, 1928 ..	403	112	1,072	4,811	6,488	4.82
June, 1929 ..	435	99	1,073	6,530	8,137	4.87
June, 1930 ..	801	328	1,290	7,747	10,166	4.95
June, 1931 ..	1,068	873	1,346	6,408	9,695	5.00
June, 1932 ..	712	1,605	9,735	10,048	22,060	3.94
June, 1933 ..	420	1,817	6,555	14,201	22,993	3.39
June, 1934 ..	682	2,174	7,278	14,064	24,198	2.88
December, 1934	1,757	2,195	7,338	15,009	26,299	2.67
June, 1935 ..	782	1,046	6,346	14,912	23,086	2.57
December, 1935	360	841	6,800	14,092	22,170	2.61
June, 1936 ..	477	1,629	7,086	12,149	21,341	2.60
September, 1936	574	2,092	7,763	12,521	22,950	2.61
December, 1936	825	2,238	7,768	12,688	23,519	2.65

TABLE 5.—TRADING BANKS(1)—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA.

LIABILITIES(2) WITHIN AUSTRALIA.

QUARTERLY AVERAGES OF WEEKLY FIGURES (IN THOUSANDS OF POUNDS, AUSTRALIAN CURRENCY).

Quarter Ended—	1	2	3	4	5	6	7	8	9	10	11
	Notes (3) and Bills in Circulation and Balances due to Other Banks.*	Deposits Bearing Interest.			Deposits Not Bearing Interest.			Total Deposits			Total Current Liabilities.
		Government.	Other.	Total. (2 + 3)	Government.	Other.	Total. (5 + 6)	Government.	Other.	Total. (8 + 9)	(1 + 10)
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926—March ..	6,800	9,536	133,752	143,288	1,293	114,687	115,980	10,829	248,439	259,268	266,068
June ..	6,560	9,141	138,049	147,190	1,340	109,653	110,993	10,481	247,702	258,183	264,743
September	6,390	8,869	141,548	150,417	1,272	102,539	103,811	10,141	244,087	254,228	260,624
December	6,355	6,804	145,492	152,296	1,319	105,057	106,376	8,123	250,549	258,672	265,027
1927—March ..	6,766	5,935	147,741	153,676	1,381	111,076	112,457	7,316	258,817	266,133	272,899
June ..	6,287	4,951	148,830	153,781	1,059	108,536	109,595	6,010	257,366	263,376	269,663
September	6,412	5,060	152,305	157,365	1,391	99,712	101,103	6,451	252,017	258,468	264,880
December	6,652	4,645	154,459	159,104	1,419	102,899	104,318	6,064	257,358	263,422	270,074
1928—March ..	6,175	5,054	157,634	162,688	1,413	111,233	112,646	6,467	268,867	275,334	281,509
June ..	6,389	4,864	159,655	164,519	1,568	107,379	108,947	6,432	267,034	273,466	279,855
September	5,852	4,206	159,972	164,172	1,402	101,305	102,707	5,602	261,277	266,879	272,731
December	5,680	5,090	163,980	169,070	1,490	104,645	106,135	6,580	268,625	275,205	280,885
1929—March ..	6,115	6,033	168,108	174,141	1,692	111,265	112,957	7,725	279,373	287,098	293,213
June ..	6,260	5,748	171,196	176,944	1,468	106,041	107,509	7,216	277,237	284,453	290,713
September	5,565	5,204	172,467	177,671	1,392	98,095	99,487	6,596	270,562	277,158	282,723
December	5,734	3,487	174,915	178,402	875	95,903	96,778	4,362	270,818	275,180	280,914
1930—March ..	5,317	4,041	171,631	175,672	1,210	95,371	96,581	5,251	267,002	272,253	277,570
June ..	5,710	3,783	172,763	176,546	1,137	88,249	89,386	4,920	261,012	265,932	271,642
September	4,412	3,755	173,723	177,478	1,015	81,346	82,361	4,770	255,069	259,839	264,251
December	4,823	2,713	174,810	177,523	957	82,232	83,189	3,670	257,042	260,712	265,535
1031—March ..	4,089	2,220	174,832	177,052	1,030	82,483	83,513	3,250	257,315	260,565	264,654
June ..	3,987	1,924	176,182	178,106	1,141	79,467	80,608	3,065	255,649	258,714	262,701
September	3,489	1,358	175,650	177,008	885	76,656	77,541	2,243	252,306	254,549	258,038
December	3,882	1,057	179,567	180,624	907	85,733	86,640	1,964	265,300	267,264	271,146
1932—March ..	3,694	1,555	187,833	189,388	979	90,836	91,815	2,534	278,669	281,203	284,897
June ..	3,642	1,042	188,425	189,467	1,059	85,588	86,647	2,101	274,013	276,114	279,756
September	3,511	1,373	183,808	185,181	819	81,069	81,888	2,192	264,877	267,069	270,580
December	3,865	1,532	185,340	186,872	850	85,968	86,818	2,382	271,308	273,690	277,555
1933—March ..	4,155	1,747	185,505	187,252	865	88,705	89,570	2,612	274,210	276,822	280,977
June ..	3,509	1,236	184,026	185,262	876	87,710	88,586	2,112	271,736	273,848	277,357
September	3,320	867	181,572	182,439	785	84,585	85,370	1,652	266,157	267,809	271,129
December	3,768	2,607	181,353	183,960	860	93,058	93,918	3,467	274,411	277,878	281,646
1934—March ..	3,689	2,771	185,782	188,553	820	101,144	101,964	3,591	286,926	290,517	294,206
June ..	3,829	3,135	192,097	195,232	901	100,045	100,946	4,036	292,142	296,178	300,007
September	3,553	2,958	189,305	192,263	763	96,314	97,077	3,721	285,619	289,340	292,893
December	3,936	3,121	185,851	188,972	826	101,429	102,255	3,947	287,280	291,227	295,163
1935—March ..	3,757	3,875	182,811	186,686	869	104,593	105,462	4,744	287,404	292,148	295,905
June ..	3,670	3,741	180,760	184,501	969	105,098	106,067	4,710	285,858	290,568	294,238
September	3,612	3,270	177,114	180,384	826	101,190	102,016	4,096	278,304	282,400	286,012
December	4,052	3,627	175,164	178,791	932	108,304	109,236	4,559	283,468	288,027	292,079
1936—March ..	4,085	3,785	174,040	177,825	898	113,042	113,940	4,683	287,082	291,765	295,850
June ..	3,853	4,038	176,976	181,014	947	107,096	108,943	4,985	284,972	289,957	293,810
September	3,746	4,599	175,710	180,309	837	101,704	102,541	5,436	277,414	282,850	286,596
December	4,181	3,889	175,923	179,812	856	109,130	109,986	4,745	285,053	289,798	293,979

(1) The figures of the following nine banks are included throughout this table:—Bank of Adelaide, Bank of Australasia, Bank of New South Wales, Commercial Bank of Australia, Commercial Banking Company of Sydney, English, Scottish and Australian Bank, National Bank of Australasia, Queensland National Bank, and Union Bank of Australia. Those of the following four banks are included until their amalgamation (date shown in brackets) with one of the nine banks above:—Australian Bank of Commerce (November, 1931), Bank of Victoria (March, 1927), Royal Bank of Australia (April, 1927), and Western Australian Bank (March, 1927).

(2) Excluding shareholders' funds and perpetual or interminable inscribed deposit stock.

(3) Bank notes in circulation have steadily declined from about £202,000 in 1920, to about £167,000 in 1936.

Table 5.—Trading Banks(1)—Australia.—Excluding Commonwealth Bank of Australia—*continued.*

ASSETS WITHIN AUSTRALIA AND LONDON FUNDS.

Quarterly Averages of Weekly Figures (in thousands of pounds, Australian currency).

Quarter Ended—	12	13	14	15	16	17	18	19	20	21	22	23
	Coin and Bullion.	Australian Notes.	Deposits with Commonwealth Bank.	Cash in Australia. (12+13+14)	Australian Treasury Bills.	Cash plus Treasury Bills. (15 + 16)	London Funds(2) excluding Australian Securities (expressed in Australian(3) Currency).	Cash, Treasury Bills and London Funds. (17 + 18)	Government, Municipal, &c., Securities held in Australia (excluding Australian Treasury Bills). Australian Government Securities.	Municipal and Other Public Securities.	Other Securities.	Total. (20+21+22)
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926–March ..	26,049	20,686	5,662	52,397	..	52,397	33,064	85,461	11,019	652	..	11,671
June ..	26,426	10,262	6,236	48,924	..	48,924	32,381	81,305	10,588	622	..	11,210
September	26,367	10,883	6,706	49,956	..	49,956	19,539	69,495	9,944	594	..	10,538
December	20,817	15,698	7,367	49,882	..	49,882	13,171	63,053	9,920	557	..	10,477
1927–March ..	27,033	17,885	8,160	53,078	..	53,078	20,003	73,081	9,533	519	..	10,052
June ..	26,067	14,268	8,152	48,487	23	48,510	21,044	69,554	8,962	665	..	9,627
September	25,797	14,429	9,438	49,664	108	49,772	18,245	68,017	8,989	664	..	9,653
December	25,700	15,356	11,174	52,320	..	52,320	21,679	73,999	9,866	665	..	10,531
1928–March ..	25,728	16,114	13,071	55,613	300	55,813	35,813	91,626	17,565	637	60	18,262
June ..	25,549	13,283	12,850	51,682	350	52,032	41,306	93,338	16,475	587	70	17,132
September	25,583	13,428	10,366	49,377	..	49,377	29,197	78,574	16,352	659	90	17,101
December	25,660	14,170	13,046	52,894	..	52,894	27,474	80,368	15,874	668	100	16,642
1929–March ..	25,565	14,500	15,113	55,184	..	55,184	34,767	89,951	16,075	553	120	16,748
June ..	25,033	12,404	9,451	46,978	..	46,978	32,621	79,599	15,856	544	140	16,540
September	23,586	12,153	7,803	43,542	..	43,542	17,577	61,119	13,960	543	140	14,643
December	21,091	12,794	8,614	42,499	1 470	43 969	9,269	53,238	12,067	552	200	12,819
1930–March ..	14,416	13,290	14,544	42,250	2,050	44,300	15,687	59,987	13,174	473	300	13,947
June ..	4,018	13,848	18,740	37,206	2,021	39,227	21,181	60,408	11,718	388	300	12,406
September	2,735	14,342	18,371	35,448	2,374	37,822	19,225	57,047	11,129	386	280	11,795
December	2,135	14,424	22,022	39,481	5,202	44.743	15.694	60,437	11,167	386	280	11,833
1931–March ..	2,082	15,308	31,271	48,661	6,466	55,127	21,555	76,682	9,510	385	250	10,145
June ..	1,952	18,805	32,133	52,890	0,845	59,735	20,729	80,464	9,118	384	200	9,702
September	1,990	20,139	22,840	44,969	13,891	58,860	19,786	78,646	9,109	382	200	9,691
December	2,072	18,478	22,110	42,660	20,731	63,391	31,378	94,769	8,904	392	200	9,496
1932–March ..	2,161	17,977	32,762	52,900	26,927	79,827	28,837	108,664	9,135	409	200	9,744
June ..	1,949	18,094	28,898	49,541	30,598	80,139	24,002	104,141	9,135	422	200	9,757
September	1,893	17,372	21,444	40,709	34,559	75,268	19,120	94,388	9,295	422	200	9,917
December	1,910	16,540	22,946	41,396	37,961	79,357	23,627	102,984	10,017	433	250	10,700
1933–March ..	1,963	16,420	25,321	43,704	35,484	79,188	27,243	106,431	12,808	457	250	13,515
June ..	1,868	15,875	23,229	40,972	32,985	73,957	25,353	99,310	14,169	1,045	205	15,419
September	1,845	15,938	22,217	40,000	29,201	69,201	20,120	89,321	15,655	1,123	106	16,884
December	1,854	15,073	24,788	42,615	27,642	70.257	26,564	96,821	16,099	679	6	16,784
1934–March ..	1,937	15,233	30,469	47,639	29,479	77,118	34,928	112,046	16,682	772	12	17,466
June ..	1,876	13,306	37,828	53,010	29,313	82,323	30,222	112,545	17,430	786	15	18,231
September	1,807	13,709	35,007	51,483	26,513	76,996	23,088	100,084	19,462	792	15	20,269
December	1,893	14,091	30,881	46,865	23,757	70,622	24,878	95,500	20,854	801	6	21,661
1935–March ..	1,905	13,701	26,053	41,659	24,157	65,816	25,393	91,209	23,344	820	6	24,170
June ..	1,805	13,476	23,046	38,417	23,952	62,369	22,442	84,811	22,530	824	7	23,361
September	1,936	12,703	19,734	34,373	22,515	56,888	18,036	74,924	21,762	816	7	22,585
December	1,905	12,835	18,665	33,495	24,378	57,873	21,763	79,636	18,327	721	7	19,055
1936–March ..	2,091	12,717	18,621	33,429	25,065	58,494	30,227	88,721	15,613	678	8	16,299
June ..	2,012	12,485	16,273	30,770	24,948	55,718	29,425	85,143	14,174	681	8	14,863
September	2,023	12,015	15,871	29,909	23,686	53,595	21,595	75,190	14,209	680	8	14,897
December	2,091	12,108	16,998	31,107	23,234	54,341	26,619	80,960	13,376	650	8	14,034

(1) Nine trading banks, including banks subsequently amalgamated with any of the present nine.
(2) *See* footnotes (3), (3) and (4) to Table 7. Note especially that these figures apply in general to the end of the quarter, and are not quarterly averages.
(3) The rates of exchange at which conversion has been made are as follows:—March, 1926, to December, 1929, inclusive, £A. 100 = £Stg. 100. March, 1930, to September, 1930, inclusive, £A. 106.125 = £Stg. 100. December, 1930, £A. 108.5 = £Stg. 100. March, 1931, to September, 1931, inclusive, £A.130 = £Stg. 100. December, 1931, to December, 1936, inclusive, £A. 125 = £Stg. 100.

TABLE 5.—TRADING BANKS([1])—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA—*continued.*

ASSETS WITHIN AUSTRALIA AND LONDON FUNDS—continued.

QUARTERLY AVERAGES OF WEEKLY FIGURES (IN THOUSANDS OF POUNDS, AUSTRALIAN CURRENCY).

Quarter Ended—	24	25	26	27	28	29	30	31	32
	Australian Securities held in London (expressed in Australian Currency([2])).	Balances due from Other Banks and Notes and Bills of Other Banks.	Total Liquid Resources. (19 + 23 + 24 + 25)	Advances, Discounts, and Other Assets within Australia (excluding Landed and House Property).					Total Current Assets. (26 + 31)
				Advances to Governments.	*Other Advances.*	*Bills, &c., Discounted.*	*Other Items.*	Total. (27 + 28 + 29 + 30)	
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926—March ..	1,788	4,941	103,861	7	193,289	9,186	2,086	204,568	308,429
June ..	1,720	4,873	99,108	..	199,451	9,258	1,876	210,585	309,693
September	1,130	4,431	85,594	..	208,583	9,498	1,968	220,049	305,643
December ..	835	4,426	78,791	..	218,852	10,188	2,006	231,046	309,837
1927—March ..	690	5,334	89,167	14	218,909	10,302	2,166	231,391	320,548
June ..	640	4,280	84,110	399	220,310	9,383	2,119	232,220	316,330
September	691	4,155	82,516	..	222,551	9,940	1,995	234,486	317,002
December ..	666	4,793	89,989	..	220,193	10,470	2,256	232,919	322,908
1928—March ..	745	4,776	115,409	..	211,691	9,638	2,031	223,360	338,769
June ..	630	4,468	115,508	..	211,761	8,457	1,772	222,010	337,578
September	655	4,056	100,386	..	218,798	8,133	1,269	228,200	328,586
December ..	683	4,483	102,176	..	226,714	8,428	1,483	236,625	338,801
1929—March ..	789	4,793	112,281	..	229,707	7,997	1,487	239,191	351,472
June ..	829	4,307	101,275	..	237,860	7,410	1,390	246,660	347,935
September	875	4,081	80,718	..	250,094	7,673	1,433	259,200	339,018
December ..	860	3,071	70,897	100	260,083	8,218	1,055	269,465	340,362
1930—March ..	1,249	3,891	79,074	41	256,174	7,158	1,056	264,429	343,503
June ..	1,795	3,728	78,337	31	253,419	5,924	817	260,191	338,528
September	1,788	3,231	73,861	33	249,412	5,046	555	255,046	328,907
December ..	1,431	3,287	76,988	169	248,003	4,459	525	253,156	330,144
1931—March ..	1,659	3,491	91,977	417	239,898	3,474	840	244,629	336,606
June ..	1,659	3,070	94,895	201	234,657	2,883	1,042	238,843	333,738
September	1,701	2,684	92,722	225	234,708	2,684	713	238,330	331,052
December ..	1,619	2,948	108,832	..	230,009	2,962	710	233,681	342,513
1932—March ..	1,652	2,851	122,911	..	221,687	2,640	568	224,895	347,806
June ..	1,648	2,363	117,909	..	223,945	2,589	605	227,139	345,048
September	1,064	2,375	107,744	..	226,509	2,511	409	229,489	337,233
December ..	593	2,739	117,016	21	228,180	2,535	809	231,605	348,621
1933—March ..	509	2,740	123,195	..	227,134	2,448	828	230,410	353,605
June ..	571	2,510	117,810	..	229,405	2,106	810	232,321	350,131
September	506	2,750	109,461	..	232,074	2,231	965	235,270	344,731
December ..	508	3,248	117,361	4	232,880	2,610	1,974	237,468	354,829
1934—March ..	508	3,243	133,263	..	229,166	2,423	1,875	233,464	366,727
June ..	479	3,250	134,505	..	231,477	2,321	1,648	235,446	369,951
September	512	3,027	123,892	..	237,121	2,464	1,363	240,948	364,840
December ..	512	3,403	121,076	..	242,350	2,583	1,842	246,775	367,851
1935—March ..	785	3,028	119,192	..	243,593	2,555	1,849	247,997	367,189
June ..	650	3,161	111,983	..	247,918	2,428	1,883	252,229	364,212
September	544	3,366	101,419	..	252,246	2,721	1,634	256,601	358,020
December ..	377	3,706	102,774	..	254,104	3,001	1,967	259,162	361,936
1936—March ..	906	3,729	109,655	..	252,044	2,968	1,845	256,857	366,512
June ..	1,193	3,108	104,397	..	256,590	2,695	1,366	260,651	365,048
September	843	3,042	93,972	..	260,701	2,970	1,271	264,942	358,914
December ..	749	3,675	99,418	..	260,973	3,123	1,707	265,893	365,311

([1]) *Nine trading banks, including banks subsequently amalgamated with any of the present nine.*

([2]) For rates of exchange at which conversion has been made, *see* footnote ([3]) on previous page.

Table 5.—Trading Banks([1])—Australia.—Excluding Commonwealth Bank of Australia—*continued.*

RATIOS.

Quarterly Averages of Weekly Figures.

Quarter Ended—	33 Deposits Bearing Interest to Total Deposits. $\frac{4}{10}$	34 Coin and Bullion to Total Deposits. $\frac{12}{10}$	35 Australian Notes to Total Deposits. $\frac{13}{10}$	36 Deposits with Commonwealth Bank to Total Deposits. $\frac{14}{10}$	37 Cash in Australia to Total Deposits. $\frac{15}{10}$	38 Australian Treasury Bills to Total Deposits. $\frac{16}{10}$	39 Cash plus Treasury Bills to Total Deposits. $\frac{17}{10}$	40 London Funds (excluding Australian Securities) to Total Deposits. $\frac{18}{10}$	41 Cash, Treasury Bills and London Funds to Total Deposits. $\frac{19}{10}$	42 Total Liquid Resources to Total Current Liabilities. $\frac{26}{11}$	43 Total Advances, &c. to Total Deposits. $\frac{31}{10}$	44 Total Advances &c., plus Government, Municipal, &c. Securities held in Australia to Total Deposits. $\frac{31 + 23}{10}$
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1926—March ..	55.27	10.05	7.08	2.18	20.21	..	20.21	12.75	32.96	39.04	78.90	83.40
June ..	57.01	10.24	6.30	2.42	18.95	..	18.95	12.54	31.49	37.44	81.56	85.91
September ..	59.17	10.37	6.64	2.64	19.65	..	19.65	7.69	27.34	32.84	86.56	90.70
December ..	58.88	10.37	6.07	2.85	19.28	..	19.28	5.09	24.38	29.73	89.32	93.37
1927—March ..	57.74	10.16	6.72	3.07	19.94	..	19.94	7.52	27.46	32.67	86.95	90.72
June ..	58.39	9.90	5.42	3.10	18.41	0.01	18.42	7.99	26.41	31.19	88.17	91.83
September ..	60.88	9.98	5.58	3.65	19.21	0.04	19.26	7.06	26.32	31.15	90.72	94.46
December ..	60.40	9.70	5.83	4.24	19.86	..	19.86	8.23	28.09	33.32	88.42	92.42
1928—March ..	59.09	9.34	5.85	4.97	20.16	0.11	20.27	13.01	33.28	41.00	81.12	87.76
June ..	60.16	9.34	4.86	4.70	18.90	0.13	19.03	15.10	34.13	41.30	81.18	87.45
September ..	61.52	9.59	5.03	3.88	18.50	..	18.50	10.94	29.44	36.81	85.51	91.91
December ..	61.43	9.33	5.15	4.74	19.22	..	19.22	9.98	29.20	36.38	85.98	92.03
1929—March ..	60.66	8.90	5.05	5.26	19.22	..	19.22	12.11	31.33	38.29	83.31	89.15
June ..	62.21	8.80	4.39	3.32	16.52	..	16.52	11.47	27.98	34.64	86.71	92.53
September ..	64.10	8.51	4.38	2.82	15.71	..	15.71	6.34	22.05	28.55	93.52	98.80
December ..	64.83	7.66	4.65	3.13	15.44	0.53	15.98	3.37	19.35	25.24	97.92	102.58
1930—March ..	64.63	5.30	4.88	5.34	15.52	0.75	16.27	5.76	22.03	28.49	97.13	102.25
June ..	66.39	1.74	5.21	7.05	13.99	0.76	14.75	7.96	22.72	28.84	97.84	102.51
September ..	68.30	1.05	5.52	7.07	13.64	0.91	14.56	7.40	21.95	27.95	98.16	102.69
December ..	68.09	0.82	5.53	8.79	15.14	2.02	17.16	6.02	23.18	28.99	97.10	101.64
1931—March ..	67.95	0.80	5.87	12.00	18.68	2.48	21.16	8.27	29.43	34.75	93.88	97.78
June ..	68.84	0.75	7.27	12.42	20.44	2.65	23.09	8.01	31.10	36.12	92.32	96.07
September ..	69.54	0.78	7.91	8.97	17.67	5.46	23.12	7.77	30.90	35.93	93.63	97.44
December ..	67.58	0.78	6.91	8.27	15.96	7.76	23.72	11.74	35.46	40.14	87.43	90.90
1932—March ..	67.35	0.77	6.39	11.65	18.81	9.58	28.39	10.25	38.64	43.14	79.98	83.44
June ..	68.62	0.71	6.77	10.47	17.94	11.08	29.02	8.69	37.72	42.15	82.26	85.80
September ..	69.34	0.72	6.50	8.03	15.24	12.94	28.18	7.16	35.34	39.82	85.93	89.64
December ..	68.28	0.70	6.04	8.38	15.13	13.87	29.00	8.63	37.63	42.16	84.62	88.53
1933—March ..	67.64	0.71	5.93	9.15	15.79	12.82	28.61	9.84	38.45	43.85	83.23	88.12
June ..	67.65	0.68	5.80	8.48	14.96	12.05	27.01	9.26	36.26	42.48	84.84	90.47
September ..	68.12	0.69	5.95	8.30	14.94	10.90	25.84	7.51	33.25	40.37	87.85	94.15
December ..	66.20	0.67	5.75	8.92	15.34	9.95	25.28	9.56	34.84	41.67	85.46	91.50
1934—March ..	64.90	0.67	5.24	10.49	16.40	10.15	26.55	12.02	38.57	45.30	80.36	86.37
June ..	65.92	0.63	4.49	12.77	17.90	9.90	27.80	10.20	38.00	44.83	79.49	85.65
September ..	66.45	0.65	4.74	12.41	17.79	8.82	26.61	7.98	34.59	42.30	83.28	90.28
December ..	64.89	0.65	4.84	10.60	16.09	8.16	24.25	8.54	32.79	41.02	84.74	92.17
1935—March ..	63.90	0.65	4.60	8.92	14.26	8.27	22.53	8.69	31.22	40.28	84.89	93.16
June ..	63.50	0.65	4.04	7.93	13.22	8.24	21.46	7.72	29.19	38.06	86.81	94.85
September ..	63.88	0.69	4.50	6.99	12.17	7.97	20.14	6.39	26.53	35.46	90.86	98.86
December ..	62.07	0.69	4.46	6.48	11.63	8.46	20.09	7.56	27.65	35.19	89.98	96.59
1936—March ..	60.95	0.72	4.36	6.38	11.46	8.59	20.05	10.36	30.41	37.06	88.04	93.62
June ..	62.43	0.69	4.31	5.61	10.61	8.60	19.22	10.15	29.36	35.53	89.89	95.02
September ..	63.75	0.72	4.25	5.61	10.57	8.37	18.95	7.63	26.58	32.79	93.67	98.94
December ..	62.05	0.72	4.18	5.83	10.73	8.02	18.75	9.19	27.94	33.82	91.75	96.59

([1]) Nine trading banks, including banks subsequently amalgamated with any of the present nine.

TABLE 6.—NINE TRADING BANKS—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA.

LIABILITIES(1) WITHIN AUSTRALIA.

MONTHLY AVERAGES OF WEEKLY FIGURES (IN THOUSANDS OF POUNDS, AUSTRALIAN CURRENCY).

Month.	1	2	3	4	5	6	7	8	9	10	11
	Notes and Bills in Circulation and Balances due to Other Banks.	Deposits Bearing Interest.			Deposits Not Bearing Interest.			Total Deposits.			Total Current Liabilities.
		Government.	Other.	Total. (2 + 3)	Government.	Other.	Total. (5 + 6)	Government.	Other.	Total. (8 + 9)	(1 + 10)
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1935—January ..	3,659	3,602	183,146	186,748	826	103,922	104,748	4,428	287,068	291,496	295,155
February ..	3,909	3,875	182,751	186,626	918	104,823	105,741	4,793	287,574	292,367	296,276
March ..	3,714	4,171	182,534	186,705	880	105,073	105,953	5,051	287,607	292,658	296,372
April ..	3,738	3,455	181,683	185,138	978	105,617	106,595	4,433	287,300	291,733	295,471
May ..	3,365	3,470	180,725	184,195	963	105,478	106,441	4,433	286,203	290,636	294,001
June ..	3,896	4,369	179,659	184,028	992	104,027	105,019	5,361	283,686	289,047	292,943
July ..	3,523	3,407	177,905	181,312	844	101,247	102,091	4,251	279,152	283,403	286,926
August ..	3,520	3,109	176,928	180,037	808	100,160	100,968	3,917	277,088	281,005	284,525
September	3,779	3,267	176,471	179,738	841	102,005	102,846	4,108	278,476	282,584	286,363
October ..	3,842	3,352	176,753	180,105	865	105,130	105,995	4,217	281,883	286,100	289,942
November	4,113	3,613	175,565	179,178	894	109,232	110,126	4,507	284,797	289,304	293,417
December	4,175	3,909	173,530	177,439	1,038	110,155	111,193	4,947	283,685	288,632	292,807
1936—January ..	3,990	3,702	172,973	176,675	895	111,843	112,738	4,597	284,816	289,413	293,403
February ..	4,216	3,740	173,747	177,487	907	113,489	114,396	4,647	287,236	291,883	296,099
March ..	4,052	3,889	175,080	178,969	906	113,667	114,573	4,795	288,747	293,542	297,594
April ..	3,943	4,033	176,832	180,865	889	110,542	111,431	4,922	287,374	292,296	296,239
May ..	3,855	4,130	177,333	181,463	908	109,034	109,942	5,038	286,367	291,405	295,260
June ..	3,778	3,983	176,794	180,777	1,023	105,074	106,097	5,006	281,868	286,874	290,652
July ..	3,646	5,258	176,124	181,382	848	102,070	102,918	6,106	278,194	284,300	287,946
August ..	3,816	4,635	175,895	180,530	852	101,430	102,282	5,487	277,325	282,812	286,628
September	3,751	3,886	175,095	178,981	819	101,669	102,488	4,705	276,764	281,469	285,220
October ..	4,174	3,793	174,717	178,510	812	104,357	105,169	4,605	279,074	283,679	287,853
November	4,082	3,774	175,347	179,121	844	110,463	111,307	4,618	285,810	290,428	294,510
December	4,400	4,098	177,933	182,031	912	112,327	113,239	5,010	290,260	295,270	299,670

(1) Excluding shareholders' funds and perpetual or interminable inscribed deposit stock.

NOTE.—The figures in this table are compiled from the same weekly figures as are those in Table 5, but are averages for four or five weeks, instead of thirteen weeks as in Table 5.

The figures are published in this form in addition to the form in Table 5, because the monthly figures are more useful in showing earlier any change of trend.

Owing to the different numbers of weeks included in the various months, and to other slight variations (e.g., in the figures of London funds, which are monthly, instead of as at the end of the quarter) the average for the three months in the quarter will not agree exactly with the quarterly figures in Table 5.

TABLE 6.—NINE TRADING BANKS—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA—*continued.*

ASSETS WITHIN AUSTRALIA AND LONDON FUNDS.

MONTHLY AVERAGES OF WEEKLY FIGURES (IN THOUSANDS OF POUNDS, AUSTRALIAN CURRENCY).

	12	13	14	15	16	17	18	19	20	21	22	23
									Government, Municipal, &c., Securities held in Australia (*excluding Australian Treasury Bills*).			
Month.	Coin and Bullion.	*Australian* Notes.	Deposits with Common-wealth Bank.	Cash in Australia. (12 + 13 + 14)	Australian Treasury Bills.	Cash plus Treasury Bills. (15 + 16)	London Funds(¹) excluding Australian *Securities* (expressed in *Australian*(²) Currency).	Cash, Treasury *Bills and* London *Funds.* (17 + 18)	Australian Government *Securities.*	Municipal and Other Public Securities.	*Other* Securities.	Total. (20 + 21 + 22)
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1935–January	2,034	14,574	26,311	42,919	24,105	67,024	25,350	92,374	23,226	810	40	24,076
February	1,872	13,713	26,178	41,763	24,190	65,953	26,093	92,046	23,471	819	20	24,310
March ..	1,865	13,503	24,944	40,252	24,190	64,442	26,226	90,668	23,314	828	7	24,149
April ..	1,847	13,427	22,340	37,614	24,110	61,724	24,980	86,704	22,957	826	7	23,790
May ..	1,910	14,013	22,526	38,449	24,090	62,539	24,248	86,787	22,594	825	7	23,426
June ..	1,941	13,308	24,144	39,393	23,615	63,008	22,290	85,298	21,926	823	7	22,756
July ..	1,942	13,273	20,889	36,104	22,293	58,397	19,623	78,020	22,770	819	7	23,596
August	1,937	12,380	19,509	33,826	22,295	56,121	18,712	74,833	22,018	815	7	22,840
September	1,929	12,321	18,834	33,084	22,852	55,936	16,819	72,755	20,610	811	7	21,428
October..	1,943	12,490	18,572	33,005	24,513	57,518	18,329	75,847	19,184	809	7	20,000
November	1,985	12,723	20,007	34,715	24,643	59,358	19,422	78,780	18,547	682	7	19,236
December	2,054	13,513	17,406	32,973	24,092	57,065	21,615	78,680	17,431	682	7	18,120
1936–January	2,181	13,375	19,052	34,608	24,172	58,780	26,145	84,925	16,722	680	7	17,409
February	2,092	12,634	19,182	33,908	25,342	59,250	27,280	86,530	15,794	678	7	16,479
March ..	2,017	12,223	17,831	32,071	25,555	57,626	30,748	88,374	14,583	676	7	15,266
April ..	1,996	12,154	16,145	30,295	25,334	55,629	31,796	87,425	14,313	676	8	14,997
May ..	2,047	12,812	16,019	30,878	25,653	56,531	31,210	87,741	14,055	681	8	14,744
June ..	1,997	12,185	16,877	31,059	24,077	55,136	28,769	83,905	14,162	686	8	14,856
July ..	2,077	12,446	16,266	30,789	23,887	54,676	25,929	80,605	14,493	686	8	15,187
August ..	1,995	11,862	15,720	29,577	23,625	53,202	24,387	77,589	14,359	678	8	15,045
September	1,999	11,620	15,818	29,467	23,556	53,023	21,270	74,293	13,742	678	8	14,428
October..	1,985	11,663	16,594	30,242	23,500	53,742	20,843	74,585	13,399	678	8	14,085
November	2,086	12,286	16,608	30,980	23,725	54,705	22,947	77,652	13,232	677	8	13,917
December	2,211	12,275	17,580	32,066	22,354	54,420	27,287	81,707	13,530	588	8	14,126

(¹) *See* footnote (¹) to Table 8. Some of these figures relate to the end of the month, and are not averages for the month.

(²) Converted at rate of exchange £A. 125 = £Stg. 100.

Table 6.—Nine Trading Banks—Australia.—Excluding Commonwealth Bank of Australia—*continued.*

ASSETS WITHIN AUSTRALIA AND LONDON FUNDS—*continued.*

Monthly Averages of Weekly Figures (in thousands of pounds, Australian currency).

Month.	24	25	26	27	28	29	30	31	32
	Australian Securities held in London (expressed in Australian Currency(1)).	Balances due from Other Banks and Notes and Bills of Other Banks.	Total Liquid Resources. (19 + 23 + 24 + 25)	Advances, Discounts, and Other Assets within Australia (excluding Landed and House Property).					Total Current Assets. (26 + 31)
				Advances to *Governments.*	Other Advances.	Bills, &c., Discounted.	*Other* Items.	Total. (27 + 28 + 29 + 30)	
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1935—January ..	500	3,046	119,096	..	242,797	2,581	1,802	247,180	367,176
February ..	512	3,083	119,951	..	243,162	2,583	1,825	247,570	367,521
March ..	772	2,969	118,558	..	244,738	2,555	1,896	249,189	367,747
April ..	635	3,023	114,152	..	247,448	2,656	1,929	251,933	366,085
May ..	635	2,982	113,830	..	248,439	2,502	1,907	252,848	366,678
June ..	635	3,510	112,199	..	247,954	2,297	1,769	252,020	364,219
July ..	601	3,446	105,663	..	250,649	2,621	1,667	254,937	360,600
August ..	536	2,937	101,146	..	251,999	2,689	1,622	256,310	357,456
September	532	3,634	98,349	..	254,044	2,820	1,636	258,500	356,849
October ..	531	3,205	99,583	..	256,427	2,849	1,805	261,081	360,664
November..	362	3,551	101,929	..	254,885	2,998	1,979	259,862	361,791
December	362	4,220	101,382	..	251,935	3,043	2,066	257,044	358,426
1936—January ..	714	3,551	106,599	..	252,381	3,062	1,819	257,262	363,861
February ..	871	3,842	107,722	..	251,362	2,971	1,922	256,255	363,977
March ..	908	3,781	108,329	..	252,279	2,938	1,807	257,024	365,353
April ..	1,115	2,942	106,479	..	255,584	2,654	1,499	259,737	366,216
May ..	1,187	3,328	107,000	..	256,784	2,713	1,380	260,877	367,877
June ..	1,194	3,293	103,248	..	257,107	2,792	1,275	261,174	364,422
July ..	1,201	2,819	99,812	..	260,010	2,941	1,246	264,197	364,009
August ..	1,065	3,164	96,863	..	259,998	2,942	1,239	264,179	361,042
September	843	3,101	92,665	..	262,226	3,074	1,324	266,624	359,289
October ..	753	3,272	92,695	..	263,662	3,091	1,885	268,638	361,333
November..	753	4,191	96,513	..	261,236	3,141	1,832	266,209	362,722
December ..	749	3,416	99,998	..	257,760	3,098	1,899	262,757	362,755

(1) Converted at rate of exchange £A. 125 = £Stg. 100.

TABLE 6.—NINE TRADING BANKS—AUSTRALIA.—*EXCLUDING* COMMONWEALTH BANK OF AUSTRALIA—*continued.*

RATIOS.

MONTHLY AVERAGES OF WEEKLY FIGURES.

Month.	33 Deposits Bearing Interest to Total Deposits. 4/10	34 Coin and Bullion to Total Deposits. 12/10	35 Australian Notes to Total Deposits. 13/10	36 Deposits with Commonwealth Bank to Total Deposits. 14/10	37 Cash in Australia to Total Deposits. 15/10	38 Australian Treasury Bills to Total Deposits. 16/10	39 Cash plus Treasury Bills to Total Deposits. 17/10	40 London Funds (*excluding* Australian Securities) to Total Deposits. 18/10	41 Cash, Treasury Bills and London Funds to Total Deposits. 19/10	42 Total Liquid Resources to Total Current Liabilities. 26/11	43 Total Advances, &c. to Total Deposits. 31/10	44 Total Advances &c., *plus* Government Municipal, &c. Securities held in Australia to Total Deposits. (31 + 23)/10
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1935—January ..	64.07	0.70	5.00	9.03	14.72	8.27	22.99	8.70	31.69	40.66	84.80	93.06
February ..	63.83	0.64	4.69	8.95	14.28	8.27	22.56	8.62	31.48	40.49	84.68	92.99
March ..	63.80	0.62	4.61	8.52	13.75	8.27	22.02	8.96	30.98	40.00	85.15	93.40
April ..	63.46	0.63	4.60	7.66	12.89	8.26	21.16	8.56	29.72	38.63	86.36	94.51
May ..	63.38	0.66	4.82	7.75	13.23	8.29	21.52	8.34	29.86	38.72	87.00	95.06
June ..	63.87	0.67	4.60	8.35	13.63	8.17	21.80	7.71	29.51	38.30	87.19	95.06
July ..	63.98	0.69	4.68	7.37	12.74	7.87	20.61	6.92	27.53	36.83	89.96	98.28
August ..	64.07	0.69	4.41	6.94	12.04	7.93	19.97	6.66	26.63	35.55	91.21	99.34
September ..	63.61	0.68	4.36	6.66	11.71	8.09	19.79	5.95	25.75	34.34	91.48	99.06
October ..	62.95	0.68	4.37	6.49	11.54	8.57	20.10	6.41	26.51	34.35	91.26	98.25
November ..	61.93	0.69	4.40	6.92	12.00	8.52	20.52	6.71	27.23	34.74	89.82	96.47
December ..	61.48	0.71	4.68	6.03	11.42	8.35	19.77	7.49	27.26	34.62	89.06	95.33
1936—January ..	61.05	0.75	4.62	6.58	11.96	8.35	20.31	9.03	29.34	36.33	88.89	94.91
February ..	60.81	0.72	4.33	6.57	11.62	8.68	20.30	9.35	29.65	36.38	87.79	93.44
March ..	60.97	0.69	4.18	6.07	10.93	8.71	19.63	10.47	30.11	36.40	87.56	92.76
April ..	61.88	0.68	4.16	5.52	10.36	8.67	19.03	10.88	29.91	35.94	88.86	93.99
May ..	62.27	0.70	4.40	5.50	10.60	8.80	19.40	10.71	30.11	36.24	89.52	94.58
June ..	63.02	0.70	4.25	5.88	10.83	8.39	19.22	10.03	29.25	35.52	91.04	96.22
July ..	63.80	0.73	4.38	5.72	10.83	8.40	19.23	9.12	28.35	34.66	92.93	98.27
August ..	63.83	0.71	4.19	5.56	10.46	8.35	18.81	8.62	27.43	33.79	93.41	98.73
September ..	63.59	0.71	4.13	5.63	10.47	8.37	18.84	7.56	26.39	32.49	94.73	99.85
October ..	62.93	0.70	4.11	5.85	10.66	8.28	18.94	7.35	26.29	32.20	94.70	99.66
November ..	61.67	0.72	4.23	5.72	10.67	8.17	18.84	7.90	26.74	32.77	91.66	96.45
December ..	61.65	0.75	4.16	5.95	10.86	7.57	18.43	9.24	27.67	33.37	88.99	93.77

TABLE 7.—TRADING BANKS([1])—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA.

QUARTERLY ASSETS AND LIABILITIES IN LONDON IN RESPECT OF AUSTRALIAN BUSINESS.([2])

(In thousands of pounds sterling.)

Quarter Ended([3])—	Assets.						Total Liabilities (excluding capital).	Excess of Assets over Liabilities.
	Short Term Assets.([5])	Long Term Assets.([4])				Total Assets.		
		Australian Government Securities.	Other Government Securities.	Other.	Total Long Term Assets.			
	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.
1926—March	25,670	1,788	12,791	375	14,954	40,624	5,772	34,852
June	25,834	1,720	12,951	381	15,052	40,886	6,785	34,101
September	13,603	1,130	10,967	296	12,393	25,996	5,327	20,669
December	10,156	835	10,097	239	11,171	21,327	7,321	14,006
1927—March	16,337	690	10,393	267	11,350	27,687	6,994	20,693
June	18,011	649	10,131	316	11,096	29,107	7,414	21,693
September	14,090	691	9,531	309	10,531	24,621	5,685	18,936
December	17,513	666	10,672	351	11,689	29,202	6,857	22,345
1928—March	30,370	745	14,242	355	15,342	45,712	9,154	36,558
June	34,214	630	15,832	142	16,604	50,818	8,882	41,936
September	22,235	655	14,161	216	15,032	37,267	7,415	29,852
December	22,269	683	13,955	144	14,782	37,051	8,894	28,157
1929—March	29,049	789	13,332	292	14,413	43,462	7,906	35,556
June	26,192	829	13,209	434	14,472	40,664	7,214	33,450
September	13,278	875	10,492	403	11,770	25,048	6,596	18,452
December	7,968	869	8,984	355	10,208	18,176	8,038	10,138
1930—March	13,016	1,176	8,887	399	10,462	23,478	7,520	15,958
June	17,058	1,691	9,871	263	11,825	28,883	7,234	21,649
September	14,040	1,684	9,789	233	11,706	25,746	5,946	19,800
December	12,126	1,319	8,929	330	10,578	22,704	6,921	15,783
1931—March	13,181	1,276	8,316	377	9,969	23,150	5,293	17,857
June	12,194	1,276	7,968	323	9,567	21,761	4,538	17,223
September	10,945	1,309	7,774	530	9,613	20,558	4,031	16,527
December	20,943	1,295	8,442	873	10,610	31,553	5,155	26,398
1932—March	17,173	1,322	9,136	704	11,162	28,335	3,944	24,391
June	13,257	1,319	9,491	384	11,194	24,451	3,932	20,519
September	7,834	851	10,200	462	11,513	19,347	3,201	16,146
December	11,354	475	11,152	371	11,998	23,352	3,977	19,375
1933—March	14,181	407	10,840	377	11,624	25,805	3,604	22,201
June	11,865	456	10,991	429	11,876	23,741	3,002	20,739
September	8,496	405	10,642	543	11,590	20,086	3,585	16,501
December	14,133	406	10,956	454	11,816	25,949	4,292	21,657
1934—March	16,045	406	14,983	455	15,844	31,889	3,540	28,349
June	10,612	383	15,970	749	17,102	27,714	3,153	24,561
September	6,744	410	15,414	498	16,322	23,066	4,187	18,879
December	9,084	410	14,466	283	15,159	24,243	3,931	20,312
1935—March	12,019	628	12,170	263	13,061	25,080	4,137	20,943
June	8,941	520	12,464	308	13,292	22,233	3,760	18,473
September	6,743	436	11,050	334	11,820	18,563	3,699	14,864
December	9,618	302	11,537	248	12,087	21,705	3,993	17,712
1936—March	14,618	726	13,293	277	14,296	28,914	4,008	24,906
June	17,799	954	10,104	317	11,375	29,174	4,681	24,493
September	12,234	674	9,106	373	10,153	22,387	4,436	17,951
December	16,658	600	9,040	283	9,923	26,581	4,687	21,894

(1) In addition to the present nine trading banks, the figures include London funds (partly estimated) of the Australian Bank of Commerce, the Bank of Victoria, the Royal Bank of Australia, and the Western Australian Bank until their amalgamation or absorption.

(2) Three banks were unable to separate their total London funds into those in respect of Australian business and those in respect of New Zealand business. In these cases, it has been assumed that the total London funds are divided in approximately the same proportions as the total business of each bank in Australia and in New Zealand. The amount of London funds thus estimated to arise from New Zealand business has been deducted from the total by adding it to the amount of liabilities shown.

(3) The greater part of the figures throughout the table relate to the end of the quarter, but the figures for two banks are averages for the quarter.

(4) For the quarters March, 1926, to March, 1927, inclusive, and December, 1935, to December, 1936, inclusive, the distribution of assets between short-term and long-term is partly estimated.

(5) Such as money at call, British Treasury bills, balances with other banks, and bills receivable.

NOTE.—In view of the above notes, it will be seen that the figures in the table cannot be regarded as completely accurate, but it is considered that the aggregate gives a fairly close approximation to the correct total at the end of the quarter.

TABLE 8.—NINE TRADING BANKS—AUSTRALIA.—EXCLUDING COMMONWEALTH BANK OF AUSTRALIA.

MONTHLY ASSETS AND LIABILITIES IN LONDON IN RESPECT OF AUSTRALIAN BUSINESS(1).

(In thousands of pounds sterling).

Month.	Assets.						Total Liabilities (excluding capital).	Excess of Assets over Liabilities.
	Short Term Assets(3).	Long Term Assets.(2)				Total Assets.		
		Australian Government Securities.	Other Government Securities.	Other.	Total Long Term Assets.			
	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.	£ Stg. '000.
1935—January	10,250	400	12,563	170	13,133	23,383	2,703	20,680
February	10,866	410	12,388	171	12,969	23,835	2,551	21,284
March	11,832	617	11,779	159	12,555	24,387	2,836	21,551
April	10,444	508	11,978	171	12,657	23,101	2,609	20,492
May	9,784	508	11,961	160	12,629	22,413	2,507	19,906
June	8,589	508	11,582	205	12,295	20,884	2,545	18,330
July	6,941	481	11,039	220	11,740	18,681	2,502	16,179
August	0,989	429	10,188	214	10,831	17,820	2,422	15,398
September	5,327	426	10,369	231	11,026	16,353	2,472	13,881
October	6,654	425	10,795	205	11,425	18,070	2,991	15,088
November	7,683	290	10,907	168	11,365	19,048	3,221	15,827
December	9,530	290	10,605	144	11,039	20,569	2,987	17,582
1936—January	11,967	572	11,696	154	12,422	24,389	2,901	21,488
February	12,548	697	12,163	148	13,008	25,556	3,035	22,521
March	14,725	727	12,690	174	13,591	28,316	2,992	25,324
April	15,607	892	12,877	202	13,971	29,578	3,250	26,328
May	17,506	950	10,765	187	11,902	29,408	3,491	25,917
June	17,195	955	9,165	214	10,334	27,529	3,560	23,969
July	15,389	961	8,394	267	9,622	25,011	3,308	21,703
August	14,172	852	8,340	292	9,484	23,656	3,295	20,361
September	12,168	674	7,732	270	8,676	20,844	3,153	17,691
October	11,941	603	7,565	228	8,396	20,337	3,060	17,277
November	13,761	603	7,609	139	8,351	22,112	3,151	18,961
December	17,480	600	7,711	180	8,491	25,971	3,543	22,428

(1) Three banks were unable to separate their total London funds into those in respect of Australian business and those in respect of New Zealand business. In these cases it has been assumed that the total London funds are divided in approximately the same proportions as the total business of each bank in Australia and in New Zealand. The amount of London funds thus estimated to arise from New Zealand business has been deducted from the total by adding it to the amount of liabilities shown.

(2) *For each month, the distribution of assets between short-term and long-term is partly estimated.*

(3) Such as money at call, British Treasury bills, balances with other banks, and bills receivable.

NOTE. In view of the above notes, it will be seen that the figures in the table cannot be regarded as completely accurate, but it is considered that the aggregate gives a fairly close approximation to the correct total.

TABLE 9.—NINE TRADING BANKS—AUSTRALIA.

AVERAGE(1) RATES OF INTEREST ON ADVANCES AND DEPOSITS.

NOTE.—*In view of the method of calculation, described in the footnotes, the figures in this table cannot be regarded as completely accurate for any particular year However, it is believed that they give a good approximation to the trend of bank interest rates over the period.*

Year.(2)	I. Average Rate of Interest charged on Advances.	II. Average Rate of Interest paid on Total Deposits	III. Margin between Average Rate charged and Average Rate Paid.	IV. Net Interest(3) charged on Advances as a Percentage of Total Advances.
	Per cent.	Per cent.	Per cent.	Per cent.
1926	6.72	2.62	4.10	3.44
1927	6.72	2.79	3.93	3.51
1928	6.77	2.83	3.94	3.25
1929	6.68	2.93	3.75	3.28
1930	6.92	3.19	3.73	3.65
1931	6.72	3.35	3.37	3.07
1932	5.77	2.97	2.80	2.15
1933	5.22	2.41	2.81	2.36
1934	4.81	1.98	2.83	2.31
1935	4.54	1.69	2.85	2.58
1936	4.59	1.56	3.03	2.84

(1) Figures of the average rate of interest charged on advances and paid on *total deposits* (*i.e.*, fixed plus current deposits) were supplied by each of the *nine trading* banks. The total amounts charged and paid over a year were *then calculated for* each bank by applying these rates to the total advances *and total deposits* for the quarter ended 30th June in each year. The sum of these amounts for all the banks was then expressed as a percentage of the total advances and the *total deposits* for the quarter, giving the figures shown in columns I. *and II. above*. The figures in column III. were obtained by subtracting the *figure in column* II. from the figure in column I.

(2) The periods of the year for which the average rates of interest were supplied differed for different banks. Therefore the average does not relate exclusively to the year *for which it is* shown, but may relate to a part of that year and to a part of the previous year

(3) "*Net Interest charged*" is taken as the excess of the interest charged on advances over the interest paid on deposits for the year. The method of calculation of these two amounts is described in footnote (1) above.

TABLE 10.—NINE TRADING BANKS—AUSTRALIA.

CLASSIFICATION OF ADVANCES WITHIN AUSTRALIA.

NOTE.—This table cannot be regarded as more than a rough indication of the distribution of bank advances. The basis of classification differs from bank to bank, and in some instances, considerable estimation has been necessary in order to complete the table.

Advances to Persons or Institutions engaged in—	1927.		1931.		1935.		1936.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.
A. Manufacturing and Mining	25,436	11.9	21,744	9.6	22,333	8.8	24,145	9.2
B. Commerce, Transport and Distribution	48,307	22.6	46,114	20.4	46,659	18.3	49,855	19.0
C. Finance, Insurance, &c.	9,868	4.6	10,404	4.6	14,179	5.6	15,481	5.9
D. Agricultural and Pastoral Industries	88,038	41.5	107,000	47.4	126,376	49.8	125,048	47.7
E. Professions, Entertainments and Personal Service	11,853	5.5	12,219	5.4	12,941	5.1	13,135	5.0
F. Other Pursuits, including advances for building and to public bodies	29,816	13.9	28,425	12.6	31,558	12.4	34,569	13.2
Total Advances of Nine Banks	214,218	100.0	225,906	100.0	253,946	100.0	262,233	100.0
Advances of Australian Bank of Commerce—Classification not obtainable	12,309	..	11,450	..	..	..	..	..
Total Advances—All Trading Banks	226,527	..	237,356	..	253,946	..	262,233	..

NOTE.—(a) Of the total figures given in the table, about half relates to June in each year, about one-third to September or October, and about one-sixth to March. (b) Advances to persons engaged in the Pastoral Industry are given by four banks throughout, and represent about half the total advances shown by those four banks to Agricultural and Pastoral Industries. (c) Advances to persons engaged in Dairying are shown by two banks only, but the figures for these two show a marked increase between 1927 and 1931 on the one hand, and 1935 and 1936 on the other. (d) Advances for building purposes are shown by five banks, and represent the following percentages of the total advances of these five banks:—

1927	4.1%	1935	4.0%
1931	3.6%	1936	4.1%

TABLE 11.—TRADING BANKS—AUSTRALIA.

PERCENTAGE OF TOTAL ADVANCES AT VARIOUS RATES OF INTEREST AT 30TH JUNE,(1) 1927, 1931, 1935, AND 1936.

Rate of Interest charged—percentage per annum.	Percentage of Total Amount of Advances.			
	1927.(2)	1931.(2).	1935.(3)	1936.(3)
	Per cent.	Per cent.	Per cent.	Per cent.
No interest charged(4) ..	0.71	0.74	1.62	1.60
Under 3¼	0.09	0.12	1.01	1.03
3¼ and under 3¾	0.02	..	0.39	1.11
3¾ and under 4¼	0.03	..	2.06	1.74
Total, 4 and under ..	0.85	0.86	5.08	5.38
4¼	..	..	0.89	1.22
4½	0.02	..	3.32	2.74
4¾	..	..	3.80	4.13
5	0.12	0.10	68.23	48.23
Total, 5 and under ..	0.99	1.05	81.38	61.69
5¼	0.02	0.05	6.41	20.93
5½	0.30	0.08	8.18	11.58
5¾	0.01	0.06	1.15	3.04
6	3.43	4.76	2.82	2.60
Total, 6 and under ..	4.75	6.00	99.94	99.85
6¼	0.74	2.31	0.02	0.10
6½	20.62	10.27	0.04	0.05
6¾	2.00	3.57	..	..
7	47.96	26.14	..	..
Total, 7 and under ..	76.07	48.20	100.00	100.00
7¼ and under 7¾	20.03	41.17	..	..
7¾ and under 8¼	3.90	10.12	..	..
8¼ and over	0.01	0.42	..	..
Total, all rates ..	100.00	100.00	100.00	100.00
Average rate charged on total advances(5)	6.93	7.12	4.92	4.99

(1) About two-thirds of the total is for 30th June, the remainder being given as at March or October.
(2) Seven banks only.
(3) Eight banks only.
(4) The fact that no interest was charged in any particular year does not necessarily imply that the right to charge interest was permanently abandoned. In many cases the right is retained to charge interest to the account at a later date.
(5) These averages do not agree exactly with those shown in column I of Table 9, partly because the periods covered are not identical in the two tables, and partly because figures from one or two banks were not available for inclusion in this table.

TABLE 12.—NINE TRADING BANKS—AUSTRALIA.

RATES OF INTEREST CHARGED ON LOANS AND ADVANCES AT 31ST DECEMBER, 1936.

Rate of Interest Charged—Per cent. per annum.	Amount of Loans or Advances.	Percentage of Total Loans or Advances.
	£'000.	Per cent.
No interest charged(1)	9,442	3.61
Under 3¼	899	0.34
3¼	722	0.28
3½	2,821	1.08
3¾	1,353	0.52
4	2,715	1.04
Total, 4 and under	17,952	6.87
4¼	3,512	1.35
4½	8,244	3.10
4¾	7,168	2.74
5	30,640	11.73
Total, 5 and under	67,516	25.84
5¼	81,277	31.11
5½	90,852	34.77
5¾	9,208	3.52
6	11,786	4.51
Total, 6 and under	260,639	99.75
6¼	300	0.11
6½	324	0.12
6¾	30	0.01
7	9	..
Grand Total—all rates ..	261,302	100.00
Average rate charged on total loans or advances	5.07	

(1) The fact that no interest was charged at this particular date does not necessarily imply that the right to charge interest was permanently abandoned. In many cases the right is retained to charge interest to the account at a later date.

TABLE 13.—TRADING BANKS*—AUSTRALIA.

CLASSIFICATION OF INTEREST-BEARING DEPOSITS ACCORDING TO TERM OF DEPOSIT.†

30th June.‡	3 months and under 6 months.	6 months and under 12 months.	12 months and under 24 months.	24 months and over.	Total Fixed Terms.	At Call, Overdue, &c.	Total Deposits Bearing Interest.
			AMOUNT OF DEPOSITS.				
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926 ..	2,899	9,193	26,076	100,674	138,842	10,465	149,307
1927 ..	3,520	7,621	26,589	105,976	143,706	11,370	155,076
1928 ..	5,945	7,660	25,448	113,078	152,131	10,446	162,577
1929 ..	8,177	7,019	25,230	125,622	166,048	9,017	175,065
1930 ..	11,291	10,527	29,391	116,535	167,744	9,314	177,058
1931 ..	13,080	16,325	40,829	98,257	168,491	8,660	177,151
1932 ..	10,612	19,863	48,834	95,034	174,343	8,867	183,210
1933 ..	8,886	18,233	49,335	95,247	171,701	9,726	181,427
1934 ..	8,698	20,176	47,393	102,615	178,882	10,345	189,227
1935 ..	5,126	17,602	42,634	102,938	168,299	11,036	179,335
1936 ..	6,329	18,839	44,794	96,433	166,395	11,046	177,441
			PERCENTAGE OF TOTAL IN EACH CLASS.				
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1926 ..	1.9	6.2	17.5	67.4	93.0	7.0	100.0
1927 ..	2.3	5.0	17.1	68.3	92.7	7.3	100.0
1928 ..	3.7	4.7	15.7	69.5	93.6	6.4	100.0
1929 ..	4.7	4.0	14.4	71.8	94.9	5.1	100.0
1930 ..	6.4	5.9	16.6	65.8	94.7	5.3	100.0
1931 ..	7.4	9.2	23.0	55.5	95.1	4.9	100.0
1932 ..	5.8	10.8	26.7	51.9	95.2	4.8	100.0
1933 ..	4.9	10.0	27.2	52.5	94.6	5.4	100.0
1934 ..	4.6	10.7	25.0	54.2	94.5	5.5	100.0
1935 ..	2.8	9.8	23.8	57.4	93.8	6.2	100.0
1936 ..	3.6	10.6	25.2	54.4	93.8	6.2	100.0

* Nine trading banks, including banks subsequently amalgamated with any of the present nine.
† Figures for all years except 1934 and 1935 are partly estimated.
‡ 30th June, or nearest balancing date.

TABLE 14A.—TRADING BANKS*—AUSTRALIA.

CLASSIFICATION OF DEPOSITS ACCORDING TO SIZE.†

DEPOSITS BEARING INTEREST.

At 30th June.‡	Not Exceeding £500.	£501 to £1,000.	£1,001 to £3,000.	£3,001 to £5,000.	£5,001 to £10,000.	Over £10,000.	Total.§
			AMOUNT OF DEPOSITS.				
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926 ..	28,433	23,039	29,068	10,909	11,301	46,994	149,744
1927 ..	29,116	24,074	31,059	11,988	12,904	46,367	155,508
1928 ..	31,170	25,098	33,765	12,865	14,003	46,340	163,843
1929 ..	33,620	27,752	37,154	14,302	15,474	49,018	177,320
1930 ..	34,684	28,138	37,473	14,172	14,567	49,652	178,686
1931 ..	37,138	28,068	37,673	13,691	13,734	48,755	179,059
1932 ..	36,851	28,088	37,451	14,070	14,057	50,879	181,396
1933 ..	35,802	27,692	36,330	13,768	13,633	54,685	181,910
1934 ..	34,433	26,862	36,209	14,382	14,914	63,773	190,573
1935 ..	32,054	25,844	35,068	14,015	15,179	59,800	181,960
1936 ..	30,651	25,658	35,959	13,012	14,163	59,180	179,423
			PERCENTAGE OF TOTAL IN EACH CLASS.				
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1926 ..	19.0	15.4	19.4	7.3	7.5	31.4	100.0
1927 ..	18.7	15.5	20.0	7.7	8.3	29.8	100.0
1928 ..	19.0	15.7	20.6	7.8	8.6	28.3	100.0
1929 ..	19.0	15.7	20.9	8.1	8.7	27.6	100.0
1930 ..	19.4	15.8	21.0	7.9	8.1	27.8	100.0
1931 ..	20.7	15.7	21.0	7.7	7.7	27.2	100.0
1932 ..	20.2	15.4	20.6	7.7	8.1	28.0	100.0
1933 ..	19.7	15.2	20.0	7.6	7.5	30.0	100.0
1934 ..	18.1	14.1	19.0	7.5	7.8	33.5	100.0
1935 ..	17.6	14.2	19.3	7.7	8.3	32.9	100.0
1936 ..	17.0	14.3	20.0	7.3	7.9	33.0	100.0

* Nine trading banks, including banks subsequently amalgamated with any of the present nine banks.
† Figures for every year are partly estimated.
‡ 30th June, or nearest balancing date.
§ Totals in this table do not agree exactly with those in Table 13, because they do not in all cases apply to exactly the same date.

TABLE 14B.—TRADING BANKS*—AUSTRALIA.

CLASSIFICATION OF DEPOSITS ACCORDING TO SIZE.†

DEPOSITS NOT BEARING INTEREST.

At 30th June.‡	Not Exceeding £500.	£501 to £1,000.	£1,001 to £3,000.	£3,001 to £5,000.	£5,001 to £10,000.	Over £10,000.	Total.
			AMOUNT OF DEPOSITS.				
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1926 ..	40,038	15,110	21,061	7,727	9,049	21,215	114,206
1927 ..	38,460	14,602	20,100	7,089	8,344	19,361	107,956
1928 ..	38,523	14,182	19,753	7,333	8,179	19,479	107,449
1929 ..	37,600	13,759	18,941	7,211	7,631	21,562	106,704
1930 ..	33,641	10,567	14,678	4,945	5,801	19,504	89,136
1931 ..	31,001	9,726	13,099	5,067	5,101	16,797	80,791
1932 ..	31,838	10,118	13,914	5,515	5,799	17,723	84,907
1933 ..	31,320	10,351	14,508	5,321	6,053	18,722	86,275
1934 ..	33,598	12,172	16,879	7,085	7,340	21,902	98,976
1935 ..	35,141	12,939	19,067	7,529	8,442	21,459	104,577
1936 ..	36,961	13,881	19,614	7,606	7,717	21,572	107,351
			PERCENTAGE OF TOTAL IN EACH CLASS.				
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1926 ..	35.1	13.2	18.4	6.8	7.9	18.6	100.0
1927 ..	35.7	13.5	18.6	6.6	7.7	17.9	100.0
1928 ..	35.9	13.2	18.4	6.8	7.6	18.1	100.0
1929 ..	35.2	12.9	17.8	6.8	7.1	20.2	100.0
1930 ..	37.7	11.9	16.5	5.5	6.5	21.9	100.0
1931 ..	38.4	12.0	16.2	6.3	6.3	20.8	100.0
1932 ..	37.5	11.9	16.4	6.5	6.8	20.9	100.0
1933 ..	36.3	12.0	16.9	6.2	7.0	21.6	100.0
1934 ..	33.8	12.3	17.1	7.2	7.4	22.2	100.0
1935 ..	33.6	12.4	18.2	7.2	8.1	20.5	100.0
1936 ..	34.4	12.9	18.3	7.1	7.2	20.1	100.0

* Nine trading banks, including banks subsequently amalgamated with any of the present nine banks.
† Figures for every year are partly estimated.
‡ 30th June, or nearest balancing date.

TABLE 15.—NINE TRADING BANKS—AUSTRALIA.

CLASSIFICATION OF INTEREST BEARING DEPOSITS.

PERCENTAGE OF DEPOSITS AT VARIOUS RATES OF INTEREST AT 30TH JUNE*, 1926 TO 1936, INCLUSIVE.

—	1926.†	1927.	1928.	1929.*	1930.	1931.	1932.	1933.	1934.	1935.	1936.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Under 1½	..	0.2	..	..	..	..	0.3	1.0	1.5	1.3	1.1
1½ and under 2	..	0.1	0.2	0.2	0.3	0.3	1.1	1.1	1.2	4.0	1.7
2 and under 2½	..	..	..	0.3	0.6	0.9	0.4	4.7	10.0	28.4	22.3
2½ and under 3	..	0.6	0.6	0.6	0.2	0.4	5.9	22.1	36.8	38.4	59.9
3 and under 3½	0.2	0.4	0.4	0.2	0.5	1.4	17.3	34.7	41.0	25.1	11.4
3½ and under 4	2.2	1.6	0.2	0.2	..	4.8	16.9	10.4	5.3	0.1	0.2
4 and under 4½	6.0	6.5	8.0	8.4	1.2	6.8	32.2	21.9	1.3	..	..
4½ and under 5	15.7	15.9	14.8	13.4	16.7	11.0	0.1	0.1	..	..	..
5 and under 5½	68.9	70.9	72.5	73.0	77.0	71.5	23.3	1.5	..	..	..
5½ and under 6	..	0.1	0.1	0.1	0.1	0.1	..	..	0.1	..	..
6 and over	0.1	..	..	..	0.1	0.1	..	..	..	..	..
Total of above	93.1	96.3	96.8	96.4	96.7	97.3	97.5	97.5	97.2	97.3	96.6
Unclassified	6.9	3.7	3.2	3.6	3.3	2.7	2.5	2.5	2.8	2.7	3.4
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average Rate of Interest paid on all Interest-Bearing Deposits	4.81	4.79	4.81	4.81	4.91	4.84	3.97	3.21	2.80	2.52	2.42

* About half the total deposits are as at March, September and October.
† Eight banks only.

TABLE 16.—NINE TRADING BANKS—AUSTRALIA.

CLASSIFICATION OF INTEREST-BEARING DEPOSITS, ACCORDING TO RATE OF INTEREST PAID, AT 31ST DECEMBER, 1936.

Rate of Interest Paid—Per cent. per annum.	Fixed Deposits.		Deposits at Call, Bearing Interest.		Total Deposits Bearing Interest.	
	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.
1 ..	294	0.17	3,097	29.41	3,391	1.88
1¼ ..	..	..	48	0.46	48	0.03
1½ ..	9	0.01	1,085	10.30	1,094	0.61
1¾ ..	..	..	359	3.41	359	0.20
2 ..	7,582	4.45	905	8.60	8,487	4.69
2¼ ..	8,974	5.27	19	0.18	8,993	4.97
2½ ..	70,816	41.59	587	5.57	71,403	39.40
2¾ ..	36,824	21.63	993	9.43	37,817	20.92
3 ..	45,541	26.75	394	3.74	45,935	25.41
3¼ ..	23	0.01	1	0.01	24	0.01
3½ ..	70	0.04	308	2.93	378	0.21
3¾ ..	62	0.04	..	..	62	0.03
4 ..	70	0.04	1,079*	10.25	1,149	0.64
5 ..	..	..	66*	0.63	66	0.04
6 ..	..	..	1,588*	15.08	1,588	0.88
Total—All Rates ..	170,265	100.00	10,529	100.00	180,794	100.00
Average Rate of Interest Paid	2.66 per cent.		2.65 per cent.		2.65 per cent.	

* These amounts are mainly officers' provident fund deposits and other internal accounts.

TABLE 17.—COMMONWEALTH BANK AND NINE TRADING BANKS.

BANK CLEARINGS AND BANK DEBITS.

Month.		Average Weekly Amount of Debits to Customers' Accounts.			Average Weekly Value of Bills, Cheques, &c., Cleared(¹)—Six Capital Cities.	
		Debits to Private Accounts.	Debits to Government Accounts.	Total Debits.	Total Clearings.	Total Excluding Special Transactions Relating to Treasury Bills.
		£'000.	£'000.	£'000.	£'000.	£'000.
1935—January	..	54,302	45,985	100,287	37,649	31,051
February	..	63,719	55,112	118,831	44,211	37,111
March	..	63,615	45,021	108,636	41,196	36,154
April	..	56,654	42,931	99,585	39,364	33,988
May	..	61,607	54,837	116,444	43,209	36,539
June	..	64,340	58,172	122,512	44,390	38,800
July	..	58,000	46,098	104,704	40,808	36,271
August	..	57,858	48,296	106,154	39,506	32,982
September	..	64,485	41,629	106,114	40,857	36,204
October	..	67,201	47,391	114,592	46,654	40,600
November	..	69,854	51,740	121,594	48,108	41,423
December	..	72,739	57,513	130,252	48,187	43,002
1936—January	..	60,965	46,206	107,171	38,383	32,416
February	..	72,016	53,626	125,642	46,605	40,800
March	..	70,397	43,650	114,047	44,740	40,304
April	..	64,087	52,526	116,613	42,711	35,885
May	..	69,225	52,132	121,357	44,419	38,342
June	..	66,165	62,232	128,397	42,835	37,754
July	..	67,301	46,089	113,390	44,904	39,099
August	..	62,877	40,238	103,115	40,014	35,167
September	..	65,090	45,994	111,084	41,937	36,372
October	..	72,073	53,107	125,270	48,727	42,637
November	..	76,051	47,692	123,743	50,072	44,910
December	..	77,629	59,430	137,059	50,471	44,058

(¹) Source—Quarterly Summary of Australian Statistics.

TABLE 18.—NOTE ISSUE—AUSTRALIA.

AUSTRALIAN NOTES HELD BY BANKS AND BY PUBLIC, 1926 TO 1936.

(Quarterly averages of weekly figures.)

Quarter ended—	Commonwealth Bank of Australia.	Trading Banks.	Savings Banks.	Other Persons or Institutions.	Total Note Issue.
	£'000.	£'000.	£'000.	£'000.	£'000.
1926—March ..	7,467	21,046	539	24,838	53,890
June ..	12,159	16,503	507	24,721	53,890
September	9,566	17,020	565	24,355	51,506
December	7,091	16,197	545	26,057	49,890
1927—March ..	5,846	18,505	593	25,064	50,008
June ..	7,020	14,747	585	26,041	48,393
September	7,505	14,806	612	25,320	48,303
December	5,922	15,797	570	26,473	48,702
1928—March ..	4,033	10,959	573	25,757	47,322
June ..	4,439	14,028	588	25,751	44,806
September	4,635	13,072	611	25,079	44,207
December	3,731	16,282	581	25,047	45,641
1929—March ..	4,628	13,622	749	27,006	46,095
June ..	4,226	12,727	638	25,510	43,101
September	4,179	13,039	682	23,337	41,837
December	4,161	12,007	591	25,553	43,212
1930—March ..	4,950	13,432	557	24,156	43,095
June ..	5,760	14,428	679	23,700	44,567
September	6,908	14,586	830	22,448	44,772
December	6,071	14,542	1,311	23,639	45,563
1931—March ..	6,060	15,640	1,309	23,168	46,077
June ..	4,144	19,124	1,004	24,858	49,730
September	4,048	20,410	1,378	25,687	51,523
December	5,641	18,970	1,310	26,470	52,400
1932—March ..	5,717	19,103	1,399	26,008	52,227
June ..	6,038	18,894	1,292	25,791	52,015
September	6,546	17,250	1,209	24,664	49,669
December	5,784	16,603	1,210	25,533	49,130
1933—March ..	5,300	16,620	1,203	24,969	48,092
June ..	5,614	16,679	1,259	24,017	47,809
September	5,354	15,992	1,273	24,432	47,051
December	4,714	16,116	1,276	25,503	47,609
1934—March ..	5,241	15,533	1,266	25,242	47,282
June ..	6,400	13,443	1,280	25,486	46,609
September	5,910	13,666	1,309	25,588	46,473
December	5,078	14,231	1,297	27,444	48,050
1935—March ..	5,395	14,202	1,286	26,584	47,467
June ..	5,020	13,610	1,289	27,439	47,358
September	5,569	12,900	1,321	27,255	47,045
December	4,725	13,029	1,328	28,867	47,949
1936—March ..	4,877	13,062	1,300	28,171	47,410
June ..	5,201	12,478	1,311	28,516	47,506
September	5,370	12,187	1,331	28,151	47,039
December	4,329	12,217	1,280	29,905	47,731

Table 19.—Commonwealth Bank(1) and Trading Banks.

GOLD AND LONDON FUNDS OF THE AUSTRALIAN BANKING SYSTEM—JUNE, 1926, TO DECEMBER, 1936.

(In millions of pounds sterling.)

Quarter ended—	Gold in Australia (2) (Quarterly Averages).			London Funds (excluding Australian Securities held in London). (At end of Quarter).			Total Gold in Australia and London Funds.		
	Commonwealth Bank.(1)	Trading Banks.	Total.	Commonwealth Bank.(1)	Trading Banks.	Total.	Commonwealth Bank.(1)	Trading Banks.	Total
	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.	£ Stg. m.
1926—June ..	31.9	24.4	56.3	8.6	32.4	41.0	40.5	56.8	97.3
September ..	25.5	24.4	49.9	12.0	19.5	31.5	37.5	43.9	81.4
December ..	22.1	24.8	46.9	13.6	13.2	26.8	35.7	38.0	73.7
1927—March ..	22.2	25.0	47.2	11.2	20.0	31.2	33.4	45.0	78.4
June ..	22.2	24.1	46.3	9.1	21.0	30.1	31.3	45.1	76.4
September ..	21.2	23.8	45.0	9.8	18.2	28.0	31.0	42.0	73.0
December ..	20.9	23.8	44.7	13.5	21.7	35.2	34.4	45.5	79.9
1928—March ..	21.5	23.7	45.2	10.4	35.8	46.2	31.9	59.5	91.4
June ..	22.0	23.5	45.5	11.5	41.3	52.8	33.5	64.8	98.3
September ..	22.2	23.6	45.8	22.4	29.2	51.6	44.6	52.8	97.4
December ..	21.7	23.7	45.4	22.2	27.5	49.7	43.9	51.2	95.1
1929—March ..	22.2	23.6	45.8	19.1	34.8	53.9	41.3	58.4	99.7
June ..	22.3	23.0	45.3	17.0	32.6	49.6	39.3	55.6	94.9
September ..	23.5	21.6	45.1	11.5	17.6	29.1	35.0	39.2	74.2
December ..	21.3	19.1	40.4	11.2	9.3	20.5	32.5	28.4	60.9
1930—March ..	22.6	12.4	35.0	4.0	14.8	18.8	26.6	27.2	53.8
June ..	21.2	2.6	23.8	9.2	20.0	29.2	30.4	22.6	53.0
September ..	20.1	0.7	20.8	7.9	18.1	26.0	28.0	18.8	46.8
December ..	15.9	..	15.9	9.5	14.5	24.0	25.4	14.5	39.9
1931—March ..	15.3	..	15.3	4.4	16.6	21.0	19.7	16.6	36.3
June ..	14.9	..	14.9	4.7	15.9	20.6	19.6	15.9	35.5
September ..	11.7	..	11.7	3.5	15.2	18.7	15.2	15.2	30.4
December ..	13.2	..	13.2	8.1	25.1	33.2	21.3	25.1	46.4
1932—March ..	13.9	..	13.9	18.1	23.1	41.2	32.0	23.1	55.1
June ..	13.5	..	13.5	9.5	19.2	28.7	23.0	19.2	42.2
September ..	12.2	..	12.2	12.3	15.3	27.6	24.5	15.3	39.8
December ..	12.0	..	12.0	15.4	18.9	34.3	27.4	18.9	46.3
1933—March ..	10.8	..	10.8	23.4	21.8	45.2	34.2	21.8	56.0
June ..	1.0	..	1.0	28.7	20.3	49.0	29.7	20.3	50.0
September ..	..	..	..	29.9	16.1	46.0	29.9	16.1	46.0
December ..	..	..	..	32.1	21.3	53.4	32.1	21.3	53.4
1934—March ..	..	..	..	40.3	27.9	68.2	40.3	27.9	68.2
June ..	..	..	..	43.8	24.2	68.0	43.8	24.2	68.0
September ..	..	..	..	40.5	18.5	59.0	40.5	18.5	59.0
December ..	..	..	..	32.1	19.9	52.0	32.1	19.9	52.0
1935—March ..	..	..	..	26.9	20.3	47.2	26.9	20.3	47.2
June ..	..	..	..	25.9	18.0	43.9	25.9	18.0	43.9
September ..	..	..	..	22.0	14.4	36.4	22.0	14.4	36.4
December ..	..	..	..	23.1	17.4	40.5	23.1	17.4	40.5
1936—March ..	..	..	..	21.9	24.2	46.1	21.9	24.2	46.1
June ..	..	..	..	22.9	23.5	46.4	22.9	23.5	46.4
September ..	..	..	..	23.2	17.3	40.5	23.2	17.3	40.5
December ..	..	..	..	23.3	21.3	44.6	23.3	21.3	44.6

(1) *Including Note Issue Department.*
(2) Estimated from quarterly average holdings of coin and bullion in Australia. Sterling values since September, 1931, estimated from the average price of gold. Gold held after September, 1930, by trading banks, and after June, 1933, by Commonwealth Bank, was very small in amount.

TABLE 20.—AUSTRALIA—ALL CHEQUE-PAYING BANKS.

AVERAGE LIABILITIES AND ASSETS WITHIN AUSTRALIA.

Quarter ended 30th June.	Liabilities.					Assets.						Ratios.	
	Deposits Bearing Interest.	Deposits Not Bearing Interest.	Total Trading Deposits.	Common-wealth Savings Bank Deposits.	Grand Total Deposits.	Advances, Discounts, &c.	Govern-ment and Municipal Securities.	Advances, &c., plus Govern-ment and Municipal Securities.	Coin and Bullion.	Australian Notes.	Coin and Bullion plus Australian Notes.	Deposits Bearing Interest to Total Trading Deposits.	Advances, Discounts, &c., to Total Trading Deposits.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	Per cent.	Per cent.
1901 ..	54,020	37,458	91,487	..	91,487	93,710	..	93,710	19,781	..	19,781	59.1	102.4
1902 ..	55,708	37,728	93,436	..	93,436	94,015	..	94,015	21,075	..	21,075	59.6	100.6
1903 ..	54,701	37,056	91,757	..	91,757	93,301	..	93,301	20,022	..	20,022	59.6	101.7
1904 ..	55,918	35,630	91,548	..	91,548	87,705	..	87,705	19,358	..	19,358	61.1	95.8
1905 ..	61,296	36,848	98,143	..	98,143	85,766	..	85,766	21,490	..	21,490	62.5	87.4
1906 ..	65,479	41,036	106,515	..	106,515	87,889	..	87,889	22,681	..	22,681	61.5	82.5
1907 ..	65,917	46,781	112,608	..	112,698	94,990	..	94,990	23,711	..	23,711	58.5	84.3
1908 ..	67,679	46,015	113,694	..	113,604	100,844	803	101,647	24,932	..	24,932	59.5	88.7
1909 ..	70,946	46,813	117,758	..	117,758	94,608	3,874	98,481	26,298	..	26,298	60.2	80.3
1910 ..	74,657	55,234	129,891	..	129,891	97,080	4,292	101,372	30,150	..	30,150	57.5	74.7
1911 ..	81,220	62,227	143,447	..	143,447	108,579	9,601	118,179	33,471	..	33,471	56.6	75.7
1912 ..	84,398	65,409	149,807	..	149,807	118,973	4,790	123,763	28,686	5,435	34,121	56.3	79.4
1913 ..	85,415*	62,013	147,428	2,400*	149,828	113,481	5,438	118,919	31,252	4,854	36,106	57.9	77.0
1914 ..	89,395	70,195	159,590	4,265	163,855	115,509	7,377	122,886	36,410	5,037	41,447	56.0	72.4
1915 ..	92,796	75,381	168,177	6,802	174,979	117,312	10,817	128,130	34,903	20,473	55,376	55.2	69.8
1916 ..	91,436	92,822	184,258	8,683	192,941	133,336	15,385	148,721	27,801	30,511	58,312	49.6	72.4
1917 ..	92,337	105,391	197,728	11,402	209,130	123,788	22,016	145,803	22,841	30,936	53,777	46.7	62.6
1918 ..	98,444	112,262	210,707	14,060	224,767	140,410	26,024	166,434	22,407	33,953	56,360	46.7	66.6
1919 ..	113,491	118,989	232,479	16,579	249,058	177,953	26,815	204,768	22,135	35,759	57,894	48.8	76.5
1920 ..	114,708	133,913	248,621	17,008	265,629	160,694	37,136	197,830	21,330	34,611	55,941	46.1	64.6
1921 ..	120,391	127,789	248,180	34,376	282,556	193,436	48,403	241,839	21,627	34,493	56,120	48.5	77.9
1922 ..	128,513	123,819	252,332	36,213	288,545	182,238	49,986	232,223	21,902	30,315	52,217	50.9	72.2
1923 ..	146,562	126,657	273,219	38,103	311,322	202,271	52,771	255,043	21,922	28,788	50,710	53.6	74.0
1924 ..	140,173	120,384	269,557	38,273	307,830	210,750	50,769	261,519	22,152	32,029	54,181	52.0	78.2
1925 ..	149,852	131,944	281,796	39,798	321,594	209,401	51,939	261,340	31,730	37,212‡	68,942	53.2	74.3
1926 ..	160,475	134,771	295,246	43,068	338,314	226,365	59,511	285,876	32,688	34,855‡	67,543	54.4	76.7
1927 ..	168,334	130,529	298,863	44,212	343,075	253,180	68,024	321,204	27,475	29,648‡	57,123	56.3	84.7
1928 ..	187,269	126,580	313,849	45,705	359,554	257,375	80,976	338,351	26,603	31,793‡	58,396	59.7	82.0
1929 ..	202,472	127,695	330,167	(a)	330,167	282,553	38,088	320,641	26,502	27,325‡	53,827	61.3	85.6
1930 ..	206,596	103,968	310,564	(a)	310,564	299,395	43,749†	343,144	6,131	39,206‡	45,337	66.5	96.4
1931 ..	210,641	91,047	301,688	(a)	301,688	276,585	62,652†	339,237	2,545	55,450‡	57,996	69.8	91.7
1932 ..	222,804	96,437	319,241	(a)	319,241	260,918	80,899†	341,817	2,882	53,962‡	56,844	69.8	81.7
1933 ..	223,976	95,800	319,776	(a)	319,776	259,913	100,456†	360,369	2,807	45,139‡	47,946	70.0	81.3
1934 ..	229,808	114,228	344,035	(a)	344,035	262,715	98,622†	361,337	2,724	58,359‡	61,083	66.8	76.4
1935 ..	224,262	119,087	343,349	(a)	343,349	280,631	97,486†	378,117	2,719	42,255‡	44,974	65.3	81.7
1936 ..	221,175	122,582	343,757	(a)	343,757	291,911	85,679†	377,590	3,127	34,658‡	37,785	64.3	84.9

SOURCE.—Commonwealth Finance Bulletins, Year Books, and *Quarterly Summary of Australian Statistics; Australasian Insurance and Banking Records.*
(a) The Commonwealth Savings Bank was created a separate Department of the Commonwealth Bank on 9th June, 1928.
* Partly estimated.
† Including Australian Treasury Bills.
‡ Including Cash with Commonwealth Bank.

TABLE 21.—AUSTRALIA—ALL CHEQUE-PAYING BANKS (EXCLUDING COMMONWEALTH BANK OF AUSTRALIA).

AVERAGE LIABILITIES AND ASSETS WITHIN AUSTRALIA.

Quarter ended 30th June.	Liabilities.			Assets.						Ratios.	
	Deposits Bearing Interest.	Deposits Not Bearing Interest.	Total Deposits.	Advances, Discounts, &c.	Government and Municipal Securities.	Advances, &c., plus Government and Municipal Securities.	Coin and Bullion.	Australian Notes.	Coin and Bullion plus Australian Notes.	Deposits Bearing Interest to Total Deposits.	Advances, Discounts, &c., to Total Deposits.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	Per cent.	Per cent.
1901	54,029	37,458	91,487	93,710	..	93,710	19,781	..	19,781	59.1	102.4
1902	55,708	37,728	93,436	94,015	..	94,015	21,075	..	21,075	59.6	100.6
1903	54,701	37,056	91,757	93,301	..	93,301	20,022	..	20,022	59.6	101.7
1904	55,918	35,630	91,548	87,705	..	87,705	19,358	..	19,358	61.1	95.8
1905	61,295	36,848	98,143	85,766	..	85,766	21,490	..	21,490	62.5	87.4
1906	65,479	41,036	106,515	87,889	..	87,889	22,681	..	22,681	61.5	82.5
1907	65,917	46,781	112,698	94,990	..	94,990	23,711	..	23,711	58.5	84.3
1908	67,679	46,015	113,694	100,844	803	101,647	24,932	..	24,932	59.5	88.7
1909	70,945	46,813	117,758	94,608	3,874	98,481	26,298	..	26,298	60.2	80.3
1910	74,657	55,234	129,891	97,080	4,292	101,372	30,150	..	30,150	57.5	74.7
1911	81,220	62,227	143,447	108,579	9,601	118,179	33,471	..	33,471	56.6	75.7
1912	84,398	65,409	149,807	118,973	4,790	123,763	28,686	5,435	34,121	56.3	79.4
1913	85,064	60,893	145,957	113,077	3,012	116,089	31,227	4,814	36,041	58.3	77.5
1914	88,940	68,148	157,088	114,337	4,732	119,069	36,378	4,984	41,362	56.6	72.8
1915	91,427	72,178	163,605	115,308	5,691	120,999	33,868	20,101	53,969	55.9	70.5
1916	87,793	74,927	162,720	126,169	7,462	133,631	26,406	19,959	46,365	54.0	77.5
1917	88,473	77,074	165,547	115,600	10,319	125,919	21,345	20,220	41,565	53.4	69.8
1918	92,849	84,293	177,142	130,687	12,104	142,791	20,462	21,469	41,931	52.4	73.8
1919	104,514	88,915	193,429	161,813	10,988	172,801	20,181	21,156	41,337	54.0	83.7
1920	102,775	114,288	217,063	149,575	19,301	168,876	19,659	31,499	51,158	47.3	68.9
1921	109,718	111,823	221,641	178,539	14,762	193,301	19,769	29,570	49,339	49.5	80.6
1922	117,777	104,582	222,359	168,107	15,225	183,332	19,552	25,584	45,136	53.0	75.6
1923	131,903	108,938	240,841	188,236	15,291	203,527	19,275	25,037	44,312	54.8	78.2
1924	133,273	106,379	239,652	198,751	11,231	209,982	20,044	22,945	42,989	55.6	82.9
1925	142,023	108,562	250,585	197,451	13,128	210,579	27,052	23,212†	50,264	56.7	78.8
1926	153,372	111,420	264,792	213,252	17,232	230,484	26,670	22,635†	49,305	57.9	80.5
1927	160,118	110,094	270,212	236,137	15,119	251,256	26,322	22,556†	48,878	59.3	87.4
1928	177,857	111,678	289,536	240,678	23,919	264,597	25,796	27,285†	53,081	61.4	83.1
1929	192,059	110,215	302,275	267,832	24,392	292,224	25,456	23,109†	48,565	63.5	88.6
1930	193,506	91,599	285,105	284,283	20,467*	304,750	4,753	33,462†	38,215	67.9	99.7
1931	195,855	82,621	278,476	263,472	22,674*	286,146	1,979	51,314†	53,293	70.3	94.6
1932	196,195	87,830	284,025	249,125	44,350*	293,475	1,964	47,934†	49,898	69.1	87.7
1933	190,887	89,464	280,351	252,805	53,454*	306,259	1,875	39,536†	41,411	68.1	90.2
1934	201,218	101,854	303,071	255,796	53,042*	308,838	1,886	51,973†	53,859	66.4	84.4
1935	190,720	107,320	298,040	273,183	53,649*	326,832	1,906	37,244†	39,150	64.0	91.7
1936	187,491	110,590	298,081	282,513	45,611*	328,124	2,024	29,474†	31,498	62.9	94.8

SOURCE.—Commonwealth Finance Bulletins, Year Books, and Quarterly Summary of Australian Statistics; Australasian Insurance and Banking Records.

* Including Australian Treasury Bills.

† Including Cash with Commonwealth Bank.

TABLE 22.

BANK DEPOSITS IN AUSTRALIA PER HEAD OF POPULATION, ADJUSTED FOR CHANGES IN PRICE LEVELS.

Quarter ended 30th June.	Amount of Bank Deposits. All Cheque-paying Banks—Total Deposits.	Amount of Bank Deposits. All Cheque-paying Banks excluding Commonwealth Bank of Australia. Deposits Bearing Interest.	Amount of Bank Deposits. All Cheque-paying Banks excluding Commonwealth Bank of Australia. Deposits Not Bearing Interest.	Amount of Bank Deposits. All Cheque-paying Banks excluding Commonwealth Bank of Australia. Total Deposits.	Amount of Bank Deposits. All Savings Banks—Total Deposits (at 30th June).	Population (at 31st December).	Index of Average Prices(1) (Base: 1911 = 1,000).	Deposits per head of Population, Adjusted for Changes in Average Prices.(1) All Cheque-paying Banks—Total Deposits.	Deposits per head of Population, Adjusted for Changes in Average Prices.(1) All Cheque-paying Banks excluding Commonwealth Bank of Australia. Deposits Bearing Interest.	Deposits per head of Population, Adjusted for Changes in Average Prices.(1) All Cheque-paying Banks excluding Commonwealth Bank of Australia. Deposits Not Bearing Interest.	Deposits per head of Population, Adjusted for Changes in Average Prices.(1) All Cheque-paying Banks excluding Commonwealth Bank of Australia. Total Deposits.	Deposits per head of Population, Adjusted for Changes in Average Prices.(1) All Savings Banks—Total Deposits (at 30th June).
	£ m.	£ m.	£ m.	£ m.	£ m.	'000.		£	£	£	£	£
1901 ..	91.5	54.0	37.5	91.5	30.9	3,825	901	26.5	15.7	10.9	26.5	9.0
1902 ..	93.4	55.7	37.7	93.4	33.0	3,875	944	25.5	15.2	10.3	25.5	9.0
1903 ..	91.8	54.7	37.1	91.8	33.9	3,917	939	24.9	14.9	10.1	24.9	9.2
1904 ..	91.5	55.9	35.6	91.5	34.2	3,974	869	26.5	16.2	10.3	26.5	9.9
1905 ..	98.1	61.3	36.8	98.1	35.6	4,033	891	27.3	17.1	10.3	27.3	9.9
1906 ..	106.5	65.5	41.0	106.5	38.3	4,091	905	28.8	17.7	11.1	28.8	10.3
1907 ..	112.7	65.9	46.8	112.7	42.1	4,162	937	28.9	16.9	12.0	28.9	10.8
1908 ..	113.7	67.7	46.0	113.7	46.1	4,232	989	27.2	16.2	11.0	27.2	11.0
1909 ..	117.8	70.9	46.8	117.8	49.1	4,324	955	28.5	17.2	11.3	28.5	11.9
1910 ..	129.9	74.7	55.2	129.9	53.1	4,425	976	30.1	17.3	12.8	30.1	12.3
1911 ..	143.4	81.2	62.2	143.4	59.4	4,569	1,000	31.4	17.8	13.6	31.4	13.0
1912 ..	149.8	84.4	65.4	149.8	67.0	4,733	1,108	28.6	16.1	12.5	28.6	12.8
1913 ..	147.4	85.1	60.9	146.0	75.3	4,872	1,089	27.8	16.0	11.5	27.5	14.2
1914 ..	159.6	88.9	68.1	157.1	83.6	4,941	1,123	28.8	16.0	12.3	28.3	15.1
1915 ..	168.2	91.4	72.2	163.6	91.6	4,970	1,325	25.5	13.9	11.0	24.8	13.9
1916 ..	184.3	87.8	74.9	162.7	97.1	4,919	1,324	28.3	13.5	11.5	25.0	14.9
1917 ..	197.7	88.5	77.1	165.5	107.1	4,983	1,402	28.3	12.7	11.0	23.7	15.3
1918 ..	210.7	92.8	84.3	177.1	116.3	5,082	1,522	27.2	12.0	10.9	22.9	15.0
1919 ..	232.5	104.5	88.9	193.4	128.5	5,304	1,645	26.6	12.0	10.2	22.2	14.7
1920 ..	248.6	102.8	114.3	217.1	136.9	5,411	1,964	23.4	9.7	10.8	20.4	12.9
1921 ..	248.2	109.7	111.8	221.5	153.1	5,511	1,809	24.9	11.0	11.2	22.2	15.4
1922 ..	252.3	117.8	104.6	222.4	162.3	5,637	1,720	26.0	12.1	10.8	22.9	16.7
1923 ..	273.2	131.9	108.9	240.8	171.6	5,756	1,816	26.1	12.6	10.4	23.0	16.4
1924 ..	269.6	133.3	106.4	239.7	176.9	5,882	1,802	25.4	12.6	10.0	22.6	16.7
1925 ..	281.8	142.0	108.6	250.6	183.0	6,003	1,809	25.9	13.1	10.0	23.1	16.9
1926 ..	295.2	153.4	111.4	264.8	195.5	6,124	1,844	26.1	13.6	9.9	23.4	17.3
1927 ..	298.9	160.1	110.1	270.2	204.6	6,251	1,843	25.9	13.9	9.6	23.5	17.8
1928 ..	313.8	177.9	111.7	289.5	215.2	6,350	1,838	26.9	15.2	9.6	24.8	18.4
1929 ..	330.2	192.1	110.2	302.3	225.5	6,436	1,866	27.5	16.0	9.2	25.2	18.8
1930 ..	310.6	193.5	91.7	285.2	217.5	6,501	1,739	27.5	17.1	8.1	25.3	19.2
1931 ..	301.7	195.9	82.6	278.5	193.4	6,553	1,553	29.6	19.2	8.1	27.4	19.0
1932 ..	319.2	196.2	87.8	284.0	198.0	6,604	1,484	32.6	20.0	9.0	29.0	20.2
1933 ..	319.8	199.9	80.5	280.4	202.3	6,656	1,446	33.2	19.8	9.3	29.1	21.0
1934 ..	344.0	201.2	101.9	303.1	210.7	6,706	1,482	34.6	20.2	10.2	30.5	21.2
1935 ..	343.3	190.7	107.3	298.0	217.9	6,753	1,499	33.9	18.8	10.6	29.4	21.5
1936 ..	343.8	187.5	110.6	298.1	225.0	6,807	1,546	32.7	17.8	10.5	28.3	21.4

(1) Average of Indexes of wholesale and retail prices and nominal wages.

TABLE 23.—SAVINGS BANKS—AUSTRALIA.

CLASSIFICATION OF LIABILITIES AND ASSETS

(in thousands of pounds Australian currency).

Liabilities.(⁴)

At 30th June.(¹)	1 Reserves and Undistributed Profits.	2 Deposits. (⁴)	3 Other Liabilities.	4 Total Liabilities.	5 Coin, Bullion and Australian Notes.	6 Deposits with Commonwealth Bank.	7 Deposits with Other Banks.	8 Australian Treasury Bills.	9 Deposits with State Treasury.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
ALL SAVINGS BANKS.									
1926..	4,592	196,067	1,880	202,539	1,851	4,492	29,631	..	6,991
1927..	5,250	205,173	2,949	213,372	1,734	3,935	30,013	..	6,326
1928..	5,888	215,831	4,794	226,513	2,143	3,433	28,735	..	8,561
1929..	6,622	226,292	5,295	238,109	1,903	4,598	29,458	..	9,555
1930..	7,181	218,092	4,849	230,122	1,465	1,951	25,242	..	8,139
1931..	7,871	193,876	5,509	207,256	1,509	4,237	13,462	..	7,385
1932..	6,334	198,485	7,295	212,114	1,071	4,112	15,340	8,283	..
1933..	6,920	202,825	5,275	215,020	1,101	6,086	17,825	8,450	..
1934..	7,403	211,299	5,267	223,969	1,121	7,498	20,372	12,429	..
1935..	7,994	218,706	6,066	232,766	1,179	5,823	21,747	11,698	..
1936..	8,505	225,818	6,954	241,277	1,197	10,382	23,412	7,208	..
ALL SAVINGS BANKS, EXCLUDING THE COMMONWEALTH SAVINGS BANK OF AUSTRALIA.									
1926..	3,754	150,529	1,057	155,340	1,851	313	27,461	..	6,991
1927..	4,259	158,694	1,538	164,491	1,734	208	27,822	..	6,326
1928..	4,723	167,707	4,082	176,512	2,143	400	26,626	..	8,561
1929..	5,236	175,687	4,551	185,474	1,902	844	28,707	..	9,555
1930..	5,769	168,042	4,261	178,072	1,370	470	25,205	..	8,139
1931..	6,342	144,058	5,254	155,654	1,495	390	13,425	..	7,385
1932..	4,676	82,185	3,547	90,408	914	1,282	15,287	2,690	..
1933..	5,120	84,882	1,096	91,098	913	1,578	17,825	..	..
1934..	5,471	87,234	1,221	93,926	894	2,711	20,372	..	..
1935..	5,906	89,573	1,329	96,807	912	3,454	21,747	..	..
1936..	6,248	91,986	1,448	99,682	900	3,119	23,412	..	..

Assets.

At 30th June.(¹)	10 Total Cash Deposits and Treasury Bills (5 + 6 + 7 + 8 + 9).	11 Australian Government Securities.	12 Securities of Associated or Subsidiary Rural Bank or Credit Foncier.	13 Securities of Municipalities and Public Bodies.	14 Total Government and Other Securities (11 + 12 + 13).	15 Loans on Mortgage.	16 Landed and House Property.	17 Other Assets.	18 Total Assets.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
ALL SAVINGS BANKS.									
1926..	42,935	100,236	22,882	18,570	147,688	8,858	1,987	1,071	202,539
1927..	41,108	111,048	25,478	22,125	158,651	9,872	2,160	1,581	213,372
1928..	42,872	113,121	28,955	23,039	165,115	11,670	2,059	4,197	226,513
1929..	45,514	118,650	30,466	23,969	173,085	12,229	2,736	4,545	238,109
1930..	36,707	117,496	31,143	24,474	173,113	12,190	2,747	5,275	230,122
1931..	20,683	107,117	30,115	23,703	160,935	11,732	2,741	5,165	207,256
1932..	28,800	111,973	(³)15,333	(³)36,462	163,768	11,434	2,641	5,465	212,114
1933..	33,401	114,257	14,750	35,949	164,956	11,179	2,388	3,036	215,020
1934..	41,410	118,998	13,471	35,385	167,854	10,564	2,308	1,833	223,969
1935..	40,447	127,953	13,203	36,630	177,876	10,356	2,205	1,882	232,766
1936..	42,259	134,198	13,290	37,475	184,963	10,420	2,019	1,610	241,277
ALL SAVINGS BANKS, EXCLUDING THE COMMONWEALTH SAVINGS BANK OF AUSTRALIA.									
1926..	36,586	77,138	22,882	7,530	107,550	8,858	1,987	359	155,340
1927..	36,090	81,582	25,478	8,592	115,652	9,872	2,160	717	164,491
1928..	37,030	83,087	28,955	8,640	121,282	11,670	2,059	3,271	176,512
1929..	41,008	86,765	30,466	8,790	126,021	12,229	2,736	3,480	185,474
1930..	35,184	84,346	31,143	9,228	124,717	12,190	2,747	3,234	178,072
1931..	22,095	76,537	30,115	8,786	115,438	11,732	2,741	3,048	155,654
1932..	20,073	37,921	15,333	4,572	57,826	8,777	901	2,831	90,408
1933..	20,316	41,103	14,750	4,855	60,708	8,553	869	562	91,098
1934..	23,977	42,171	13,471	4,567	60,209	8,287	906	547	93,026
1935..	26,113	42,884	13,203	4,712	60,889	8,318	1,012	475	96,807
1936..	27,491	44,412	13,290	4,779	62,481	8,375	1,011	384	99,682

(¹) Figures for the Hobart Savings Bank and the Launceston Bank for Savings are as at 31st August in each year. (²) No part of the funds of any savings bank consists of funds which are described as Capital. (³) Reduction in column 12 and increase in column 13 was mainly due to amalgamation of Government Savings Bank of New South Wales with Commonwealth Savings Bank of Australia, and to the resulting changes in the ownership and classification of securities issued by the Rural Bank of New South Wales. (⁴) Total deposits in this table are slightly larger than those published by the Commonwealth Statistician, due to the inclusion of deposits in branches of the Commonwealth Savings Bank outside Australia, and to the inclusion of interest accrued to 30th June on deposits in the Savings Bank of South Australia.

TABLE 24.—SAVINGS BANKS—AUSTRALIA.

RATIO OF VARIOUS CLASSES OF ASSETS TO TOTAL ASSETS.

At 30th June.[1]	1	2	3	4	5	6	7	8
	Coin, Bullion and Australian Notes.	Deposits with Commonwealth Bank.	Deposits with Other Banks.	Total Cash, Deposits with Banks or State Treasury and Australian Treasury Bills.	Total Government and Other Securities.	Loans on Mortgage.	Bank Premises and all Other Assets.	Total Assets.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
				ALL SAVINGS BANKS.				
1926 ..	0.9	2.2	14.6	21.2	72.9	4.4	1.5	100
1927 ..	0.8	1.4	14.1	10.3	74.4	4.6	1.7	100
1928 ..	0.9	1.5	12.7	18.9	72.9	5.2	3.0	100
1929 ..	0.8	1.9	12.4	19.1	72.7	5.1	3.1	100
1930 ..	0.6	0.8	11.0	16.0	75.2	5.3	3.5	100
1931 ..	0.8	2.0	6.5	12.9	77.6	5.7	3.8	100
1932 ..	0.5	1.9	7.2	13.6	77.2	5.4	3.8	100
1933 ..	0.5	2.8	8.3	15.6	76.7	5.2	2.5	100
1934 ..	0.5	3.3	9.1	18.5	74.9	4.7	1.9	100
1935 ..	0.5	2.5	9.3	17.4	76.4	4.4	1.8	100
1936 ..	0.5	4.3	9.7	17.5	76.7	4.3	1.5	100
				ALL SAVINGS BANKS EXCLUDING COMMONWEALTH SAVINGS BANK OF AUSTRALIA.				
1926 ..	1.2	0.2	17.7	23.6	69.2	5.7	1.5	100
1927 ..	1.1	0.1	16.9	21.9	70.3	6.0	1.8	100
1928 ..	1.2	0.2	15.0	21.3	68.7	6.6	3.4	100
1929 ..	1.0	0.5	15.5	22.1	67.9	6.6	3.4	100
1930 ..	0.8	0.3	14.2	19.8	70.0	6.8	3.4	100
1931 ..	1.0	0.3	8.0	14.6	74.2	7.5	3.7	100
1932 ..	1.0	1.4	16.9	22.2	64.0	9.7	4.1	100
1933 ..	1.0	1.7	19.6	22.3	66.7	9.4	1.6	100
1934 ..	1.0	2.9	21.7	25.5	64.1	8.8	1.6	100
1935 ..	0.9	3.6	22.5	27.0	62.9	8.6	1.5	100
1936 ..	0.9	3.1	23.5	27.5	62.7	8.4	1.4	100

(1) *See* footnote (1) to Table 23.

TABLE 25.—SAVINGS BANKS—AUSTRALIA.

RATES OF INTEREST CHARGED ON MORTGAGE LOANS.

Year ended 30th June—	Commonwealth Savings Bank of Australia.	State Savings Bank of Victoria.	Savings Bank of South Australia.	Hobart Savings Bank.	Launceston Bank for Savings.	Government Savings Bank of New South Wales.(b)
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1926 ..	(a)	6	6–7	6	6–6½	6–7
1927 ..	(a)	6–6½	6½–7	6	6–6½	6–7
1928 ..	(a)	6–6½	6½–7	6	6–6½	6½–7½
1929 ..	(a)	6–6½	6½–7	6	6–6½	6½–7½
1930 ..	(a)	7	6½–7	6	6–6½	6½–7½
1931 ..	(a)	6	6½–7	6	6–6½	6–7
1932 ..	(a)	5½	5–7	5	5	..
1933 ..	(a)	5	5–5½	4½	5	..
1934 ..	4½	4¼–4½	4½–5½	4¼	4½	..
1935 ..	4¼–4½	4–4½	4½–5	4¼	4½	..
1936 ..	4½	4½	4½–5	4¼	4½	..

(a) Commonwealth Savings Bank did not seek mortgage loans during this period.
(b) Amalgamated with Commonwealth Savings Bank of Australia in *December*, 1931.

NOTE.—*Mortgage loans* made by the State Savings Bank (Western Australia) were of negligible amount.

TABLE 26.—SAVINGS BANKS—AUSTRALIA.

MAXIMUM RATE OF INTEREST ALLOWED ON ORDINARY CURRENT DEPOSITS.

Bank.	At 30th June, 1926.	At 30th June, 1927.	At 30th June, 1928.	At 30th June, 1929.	At 30th June, 1930.	At 30th June, 1931.	At 30th June, 1932.	At 30th June, 1933.	At 30th June, 1934.	At 30th June, 1935.	At 30th June, 1936.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Commonwealth Savings Bank of Australia ..	3½	3½	3½	4	4	4	3	2½	2¼	2	2
State Savings Bank of Victoria	4	4	4	4	4	4	3	2½	2¼	2	2
Savings Bank of South Australia	4¾	4¾	4¾	4¾	4¾	4½	3½	3	3	2¾	2¾
Hobart Savings Bank	4½	4½	4½	4½	4½	4½	3	2¾	2¾	2¾	2¾
Launceston Bank for Savings	4½	4½	4½	4½	4½	4½	3¼	2¾	2¾	2¾	2¾
Government Savings Bank of New South Wales(a)	4	4	4	4	4	4	..	..	..	..	..
State Savings Bank (Western Australia)(b)	3½	3½	3½	4	4	4	..	..	..	..	..

MAXIMUM RATE OF INTEREST ALLOWED ON ORDINARY CURRENT DEPOSITS IN EXCESS OF £500.

Bank.	At 30th June, 1926.	At 30th June, 1927.	At 30th June, 1928.	At 30th June, 1929.	At 30th June, 1930.	At 30th June, 1931.	At 30th June, 1932.	At 30th June, 1933.	At 30th June, 1934.	At 30th June, 1935.	At 30th June, 1936.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Commonwealth Savings Bank of Australia ..	3½	3½	3½	3½	3½	3½	2½	2	1¾	1¾	1¾
State Savings Bank of Victoria	3½	3½	4	4	4	4	3	2½	2¼	2	2
Savings Bank of South Australia	..	4½	4½	4½	4½	4½	3½	3	2½	2½	2¾
Hobart Savings Bank(c)	..	..	..	..	..	..	..	..	..	..	..
Launceston Bank for Savings(c)	..	..	..	..	..	..	..	..	..	..	..
Government Savings Bank of New South Wales (a)	3½	3½	3½	4	4	4	..	..	..	..	..
State Savings Bank (Western Australia)(b)	3½	3½	3½	3½	3½	3½	..	..	..	..	..

(a) Amalgamated with Commonwealth Savings Bank of Australia, in December, 1931.
(b) Amalgamated with Commonwealth Savings Bank of Australia, in November, 1931.
(c) Savings deposits of a larger amount than £500 are not accepted.

TABLE 27.—SAVINGS BANKS—AUSTRALIA.

RATES OF INTEREST ALLOWED ON CURRENT DEPOSITS.

At 30th June.	Ordinary Accounts.			Friendly Society Accounts.		
	Up to £500.	Over £500 to £1,000.	Over £1,000 to £1,300.	Up to £500.	Over £500 to £1,000.	Over £1,000.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
COMMONWEALTH SAVINGS BANK OF AUSTRALIA.						
1926 ..	3½	3½	3	3½	3½	3½
1927 ..	3½	3½ (a)	3	3½	3½	3½
1928 ..	3½	3½ (a)	3	3½	3½	3½
1929 ..	4	3½ (a)	3	4	4	4
1930 ..	4	3½ (a)	3	4	4	4
1931 ..	4	3½ (a)	3	4	4	4
1932 ..	3	2½ (a)	2	3	3	3
1933 ..	2½	2 (a)	2	2½	2½	2½
1934 ..	2¼	1¾ (a)	1¾	2¼	2¼	2¼
1935 ..	2	1¾ (a)	1¾	2	2	2
1936 ..	2	1¾ (a)	1¾	2	2	2
STATE SAVINGS BANK OF VICTORIA.						
1926 ..	4	3½	..	4	3½	3½
1927 ..	4	3½	..	4	3½	3½
1928 ..	4	4	..	4	4	4
1929 ..	4	4	..	4	4	4
1930 ..	4	4	..	4	4	4
1931 ..	4	4	..	4	4	4
1932 ..	3	3	..	3	3	3
1933 ..	2½	2½	..	2½	2½	2½
1934 ..	2¼	2¼	..	2¼	2¼	2¼
1935 ..	2	2	..	2	2	2
1936 ..	2	2	..	2	2	2
SAVINGS BANK OF SOUTH AUSTRALIA.						
1926 ..	4¾	..	..	4¾	4¾	4¾
1927 ..	4¾	4½	..	4¾	4¾	4¾
1928 ..	4¾	4½	..	4¾	4¾	4¾
1929 ..	4¾	4½	..	4¾	4¾	4¾
1930 ..	4¾	4½	..	4¾	4¾	4¾
1931 ..	4½	4½	..	4½	4½	4½
1932 ..	3½	3½	..	3½	3½	3½
1933 ..	3	3	..	3	3	3
1934 ..	3	2½	..	3	2½	2½
1935 ..	2¾	2½	..	2¾	2½	2½
1936 ..	2¾	2¾	..	2¾	2¾	2¾

(a) In Queensland, over £500 to £2,000.

TABLE 29.—SAVINGS BANKS(a)—AUSTRALIA.

CLASSIFICATION OF DEPOSITS(b) ACCORDING TO SIZE, AT 30TH JUNE, 1928, 1934 AND 1936.

1. NUMBER OF ACCOUNTS.

—	30th June, 1928.		30th June, 1934.		30th June, 1936.	
	No. of Accounts.	Per cent. of Total.	No. of Accounts.	Per cent. of Total.	No. of Accounts.	Per cent. of Total.
Up to £100	2,001,323	83.9	2,017,967	84.4	3,232,224	85.8
Over £100 to £500 ..	481,262	13.6	447,506	12.0	435,744	11.6
Over £500 to £1,000 ..	76,214	2.2	77,053	2.2	80,032	2.1
Over £1,000	12,165	0.3	16,023	0.5	18,072	0.5
Total	3,530,964	100.0	3,458,549	100.0	3,766,072	100.0

2. AMOUNT OF DEPOSITS.

—	30th June, 1928.		30th June, 1934.		30th June, 1936.	
	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.
Up to £100	42,448	20.3	40,380	19.8	44,844	20.7
Over £100 to £500 ..	102,486	49.0	92,338	45.4	95,749	44.2
Over £500 to £1,000 ..	49,678	23.7	51,614	25.4	54,305	25.0
Over £1,000	14,652	7.0	19,242	9.4	21,906	10.1
Total	209,264	100.0	203,574	100.0	216,804	100.0

3. AVERAGE AMOUNT OF DEPOSIT PER ACCOUNT.

—	30th June, 1928.	30th June, 1934.	30th June, 1936.
	Average	Average	Average
	£	£	£
Up to £100	14.3	13.8	13.9
Over £100 to £500 ..	213.0	206.3	219.7
Over £500 to £1,000 ..	651.8	669.9	673.5
Over £1,000	1,204.4	1,200.0	1,212.2
Total ..	59.3	58.9	57.6

(a) Excluding Hobart Savings Bank and Launceston Bank for Savings, for which complete figures were not available.
(b) Excluding School Savings Bank Deposits and small inoperative accounts.

TABLE 30.—FOUR STATE SAVINGS BANKS.

(Government Savings Bank of New South Wales, State Savings Bank of Victoria, Savings Bank of South Australia and State Savings Bank of Western Australia).

CLASSIFICATION OF DEPOSITS(b) ACCORDING TO SIZE, AT 30TH JUNE, 1926 TO 1931.(a)

Size of Deposit.	Number of Accounts.		Amount of Deposits.		Average Balance per Account
	No.	Per cent. of Total.	£'000.	Per cent. of Total.	
					£
		30th June, 1926.			
Up to £100	2,125,002	84.1	28,771	19.7	13.5
Over £100 to £500 ..	341,534	13.5	76,385	52.3	223.7
Over £500 to £1,000 ..	54,304	2.2	34,015	23.3	626.7
Over £1,000	5,798	0.2	6,933	4.7	1,195.8
Total	2,527,359	100.0	146,104	100.0	57.8
		30th June, 1927.			
Up to £100	2,213,878	84.2	30,186	19.6	13.6
Over £100 to £500 ..	351,131	13.3	78,265	50.9	222.9
Over £500 to £1,000 ..	58,504	2.2	37,120	24.1	634.5
Over £1,000	6,908	0.3	8,244	5.4	1,193.4
Total	2,630,421	100.0	153,815	100.0	58.5
		30th June, 1928.			
Up to £100	2,295,415	84.2	31,137	19.2	13.6
Over £100 to £500 ..	360,523	13.2	80,180	49.5	222.4
Over £500 to £1,000 ..	62,258	2.3	40,387	25.0	648.7
Over £1,000	8,608	0.3	10,131	6.3	1,176.9
Total	2,726,804	100.0	161,835	100.0	59.3
		30th June, 1929.			
Up to £100	2,351,840	84.3	31,474	18.6	13.4
Over £100 to £500 ..	361,588	12.9	80,830	47.0	223.6
Over £500 to £1,000 ..	66,209	2.4	43,797	25.9	661.5
Over £1,000	10,792	0.4	12,860	7.6	1,191.6
Total	2,790,429	100.0	168,967	100.0	60.6
		30th June, 1930.			
Up to £100	2,416,332	85.2	31,405	19.5	13.0
Over £100 to £500 ..	350,040	12.3	77,597	48.1	221.7
Over £500 to £1,000 ..	60,033	2.1	40,304	25.1	605.7
Over £1,000	10,186	0.4	11,823	7.3	1,160.7
Total	2,837,107	100.0	161,249	100.0	56.8
		30th June, 1931.			
Up to £100	2,397,795	86.9	28,482	20.7	11.9
Over £100 to £500 ..	304,297	11.0	66,755	48.6	219.4
Over £500 to £1,000 ..	49,259	1.8	32,804	23.9	667.2
Over £1,000	7,919	0.3	9,305	6.8	1,175.0
Total	2,759,270	100.0	137,406	100.0	49.8

(a) These figures cannot be carried beyond 1931, because in that year the State Savings Banks in New South Wales and in Western Australia were amalgamated with the Commonwealth Savings Bank of Australia.
(b) Excluding School Savings Bank Deposits and small inoperative accounts.

TABLE 31.—SAVINGS BANKS—AUSTRALIA.

NUMBER OF BRANCHES AND AGENCIES.

At 30th June—	State Savings Bank of Victoria.		Savings Bank of South Australia.		Launceston Bank for Savings.		Hobart Savings Bank.		Government Savings Bank of New South Wales. (a)		State Savings Bank (Western Australia). (b)		Commonwealth Savings Bank of Australia.		Total.	
	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.
1926 ..	184	375	39	330	7	..	8	..	172	551	21	265	86	3,414	517	4,935
1927 ..	188	388	39	347	7	..	8	2	179	583	21	285	84	3,474	526	5,079
1928 ..	196	392	39	355	8	..	11	3	184	607	24	289	86	3,497	548	5,143
1929 ..	203	392	40	373	8	..	11	4	189	627	25	304	90	3,546	566	5,246
1930 ..	211	389	40	373	8	2	11	4	192	639	25	320	92	3,665	579	5,302
1931 ..	213	379	41	368	8	3	11	5	192	643	26	301	92	3,668	583	5,367
1932 ..	213	373	41	369	8	3	11	5	..	..	..	..	264	3,715	557	4,465
1933 ..	213	372	42	369	7	4	11	4	..	..	..	..	279	3,672	552	4,421
1934 ..	213	373	43	368	7	4	12	4	..	..	..	..	279	3,659	554	4,408
1935 ..	213	373	44	371	7	5	12	4	..	..	..	..	286	3,667	562	4,420
1936 ..	213	371	47	369	7	5	12	5	..	..	..	..	291	3,691	570	4,441

(a) Amalgamated with Commonwealth Savings Bank of Australia in December, 1931.
(b) Amalgamated with Commonwealth Savings Bank of Australia in November, 1931.

TABLE 32A.—TRADING BANKS.(1)

AMOUNTS OF COIN(2), NOTES, AND CHEQUES PAID INTO TRADING BANKS IN AUSTRALIA DURING THE WEEK ENDED SATURDAY, 25TH JULY, 1936.

State.	Coin.		Notes.		Cheques.		Total.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.
CAPITAL CITY AND SUBURBS.								
New South Wales ..	200.2	1.07	2,052.7	10.94	16,513.2	87.99	18,766.1	100.0
Victoria	209.0	1.05	1,622.5	8.09	18,224.0	90.86	20,057.0	100.0
Queensland ..	50.0	0.87	460.5	7.73	5,330.0	91.40	5,832.0	100.0
South Australia ..	48.7	1.08	540.1	11.94	3,933.5	86.98	4,522.3	100.0
Western Australia..	37.5	1.21	371.1	12.01	2,681.1	86.78	3,089.7	100.0
Tasmania ..	9.3	0.87	89.9	8.38	973.4	90.75	1,072.6	100.0
Total(3) ..	557.4	1.04	5,135.6	9.61	47,775.7	89.35	53,468.7	100.0
REMAINDER OF STATE.								
New South Wales ..	102.3	1.47	1,093.9	15.70	5,770.3	82.83	6,966.5	100.0
Victoria	69.9	1.48	582.0	12.48	4,017.3	86.04	4,669.2	100.0
Queensland ..	53.3	0.94	580.1	10.23	5,034.9	88.83	5,668.3	100.0
South Australia ..	13.9	1.47	174.7	18.55	753.3	79.98	941.9	100.0
Western Australia..	15.8	0.83	242.3	12.74	1,643.9	86.43	1,902.0	100.0
Tasmania ..	9.5	1.37	86.1	12.39	599.3	86.24	694.9	100.0
Total(3) ..	264.2	1.26	2,765.3	13.24	17,856.3	85.50	20,885.8	100.0
TOTAL.								
New South Wales ..	302.5	1.17	3,146.6	12.23	22,283.5	86.60	25,732.6	100.0
Victoria	278.9	1.13	2,205.4	8.92	22,241.9	89.95	24,726.2	100.0
Queensland ..	104.2	0.91	1,030.6	8.96	10,365.5	90.13	11,500.3	100.0
South Australia ..	62.6	1.15	714.8	13.08	4,686.8	85.77	5,464.2	100.0
Western Australia..	53.3	1.07	613.4	12.29	4,325.0	86.64	4,991.7	100.0
Tasmania ..	18.8	1.06	176.0	9.96	1,572.7	88.98	1,767.5	100.0
Total(3) ..	821.6	1.10	7,900.9	10.63	65,632.0	88.27	74,354.5	100.0

(1) Including the nine trading banks, the Commonwealth Bank of Australia, and the Ballarat Banking Company.
(2) Amounts of coin paid into two banks are partly estimated.
(3) Including Federal Capital Territory and Northern Territory.

TABLE 29.—SAVINGS BANKS(a)—AUSTRALIA.

CLASSIFICATION OF DEPOSITS(b) ACCORDING TO SIZE, AT 30TH JUNE, 1928, 1934 AND 1936.

1. NUMBER OF ACCOUNTS.

—	30th June, 1928.		30th June, 1934.		30th June, 1936.	
	No. of Accounts.	Per cent. of Total.	No. of Accounts.	Per cent. of Total.	No. of Accounts.	Per cent. of Total.
Up to £100	2,061,323	83.9	2,917,967	84.4	3,232,224	85.8
Over £100 to £500 ..	481,262	13.6	447,506	12.9	435,744	11.6
Over £500 to £1,000 ..	76,214	2.2	77,053	2.2	80,632	2.1
Over £1,000	12,165	0.3	16,023	0.5	18,072	0.5
Total	3,630,064	100.0	3,458,549	100.0	3,766,072	100.0

2. AMOUNT OF DEPOSITS.

—	30th June, 1928.		30th June, 1934.		30th June, 1936.	
	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.	Amount £'000.	Per cent. of Total.
Up to £100	42,448	20.3	40,380	19.8	44,644	20.7
Over £100 to £500 ..	102,486	49.0	92,338	45.4	95,749	44.2
Over £500 to £1,000 ..	49,678	23.7	51,614	25.4	54,305	25.0
Over £1,000	14,652	7.0	19,242	9.4	21,906	10.1
Total	209,264	100.0	203,574	100.0	216,804	100.0

3. AVERAGE AMOUNT OF DEPOSIT PER ACCOUNT.

—	30th June, 1928.	30th June, 1934.	30th June, 1936.
	Average	Average	Average
	£	£	£
Up to £100	14.3	13.8	13.9
Over £100 to £500 ..	213.0	206.3	219.7
Over £500 to £1,000 ..	651.6	669.9	673.5
Over £1,000	1,204.4	1,200.9	1,212.2
Total ..	59.3	58.9	57.6

(a) Excluding Hobart Savings Bank and Launceston Bank for Savings, for which complete figures were not available.
(b) Excluding School Savings Bank Deposits and small inoperative accounts.

TABLE 30.—FOUR STATE SAVINGS BANKS.

(Government Savings Bank of New South Wales, State Savings Bank of Victoria, Savings Bank of South Australia and State Savings Bank of Western Australia).

CLASSIFICATION OF DEPOSITS(b) ACCORDING TO SIZE, AT 30TH JUNE, 1926 TO 1931.(a)

Size of Deposit.	Number of Accounts.		Amount of Deposits.		Average Balance per Account
	No.	Per cent. of Total.	£'000.	Per cent. of Total.	
					£
30th June, 1926.					
Up to £100	2,125,662	84.1	28,771	19.7	13.5
Over £100 to £500 ..	341,534	13.5	76,385	52.3	223.7
Over £500 to £1,000 ..	54,364	2.2	34,015	23.3	625.7
Over £1,000	5,798	0.2	6,933	4.7	1,195.8
Total	2,527,358	100.0	146,104	100.0	57.8
30th June, 1927.					
Up to £100	2,213,878	84.2	30,180	19.6	13.6
Over £100 to £500 ..	351,131	13.3	78,265	50.9	222.9
Over £500 to £1,000 ..	58,504	2.2	37,120	24.1	634.5
Over £1,000	6,908	0.3	8,244	5.4	1,193.4
Total	2,630,421	100.0	153,815	100.0	58.5
30th June, 1928.					
Up to £100	2,295,415	84.2	31,137	19.2	13.6
Over £100 to £500 ..	360,523	13.2	80,180	49.5	222.4
Over £500 to £1,000 ..	62,258	2.3	40,387	25.0	648.7
Over £1,000	8,608	0.3	10,131	6.3	1,176.9
Total	2,726,804	100.0	161,835	100.0	59.3
30th June, 1929.					
Up to £100	2,351,840	84.3	31,474	18.6	13.4
Over £100 to £500 ..	361,588	12.9	80,836	47.9	223.6
Over £500 to £1,000 ..	66,209	2.4	43,797	25.9	661.5
Over £1,000	10,792	0.4	12,860	7.6	1,191.6
Total	2,790,429	100.0	168,967	100.0	60.6
30th June, 1930.					
Up to £100	2,416,332	85.2	31,465	19.5	13.0
Over £100 to £500 ..	350,046	12.3	77,597	48.1	221.7
Over £500 to £1,000 ..	60,633	2.1	40,364	25.1	665.7
Over £1,000	10,186	0.4	11,823	7.3	1,160.7
Total	2,837,197	100.0	161,249	100.0	56.8
30th June, 1931.					
Up to £100	2,397,795	86.9	28,482	20.7	11.9
Over £100 to £500 ..	304,297	11.0	66,755	48.6	219.4
Over £500 to £1,000 ..	49,259	1.8	32,864	23.9	667.2
Over £1,000	7,919	0.3	9,305	6.8	1,175.0
Total	2,759,270	100.0	137,406	100.0	49.8

(a) These figures cannot be carried beyond 1931, because in that year the State Savings Banks in New South Wales and in Western Australia were amalgamated with the *Commonwealth Savings Bank of Australia*.
(b) Excluding School Savings Bank Deposits and small inoperative accounts.

TABLE 31.—SAVINGS BANKS—AUSTRALIA.

NUMBER OF BRANCHES AND AGENCIES.

At 30th June—	State Savings Bank of Victoria.		Savings Bank of South Australia.		Launceston Bank for Savings.		Hobart Savings Bank.		Government Savings Bank of New South Wales. (a)		State Savings Bank (Western Australia). (b)		Commonwealth Savings Bank of Australia.		Total.	
	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.	Branches.	Agencies.
1926 ..	184	375	39	330	7	..	8	..	172	551	21	265	86	3,414	517	4,935
1927 ..	188	388	39	347	7	..	8	2	179	583	21	285	84	3,474	526	5,079
1928 ..	196	392	39	355	8	..	11	3	184	607	24	289	86	3,497	548	5,143
1929 ..	203	392	40	373	8	..	11	4	189	627	25	304	90	3,546	566	5,246
1930 ..	211	389	40	373	8	2	11	4	192	639	25	320	92	3,665	579	5,392
1931 ..	213	379	41	368	8	3	11	5	192	643	26	301	92	3,668	583	5,367
1932 ..	213	373	41	369	8	3	11	5	..	..	..	..	284	3,715	557	4,465
1933 ..	213	372	42	369	7	4	11	4	..	..	..	..	279	3,672	552	4,421
1934 ..	213	373	43	368	7	4	12	4	..	..	..	..	279	3,659	554	4,408
1935 ..	213	373	44	371	7	5	12	4	..	..	..	..	286	3,667	562	4,420
1936 ..	213	371	47	369	7	5	12	5	..	..	..	..	291	3,691	570	4,441

(a) Amalgamated with Commonwealth Savings Bank of Australia in December, 1931.
(b) Amalgamated with Commonwealth Savings Bank of Australia in November, 1931.

TABLE 32A.—TRADING BANKS.(1)

AMOUNTS OF COIN(2), NOTES, AND CHEQUES PAID INTO TRADING BANKS IN AUSTRALIA DURING THE WEEK ENDED SATURDAY, 25TH JULY, 1936.

State.	Coin.		Notes.		Cheques.		Total.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.
CAPITAL CITY AND SUBURBS.								
New South Wales ..	200.2	1.07	2,052.7	10.94	16,513.2	87.99	18,766.1	100.0
Victoria	209.9	1.05	1,622.5	8.09	18,224.6	90.86	20,057.0	100.0
Queensland ..	50.9	0.87	450.5	7.73	5,330.6	91.40	5,832.0	100.0
South Australia ..	48.7	1.08	540.1	11.94	3,933.5	86.98	4,522.3	100.0
Western Australia ..	37.5	1.21	371.1	12.01	2,681.1	86.78	3,089.7	100.0
Tasmania ..	9.3	0.87	89.9	8.38	973.4	90.75	1,072.6	100.0
Total(3) ..	557.4	1.04	5,135.6	9.61	47,775.7	89.35	53,468.7	100.0
REMAINDER OF STATE.								
New South Wales ..	102.3	1.47	1,093.9	15.70	5,770.3	82.83	6,966.5	100.0
Victoria	69.0	1.48	582.9	12.48	4,017.3	86.04	4,669.2	100.0
Queensland ..	53.3	0.94	580.1	10.23	5,034.9	88.83	5,668.3	100.0
South Australia ..	13.9	1.47	174.7	18.55	753.3	79.98	941.9	100.0
Western Australia ..	16.8	0.88	242.3	12.74	1,643.9	86.43	1,902.0	100.0
Tasmania ..	9.5	1.37	86.1	12.39	599.3	86.24	694.9	100.0
Total(3) ..	264.2	1.26	2,765.3	13.24	17,856.3	85.50	20,885.8	100.0
TOTAL.								
New South Wales ..	302.5	1.17	3,146.6	12.23	22,283.5	86.60	25,732.6	100.0
Victoria	278.9	1.13	2,205.4	8.92	22,241.9	89.95	24,726.2	100.0
Queensland ..	104.2	0.91	1,030.6	8.96	10,365.5	90.13	11,500.3	100.0
South Australia ..	62.6	1.15	714.8	13.08	4,686.8	85.77	5,464.2	100.0
Western Australia ..	53.3	1.07	613.4	12.29	4,325.0	86.64	4,991.7	100.0
Tasmania ..	18.8	1.06	176.0	9.96	1,572.7	88.98	1,767.5	100.0
Total(3) ..	821.6	1.10	7,900.9	10.63	65,632.0	88.27	74,354.5	100.0

(1) Including the nine trading banks, the Commonwealth Bank of Australia, and the Ballarat Banking Company.
(2) Amounts of coin paid into two banks are partly estimated.
(3) Including Federal Capital Territory and Northern Territory.

TABLE 32B.—SAVINGS BANKS.(1)

AMOUNTS OF COIN(2), NOTES, AND CHEQUES PAID INTO SAVINGS BANKS IN AUSTRALIA DURING THE WEEK ENDED SATURDAY, 25TH JULY, 1936.

State.	Coin.		Notes.		Cheques.		Total.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.
CAPITAL CITY AND SUBURBS.								
New South Wales ..	12.2	1.79	267.7	39.38	399.9	58.83	679.8	100.0
Victoria	19.4	3.15	211.3	34.30	385.4	62.55	616.1	100.0
Queensland ..	1.9	1.48	54.2	42.08	72.7	56.44	128.8	100.0
South Australia ..	3.7	1.94	70.3	36.90	116.5	61.16	190.5	100.0
Western Australia ..	1.1	1.17	36.2	38.39	57.0	60.44	94.3	100.0
Tasmania ..	0.3	0.87	10.6	30.81	23.5	68.32	34.4	100.0
Total(3) ..	38.6	2.21	651.1	37.29	1,056 3	60.50	1,746.0	100.0
REMAINDER OF STATE.								
New South Wales ..	5.2	2.03	115.0	44.98	135.5	52.99	255.7	100.0
Victoria	4.7	2.82	56.9	34.13	105.1	63.05	166.7	100.0
Queensland ..	2.6	2.42	51.7	48.09	53.2	49.49	107.5	100.0
South Australia ..	1.0	2.02	13.9	28.14	34.5	69.84	49.4	100.0
Western Australia ..	0.8	1.67	33.9	70.92	13.1	27.41	47.8	100.0
Tasmania ..	0.9	2.21	14.1	34.56	25.8	63.23	40.8	100.0
Total(3) ..	15.2	2.28	285.5	42.74	367.2	54.98	667.9	100.0
TOTAL.								
New South Wales ..	17.4	1.86	382.7	40.91	535.4	57.23	935.5	100.0
Victoria	24.1	3.08	268.2	34.26	490.5	62.66	782.8	100.0
Queensland ..	4.5	1.90	105.9	44.82	125.9	53.28	236.3	100.0
South Australia ..	4.7	1.96	84.2	35.10	151.0	62.94	239.9	100.0
Western Australia ..	1.9	1.34	70.1	49.33	70.1	49.33	142.1	100.0
Tasmania ..	1.2	1.60	24.7	32.84	49.3	65.56	75.2	100.0
Total(3) ..	53.8	2.23	936.6	38.80	1,423.5	58.97	2,413.9	100.0

(1) Including the Commonwealth Savings Bank of Australia, State Savings Bank of Victoria, Savings Bank of South Australia, Hobart Savings Bank, and Launceston Bank for Savings.
(2) Amounts of coin paid into two banks are partly estimated.
(3) Including Federal Capital Territory.

TABLE 32C.—TRADING AND SAVINGS BANKS.(1)

AMOUNTS OF COIN(2), NOTES, AND CHEQUES PAID INTO TRADING AND SAVINGS BANKS IN AUSTRALIA DURING THE WEEK ENDED SATURDAY, 25TH JULY, 1936.

State.	Coin.		Notes.		Cheques.		Total.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000	Per cent. of Total.
CAPITAL CITY AND SUBURBS.								
New South Wales ..	212.4	1.09	2,320.4	11.93	16,913.1	86.98	19,445.9	100.0
Victoria	229.3	1.11	1,833.8	8.87	18,610.0	90.02	20,673.1	100.0
Queensland ..	52.8	0.88	504.7	8.47	5,403.3	90.65	5,960.8	100.0
South Australia ..	52.4	1.11	610.4	12.95	4,050.0	85.94	4,712.8	100.0
Western Australia ..	38.6	1.21	407.3	12.79	2,738.1	86.00	3,184.0	100.0
Tasmania ..	9.6	0.87	100.5	9.08	996.9	90.05	1,107.0	100.0
Total(3) ..	596.0	1.08	5,786.7	10.48	48,832.0	88.44	55,214.7	100.0
REMAINDER OF STATE.								
New South Wales ..	107.5	1.49	1,208.9	16.74	5,905.8	81.77	7,222.2	100.0
Victoria	73.7	1.52	639.8	13.23	4,122.4	85.25	4,835.9	100.0
Queensland ..	55.9	0.97	631.8	10.94	5,088.1	88.09	5,775.8	100.0
South Australia ..	14.9	1.50	188.6	19.03	787.8	79.47	991.3	100.0
Western Australia ..	16.6	0.85	276.2	14.17	1,657.0	84.98	1,949.8	100.0
Tasmania ..	10.4	1.41	100.2	13.62	625.1	84.97	735.7	100.0
Total(3) ..	279.4	1.30	3,050.8	14.15	18,223.5	84.55	21,553.7	100.0
TOTAL.								
New South Wales ..	319.9	1.20	3,529.3	13.23	22,818.9	85.57	26,668.1	100.0
Victoria	303.0	1.19	2,473.6	9.70	22,732.4	89.11	25,509.0	100.0
Queensland ..	108.7	0.93	1,136.5	9.68	10,491.4	89.39	11,736.6	100.0
South Australia ..	67.3	1.18	799.0	14.01	4,837.8	84.81	5,704.1	100.0
Western Australia ..	55.2	1.08	683.5	13.31	4,395.1	85.61	5,133.8	100.0
Tasmania ..	20.0	1.09	200.7	10.89	1,622.0	88.02	1,842.7	100.0
Total(3) ..	875.4	1.14	8,837.5	11.51	67,055.5	87.35	76,768.4	100.0

(1) Including all banks shown in footnotes (1) to Tables 32A and 32B.
(2) Amounts of coin paid into four banks are partly estimated.
(3) Including Federal Capital Territory and Northern Territory

TABLE 32D.

AMOUNTS OF COIN([1]), NOTES, AND CHEQUES PAID INTO BANKS IN AUSTRALIA DURING NINE SPECIFIED DAYS.

Day.	Coin.		Notes.		Cheques.		Total.	
	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.	£'000.	Per cent. of Total.
			TRADING BANKS.([2])					
1935—October ..	176.1	1.22	1,655.1	11.51	12,549.0	87.27	14,380.2	100.0
1936—January ..	152.1	1.10	1,317.3	0.50	12,398.1	89.40	13,867.5	100.0
April ..	200.2	1.15	2,111.3	12.10	15,136.6	86.75	17,448.1	100.0
Monday, 20th July	226.4	1.61	1,855.5	13.23	11,945.6	85.16	14,027.5	100.0
Tuesday, 21st July	149.0	1.10	1,380.0	10.12	12,106.6	88.78	13,636.5	100.0
Wednes., 22nd July	127.6	1.06	1,005.6	9.11	10,707.4	89.83	12,020.6	100.0
Thursday, 23rd July	112.6	.92	1,007.0	8.20	11,173.8	90.88	12,294.3	100.0
Friday, 24th July	104.4	.81	1,127.0	8.71	11,708.0	90.48	12,940.3	100.0
Saturday, 25th July	100.7	1.07	1,434.0	15.20	7,900.0	83.73	9,435.3	100.0
Total for week ended 25th July, 1936 ..	821.0	1.10	7,900.9	10.63	65,632.0	88.27	74,354.5	100.0
Total for nine days	1,350.0	1.12	12,984.6	10.82	105,715.7	88.06	120,050.3	100.0
			SAVINGS BANKS.([3])					
1935—October ..	8.9	1.00	173.2	37.03	285.7	61.07	467.8	100.0
1936—January ..	9.0	2.07	194.7	42.02	259.1	55.91	463.4	100.0
April ..	9.8	2.02	190.2	39.24	284.7	58.74	484.7	100.0
Monday, 20th July	12.6	2.62	201.3	41.89	266.7	55.49	480.6	100.0
Tuesday, 21st July	9.1	2.28	144.9	36.31	245.1	61.41	399.1	100.0
Wednes., 22nd July	7.9	2.30	119.1	34.71	216.1	62.99	343.1	100.0
Thursday, 23rd July	8.2	2.21	133.6	35.96	229.7	61.83	371.5	100.0
Friday, 24th July	10.1	2.07	188.3	38.54	290.2	59.39	488.6	100.0
Saturday, 25th July	5.9	1.78	149.4	45.14	175.7	53.08	331.0	100.0
Total for week ended 25th July, 1936 ..	53.8	2.23	936.6	38.80	1,423.5	58.97	2,413.9	100.0
Total for nine days	82.1	2.14	1,494.7	39.03	2,253.0	58.83	3,829.8	100.0
			TRADING AND SAVINGS BANKS.([4])					
1935—October ..	185.0	1.25	1,828.3	12.31	12,834.7	86.44	14,848.0	100.0
1936—January ..	161.7	1.13	1,512.0	10.55	12,657.2	88.32	14,330.9	100.0
April ..	210.0	1.17	2,301.5	12.83	15,421.3	86.00	17,932.8	100.0
Monday, 20th July	239.0	1.65	2,056.8	14.18	12,212.3	84.17	14,508.1	100.0
Tuesday, 21st July	159.0	1.13	1,524.0	10.87	12,351.7	88.00	14,035.6	100.0
Wednes., 22nd July	135.5	1.10	1,214.7	9.82	11,013.5	89.08	12,363.7	100.0
Thursday, 23rd July	120.8	.96	1,141.5	9.01	11,403.5	90.03	12,665.8	100.0
Friday, 24th July	114.5	.85	1,310.2	9.80	11,998.2	89.35	13,428.9	100.0
Saturday, 25th July	106.6	1.09	1,583.4	16.21	8,076.3	82.70	9,766.3	100.0
Total for week ended 25th July, 1936 ..	875.4	1.14	8,837.5	11.51	67,055.5	87.35	76,768.4	100.0
Total for nine days	1,432.1	1.16	14,479.3	11.69	107,968.7	87.15	123,880.1	100.0

([1]) Amounts of coin paid into four banks are partly estimated.
([2]) *See* footnote ([1]) to Table 32A.
([3]) *See* footnote ([1]) to Table 32B.
([4]) *See* footnote ([1]) to Table 32C.

TABLE 33.—COMMONWEALTH OF AUSTRALIA.

VALUE OF EXPORTS—1901 TO 1935–36 (ANNUAL AVERAGE FOR FIVE-YEAR PERIODS).

AUSTRALIAN PRODUCE.

(Australian Currency.)

Article.	1901–1905.		1906–1910.		1911–1915–16		1916–17 to 1920–21.		1921–22 to 1925–26.		1926–27 to 1930–31.		1931–32 to 1935–36.	
	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.	Total Amount.	Per-centage to Total.
	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%
Wool	15.8	32.3	25.7	38.7	24.7	34.5	36.0	32.7	57.6	43.7	51.3	40.1	43.4	36.9
Wheat and flour	3.3	6.8	7.1	10.6	8.0	11.2	23.0	20.9	26.3	19.9	21.3	16.7	18.4	15.6
Butter	1.6	3.2	3.0	4.5	3.0	4.3	5.6	5.1	7.2	5.5	6.8	5.3	9.3	7.9
Meats	2.1	4.4	3.1	4.6	6.5	9.1	9.2	8.3	6.2	4.7	5.7	4.4	7.4	6.3
Hides and skins	1.7	3.4	3.0	4.4	3.8	5.3	4.7	4.3	6.5	4.9	7.6	5.9	3.6	3.1
Fruits—dried and fresh ..	0.2	0.4	0.3	0.4	0.4	0.6	0.7	0.7	2.5	1.9	3.7	2.9	4.3	3.7
Stones and minerals, &c. ..	2.7	5.4	2.9	4.4	4.1	5.8	1.8	1.6	2.9	2.2	1.9	1.5	1.1	0.9
Metals, metal manufactures and machinery	2.9	5.9	5.5	8.3	5.8	8.1	7.8	7.1	5.7	4.3	5.5	4.3	4.9	4.2
Gold	13.7	28.2	9.9	14.8	7.1	9.9	6.2	5.6	2.8	2.1	11.2	8.8	12.8	10.9
Other	4.8	10.0	6.1	9.3	8.0	11.2	15.1	13.7	14.1	10.8	12.8	10.1	12.4	10.5
Total	48.8	100.0	66.6	100.0	71.4	100.0	110.1	100.0	131.8	100.0	127.8	100.0	117.6	100.0

TABLE 34.—COMMONWEALTH OF AUSTRALIA.

VALUE OF IMPORTS—1901 TO 1935–36 (ANNUAL AVERAGE FOR FIVE-YEAR PERIODS).

(Australian Currency.)

Article.	1901–1905.		1906–1910.		1911–1915–16.		1916–17 to 1920–21.		1921–22 to 1925–26.		1926–27 to 1930–31.		1931–32 to 1935–36.	
	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.	Total Amount.	Percentage to Total.
	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%	£m.	%
Metals, metal manufactures and machinery	8.2	21.0	12.5	24.4	19.2	26.1	22.0	21.8	39.0	28.5	37.8	28.5	18.6	23.0
Apparel, textiles, &c. ..	11.6	29.5	15.0	29.1	19.2	26.1	31.7	31.5	39.7	29.0	34.0	25.6	20.7	25.5
Oils, fats and waxes	1.0	2.6	1.3	2.4	2.2	3.0	4.7	4.7	7.4	5.4	10.4	7.9	7.1	8.7
Paper and stationery	1.6	4.1	2.1	4.2	2.9	4.0	5.2	5.2	6.3	4.6	7.4	5.6	5.6	6.9
Drugs, chemicals, &c... ..	1.5	3.7	1.9	3.6	2.5	3.4	4.1	4.0	4.0	2.9	4.8	3.6	4.4	5.5
Foodstuffs, animal, vegetable and non-alcoholic beverages, &c. ..	4.7	11.9	4.2	8.2	7.5	10.3	8.5	8.4	8.0	5.9	8.6	6.5	4.9	6.0
Animal and vegetable substances	0.7	1.8	1.4	2.6	2.0	2.7	4.8	4.8	4.2	3.1	4.7	3.5	3.5	4.3
Gold, silver and bronze specie ..	1.2	3.0	1.4	2.8	1.4	1.0	1.9	1.9	2.2	1.6	0.6	0.4	1.6	2.0
Other	8.8	22.4	11.7	22.7	16.5	22.5	17.8	17.7	26.0	19.0	24.4	18.4	14.7	18.1
Total	39.3	100.0	51.5	100.0	73.4	100.0	100.7	100.0	136.8	100.0	132.7	100.0	81.1	100.0

TABLE 36.—COMMONWEALTH OF AUSTRALIA.

INDUSTRY OF THE POPULATION, RECORDED AT THE CENSUSES OF 1901, 1911, 1921, AND 1933.

Industry.	1901.	Percentage of Total.	1911.	Percentage of Total.	1921.	Percentage of Total.	1933.	Percentage of Total.
Fishing and trapping	10,804	0.29	11,917	0.27	10,752	0.20	14,611	0.22
Agricultural, pastoral, and dairying	376,405	9.97	439,378	9.86	481,355	8.86	547,787	8.26
Forestry	21,002	0.56	24,405	0.55	30,280	0.56	26,133	0.39
Mining and quarrying	118,149	3.13	105,804	2.37	66,766	1.23	68,520	1.03
Industrial—								
Manufacturing	259,845	6.88	363,336	8.16	445,574	8.20	511,511	7.72
Building	63,643	1.69	84,779	1.90	95,274	1.75	107,446	1.62
Roads, railways, earthworks	98,104	2.60	89,864	2.02	137,106	2.52	217,656	3.28
Gas, water, electricity	9,421	0.25	18,029	0.40	39,852	0.73	29,558	0.45
Total, Industrial	431,103	11.42	556,008	12.48	717,806	13.20	866,171	13.07
Transport and communication	115,008	3.05	157,391	3.53	207,737	3.82	223,893	3.38
Commerce and finance	210,511	5.58	279,843	6.28	330,678	6.08	451,172	6.81
Public administration and professional ..	118,456	3.14	141,480	3.18	215,229	3.96	232,212	3.50
Entertainment, sport and recreation ..	6,192	0.16	13,258	0.30	17,830	0.33	24,250	0.37
Personal and domestic service	193,047	5.11	201,236	4.52	209,814	3.86	242,378	3.66
No industry or industry not stated	35,308	0.94	82,655	1.85	61,414	1.13	458,494	6.91
Dependants	2,137,816	56.65	2,441,630	54.81	3,086,073	56.77	3,474,218	52.40
Grand Total	3,773,801	100.00	4,455,005	100.00	5,435,734	100.00	6,629,839	100.00

TABLE 35.

POPULATION OF AUSTRALIA.

Particulars.	1901.	1906.	1911.	1916.	1921.	1926.	1931.	1936.
Estimated population at 30th June	3,788,123	4,059,083	4,489,545	4,943,173	5,455,136	6,056,360	6,526,485	6,775,360

URBAN AND RURAL POPULATION AT CENSUSES OF 1901, 1911, 1921 AND 1933.

Particulars.	1901.	Per cent. to Total.	1911.	Per cent. to Total.	1921.	Per cent. to Total.	1933.	Per cent. to Total.
New South Wales—								
Metropolitan	481,830	35.56	629,503	38.23	899,059	42.81	1,235,267	47.49
Provincial	873,016	64.44	1,017,231	61.77	525,007	25.00	565,440	21.74
Rural and Migratory					676,305	32.19	800,140	30.77
Total—New South Wales ..	(a)1,354,846	100.00	1,646,734	100.00	2,100,371	100.00	2,600,847	100.00
Victoria—								
Metropolitan	494,304	41.16	588,971	44.77	776,465	50.05	991,934	54.49
Provincial	706,766	58.84	726,580	55.23	187,490	12.24	198,191	10.89
Rural and Migratory					577,325	37.71	630,136	34.62
Total—Victoria	1,201,070	100.00	1,315,551	100.00	1,531,280	100.00	1,820,261	100.00
Queensland—								
Metropolitan	118,460	23.78	139,480	23.02	209,946	27.77	299,748	31.63
Provincial	379,669	76.22	466,333	76.98	183,720	24.30	199,144	21.02
Rural and Migratory					362,306	47.93	448,642	47.35
Total—Queensland	498,129	100.00	605,813	100.00	755,972	100.00	947,534	100.00
South Australia—								
Metropolitan	162,261	45.28	189,646	46.42	255,375	51.57	312,619	53.81
Provincial	196,085	54.72	218,912	53.58	41,637	8.41	51,456	8.87
Rural and Migratory					198,148	40.02	216,874	37.32
Total—South Australia	358,346	100.00	408,558	100.00	495,160	100.00	580,949	100.00
Western Australia—								
Metropolitan	54,835	29.78	106,792	37.85	154,873	46.55	207,440	47.27
Provincial	129,289	70.22	175,322	62.15	42,571	12.79	44,805	10.21
Rural and Migratory					135,288	40.66	186,607	42.52
Total—Western Australia ..	184,124	100.00	282,114	100.00	332,732	100.00	438,852	100.00
Tasmania—								
Metropolitan	31,222	18.10	39,937	20.89	52,361	24.49	60,406	26.54
Provincial	141,253	81.90	151,274	79.11	55,644	26.03	56,777	24.95
Rural and Migratory					105,775	49.48	110,416	48.51
Total—Tasmania	172,475	100.00	191,211	100.00	213,780	100.00	227,599	100.00
Federal Capital Territory—								
Metropolitan	..	..	..	..	..	..	..	..
Provincial	..	..	1,714	100.00	995	38.68	7,325	81.87
Rural and Migratory					1,577	61.32	1,622	18.13
Total—Federal Capital Territory ..	(b)	..	1,714	100.00	2,572	100.00	8,947	100.00
Northern Territory—								
Metropolitan	..	..	..	..	..	..	..	..
Provincial	4,811	100.00	3,310	100.00	1,399	36.18	1,566	32.29
Rural and Migratory					2,468	63.82	3,284	67.71
Total—Northern Territory ..	4,811	100.00	3,310	100.00	3,867	100.00	4,850	100.00
Total—								
Metropolitan	1,342,912	35.59	1,694,329	38.03	2,338,079	43.01	3,107,414	46.87
Provincial	2,430,889	64.41	2,760,676	61.97	1,038,463	19.11	1,124,704	16.96
Rural and Migratory					2,059,192	37.88	2,397,721	36.17
Total Population	3,773,801	100.00	4,455,005	100.00	5,435,734	100.00	6,629,839	100.00

(a) Including Federal Capital Territory. (b) Included in New South Wales.

TABLE 37.—COMMONWEALTH OF AUSTRALIA.

VALUE (*a*) OF PRODUCTION—(ANNUAL AVERAGE FOR PERIOD) 1901–02 TO 1934–35.

(In millions of pounds, Australian.)

Particulars.	Periods of— Five Years, 1901–02 to 1905–06.		Four Years, 1907–08 to 1910–11.		Five Years, 1911–12 to 1915–16.		Five Years, 1916–17 to 1920–21.		Five Years, 1921–22 to 1925–26.		Five Years, 1926–27 to 1930–31.		Four Years, 1931–32 to 1934–35.	
	£m.	Percentage of Total.	£m.	Percentage of Total.	£m.	Percentage of Total.	£m.	Percentage of Total.	£m.	Percentage of Total.	£m.	Percentage of Total.	£m.	Percentage of Total.
Wool	16.9	..	28.6	16.6	20.4	13.5	45.6	14.6	60.9	15.2	59.0	14.3	44.3	13.3
Meat	(*b*)	..	12.2	7.1	20.6	9.5	27.5	8.8	27.4	6.8	28.9	7.0	23.5	7.0
Other pastoral	(*b*)	..	11.6	6.7	11.9	5.4	21.7	6.8	16.3	4.0	13.5	3.3	6.3	1.9
Total Pastoral	(*b*)	..	52.4	30.4	61.9	28.4	94.8	30.2	104.6	26.0	101.4	24.6	74.1	22.2
Wheat		..	14.3	8.3	19.6	9.0	33.4	10.7	36.6	9.1	33.0	8.0	29.9	9.0
Hay		..	9.2	5.3	12.1	5.6	16.4	5.2	19.7	4.9	14.7	3.6	9.6	2.9
Orchard and fruit gardens	(*b*)	..	2.3	1.3	3.2	1.5	4.9	1.6	7.0	1.7	8.3	2.0	7.2	2.2
Sugar cane		..	1.3	0.8	1.8	0.8	3.2	1.0	6.3	1.6	7.3	1.8	7.4	2.2
Other agricultural		..	10.0	5.8	11.7	5.4	15.1	4.8	19.2	4.8	20.6	5.0	18.2	5.4
Total Agricultural	(*b*)	..	37.1	21.5	48.4	22.3	73.0	23.3	88.8	22.1	83.9	20.4	72.3	21.7
Butter		..	7.3	4.2	9.2	4.2	15.2	4.8	19.4	4.8	21.9	5.3	20.3	6.1
Eggs, poultry	(*b*)	..	3.6	2.1	4.5	2.1	7.1	2.3	9.1	2.3	10.3	2.5	8.7	2.6
Other dairy and farmyard		..	6.1	3.5	8.0	3.7	14.6	4.7	16.2	4.0	15.9	3.9	12.6	3.7
Total Dairy and Farmyard	(*b*)	..	17.0	9.8	21.7	10.0	30.9	11.8	44.7	11.1	48.1	11.7	41.6	12.4
Other primary production apart from mining	(*b*)	..	4.5	2.6	6.5	3.0	8.0	2.5	11.7	2.9	11.3	2.7	9.2	2.7
Gold	15.3	..	12.7	7.4	9.3	4.3	5.9	1.9	3.2	0.8	2.0	0.5	5.7	1.7
Coal	2.5	..	3.4	2.0	4.4	2.0	6.4	2.0	11.0	2.7	10.0	2.5	5.8	1.8
Silver, lead and silver and lead ore concentrates	2.3	..	3.2	1.9	3.9	1.8	3.7	1.2	3.8	1.0	3.4	0.8	2.3	0.7
Other mineral	3.1	..	5.3	3.0	6.1	2.8	6.8	2.2	4.3	1.1	4.5	1.1	2.8	0.8
Total Mineral	23.2	..	24.6	14.3	23.7	10.9	22.8	7.3	22.3	5.6	19.9	4.9	16.6	5.0
Manufacturing–Industrial metals, machines, implements and conveyances	..	..	(*c*)	..	(*c*)	..	(*c*)	..	(*c*)	..	40.5	9.8	29.0	8.7
Food, drink, and tobacco	..	..	9.2	..	13.9	..	21.2	..	29.4	..	14.3	8.3	30.2	9.0
Clothing											16.0	3.9	11.9	3.6
Textiles and textile goods	..	..	5.5	..	8.2	..	13.0	..	20.6	..	7.0	1.7	7.8	2.3
Paper, stationery, printing, bookbinding, &c.	..	..	3.4	..	4.7	..	6.5	..	10.7	..	11.7	2.8	10.3	3.1
Chemicals, dyes, explosives, paint, oil and grease	..	..	(*c*)	..	(*c*)	..	(*c*)	..	(*c*)	..	8.0	1.9	8.3	2.5
Other	..	..	(*c*)	..	(*c*)	..	(*c*)	..	(*c*)	..	(*c*)	..	(*c*)	..
Total Manufacturing (*d*)	(*b*)	..	30.8	21.4	55.3	25.4	78.0	24.9	129.9	32.3	146.8	35.7	120.3	36.0
Total Production	(*b*)	..	172.4	100.0	217.5	100.0	313.5	100.0	402.0	100.0	411.4	100.0	334.1	100.0

(*a*) Net value for manufacturing, gross value for other production. (*b*) Not available. (*c*) Details not available due to change in factory classification.
(*d*) Omitting value of production of certain products already included above in dairy and other primary production, *e.g.*, butter, forest sawmills.

Table 38.—Commonwealth of Australia.

PRODUCTION.

Volume, etc., of Selected Items—1901-02 to 1935-36 (Annual Average for Five-year Period).

Particulars.	Unit.	1901-02 to 1905-06.	1906-07 to 1910-11.	1911-12 to 1915-16.	1916-17 to 1920-21.	1921-22 to 1925-26.	1926-27 to 1930-31.	1931-32 to 1935-36.
Wool—greasy	1,000 lb.	469,042	685,658	725,658	682,950	744,692	926,427	1,010,498
Sheep—number at end of period	1,000	74,541	98,066	73,146	81,796	103,563	110,568	108,632
Cattle—number at end of period	1,000	8,628	11,745	9,931	13,500	13,280	11,721	13,853
Horses—number at end of period	1,000	1,675	2,166	2,377	2,416	2,250	1,793	1,754
Meats	1,000 lb.	(a)	1,012,580	1,286,871	1,058,683	1,364,824	1,491,907	1,718,678
Bacon and Ham	1,000 lb.	32,406	41,070	51,228	58,104	66,282	72,858	71,888
Wheat	1,000 bush.	49,629	71,839	94,184	106,928	128,520	155,824	171,898
Sugar	1,000 tons	139	194	198	216	368	507	618
Butter	1,000 lb.	114,725	162,478	186,034	187,700	263,324	294,387	432,482
Dried Vine Fruits	1,000 cwt.	69	151	271	320	683	1,142	1,347
Gold	fine oz.	3,604,779	3,077,601	2,203,861	1,281,388	692,175	476,435	787,325
Coal, black	tons	7,040,668	9,283,149	11,707,877	10,830,108	12,981,725	11,706,884	9,353,544
Silver	fine oz.	(a)	(a)	13,920,408	7,648,330	10,112,824	10,261,737	10,397,352
Lead	tons	(a)	(a)	212,178	115,471	133,627	182,093	204,277
Copper	tons	(a)	(a)	41,452	32,320	15,427	13,811	12,815
Iron Ore and Flux	tons	63,925	107,855	119,648	325,798	424,574	741,853	} 950,880
Iron Oxide	tons	592	3,371	2,797	2,069	3,289	4,295	}
Zinc	tons	(a)	(a)	175,587	47,704	132,736	147,097	99,937
Manufactures—								
Average number of persons engaged	thousands	(a)	(b) 274	(b) 327	(b) 340	(c) 410	(c) 422	(c) 411
Salaries and wages paid	£m.	(a)	22.1	33.2	46.5	76.9	84.0	67.0
Value of production per person engaged	£	(a)	(b) 152.2	(b) 189.6	(b) 256.7	(c) 339.7	(c) 365.8	(c) 323.7

(a) Not available. (b) Average over period of operation. (c) Average over whole year.

Table 39.

SHAREHOLDERS' FUNDS AND TOTAL LIABILITIES TO THE PUBLIC OF 21 AUSTRALIAN TRADING BANKS, 1892-3.

—	Date of Balance-sheet.	Capital.	Reserves.	Undistributed Profits.	Total Shareholders' Funds.	Total Liabilities to Public.
		£'000.	£'000.	£'000.	£'000.	£'000.
Group A.						
Bank of Adelaide	31st March, 1893	400	143	15	558	1,400
Bank of Australasia	10th October, 1892	1,600	800	10	2,410	17,401
Bank of New South Wales	31st March, 1893	1,250	1,010	16	2,276	22,527
Union Bank of Australia Limited	28th February, 1893	1,500	1,000	15	2,515	21,442
Western Australian Bank	31st December, 1892	80	100	16	196	511
Royal Bank of Australia Ltd.	31st March, 1893	300	5	5	310	360
Commercial Bank of Tasmania Ltd.	31st December, 1892	141	190	3	334	1,834
National Bank of Tasmania Ltd.	31st May, 1893	152	38	2	192	364
City Bank of Sydney	31st December, 1892	280	180	8	468	1,449
		5,703	3,466	90	9,259	67,297
Commercial Banking Co. of Sydney Ltd.	31st December, 1892	600	840	9	1,449	12,489
		6,303	4,306	99	10,708	70,786
Group B.						
Commercial Bank of Australia Ltd.	31st December, 1892	1,200	750	34	1,984	12,634
English, Scottish & Australian Chartered Bank	30th September, 1892	900	315	12	1,227	7,029
National Bank of Australasia Ltd.	31st March, 1893	1,000	670	60	1,730	11,155
Queensland National Bank Ltd.	30th June, 1893	800	484	21	1,306	8,589
Australian Joint Stock Bank	31st December, 1892	705	510	19	1,234	11,773
Bank of Victoria Ltd.	31st December, 1892	600	250	9	859	7,857
London Chartered Bank of Australia	31st December, 1892	1,000	320	48	1,368	7,384
Colonial Bank of Australasia Ltd.	31st March, 1893	406	138	14	558	3,821
Royal Bank of Queensland Ltd.	30th June, 1893	375	46	6	427	821
Bank of North Queensland Ltd.	30th June, 1893	249	3	4	256	331
City of Melbourne Bank Ltd.	31st March, 1893	500	200	12	712	5,104
		7,735	3,687	239	11,661	76,498
Grand Total		14,038	7,993	338	22,369	156,284

Table 40.

CAPITAL RESERVES AND UNDISTRIBUTED PROFITS WRITTEN-OFF BY THE TRADING BANKS AS A RESULT OF THE CRISIS OF 1893.

—	Written-off in 1893.			Written-off Subsequently.		Total Amount Written-off.
	Capital.	Reserves.	Profits.	Capital.	Reserves.	
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Group B.						
Commercial Bank of Australia Ltd.	..	750	34	2,252	..	3,036
English, Scottish & Australian Bank Ltd. ..	450	315	12	432	..	1,209
National Bank of Australasia Ltd.	..	570	60	477	100	1,207
Queensland National Bank Ltd.	320	485	..	416	..	1,221
Australian Joint Stock Bank Ltd.	..	498	19	1,363	12	1,892
Bank of Victoria Ltd.	..	250	9	..	..	259
London Bank of Australia Ltd.	250	..	46	859	320	1,475
Colonial Bank of Australia Ltd.	..	38	14	425	100	577
Royal Bank of Queensland Ltd.	75	25	..	..	..	100
Bank of North Queensland Ltd.	49	..	..	100	3	152
City of Melbourne Bank Ltd.	..	150	12	500	50	712
	1,144	3,081	206	6,624	585	11,840
Group A.						
Royal Bank of Australia Ltd.	..	..	..	150	5	155
Commercial Bank of Tasmania Ltd.	..	..	..	..	90	90
National Bank of Tasmania Ltd.	..	..	..	..	15	15
City Bank of Sydney	..	..	..	..	180	180
				150	290	440

Table 41.

DEPOSITS OF THE TRADING BANKS WHICH SUSPENDED PAYMENT IN 1893 AND THE MANNER IN WHICH SUCH WERE DEALT WITH.

—	Balance, 1893.	Converted into Preference Shares.	Converted into Perpetual Stocks.	Payable in Cash.
	£'000.	£'000.	£'000.	£'000.
Commercial Banking Co. of Sydney Ltd.	9,897	..	..	9,897
Commercial Bank of Australia Ltd.	10,000	2,117	..	7,883
English, Scottish & Australian Bank Limited	4,630	..	1,943	2,687
National Bank of Australasia Ltd.	7,365	306	..	7,059
Queensland National Bank Ltd.	7,000	..	3,117	3,883
Australian Joint Stock Bank Ltd. .. .. } Australian Bank of Commerce Ltd. .. .. }	10,296	..	799	9,498
Bank of Victoria Ltd.	5,700	417	..	5,283
London Bank of Australia Ltd.	5,842	172	..	5,670
Colonial Bank of Australasia Ltd.	3,000	304	..	2,696
Royal Bank of Queensland Ltd.	800	..	..	800
Bank of North Queensland Ltd.	296	..	..	296
	64,826	3,316	5,859	55,651
City of Melbourne Bank Ltd.	3,750			
	68,576			

Note.—The liability of the City of Melbourne Bank Ltd. (In liquidation) was taken over by a Realization Company in 1897. At that date the admitted claims amounted to £3,367,000 for which the depositors of the bank received debentures and shares of the Realization Company of a nominal value of £735,000. The loss to the depositors was therefore £2,632,000.

TABLE 42.

NEW CAPITAL ISSUES OF THE TRADING BANKS—1893 TO 1936.

——	Opening Capital (see Note).(a)	Deposits Converted.(b)	For Cash.	From Reserves.	From Premiums.	For Amalgamations.	Total Capital Issues.	Deduct Extinguished by Amalgamations.	Capital, 1936.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Bank of Adelaide	400	..	850	..	..	..	1,250	..	1,250
Bank of Australasia	1,600	..	1,900	125	875	..	4,500	..	4,500
Commercial Bank of Australia Limited ..	96	2,117	1,904	..	..	..	4,117	..	4,117
Commercial Banking Co. of Sydney Ltd. ..	600	..	3,400	..	..	739	4,739	..	4,739
English, Scottish & Australian Bank Limited	539	..	1,327	..	300	834	3,000	..	3,000
National Bank of Australasia Ltd. ..	1,192	306	3,055	..	..	447	5,000	..	5,000
Bank of New South Wales	1,250	..	5,375	..	..	2,155	8,780	..	8,780
Queensland National Bank Ltd.	413	..	1,337	..	..	..	1,750	..	1,750
Union Bank of Australia Ltd.	1,500	..	2,500	..	..	..	4,000	..	4,000
Australian Joint Stock Bank Ltd. .. / Australian Bank of Commerce Ltd. ..	195	1,644	369	..	..	..	2,208	2,208	..
Western Australian Bank	80	..	570	50	..	..	700	700	..
Royal Bank of Australia Ltd.	150	..	600	..	..	..	750	750	..
Bank of Victoria Ltd.	1,061	417	..	..	..	..	1,478	1,478	..
Bank of Queensland Ltd.	..	..	..	..	..	450	450	450	..
Commercial Bank of Tasmania Ltd. ..	141	..	59	100	..	..	300	300	..
London Bank of Australia Ltd.	497	172	126	..	..	..	795	795	..
Colonial Bank of Australasia Ltd. ..	135	304	..	..	..	..	439	439	..
National Bank of Tasmania Ltd. ..	152	..	43	..	..	..	195	195	..
City Bank of Sydney	280	..	120	..	..	..	400	400	..
Royal Bank of Queensland Ltd.	475	..	71	..	..	..	546	546	..
Bank of North Queensland Ltd.	162	..	..	..	..	..	162	162	..
	10,918	4,960	23,606	275	1,175	4,625	45,559	8,423	37,136

NOTES.—(a) "Capital 1893" means in the case of banks which suspended payment in 1893, the residue of capital after completion of the capital readjustments consequent upon the crises.

(b) Deposits Converted—

	£'000.
Into Preference Capital	3,316
Into Ordinary Capital (Australian Bank of Commerce Ltd.) ..	1,644
	4,960

TABLE 43.

NEW CAPITAL ISSUES OF THE TRADING BANKS—1893 TO 1936 (BY YEARS).

Period.	Deposits Converted.	For Cash.	From Reserves.	From Premiums.	For Amalgamations.	Total New Issues.	Deduct Extinguished by Amalgamations.	Net Increase.	Net Decrease.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1893 and 1894	3,316	1,271	..	..	..	4,587	..	4,587	..
1895 to 1899	..	20	..	..	..	20	..	20	..
1900 to 1904	..	25	..	..	..	25	..	25	..
1905 to 1909	..	1,280	..	..	..	1,280	..	1,280	..
1910 to 1914	1,001	2,690	..	..	..	3,691	..	3,691	..
1915 to 1919	3	3,600	..	..	897	4,500	1,742	2,758	..
1920 to 1924	640	7,356	275	875	459	9,605	1,545	8,000	..
1925 to 1929	..	7,112	..	300	1,989	9,401	2,928	6,473	..
1930 to 1934	..	250	..	..	1,280	1,630	2,208	..	678
1935 to 1936—Nil	..	..	..	..	..	..	..	..	..
	4,960	23,606	275	1,175	4,625	34,641	8,423	26,218	..
Each Year, 1925 to 1936	..	..	..	300	..	300	..	300	..
1925	..	1,678	..	..	..	1,678	..	1,678	..
1926	..	316	..	..	1,989	2,305	2,928	..	623
1927	..	3,243	..	..	..	3,243	..	3,243	..
1928	..	1,625	..	..	..	1,625	..	1,625	..
1929	..	250	..	..	..	250	..	250	..
1930	..	250	..	..	1,280	1,530	2,208	..	678
(None between 1930 and 1936) ..	..	..	..	..	..	..	..	..	..

TABLE 44.

NET CASH ADDITIONS TO THE SHAREHOLDERS' FUNDS OF THE TRADING BANKS—1893 TO 1936.

Year of Issue.	New Capital Issues.	Premiums Thereon.	Total Cash Received.	Less Cash Paid to Shareholder of Banks Acquired.	Net Cash Additions to Funds.
	£'000.	£'000.	£'000.	£'000.	£'000.
1893 and 1894	1,271	288	1,559	..	1,559
1895 to 1899	20	25	45	..	45
1900 to 1904	27	31	58	..	58
1905 to 1909	1,280	217	1,497	..	1,497
1910 to 1914	2,690	1,290	3,980	..	3,980
1915 to 1919	3,600	1,379	4,979	697	4,282
1920 to 1924	7,356	2,311	9,667	1,245	8,422
1925 to 1929	7,112	4,952	12,064	2,228	9,836
1930 to 1934	250	250	500	..	500
(None between 1934 and 1936)	..	..	..	..	..
	23,606	10,742	34,348	4,170	30,178
Each Year, 1925 to 1936—					
1925	1,678	1,748	3,426	..	3,426
1926	316	241	557	..	557
1927	3,243	888	4,131	2,228	1,903
1928	1,625	1,825	3,450	..	3,450
1929	250	250	500	..	500
1930	250	250	500	..	500
(None between 1930 and 1936)	..	..	..	..	..

TABLE 45.

ANALYSIS OF THE RESERVES OF THE TRADING BANKS—1893 TO 1936.

	Additions.						Deductions.				
	Balance 1893. (*See* Note).	From Profits.	From Premiums.	From Other Sources.	By Amalgamations.	Total Credits.	Capitalized.	Written-off.	Taken over on Amalgamation.	Extinguished by Amalgamation.	Balance 1936.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Bank of Adelaide	143	607	250	..	..	1,000	..	..	..	..	1,000
Bank of Australasia	800	2,350	1,450	..	..	4,600	125	..	..	..	4,475
Commercial Bank of Australia Ltd. ..	..	587	1,663	..	..	2,250	..	..	..	..	2,250
Commercial Banking Co. of Sydney Ltd. ..	1,000	2,400	50	..	850	4,300	..	..	..	..	4,300
English, Scottish & Australian Bank Ltd. ..	..	1,884	480	24	877	3,265	..	..	..	..	3,265
National Bank of Australasia Ltd. ..	..	1,928	951	111	310	3,300	..	..	..	..	3,300
Bank of New South Wales	1,010	4,227	354	..	824	6,415	..	265	..	..	6,150
Queensland National Bank Ltd.	..	700	160	..	..	860	..	..	..	..	860
Union Bank of Australia Ltd.	1,000	1,350	2,500	..	..	4,850	..	..	..	..	4,850
Australian Joint Stock Bank Ltd. .. / Australian Bank of Commerce Ltd. ..	..	704	458	..	..	1,162	..	50	..	1,112	..
Western Australian Bank	100	396	823	..	..	1,319	50	..	824	445	..
Royal Bank of Australia Ltd.	..	585	65	15	..	665	..	..	400	265	..
Bank of Victoria Ltd.	..	850	..	..	..	850	..	..	850	..	..
Bank of Queensland Ltd.	..	40	..	30	..	70	..	..	..	70	..
Commercial Bank of Tasmania Ltd. ..	100	164	59	..	..	323	100	..	..	223	..
London Bank of Australia Ltd.	..	427	..	50	..	477	..	..	477	..	..
Colonial Bank of Australasia Ltd. ..	..	307	..	3	..	310	..	..	310	..	..
National Bank of Tasmania Ltd.	23	56	4	..	..	83	..	..	..	83	..
City Bank of Sydney	..	55	59	..	..	114	..	59	..	55	..
Royal Bank of Queensland Ltd.	21	62	..	..	..	83	..	..	..	83	..
Bank of North Queensland Ltd.	..	37	..	..	..	37	..	..	..	37	..
	4,197	19,717	9,326	233	2,861	36,333	275	374	2,861	2,373	30,450

NOTE RE BALANCE.—This figure represents the balance of Reserves after completion of the re-adjustments consequent on the crisis.

TABLE 46.

ANALYSIS OF THE RESERVES OF THE TRADING BANKS—1893 TO 1936 (BY YEARS).

—	Additions.				Deductions.				
	From Profits.	From Premiums.	From Other Sources.	Total Additions.	Capitalized.	Written Off.	Extinguished by Amalgamation.	Net Increase.	Net Decrease.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1893 and 1894	50	288	..	338	..	59	..	279	..
1895 to 1899	286	25	54	365	..	..	..	365	..
1900 to 1904	1,066	31	..	1,097	..	40	..	1,057	..
1905 to 1909	2,012	217	..	2,229	..	10	..	2,219	..
1910 to 1914	3,107	1,290	125	4,612	..	..	..	4,612	..
1915 to 1919	2,945	504	..	3,449	225	..	258	2,967	..
1920 to 1924	4,992	2,069	48	7,109	50	..	293	6,766	..
1925 to 1929	4,562	4,652	6	9,220	..	265	710	8,245	..
1930 to 1934	576	250	..	826	..	..	1,112	..	286
1935	15	..	..	15	..	..	..	15	..
1936	15	..	..	15	..	..	..	15	..
	19,717	9,326	233	29,276	275	374	2,373	20,254	..
Each Year, 1925 to 1936—									
1925	1,111	1,436	2	2,549	..	..	..	2,549	..
1926	1,140	241	..	1,381	..	..	..	1,381	..
1927	921	900	..	1,821	..	265	710	846	..
1928	675	1,825	4	2,504	..	..	..	2,504	..
1929	715	250	..	965	..	..	..	965	..
1930	368	250	..	618	..	..	..	618	..
1931	163	..	..	163	..	..	1,112	..	949
1932	15	..	..	15	..	..	..	15	..
1933	15	..	..	15	..	..	..	15	..
1934	15	..	..	15	..	..	..	15	..
1935	15	..	..	15	..	..	..	15	..
1936	15	..	..	15	..	..	..	15	..

TABLE 47.

STATEMENT SHOWING THE AGGREGATE PROFITS OF THE TRADING BANKS—1893 TO 1936, AND HOW THEY HAVE BEEN APPLIED.

	£'000.	£'000.		£'000.	£'000.
Dividends Paid—			Balance of Undistributed Profits, 1893 (After completion of Reconstruction)		130
Preference	5,003		Profits—1893 to 1914—		
Ordinary	75,917				
		80,920	"A" Group	21,876	
Reserves	..	19,717	"B" Group	9,755	
Inner Reserves and Contingencies ..	..	1,046			
Repayment of Deposits	..	1,687		31,631	
Reinstatement of Capital	..	1,923	Profits—1915 to 1936—		
Sundry Purposes	..	34	All Banks	74,917	
Extinguished by Amalgamations and Reconstructions	..	271	Total Profits—1893 to 1936 ..	..	106,548
		105,598	Transfers from Inner Reserves to meet Trading Losses (1894 to 1897)		111
Balance of Undistributed Profits, 1936	..	1,191			
		106,789			106,789

NOTE *re* UNION BANK OF AUSTRALIA LTD.—For many years the accounts of this bank were made up to 28th February. In 1934, the date was altered to 31st August. For the purposes of the above summary the profits for the years 1935 and 1936 have been adjusted in order that the amount included shall represent the estimated annual profit. This will result in a small difference between the balance of undistributed profits in 1936, as shown in this statement and as shown in the aggregate Balance-sheet of the Banks as at that date.

TABLE 48.

STATEMENT OF FUNDS AND CAPITAL USED AND PERCENTAGE OF PROFIT EARNED AND DIVIDENDS PAID—1893 TO 1936.

Period.	Total Funds.	Total Profits.	Return Per cent.	Preference Capital.	Preference Dividend.	Rate Per cent.	Ordinary Capital.	Profit Available.	Return Per cent.	Ordinary Dividends.	Rate Per cent.
	£'000.	£'000.		£'000.	£'000.		£'000.	£'000.		£'000.	
Year 1894—A.	10,920	543	4.97	..	..	..	6,342	543	8.56	511	8.05
B.	9,461	342	3.61	3,316	112	3.38	6,091	230	3.78	125	2.05
	20,381	885	4.34	3,316	112	3.38	12,433	773	6.22	636	5.11
Five Years 1895–1899—A. ..	12,063	536	4.44	..	..	..	7,356	536	7.29	502	6.82
B. ..	12,051	176	1.46	3,316	67	2.02	8,527	109	1.28	35	0.41
	24,114	712	2.95	3,316	67	2.02	15,883	645	4.06	537	3.38
Five Years 1900–1904—A. ..	12,493	909	7.28	..	..	..	7,433	909	12.23	685	9.21
B. ..	10,602	400	3.77	3,316	128	3.86	6,780	272	4.01	104	1.53
	23,095	1,309	5.67	3,316	128	3.86	14,213	1,181	8.31	789	5.55
Five Years 1905–1909—A. ..	13,924	1,191	8.55	..	..	..	7,795	1,191	15.28	853	10.94
B. ..	8,615	543	6.30	3,324	127	3.82	4,522	416	9.20	171	3.78
	22,539	1,734	7.69	3,324	127	3.82	12,317	1,607	13.04	1,024	8.31
Five Years 1910–1914—A. ..	17,942	1,631	9.00	..	..	..	9,431	1,631	17.29	1,150	12.20
B. ..	10,020	764	7.62	3,370	146	4.33	5,340	618	11.57	269	5.04
	27,962	2,395	8.56	3,370	146	4.33	14,771	2,249	15.22	1,419	9.61
Five Years 1915–1919 ..	34,779	2,630	7.56	3,290	163	4.95	17,243	2,467	14.30	1,704	9.88
Five Years 1920–1924 ..	44,906	3,937	8.77	2,568	124	4.83	23,762	3,812	16.05	2,645	11.14
Five Years 1925–1929 ..	61,203	4,957	8.09	2,326	105	4.51	32,297	4,852	14.70	3,794	11.39
Five Years 1930–1934 ..	69,170	2,640	3.82	2,117	85	4.0	35,338	2,555	7.23	2,407	6.81
Each Year, 1925–1936—											
1925	55,073	4,822	8.75	2,534	122	4.81	29,360	4,700	16.01	3,442	11.72
1926	59,277	5,026	8.48	2,534	126	4.97	30,762	4,900	15.92	3,665	11.91
1927	59,582	4,996	8.38	2,326	106	4.51	31,685	4,890	15.43	3,744	11.81
1928	64,063	4,999	7.80	2,117	85	4.00	34,241	4,014	14.35	4,090	11.94
1929	68,322	4,943	7.23	2,117	85	4.00	35,437	4,858	13.71	4,029	11.37
1930	69,603	4,400	6.33	2,117	85	4.00	35,687	4,324	12.11	3,850	10.79
1931	70,504	2,963	4.20	2,117	85	4.00	35,947	2,878	8.01	2,820	7.84
1932	68,571	1,880	2.74	2,117	85	4.00	35,019	1,795	5.12	1,787	5.10
1933	68,550	1,953	2.85	2,117	85	4.00	35,019	1,868	5.33	1,749	4.99
1934	68,620	1,996	2.91	2,117	85	4.00	35,019	1,911	5.45	1,827	5.22
1935	68,654	1,997	2.91	2,117	85	4.00	35,019	1,912	5.46	1,783	5.09
1936	68,708	2,098	3.05	2,117	85	4.00	35,019	2,013	5.75	1,894	5.41

TABLE 49.

ALLOCATION OF THE PROFITS OF THE TRADING BANKS—1893 TO 1936.

(STATED AS AN AVERAGE PER YEAR DURING EACH PERIOD).

Period.	Profit Available.	Dividends. Preference.	Dividends. Ordinary.	Reserves.	Inner Reserves.	Repayment of Deposits.	Reinstatement of Capital.	Sundries.	Increase.	Decrease.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Year 1894—A.	543	..	511	13	..	..	..	..	19	..
B.	342	112	125	37	..	..	..	7	61	..
	885	112	636	50	..	..	..	7	80	..
Five Years 1895–1899—A. ..	536	..	502	28	4	..	..	..	1	..
B. ..	176	67	35	29	8	5	46	2	..	17
	712	67	537	57	12	5	46	2	..	16
Five Years 1900–1904—A. ..	909	..	685	150	70	..	..	..	3	..
B. ..	400	128	104	63	17	24	64	3	..	3
	1,309	128	789	213	87	24	64	3	..	..
Five Years 1905–1909—A. ..	1,191	..	853	316	12	..	..	..	10	..
B. ..	543	127	171	86	2	35	108	..	14	..
	1,734	127	1,024	402	14	35	108	..	24	..
Five Years 1910–1914—A. ..	1,631	..	1,150	440	4	..	..	..	37	..
B. ..	764	146	269	199	4	74	64	..	7	..
	2,395	146	1,419	639	8	74	64	..	44	..
Five Years 1915–1919 ..	2,630	163	1,704	589	3	86	43	..	42	..
Five Years 1920–1924 ..	3,937	124	2,645	998	..	45	60	..	65	..
Five Years 1925–1929 ..	4,957	105	3,794	912	20	67	..	..	59	..
Five Years 1930–1934 ..	2,640	85	2,407	115	40	..	..	..	..	7
Each Year, 1925–1936—										
1925	4,822	122	3,442	1,111	..	81	..	..	66	..
1926	5,026	126	3,665	1,140	..	94	..	..	1	..
1927	4,996	106	3,744	921	..	98	..	..	127	..
1928	4,999	85	4,090	675	50	60	..	..	39	..
1929	4,943	85	4,029	715	50	..	..	..	64	..
1930	4,409	85	3,850	368	70	..	..	..	36	..
1931	2,963	85	2,820	163	..	..	..	..	..	105
1932	1,880	85	1,787	15	30	..	..	..	..	37
1933	1,953	85	1,749	15	50	..	..	..	54	..
1934	1,996	85	1,827	15	50	..	..	..	19	..
1935	1,997	85	1,783	15	75	..	..	..	39	..
1936	2,098	85	1,894	15	50	..	..	..	54	..

TABLE 50.

PERCENTAGE OF PROFIT OF THE TRADING BANKS ALLOCATED FOR EACH OF THE PURPOSES STATED—1894 TO 1936.

Period.	Profit Available.	Dividends.		Reserves.	Inner Reserves.	Repayment of Deposits.	Reinstatement of Capital.	Sundries.	Increase.	Decrease.
		Preference.	Ordinary.							
Year 1894—A.	..	..	94.10	2.40	..	..	..	..	3.50	..
B.	..	32.75	36.55	10.82	..	..	..	2.05	17.83	..
	100.	12.05	71.87	5.65	..	..	..	0.79	9.04	..
Five Years 1895–1899—A. ..	..	..	93.69	5.30	0.81	..	..	..	0.20	..
B. ..	..	38.29	20.00	16.36	4.66	3.07	25.91	1.36	..	9.65
	100.	9.44	75.63	8.03	1.69	0.70	6.48	0.28	..	2.55
Five Years 1900–1904—A. ..	..	..	75.35	16.50	7.71	..	..	..	0.44	..
B. ..	..	32.00	26.00	15.75	4.25	6.00	16.00	0.75	..	0.75
	100.	9.79	60.33	16.28	6.65	1.83	4.89	0.23	..	..
Five Years 1905–1909—A. ..	..	..	71.62	26.53	1.00	..	..	..	0.85	..
B. ..	..	23.40	31.50	15.84	0.37	6.44	19.89	..	2.56	..
	100.	7.32	59.06	23.19	0.80	2.02	6.23	..	1.38	..
Five Years 1910–1914—A. ..	..	..	70.52	26.97	0.25	..	..	..	2.26	..
B. ..	..	19.13	35.26	26.10	0.32	9.69	8.38	..	0.92	..
	100.	6.10	59.28	26.69	0.33	3.09	2.67	..	1.84	..
Five Years 1915–1919 ..	100.	6.20	64.80	22.39	0.11	3.27	1.63	..	1.00	..
Five Years 1920–1924 ..	100.	3.15	67.19	25.35	..	1.14	1.52	..	1.65	..
Five Years 1925–1929 ..	100.	2.12	76.53	18.40	0.40	1.34	..	..	1.20	..
Five Years 1930–1934 ..	100.	3.20	91.17	4.36	1.51	..	..	..	..	0.24
Each Year, 1925–1936—										
1925	100.	2.53	71.38	23.04	..	1.67	..	..	1.36	..
1926	100.	2.51	72.91	22.68	..	1.87	..	..	0.01	..
1927	100.	2.12	74.94	18.43	..	1.06	..	..	2.54	..
1928	100.	1.70	81.81	13.50	1.00	1.20	..	..	0.78	..
1929	100.	1.72	81.50	14.46	1.01	..	..	..	1.29	..
1930	100.	1.93	87.32	8.34	1.58	..	..	..	0.81	..
1931	100.	2.87	95.17	5.50	..	..	..	..	..	3.54
1932	100.	4.52	95.05	0.79	1.59	..	..	..	..	1.06
1933	100.	4.35	89.55	0.76	2.56	..	..	..	2.76	..
1934	100.	4.26	91.53	0.75	2.50	..	..	..	0.95	..
1935	100.	4.26	89.28	0.75	3.75	..	..	..	1.95	..
1936	100.	4.04	90.29	0.72	2.38	..	..	..	2.57	..

TABLE 51.

ANALYSIS OF THE CAPITAL STRUCTURE OF THE TRADING BANKS, 1936.

Name of Bank.	Authorized.	Unissued.	Subscribed.	Uncalled.	Paid Up.	Reserve Liability. Per Share.	Reserve Liability. Amount.
	£'000.	£'000.	£'000.	£'000.	£'000.	£	£'000.
Bank of Adelaide	1,250	..	1,250	..	1,250	5	1,250(c)
Bank of Australasia	6,000	1,500	4,500	..	4,500	5	4,500(c)
Commercial Bank of Australia Limited—							
Preference	3,000	883	2,117	..	2,117	..	..
Ordinary	2,000	..	2,000	..	2,000	..	..
Commercial Banking Co. of Sydney Limited	12,000	2,522	9,478	4,739(b)	4,739	..	..
English, Scottish & Australian Bank Limited	5,000	..	5,000	2,000(a)	3,000	..	..
National Bank of Australasia Limited	10,000	3,200	6,800	1,800(a)	5,000	..	..
Bank of New South Wales ..	8,780	..	8,780	..	8,780	20	8,780(c)
Queensland National Bank Limited	2,000	250	1,750	..	1,750	..	..
Union Bank of Australia Limited ..	12,000	..	12,000	8,000(b)	4,000	..	..
	62,030	8,355	53,675	16,539	37,136	..	14,530

NOTES.—(a) The uncalled capital of the English, Scottish & Australian Bank Ltd. and of the National Bank of Australasia Ltd. may be called up at any time.

(b) The uncalled capital of the Commercial Banking Co. of Sydney Ltd. and the Union Bank of Australia Ltd. can be called up only in the event of, and for the purposes of, liquidation if the proceeds of the assets are insufficient to meet the liabilities.

(c) The reserve liability of the Bank of Adelaide, the Bank of Australasia and the Bank of New South Wales can be called up only in the conditions referred to in Note (b).

TABLE 52A.

NINE AUSTRALIAN TRADING BANKS.

SUMMARY OF LIABILITIES—1936.

—	Adelaide. 30th March, 1936.	Australasia. 12th October, 1936.	C.B.A. 30th June, 1936.	C.B.C. 30th June, 1936.	E.S. & A. 30th June, 1936.	National. 31st March, 1936.	New South Wales. 30th September, 1936.	Queensland National. 30th June, 1936.	Union. 31st August, 1936.	Total. 1936.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Capital—										
Preference	..	..	2,117	..	..	..	..	..	..	2,117
Ordinary	1,250	4,500	2,000	4,739	3,000	5,000	8,780	1,750	4,000	35,019
Reserves	1,000	4,475	2,250	4,300	3,265	3,300	6,150	860	4,850	30,450
Profit and Loss Account—										
Appropriations for Dividends, &c. ..	25	170	109	142	160	137	132	35	120	1,030
Balance carried forward	37	193	99	110	307	160	129	20	147	1,202
Total Shareholders' Funds ..	2,312	9,338	6,575	9,291	6,732	8,597	15,191	2,665	9,117	69,818
Notes	7	3	15	14	1	48	81	..	7	176
Bills Payable, &c.	132	4,339	1,306	1,121	2,010	866	7,140	349	1,198	18,461
Deposits—										
Interminable and Deferred Stock ..	..	..	..	..	1,873	..	..	2,751	..	4,624
Other	6,738	37,166	25,864	49,778	32,920	37,986	89,145	8,646	34,411	322,654
	9,189	50,846	33,760	60,204	43,536	47,497	111,557	14,411	44,733	415,733
Contingent Liabilities	262	281	898	..	..	1,056	3,593	..	..	6,090
PERCENTAGES.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Capital—										
Preference	..	..	6.27	..	..	..	..	..	..	.51
Ordinary	13.61	8.85	5.92	7.87	6.88	10.52	7.87	12.14	8.94	8.42
Reserves	10.88	8.80	6.67	7.14	7.50	6.95	5.51	5.97	10.84	7.32
Profit and Loss Account—										
Appropriations for Dividends, &c. ..	0.27	0.33	0.32	0.24	0.36	0.29	0.12	0.24	0.27	0.25
Balance carried forward	0.40	0.38	0.29	0.18	0.71	0.34	0.12	0.14	0.33	0.29
Total Shareholders' Funds ..	25.16	18.36	19.47	15.43	15.45	18.10	13.62	18.49	20.38	16.79
Notes	0.08	0.01	0.04	0.02	..	0.10	0.07	..	0.02	0.04
Bills Payable, &c.	1.44	8.63	3.87	1.86	4.62	1.82	6.40	2.42	2.68	4.44
Deposits	73.32	73.10	76.62	82.69	79.93	79.98	79.91	79.09	76.92	78.73
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

TABLE 52B.

NINE AUSTRALIAN TRADING BANKS.

SUMMARY OF ASSETS—1936.

—	Adelaide. 30th March, 1936.	Australasia. 12th October, 1936.	C.B.A. 30th June, 1936.	C.B.C. 30th June, 1936.	E.S. & A. 30th June, 1936.	National. 31st March, 1936.	New South Wales. 30th September, 1936.	Queensland National. 30th June, 1936.	Union. 31st August, 1936.	Total. 1936.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
Coin, Bullion and Money at Short Call ..	1,662	4,900	6,159	13,565	8,412	8,506	20,709	1,419	6,791	72,123
Securities and Investments	856	9,479	2,762	5,410	2,150	1,662	4,294	2,295	3,112	32,020
Bills and Remittances	658	2,590	1,450	2,143	3,128	3,575	7,362	571	2,334	23,820
Advances	5,060	33,301	22,211	37,854	29,112	32,447	76,592	9,578	32,120	278,884
Property	353	567	1,178	1,232	734	1,307	2,600	548	367	8,886
Total Balance-sheet Assets ..	9,189	50,846	33,760	60,204	43,536	47,497	111,557	14,411	44,733	415,733
Contingent Assets	262	281	898	..	..	1,056	3,593	..	..	6,090
PERCENTAGES.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Coin, Bullion and Money at Short Call ..	18.09	9.64	18.24	22.53	19.32	17.91	18.56	9.85	15.18	17.35
Securities and Investments	9.32	18.64	8.18	8.99	4.94	3.50	3.85	15.93	6.96	7.70
Bills and Remittances	7.16	5.11	4.29	3.56	7.18	7.53	6.60	3.96	5.22	5.73
Advances	61.60	65.49	65.80	62.87	66.87	68.31	68.67	66.46	71.82	67.08
Property	3.83	1.12	3.49	2.05	1.69	2.75	2.33	3.80	0.82	2.14
	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

372

TABLE 53.

AMALGAMATIONS OF THE TRADING BANKS—1893 TO 1936.

Year.	As per Final Accounts. Capital.	Reserves.	Profits.	Total.	Acquired by—	Consideration. Cash.	Shares.	Total.
	£'000.	£'000.	£'000.	£'000.		£'000.	£'000.	£'000.
1917—Bank of North Queensland Ltd.	162	37	3	202	Bank of Queensland Ltd. ..	..	162	162
					Bank of Queensland Ltd. ..	83	288	371
Royal Bank of Queensland Ltd.	546	83	..	629	Australian Bank of Commerce Ltd.	350	..	350
1918—City Bank of Sydney ..	400	55	3	458	Commercial Bank of Australia Ltd.	264	..	264
National Bank of Tasmania Ltd.	195	83	6	284	National Bank of Australasia Ltd.	..	447	447
Colonial Bank of Australasia Ltd. ..	439	310	12	761				
	1,742	568	24	2,334		697	897	1,594
1921—London Bank of Australia Ltd.	795	477	..	1,272	English, Scottish & Australian Bank Ltd.	109	459	568
Commercial Bank of Tasmania Ltd.	300	223	4	527	English, Scottish & Australian Bank Ltd.	616	..	616
1922—Bank of Queensland Ltd.	450	70	2	522	National Bank of Australasia Ltd.	520	..	520
	1,545	770	6	2,321		1,245	459	1,704
1927—Bank of Victoria Ltd. ..	1,478	850	39	2,367	Commercial Banking Co. of Sydney Ltd.	1,478	739	2,217
Royal Bank of Australia Ltd.	750	665	29	1,444	English, Scottish & Australian Bank Ltd.	750	375	1,125
Western Australian Bank	700	1,269	42	2,011	Bank of New South Wales ..	..	875	875
	2,928	2,784	110	5,822		2,228	1,989	4,217
1931—Australian Bank of Commerce Ltd.	2,208	1,112	26	3,346	Bank of New South Wales ..	..	1,280	1,280
GRAND TOTAL ..	8,423	5,234	166	13,823		4,170	4,625	8,795

373

TABLE 54.—COMMONWEALTH BANK OF AUSTRALIA.

LIABILITIES.

Year Ended 30th June.	Capital and Reserves.	Rural Credit Department.	Deposits and Accrued Interest.	Bills Payable, &c.	Savings Bank Department.	Total Liabilities.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1913	..	..	2,177	175	2,695	5,047
1914	..	..	4,559	555	4,645	9,759
1915	2	..	8,548	750	7,421	16,721
1916	147	..	29,746	2,361	9,478	41,732
1917	526	..	36,342	1,089	12,443	50,400
1918	1,076	..	51,940	1,793	15,228	70,037
1919	1,023	..	43,672	1,654	17,789	65,038
1920	2,756	..	41,003	1,673	17,982	63,414
1921	3,451	..	34,515	7,986	36,190	82,142
1922	4,002	..	42,091	2,459	38,057	86,609
1923	4,404	..	35,099	2,138	40,151	81,792
1924	4,529	..	31,915	2,030	41,071	79,545
1925	4,697	..	35,155	5,283	42,313	87,448
1926	4,927	279	36,729	5,829	45,538	93,302
1927	5,218	573	32,277	6,035	46,470	90,582
1928	4,389	873	42,488	4,119	..	51,869
1929	4,618	1,129	43,874	4,948	..	54,569
1930	4,869	1,398	42,813	2,757	..	51,837
1931	5,186	1,591	57,679	3,083	..	67,539
1932	5,407	2,057	63,587	3,832	..	74,883
1933	5,594	2,185	74,314	3,783	..	85,876
1934	5,812	2,215	83,573	3,888	..	95,488
1935	6,031	2,240	67,625	3,895	..	79,691
1936	6,240	2,262	74,871	5,956	..	89,329

TABLE 54.—COMMONWEALTH BANK OF AUSTRALIA—*continued.*

ASSETS.

Year Ended 30th June.	*Coin, Bullion* and Notes.	Money at Short Call in London.	Held on Account of Conversion *Loans.*	Short Term *Loans*—Australia.	Government Securities.	Bills and Remittances.	Discounts and Advances.	Bank Premises.	Total Assets.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1913	1,741	700	..	..	1,313	24	1,236	33	5,047
1914	2,711	1,465	..	..	2,819	321	2,405	38	9,759
1915	4,987	2,840	..	..	5,470	233	3,053	129	16,721
1916	19,644	5,505	..	..	8,256	1,315	6,690	322	41,732
1917	15,244	12,780	..	..	11,803	1,050	9,235	288	50,400
1918	19,640	21,805	..	..	14,451	824	12,988	329	70,037
1919	17,967	9,470	..	..	15,646	1,087	20,560	308	65,038
1920	8,057	21,430	..	..	17,975	1,320	14,224	408	63,414
1921	13,385	8,090	..	..	33,304	7,174	19,587	602	82,142
1922	14,193	10,325	..	..	34,876	2,212	15,388	615	86,609
1923	15,006	5,660	..	..	38,034	1,536	20,825	731	81,792
1924	15,238	9,720	..	..	38,773	1,364	13,558	902	79,545
1925	23,435	7,600	..	..	38,892	1,511	15,123	887	87,448
1926	17,921	11,950	..	..	46,222	4,245	12,195	769	93,302
1927	9,920	4,435	..	..	53,732	3,482	18,344	669	90,582
1928	5,797	9,798	..	3,607	16,378	3,185	12,670	534	51,869
1929	6,585	12,188	..	1,301	16,949	4,894	12,213	439	54,569
1930	7,548	5,855	..	1,140	22,310	1,338	13,096	550	51,837
1931	4,994	8,107	..	17,384	18,688	3,034	14,701	631	67,539
1932	7,814	13,267	..	10,687	28,180	1,858	12,035	1,042	74,883
1933	7,269	12,913	5,602	12,841	36,201	1,892	7,979	1,179	85,876
1934	7,889	25,744	686	8,736	37,389	1,816	12,167	1,061	95,488
1935	6,595	18,295	307	4,561	36,675	1,893	10,275	1,090	79,691
1936	6,589	22,938	2,999	7,497	36,777	2,037	9,473	1,019	89,329

TABLE 55.—THE COMMONWEALTH BANK OF AUSTRALIA.

STATEMENT SHOWING THE PROFITS OF EACH DEPARTMENT AND THE MANNER IN WHICH THEY HAVE BEEN APPROPRIATED.

Year Ended 30th June.	Profits.					Appropriation of Profits.							
	General Bank and Savings Bank Department.*	Commonwealth Savings Bank.*	Note Issue Department.‡	Rural Credits Department.	Total.	Reserves, General Bank Department.	Reserves, Savings Bank.	National Debt Sinking Fund.	To Treasury.	Rural Credits Department.	Rural Credit Department Reserves.	Rural Credits Development.	Total.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1913 ..	*Loss* 47	..	..	..	*Loss* 47	..	..	..	..	..	..	..	..
1914 ..	9	..	..	..	9	..	..	..	..	..	..	..	..
1915 ..	39	..	..	..	39	2	..	..	..	..	..	..	2
1916 ..	145	..	..	..	145	144	..	..	..	..	..	..	144
1917 ..	379	..	..	..	379	379	..	..	..	..	..	..	379
1918 ..	550	..	..	..	550	550	..	..	..	..	..	..	550
1919 ..	847	..	..	..	847	847	..	..	..	..	..	..	847
1920 ..	833	..	..	..	833	833	..	..	..	..	..	..	833
1921 ..	695	..	407	..	1,102	695	..	..	407	..	..	..	1,102
1922 ..	550	..	1,223	..	1,773	550	..	..	1,223	..	..	..	1,773
1923 ..	402	..	1,073	..	1,475	402	..	..	1,073	..	..	..	1,475
1924 ..	251	..	1,265	..	1,516	125	..	126	1,265	..	..	..	1,516
1925 ..	334	..	1,278	..	1,612	167	..	167	1,278	..	..	..	1,612
1926 ..	461	..	1,324	6	1,791	231	..	230	1,048	276	3	3	1,791
1927 ..	580	..	1,136	20	1,736	290	..	200	852	284	10	10	1,736
1928 ..	494	180	1,128	35	1,837	247	90	337	846	282	17	18	1,837
1929 ..	458	241	926	49	1,674	229	120	350	695	231	25	24	1,674
1930 ..	500	251	938	69	1,758	250	126	375	703	235	34	35	1,758
1931 ..	634	234	600	87	1,555	317	117	434	450	150	44	43	1,555
1932 ..	442	259	1,741	62	2,504	221	129	351	1,306	435	31	31	2,504
1933 ..	374	270	1,215	43	1,902	187	135	322	1,108	107	21	22	1,902
1934 ..	437	278	729	59	1,503	218	139	358	729	..	30	29	1,503
1935 ..	437	314	798	40	1,598	219	157	375	798	..	25	24	1,598
1936 ..	420	335	856	45	1,656	210	168	377	856	..	22	23	1,656
	10,224	2,362	16,637	524	29,747	7,313 *Less* 1,075†	1,181 *Add* 1,075†	4,092	14,637	2,000	262	262	29,747
						6,238	2,256						

* *Up to 31st December, 1927, the profits of the Savings Bank were included with the profits of the General Banking Department. Since that date they have been shown separately.*

† An amount of £1,075,298 was transferred as at 30th June, 1928, from the Reserves of the General Banking Department to the Reserves of the Commonwealth Savings Bank.

†† *Until 1920 the Note Issue was under the control of the Treasury.*

TABLE 56.—COMMONWEALTH SAVINGS BANK OF AUSTRALIA.

SUMMARY OF BALANCE-SHEETS—30TH JUNE, 1928, TO 30TH JUNE, 1936.

Year Ended 30th June.	Reserve Fund.	Deposits.	Other Liabilities.	Total Liabilities.	Coin and Money at Short Call.	Government Securities.	Municipal Securities.	Bank Premises.	Other Assets.	Total Assets.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1928	1,165	48,124	712	50,001	5,242	29,434	14,399	..	926	50,001
1929	1,286	50,605	744	52,635	4,505	31,885	15,180	..	1,065	52,635
1930	1,412	50,050	588	52,050	1,612	33,150	15,247	..	2,041	52,050
1931	1,529	49,818	255	51,602	3,989	30,580	14,916	..	2,117	51,602
1932	1,658	116,300	3,748	121,706	8,733	74,052	31,890	1,740	5,291	121,706
1933	1,794	117,943	4,185	123,922	13,004	73,116	31,093	1,519	5,100	123,922
1934	1,932	124,065	4,046	130,043	17,433	76,827	30,818	1,402	3,563	130,043
1935	2,089	129,133	4,737	135,959	14,335	85,069	31,918	1,192	3,445	135,959
1936	2,257	133,832	5,506	141,595	14,828	89,786	32,696	1,008	3,277	141,595

SUMMARY OF PROFIT AND LOSS ACCOUNTS FROM 1ST JANUARY, 1928, TO 30TH JUNE, 1936.

Year Ended 30th June.	Gross Profit.	Received from States.	Paid to States.	Net Profit.	To Reserve Fund.	To National Debt Sinking Fund.
	£'000.	£'000.	£'000.	£'000.	£'000.	£'000.
1928—Six months	201	21	..	180	90	90
1929—Year	240	..	1	241	120.5	120.5
1930—Year	343	8	..	251	125.5	125.5
1931—Year	210	24	..	234	117	117
1932—Year	321	..	61	260	130	130
1933—Year	437	..	167	270	135	135
1934—Year	453	..	176	277	138.5	138.5
1935—Year	527	..	213	314	157	157
1936—Year	563	..	229	334	167	167
	3,295	53	847	2,361	1,180.5	1,180.5

TABLE 57.—COMMONWEALTH OF AUSTRALIA.

OVERSEAS TRADE.

(In millions of pounds sterling.)

Year ended 30th June.	Merchandise.			Excess of Exports over Imports of Specie and Bullion.		Total Excess of Exports (+) or Imports (−).
	Exports.	Imports.	Excess of Exports (+) or Imports (−)	Total.	Of which gold produced in Australia comprised approximately.	
	£ Stg.m.	£ Stg.m.	£ Stg.m.	£ Stg.m.	£ Stg.m.	£ Stg.m.
1926 ..	140.7	151.2	− 10.5	5.1	2.3	− 5.4
1927 ..	131.8	164.1	− 32.3	11.7	2.2	− 20.6
1928 ..	137.5	146.9	− 9.4	2.7	2.1	− 6.7
1929 ..	137.7	143.3	− 5.6	3.6	1.9	− 2.0
1930 ..	97.4	130.8	− 33.4	27.4	1.9	− 6.0
1931 ..	76.3	60.6	+ 15.7	12.6	2.2	+ 28.3
1932 ..	75.2	44.0	+ 31.2	9.5	3.6	+ 40.7
1933 ..	77.8	56.8	+ 21.0	17.7	4.6	+ 38.7
1934 ..	90.0	59.4	+ 30.6	7.3	5.7	+ 37.9
1935 ..	81.9	72.4	+ 9.5	6.7	6.0	+ 16.2
1936 ..	98.1	83.5	+ 14.6	9.1	7.3*	+ 23.7

* Preliminary estimate.

Source: *Commonwealth Year Book* and *Overseas Trade Bulletin*.

TABLE 58.

COMMONWEALTH AND STATES.—NET EXPENDITURE ON WORKS, SERVICES, ETC., FROM LOAN FUNDS.

(In millions of pounds.)

Year ended 30th June.	Commonwealth.	States.	Total.
	£m.	£m.	£m.
1926	9.3	34.0	43.3
1927	9.4	33.3	42.7
1928	8.7	36.4	45.1
1929	8.2	32.1	40.3
1930	5.3	24.6	29.9
1931	2.0	12.5	14.5
1932	3.5	6.2	9.7
1933	0.6	10.0	10.6
1934	0.5	14.5	15.0
1935	1.9	18.6	20.5
1936	1.7	17.5	19.2

Source: *Commonwealth Finance Bulletins*, and *Quarterly Summary of Australian Statistics*.

TABLE 59.

COMMONWEALTH SECURITIES IN AUSTRALIA.

AVERAGE YIELD, INCLUDING REDEMPTION, AT MARKET PRICES.

Date.	Average Yield.	Date.	Average Yield.
	£ s. d.		£ s. d.
1928—29th March	5 10 1	1933—5th January ..	3 18 8
28th June	5 10 4	30th March	3 10 9
28th September ..	5 9 0	30th June	3 14 11
29th December ..	5 5 0	30th September ..	3 13 5
1929—27th March	5 6 4	1934—8th January ..	3 11 1
27th June	5 5 2	28th March	3 9 8
3rd October	5 10 4	30th June	3 4 11
19th December ..	5 13 11	29th September ..	3 3 0
1930—3rd April	6 0 7	1935—7th January ..	3 4 4
3rd July	6 1 2	30th March	3 8 9
2nd October ..	7 0 0	29th June	3 10 2
1931—8th January ..	7 1 5	30th September ..	3 10 3
12th March	7 14 4	1936—6th January.. ..	3 13 10
4th June	12 10 11	31st March	3 16 1
30th September ..	6 4 2	30th June	3 17 10
1932—7th January ..	4 17 1	30th September ..	3 17 3
31st March	4 18 5	1937—4th January ..	3 19 7
30th June	4 15 7		
30th September ..	4 1 8		

TABLE 60.

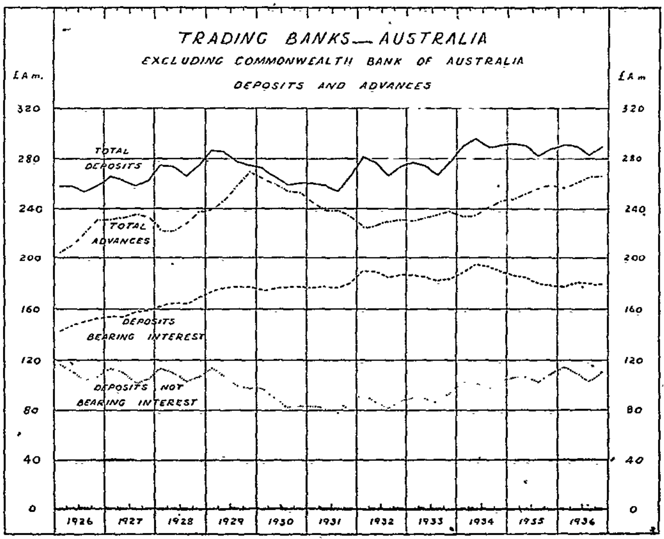
AUSTRALIAN TREASURY BILLS.

HOLDINGS AT END OF QUARTER.

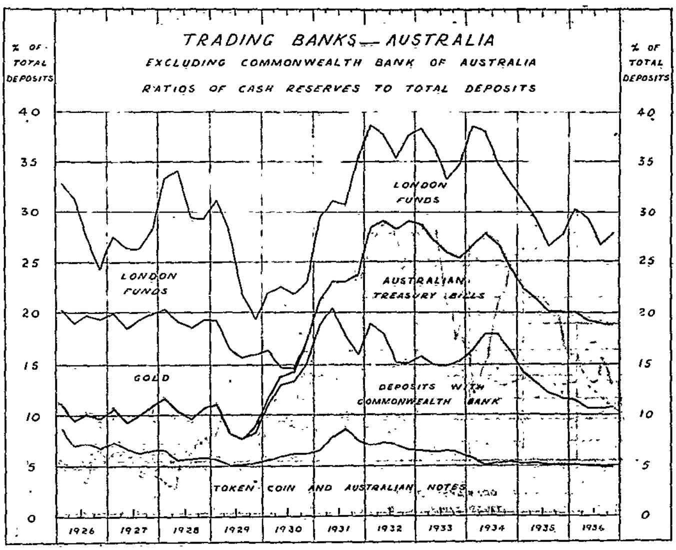
(In thousands of pounds.)

End of Quarter.	Commonwealth Bank.*	Nine Trading Banks.	Others.	Total Treasury Bills Outstanding.
	£'000	£'000	£'000	£'000
1929—December	975	1,225	300	2,500
1930—March	50	2,000	250	2,300
June	..	2,200	100	2,300
September	..	2,550	50	2,600
December	2,520	6,380	100	9,000
1931—March	12,715	6,930	225	19,870
June	13,430	7,190	..	20,620
September	14,775	15,900	400	31,225
December	13,710	24,600	1,450	39,760
1932—March	14,025	29,350	50	43,425
June	13,850	30,850	290	44,990
September	12,745	38,080	400	51,225
December	14,715	35,820	310	50,845
1933—March	16,820	34,915	110	51,845
June	20,180	28,130	565	48,875
September	21,470	28,730	500	50,700
December	20,840	29,480	500	50,820
1934—March	21,065	29,630	555	51,250
June	21,079	27,115	275	48,469
September	24,853	25,825	355	51,033
December	28,043	22,600	365	51,008
1935—March	24,303	24,190	335	48,888
June	21,544	23,140	440	45,124
September	23,465	24,045	290	47,800
December	26,870	23,835	375	51,080
1936—March	23,225	24,870	655	48,750
June	23,523	23,205	285	47,013
September	25,028	23,475	275	48,778
December	31,159	21,870	555	53,584

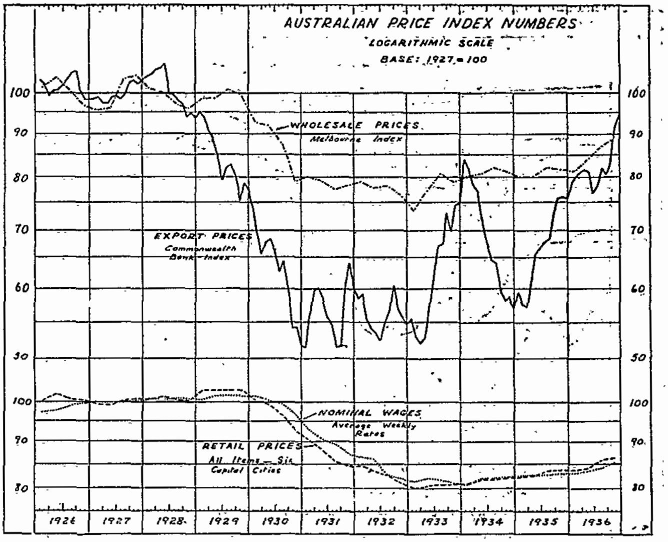
* Including Treasury Bills held on account of Note Issue Department, General Banking Department, Rural Credits Department, and Commonwealth Savings Bank of Australia.

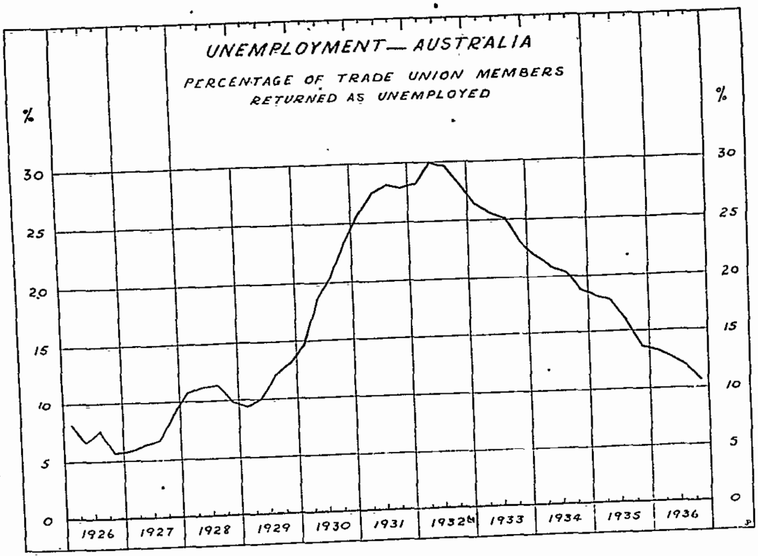

TRADING BANKS — AUSTRALIA
EXCLUDING COMMONWEALTH BANK OF AUSTRALIA
DEPOSITS AND ADVANCES
£A m.
320
280
240
200
160
120
80
40
0
TOTAL DEPOSITS
TOTAL ADVANCES
DEPOSITS BEARING INTEREST
DEPOSITS NOT BEARING INTEREST
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936

380


TRADING BANKS — AUSTRALIA
EXCLUDING COMMONWEALTH BANK OF AUSTRALIA
RATIOS OF CASH RESERVES TO TOTAL DEPOSITS
% OF TOTAL DEPOSITS
40
35
30
25
20
15
10
5
0
LONDON FUNDS
AUSTRALIAN TREASURY BILLS
GOLD
DEPOSITS WITH COMMONWEALTH BANK
TOKEN COIN AND AUSTRALIAN NOTES
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936

381


AUSTRALIAN PRICE INDEX NUMBERS
LOGARITHMIC SCALE
BASE: 1927 = 100
WHOLESALE PRICES
Melbourne Index
EXPORT PRICES
Commonwealth Bank Index
NOMINAL WAGES
Average Weekly Rates
RETAIL PRICES
All Items — Six Capital Cities
100
90
80
70
60
50
100
90
80
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936


UNEMPLOYMENT — AUSTRALIA
PERCENTAGE OF TRADE UNION MEMBERS
RETURNED AS UNEMPLOYED
%
30
25
20
15
10
5
0
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936

ALPHABETICAL LIST OF WITNESSES WHO APPEARED BEFORE THE COMMISSION.

Abercrombie, A. D., President, Brisbane Stock Exchange.
Adams, A. G., builder, Moreland, Vic.
Adams, W. C., retired civil servant, Wahroonga, N.S.W.
Aguilar, H., Lane Cove, N.S.W.
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Armstrong, A. C., farmer, Collie, W.A.
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Bennett, W., Managing Director, City Mutual Life Assurance Society Ltd., Sydney.
Berkeley, A., Under-Treasurer of Western Australia.
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Boyce, L. A. G., ironfounder and engineering manufacturer, Toowoomba, Q'ld.
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Sheehan, Sir H. J., C.B.E., Secretary to the Commonwealth Treasury.
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Simpson, J. J., Albert Park, Vic.
Skerman, J. H., farmer, Maleny, Q'ld.
Smith, G. R. B., General Manager, The Australian Provincial Assurance Association Ltd., Sydney.
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Trethowan, Sir A. K., Managing Director, Farmers' and Graziers' Co-operative Grain Insurance and Agency Company Ltd., Sydney.

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Walton, J. T., Managing Director, Cash Orders (Amalgamated) Ltd., Sydney.
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Young, F. N., Managing Director and Chairman, The Commonwealth Wool and Produce Company Ltd., Sydney.
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Barnard, F. J., Pymble, N.S.W.
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Bowles, H. R., Dee Why, N.S.W.
Buckley, J. W., Coonabarabran, N.S.W.
Budge, Mrs. P. A. J., Coogee, N.S.W.
Burchett, G. H., Poowong, Vic.
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Chambers, E. W., Heidelberg, Vic.
Cifuentes, J. A., Millaa Millaa, Q'ld.
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Gleed, S. W., Adelaide.
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Hayes, H. E., Mernda, Vic.
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Wright, Miss E., Bayswater, W.A.

INDEX.

PARAGRAPH.

PARAGRAPH.

PARAGRAPH.

PARAGRAPH.

PARAGRAPH.

PARAGRAPH.

INDEX—*continued.*

PARAGRAPH.

INDEX—*continued.*

PARAGRAPH.

INDEX—*continued.*

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