THE STRUGGLE FOR CENTRAL BANKING IN AUSTRALIA: THE ROYAL COMMISSION OF 1935-37 ON THE MONETARY AND BANKING SECTORS

BY

KIM SUTHERLIN

B.Ec Hons Thesis
Department of Economic History
Faculty of Economics and Commerce
Australian National University

1980

PREFACE

Since this sub-thesis is based largely on archival materials available at the Australian Archives Office in Canberra and the Reserve Bank of Australia in Sydney, I should like to express my indebtedness to officers of both organizations for their assistance: Most especially, to Elizabeth Nathan of the Australian Archives Office and Alex Stewart of the Reserve Bank. I am grateful to the following persons for granting me interviews: Dr. H.C. Coombs; Emeritus Professor L.F. Crisp; Mr. J.Q. Ewens; Dr. L.J. Hume; Sir Leslie Melville; Sir John and Lady Phillips; the Honourable E.G. Whitlam; and Sir Roland Wilson. I should also like to thank the following persons for answering my correspondence: The Lady Casey; the Right Honourable Sir John McEwen; and the Right Honourable Sir Percy Spender. I also express my gratitude for conversations with Sir Hermann Black and Sir Percy Spender. Above all, I express my sincerest appreciation to Selwyn Cornish for his dedicated and inspiring supervision, and last, but not least, I thank Anne Buchmayer for typing the sub-thesis.

INTRODUCTION

On 18 January 1979, the Federal Treasurer announced the establishment of a Committee of Inquiry into the Australian Financial System. Chaired by J.K. Campbell, Chairman and Chief General Manager of the Hooker Corporation Ltd., the Committee was set up to investigate several aspects of the monetary system; in particular, it was to inquire into, and report on, the structure and methods of operation of the monetary system and its regulation and control.(1) When establishing this investigation, the Treasurer noted that it was the first to be held in Australia in over forty years. It is the purpose of this sub-thesis to examine some of the principal aspects of the previous inquiry, the Royal Commission on the Monetary and Banking Systems, which was officially constituted on 15 November 1935. Its terms of reference were:

> 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.(2)

Prior to the creation of the Commission, there had been numerous and far-reaching changes in the economy and in theories concerning banking technique. It is not surprising, therefore, that this investigation, the first to be conducted following the establishment of the Commonwealth, had very significant implications for the future of the banking and monetary systems in Australia. Indeed, the importance of the Royal Commission cannot be exaggerated, for its recommendations marked a turning point in the history of banking in Australia. Although none of its recommendations were incorporated immediately into legislation, the banking system was influenced by its proposals for the next forty years. Many of the powers advocated by the Commission were conferred upon the Commonwealth Bank under war-time emergency legislation in 1939 and 1941. In addition, the inquiry exerted a fundamental educational impact on bankers and upon Ben Chifley who, as Federal Treasurer during the Curtin Labor Government, prepared the 1945 banking legislation. Subsequently, these laws, which embodied most of the Commission's recommendations, have formed the basis of Australian banking to the present day.

Even when the Report was first released to the public in July 1937, several commentators emphasized its significance. R.G. Casey, the Federal Treasurer during the Lyons Government, and Lyons himself, expressed satisfaction that the Commission had confirmed "as the Government supposed, that the present system is fundamentally sound and, under present conditions, is the best in the general interest of the community."(3) The media, and the public generally,

similarly looked upon the Report with favour. On 21 July 1937, *The Age* stated that "even in summarised form the recommendations of the Royal Commission on Monetary and Banking Systems are instructive and stimulating. It is clear at a glance that the full report is of prime importance, and that the Commission has thoroughly justified its appointment." (4) *The Economist* asserted on 16 October 1937 that, of the four reports which had recently been produced by banking investigations in Britain, Canada, New Zealand, and Australia, the Australian report was "more sophisticated, and more academic in the arrangement of its full and precise survey of the Australian economy. It argues its points fully and fairly, even, in fact, a little pedantically." It said that all of the reports:

> inculcated the principle of monetary management and of the responsibility of Central Banking .... The British Macmillan Report stated the object of Central Banks to be "to maintain the stability of international prices both over long periods and over short periods". This report [the Australian] tells the Commonwealth Bank "to make its chief consideration the reductions of fluctuations in economic activity". In both cases the ultimate aim is, of course, identical, but the alteration in emphasis indicates a change in opinion about methods, interesting as a lesson taught by the past six years as well as a reflection on the special position of raw materials-producing countries. The rest of the report shows clearly why the change has come about, and gives it an interest of its own. In fact, in every way this is a volume worthy of its predecessors and to be read by anyone interested in contemporary economic life. (5)

Various economists also commended the Commission on its efforts. S.J. Butlin, for example, wrote in *The Australian Quarterly* in September 1937 that "as Royal Commissions go, that on the Banking System was worth the money." (6)

The Royal Commission made recommendations on a variety of issues. For example, it informed the government that a mortgage bank, or banks, should be created to provide fixed and long-term loans. It also urged the government and the Commonwealth Bank to look into the difficulty of establishing institutions to meet the needs of small secondary industries. Although bank nationalization, as such, did not receive much attention by the Commissioners, they discussed the relations between the Commonwealth Bank and the Commonwealth government, concluding as they did that if a conflict arose between the Bank and the government which could not be resolved by discussion, it was the Bank's responsibility to implement the government's policy. Here was a proposal of far-reaching significance.

Although clearly not the only issue with which the Commission was concerned, the Commissioners did devote much of their time to the role of the Commonwealth Bank as a central bank. Since, in the perspective of history, their recommendations in this respect seem to have been its most enduring aspect, the sub-thesis is mainly concerned with this issue. Whereas the Campbell inquiry's interim report has revealed that a certain level of government control is necessary, one major, if not the most important recommendation of its final report will be for some measure of liberalization and deregulation.(7) In contrast, the 1935-1937 Royal Commission strongly emphasized the inadequacies of central bank powers of control over the Australian monetary and banking systems. Its main concern was to advocate greater regulation of the monetary and banking systems by the monetary authorities

- that is, by the Commonwealth Bank, and, ultimately, by the government itself. This advocacy, no doubt, was in part a response to public demands for a stronger central bank and greater government control which, in turn, were the legacy of the dismal failure of the monetary and banking systems in the early 1930s to relieve the effects of the Great Depression: But these demands also derived in part from the deep depression and bank failures of the 1890s. In addition, the emergence of new ideas concerning economic management were also important. Thus, the Commission aimed to prevent violent fluctuations in the financial system and to ensure, in particular, the stability of the banking system through stricter controls. The private banking sector, however, vigorously opposed government intervention, and hence sought to prevent the government from implementing the Commission's proposals. These, then, are the three main themes of this sub-thesis, namely, the reasons why the Commission was established, its principal recommendations, especially those pertaining to the objectives of monetary policy and policy instruments, and the efforts of the private banks to thwart the government's attempts to translate these suggestions into legislation.

The sub-thesis is divided into three parts. Part A deals with the origins of the Royal Commission: Chapter One examines the background to the establishment of the investigation, while Chapter Two attempts to sketch, briefly, the main features of the Australian monetary and banking systems at the time the inquiry was created. Part B addresses itself to the evidence presented to the Commission and its subsequent recommendations. Although the Comm devoted themselves to the entire range of problems besetting the Australian financial and banking systems, the sub-thesis has taken a more narrow approach, necessitated by limits of time and space. Thus, Chapter Three concentrates on the Commission's deliberations and the witnesses' submissions as to what constituted the desirable objectives of the monetary authorities, notably the central bank. Chapter Four focuses on the Commission's examination of the instruments of monetary policy. In view of the inquiry's preoccupation with the Commonwealth Bank's need for two additional devices of control, namely, minimum reserve deposits and access to the London funds of the trading banks, this chapter will deal more or less exclusively with these most significant issues. Part C looks at the aftermath of the report: Chapter Five seeks to survey public reaction to the publication of the Commission's findings, as expressed by the media, various academics, and politicians; Chapter Six discusses the pressures which the private banks brought to bear upon the government to reject the recommendations; finally, Chapter Seven examines the government's moves to introduce legislation embodying the Commissioners' proposals, culminating in the enactment of the 1945 banking legislation.

P A R T A

THE ORIGINS OF THE ROYAL COMMISSION

CHAPTER ONE

THE ESTABLISHMENT OF THE ROYAL COMMISSION

The genesis of the Royal Commission may be traced to a number of long-term and short-term influences. To begin with, long-term influences included the movement for banking reform dating back to the depression of the 1890s, which became an integral part of the Australian Labor Party's (ALP) platform. In an interview with the author Dr H.C. Coombs, who was Assistant Economist to the Commonwealth Bank, revealed that some Australians, especially in the Labor Party, were convinced that monetary affairs not only played an important role in political and economic issues, but could also be manipulated to suit political ends.(1) It was these beliefs which underpinned Labor's attempts to promote the development of central banking. By 1919, the Labor Party had dedicated itself to the aim of bank nationalization. In an effort to gain supremacy over the Bank of New South Wales, the Scullin Government attempted in 1930 to establish a strong central bank, but its efforts were thwarted by an anti-Labor Senate majority. Another issue of longer term significance was the interest of non-Labor parties in central banking which began in the 1920s. Underlying the legislation passed in 1924, during the term of the Bruce-Page Government, was the belief that the Commonwealth Bank should acquire the functions of a central bank. Additionally, world and Australian events and economic policy increased general awareness of the inadequacies of

the Commonwealth Bank as a central bank. Various people, including Sir Ernest Harvey, who was Deputy Governor of the Bank of England from 1920 to 1936, and Professor D.B. Copland, Economic Adviser to the government from the Depression to 1945, called for monetary investigations and the development of central banking even before the Depression.(2) However, it was the bitterness aroused during and after these troubled years which initiated widespread criticism of banking and created demands for inquiries into, and reform of, the Australian banking and monetary systems, by economists, members of the business community, and the public. Various monetary theories gained popularity even among some politicians, and many people desired an investigation into the validity of such ideas.

While
DBC

The Depression marked the beginning of the upturn in Labor's campaign against the private banks. The banks were criticized for rejecting proposals by the Scullin Labor Government (1929-1931) which were designed to relieve the misery of the Depression. They were condemned for reducing advances and taking other inappropriate monetary measures which only served to worsen and prolong the down-turn in economic activity. In 1932, moreover, Labor became very antagonistic towards the private bankers who were held partly responsible for the collapse of the Labor Governments in New South Wales and in Federal Parliament. Party members realized, therefore, that unless the monetary system was reformed, it could be used to defeat the Labor cause in the future. Their dedication to reform was not unique, however, and as the Depression lingered on, increasing proportion of the community came to agree the ALP that it was time to put an end to priva domination of the economic system. Eventually, adherents and members of all parties, including those in power, joined the crusade for improved monetary and banking systems. The government finally decided to establish an inquiry to resolve the criticisms and doubts that had arisen. Also, the establishment of banking inquiries in Canada, Britain, and New Zealand raised the expectation that the Australian Government would follow suit. And the breakdown of the sterling exchange system in the early 1930s, and the absence of a viable alternative, similarly made an investigation desirable.

While these long-term issues provide a background to the creation of the Royal Commission, the Commission owed its existence to other, more important events of a short-term nature. In short, the Commission was established principally as a result of political pressures, such as those exerted by the Labor Party - especially the strong initiating force provided by J.H. Scullin, Leader of the Opposition - during the federal election campaign of 1934. But as well, members of the government parties themselves were a significant element, of which the role of the Country Party was the most notable. Although the significance of political manoeuverings and debates cannot be over-emphasized, public opinion was yet another force with which Cabinet had to deal, and the media did not fail to capitalize upon the concern, confusion, and discontent of the community regarding banking and monetary affairs.

Banking as a Major Issue During the Election Campaign of 1934

When the economy finally embarked on the road to recovery, banks and banking continued to be scrutinized and discussed. Many people, and eventually even Casey, the Federal Treasurer during the Lyons Government (January 1932-April 1939), came to realize that there had never been any public examination of the Australian monetary and banking systems since the establishment of the Commonwealth. An investigation was perhaps more desirable in the light of the many new developments in banking technique and important changes in the economy which had occurred during the preceding few years. There was a strong belief in the need for improving the system, and while all parts of the economic system came to be examined, no aspect seemed to receive more attention than the monetary and banking systems.

As early as January 1932, some Cabinet members of the government party, the United Australia Party (UAP), admitted the desirability of preventing political interference with the Commonwealth Bank. Accordingly, on 31 March 1933, John Latham, the Attorney-General, informed the House of Representatives that although an inquiry was not necessary, the government hoped to consider the desirability of introducing legislation which would reorganize the Bank to some extent and equip it with all the attributes of a central bank.(3) It intended to examine the possibility of separating the trading activities of the Bank from the central banking functions which, interestingly enough, was what E.G. Theodore, the Federal Treasurer during the Scullin Government, had proposed in 1[...] for reform were high, as shown by numerous calls fo[...]

which were expressed by various groups of the Australian Natives Association (ANA) throughout Australia as early as 1932, and by the Farmers Restoration League. Action was not taken, however, for fear of causing a loss of confidence. By mid-November 1933, Lyons was still procrastinating while claiming to be awaiting the results of overseas inquiries.(4)

While the UAP seemed to be protecting the interests of the private bankers - its loyal political and financial supporters - the intensity and ferocity of Labor's criticisms of the banks and its demands for change reached new levels. According to Professor L.F. Crisp, "Labour was understandably bitter about both the economic and political roles of the banks generally ... Banking and currency reform proposals, indeed, were raised to the status of panaceas both within and beyond Labour's frustrated and divided ranks in the 1930's".(5) As early as December 1932, throughout 1933, and especially during the election campaign in 1934, Scullin condemned the banks in various articles, manifestos and speeches. Although he held the 'profit-hungry' banks mainly responsible for the Depression and the consequent misery of the people, he ensured that the UAP government did not escape blame. Accordingly, on 31 March 1933, he initiated a debate in the House concerning "the necessity for an inquiry into banking operations, and their effect upon Australia's economic position".(6) The House immediately divided along party lines. On the one hand, the members of the government defended, and opposed any interference with, the private banking system. Labor supporters, on the other hand, were strongly in favour of

changing the system. In June 1933, the Federal Labor Conference included the nationalization of banking in the Party's election platform, apparently at Scullin's instigation. While he publicly advocated outright socialization of banking on 6 February 1933, this issue was rarely mentioned, however, in his later speeches on banking reform.(7) It seems that 'nationalization by stealth' more accurately describes his intentions: He believed that government seizure of the banks would be unnecessary as the Commonwealth Bank would ultimately attract business away from them if all governments were forced to deal with the Bank. In view of his obsession with the monetary system before and during 1934, it is not surprising that the monetary question and banking became prominent election issues at the expense of other more immediate problems. Indeed, some sections of the Labor Party criticized the importance he placed upon an election pledge to hold a complete and unbiased monetary investigation. Some conservatives in the Party believed he used banking matters as a tactic to divert attention away from the policies of J.T. Lang, Leader of the New South Wales Labor Party and an advocate of nationalization, and to establish himself as the centre of the Opposition.(8)

The activities of the Labor Party, however, did not change the government's stand. On 4 July 1934, Lyons announced that there was no desire to establish an independent inquiry in Australia.(9) Apparently he feared that the appointment of a commission would be interpreted as an admission that something was amiss in a system he was defending. In fact, Cabinet sought to avoid any investi which would cause a conflict of opinion between the bank public, but the government's statements failed to pacify the large group of supporters who had responded most favourably to Scullin's promises. The resulting demands for an investigation which were communicated to Lyons by Labor sympathizers and members of the public were not easily cast aside. For example, the ANA informed George Pearce, the Minister for External Affairs and Territories, who supported the idea of a Royal Commission, of its resolution asking the government to establish such a commission.(10) The Legislative Assembly of Western Australia, moreover, urged a similar investigation. By publicizing banking issues and public opinion, the media played a part in bringing about the creation of the Royal Commission. On 9 August 1934, at the beginning of the election campaign, *The Age* advocated the appointment of a Royal Commission on banking, explaining that certain unique features of the monetary system merited examination; a commission would be able to suggest ways of making the financial system more effective and responsive to changing circumstances:

> ... the Government can hardly ignore the grip the matter now has on the public mind. Men and women are groping for light amid the intellectual mist created by the mass of assertions and contradictions, criticisms and refutations, exact statistics and vague theories with which not only Australia, but the whole world, seems at present inundated.
>
> In such circumstances, the Federal Ministry has [the] opportunity to render the Australian people a valuable national service. It should at once make [the] offer to appoint a Royal Commission for the purpose of a comprehensive and intimate inquiry into all phases of the nation's banking and monetary system. Such an offer would meet with general and even grateful acceptance by a great body of the Australian people, for these are questions about which they are now greatly concerned, and about which many modestly feel they are extremely ill-informed. They are in no mood for precipitate action or revolutionary experiment. But, having regard to the tangled mass of thought and theory in which the question has become enmeshed, they feel a need for some independent and authoritative pronouncement. (11)

In spite of these forces for action, some opponents of a Royal Commission downplayed the idea of clarifying the issues which were being discussed, saying the request for an inquiry was a covert attack on the system and existing institutions. In retaliation, Lyons, who was backed by the opinions of those groups who opposed the idea of interference with the monetary system, defended the banking system which, he claimed, had served Australia well during the Depression. He drew on the support of such groups as the United Bank Officers Association, which affirmed that the private banks opposed nationalization as a direct threat to their continued existence.(12) On 11 May 1934, the Associated Chambers of Commerce also voiced apprehension at the prospect of an inquiry.(13) Yet, although the government was not receptive to the idea of a commission at the commencement of the election campaign, growing public agitation and, more importantly, the influence of the Country Party, apparently induced Cabinet to review the government's attitude towards an investigation as early as 1 August 1934.(14)

The Role of the Country Party

While the Labor Party was particularly antagonistic towards the banks, both before and throughout the election campaign, the Country Party (CP) had also stressed the necessity for banking reform before the election. For many years it had reflected the discontent of its farmer constituency with the private banks. In 1925, the Treasurer, Earle Page, later Sir Earle Page, drew up the Commonwealth Bank (Rural Credits) Act which was aimed at assisting farmers. Responding to the farming community's increasingly strong demands for reform of the banking system, the Party continued to promise farmers both finance and debt relief. Proposals by the Party for the appointment of a Royal Commission on banking were discussed as early as March 1934, when the Daylesford Branch of the CP held a conference at which a resolution was passed requesting the federal government to appoint a Royal Commission to inquire into the monetary and banking systems in general, and the long-term interest rate position in particular. On 30 August 1934, Page, leader of the Party, proposed to establish an independent committee of economic experts to examine the financial structure and to report on the validity of various theories of finance and credit. (15)

Page's intentions were positive, but there was little chance of bringing pressure to bear on the government as long as his party was excluded from governing the country. The turning point was, in fact, the formation of the UAP-CP coalition on 9 November 1934, which enabled Page and other party members to use their newly acquired leverage to fulfill their desire to establish a banking inquiry. After realizing that the outcome of the general election of 1934 precluded the UAP from controlling the House without the support of the CP, Lyons was eventually forced to make concessions to that Party in order to secure its participation in a coalition. Not

only did the UAP succumb to Page's demands for greater Cabinet representation, which included the deputy prime ministership, and tariff reform, but it seems that Lyons was pressured into making a promise to establish a banking investigation as a further condition of CP participation in a coalition government.

There is much evidence to suggest that the CP only gradually persuaded the government to accept its conditions. For example, it is evident in *Hansard* that on 1 November 1934, during the Address-in-Reply to the Governor-General's speech, an inquiry was clearly on the minds of the CP and the issue was discussed during numerous midnight negotiations between Lyons and Page. During the ensuing debate, several members commented on the private negotiations that were taking place. Scullin criticized the government for not mentioning the issue of a banking investigation, and he, together with F.M. Forde and J.A. Beasley, agreed that unless the government appointed a commission immediately, it would never live down its policy of inaction. The fact that an inquiry was not mentioned in the Governor-General's speech suggests that the government had not yet finalized its attitude to the issue. Forde maintained that while the CP had actively pushed for a committee of inquiry before the election, the pending formation of a coalition was mellowing its desire for reform, and causing it to fall silent on the matter. H.K. Nock, a member of the CP, confirmed the existence of political manoeuvering when he replied, "not at all." Interestingly enough, members of the CP and government supporters, especially the members of Cabinet, did not engage in this discussion on the banking issue.

Forde accused the CP of altering its policy to obtain greater Cabinet representation and, thus, lacking the courage to stand up in the House to urge the immediate establishment of an inquiry. The relative silence of the CP strongly suggests, however, that Lyons and Page were just about to conclude the details of an agreement concerning the banking issue.

When the CP finally entered a coalition government with the UAP, Page became Minister for Commerce and Deputy Prime Minister, with Tom Paterson as Minister of the Interior, and J.A.J. Hunter and Vic Thorby as Assistant Ministers. Once the coalition was formed, Lyons effectively lost the option of avoiding an investigation into the banking and monetary systems: To maintain a public impression of unity within the coalition, he was forced to yield to the strong pressure that was exerted not only by the strong CP elements in Cabinet but also by other government supporters. Page's personal influence in the appointment of a commission cannot be over-emphasized. It will be recalled that Page was involved in alterations to the banking system in the 1920s: He was both an uncompromising and determined party leader, possessing an extraordinary ability to carry his ideas through Cabinet. It appears that as one of Lyons' main assistants in the framing of policy, his voice in banking affairs was decisive. On 8 April 1935, he confessed that "no one has done as much to carry out any election promises he has made as I have during my whole career." (16)

Lyons Changes His Mind

Still, as the election campaign progressed, it would appear that Lyons' attitude towards a financial inquiry also underwent something of a change. He became convinced that a statement regarding the possibility of setting up an inquiry was necessary in view of growing public and political support for an investigation and the publicity that the issue was attracting. The media revealed that people were becoming increasingly dissatisfied with the government's determination to accept the existing monetary and banking systems. On 20 August 1934, *The Age* criticized the government's delay in establishing a commission, drawing attention to the increasing number of UAP and CP politicians who were becoming favourably disposed to the idea:

> The Government will be gravely lacking in election strategy if it fails to take such action. It is significant that the leading rival parties have given assurances that such [an] investigation will be made. The Government cannot be blind to the fact that many U.A.P. and U.C.P. candidates are giving their personal pledge that, if elected, their vote will be cast in favour of a Royal Commission being appointed. Ministers are doing themselves an injustice in maintaining an attitude that is mentally obscurantist and seems politically obstructive. (17)

Against this background, Lyons stated on 25 August 1934 that the Ministry would not object to establishing an inquiry into a specific aspect of the monetary system if a majority of the members of the new House of Representatives desired such an investigation. (18) He recalled that during the last Parliament, W.M. Hughes, the former Prime Minister, had brought to his attention a request by the London Chamber of Commerce to the British government that there should be a further study of the British monetary system. Hughes had suggested that the Commonwealth government might institute a similar inquiry. In this statement, and again on 13 September 1934, Lyons said that while he saw no reason for an investigation, the government would, if Parliament wished, arrange for a banking inquiry to be held.(19) Hence, when he was re-elected, it was believed by many that an investigation would be conducted; however, there was considerable delay before the government finally announced that a Royal Commission would be established. Some people, such as H.V. Hodson, believed that the electoral success of the government removed a great deal of the political urgency from the problem of relations between the government and the banks and, consequently, public interest in the issue would wane; however, it is likely that the public became even more concerned with banking matters.(20) More importantly, *The Sydney Morning Herald* and *The Argus*, by reflecting the bankers' attitude and clearly supporting the existing system, enabled the government to procrastinate due to the apparent weight of opposition to reform. *The Argus* opposed a banking inquiry and feared the serious repercussions that an investigation might have. On 27 September 1934, it explained that during such an investigation there was likely to be much uncertainty, which would have an adverse effect on business activity.(21) Such an inquiry would not only be costly, but futile. It added that "one of the strongest reasons against holding an inquiry is that the only kind of inquiry that would be of any value would be unacceptable

to those who have asked for it." On 16 October 1934, The *Herald* published a statement by J.B. Pease, Chairman of Lloyd's Bank, in which he applauded the sanity of the Australian people who had not allowed banking policy to become a political question. It, also, seemed to represent the interests of the banks by printing statements by various bank managers, such as Ernest O'Sullivan, Chairman of the Associated Banks of Victoria.(22)

Yet the press served to maintain keen public interest in banking issues. It is not surprising, therefore, that when the new Parliament convened on 23 October 1934, J.A.J. Hunter, of the CP, placed a motion on the notice paper which indicated his support for the establishment of a Royal Commission on banking to investigate the internal and international aspects of the system, and make recommendations that would assist trade and industry and reduce unemployment. Although Lyons stated that he would arrange an appropriate time for a discussion of the motion, no action was taken.(23) It was expected that proposals for an inquiry would be discussed in Parliament during the following weeks. But when Hunter was appointed an assistant Minister, he sought leave in the House of Representatives to withdraw the motion to meet with parliamentary procedure. Labor members, however, did not grant the leave required, but when the notice finally came before the House for discussion, Hunter was absent and so the motion lapsed.

Be that as it may, there was considerable discussion of the banking system in the House of Representatives in the months following the election. Some of the government members and many other government supporters expressed the desirability of both an investigation and banking and monetary reform; M.V. McCall, of the UAP, for example, acknowledged on 31 October 1934 that the monetary system could be improved.[24] Members of the House were never called upon to vote on the matter, but the attitude of many of them towards Hunter's motion revealed widespread support for such an examination. On 6 December 1934, Scullin asked Lyons in Parliament whether the government intended to establish a committee of inquiry into banking. Lyons replied that an investigation would be conducted if Parliament demanded. Forde, of the Labor Party, remarked how very actively the CP had campaigned for a commission. The Prime Minister acknowledged that the CP would probably continue to be active, the matter would receive consideration by the Ministry, and a statement about an examination would be made at an early date.[25] Yet once again, Lyons appears to have stalled for time.

Before the end of 1934, John McEwen, of the Country Party, tabled a notice of motion for the appointment of a Royal Commission on banking, which some people believed was inspired by a leading Cabinet Minister.[26] As McEwen later explained in a speech to the House of Representatives on 11 April 1935, when proposing terms of reference for the Commission, a large proportion of the electors had indicated a desire for some radical change, or at least for an inquiry into the system. Many doubted whether the system had kept pace with social evolution and industrial change, claiming that the banking system was "either wholly or

partly responsible for our present condition. Some believe that the system is fundamentally wrong, while others maintain that it has merely lagged behind our industrial progress. If it is wrong, the sooner we establish the right system, or improve the existing one, the better for us all.."[27] Numerous expressions of doubt concerning the system were also being voiced by financial and economic experts and, thus, he believed an investigation was even more necessary. The motion as initially tabled by McEwen in December 1934 was subsequently challenged on 14 December 1934 by McCall, who proposed an amendment to the terms of reference suggested by McEwen. These proposals, however, were not debated, as Parliament soon after went into recess. The *Herald* reported that there were indications that the Ministry intended to set up a committee during the recess.[28] Cabinet, however, was still undecided on the issue, and no announcement was made. Several reasons for this indecision can be advanced. First, the Commonwealth Bank did not encourage the government to act, as it lacked any strong feelings one way or another on whether a commission should be appointed. Although it made no decision as to whether an inquiry should be set up, and played no formal part in the government's decision to hold an inquiry, some Board members favoured the creation of a committee, while others did not. In an interview with the author Sir Leslie Melville, who was the Economist to the Commonwealth Bank, revealed that Sir Claude Reading, Chairman of the Commonwealth Bank Board of Directors, was not enthusiastic about the idea, and generally opposed it.[29] He tended to fear any interference with the existing system. On the other hand, Melville himself backed the proposal wholeheartedly, believing that stronger central bank powers were essential. Coombs also noted in a personal interview that the Bank was not really an initiator of the Royal Commission.(30) Supporting the idea only reluctantly, the Bank came to believe that an examination of the system was appropriate, expressed its viewpoint, and then went along with the government's announcement. Second, even Roland Wilson, later Sir Roland Wilson, Economic Adviser to the Treasury and Commonwealth Statistician at the time, provided no impetus to government decision-making on the issue, as he was neither dedicated to, nor actively opposed to such a study.(31) Thirdly, and most importantly, it seems that Lyons delayed the official announcement of an inquiry as a response to pressure applied by the private banks, which deplored any investigation of, and interference in, their affairs. Again, in an interview with the author, Melville said that while the bankers did not use any special tactics to influence the government, certain individuals had influential contacts with various Members of Parliament and Ministers.(32) Such links between the Lyons Government and the banking community were, incidentally, not lightly set aside as financial interests carried considerable weight in Lyons' mind. The United Bank Officers Association revealed its position towards the question of an investigatory committee when it was reported in *The Sydney Morning Herald* on 13 December 1934 and again on 21 December 1934, as opposing the idea.(33) *The Australasian Insurance and Banking Record* thought it was "difficult to see that any good purpose would be served by the appointment of a Royal Commission."(34) It appears that the bankers felt that an investigation would open the way for changes in the system and might threaten

their interests and present operations. From the bankers' viewpoint, the decision to hold an examination effectively assumed what a commission would try to prove: The fact that an inquiry might occur insinuated that serious faults existed in the system. On 21 December 1934, *The Australasian Insurance and Banking Record* reprinted statements made by E.H. Wreford, Chief Manager of the National Bank, concerning proposals for a banking investigation. He did not understand the reasons for an operation which might reduce confidence in the banking system, and this development could not be risked. He said there seemed to be a mania for Royal Commissions, adding that "it was all very harassing to honest business men who simply asked to be allowed to carry on their lawful occupations without any undue interference."(35) He hoped, therefore, that Parliament would meddle as little as possible with banking. As late as 21 January 1935, *The Australasian Insurance and Banking Record* stated that an inquiry was not needed.(36) After the Ministry announced on 19 February 1935 that a Royal Commission would be appointed, *The Melbourne Herald* published the following statement by G.D. Healy, Superintendent of the Bank of Australasia and O'Sullivan's successor as Chairman of the Associated Banks of Victoria:

> No commission at all would be the best arrangement... After all, if any Australian system has weathered the bad times, our banking system has, magnificently. In a sense, it is not too much to say that the banks saved Australia. (37)

Even as late as January 1935, however, some Ministers still opposed the appointment of a commission as a waste of public money, but, according to The *Herald*, they admitted that a degree of financial reform might be introduced, or at least the idea of reform should be debated.(38) *The Age* reported that party leaders, many of the successful candidates of the UAP, and public bodies, such as the ANA, were expressing increasing support for the proposal. (39) McCall, for example, on 23 January 1935, asked the government what steps had been taken towards the creation of a Royal Commission.(40) Cabinet, however, remained in a quandery. Casey's papers reveal that, by 22 January, nothing definite had been decided on the issue of whether or not a Royal Commission should be created, as the matter had not yet been raised for practical consideration.(41) Cabinet was apparently impressed by the fact that McCall's amendment to McEwen's notice of motion would induce some parliamentary action before Parliament went into recess. But Cabinet had still not made a decision by 12 February 1935, and *The Labor Daily* suggested on 19 February that some of the most influential Cabinet Ministers strongly disapproved of the idea of establishing any examination whatever, on the grounds that the Labor Party would be able to use the results of an inquiry to its advantage during the next elections.(42) There may be some element of truth in this statement, in view of Lyons' defense of the system and Casey's admission to S.M. Bruce, Australia's High Commissioner in London, in September 1935 that he was rather 'horrified' at first by the prospect of an investigation.(43)

The forces making for change, however, eventually outweighed those causing postponement of action. As one of many pro-inquiry pressures, public unrest, which was often conveyed through the media, appears to have influenced the government's thinking.

On 20 October 1935, Casey publicly stated that the Commission had been set up to satisfy a certain number of critics, and to see whether or not they were correct.(44) He added that it was not created because "the Government suspected any 'underhand work'. It would be useful even if it only showed whether or not the present systems could be improved."(45) In a draft outline of "Notes for the Commonwealth Bank Bill", which was drawn up in 1938, he explained that the Commission was appointed because banking affected everyone and it was desirable to be assured of the soundness of the system.(46) Apart from these belated explanations for the establishment of the inquiry, the government did not give any formal justification for its change in attitude and would not admit that supporters of all parties doubted the adequacy of the system. Without waiting for Parliament to reassemble and debate the issue, Lyons decided to submit the proposal for an investigation to the Cabinet which met on 28 January 1935. It seems that he and any other opponents of change in Cabinet were no longer able to withstand the political pressures that were applied by each party, especially the CP which, it will be recalled, was making strong criticisms and demands for action within the Ministry. In interviews with the author, both Coombs and Melville agreed that political forces eventually assumed priority over the considerations of the banks.(47) Lyons seems to have realized that evasion would no longer suffice in view of mounting parliamentary requests for the appointment of an investigating body. He was persuaded that it was time for everyone to gain a better understanding of the system and that a thorough examination might reveal directions in which improvements could be made. On 20 February 1935, *The Age* revealed that "in recent months members of all political parties have made it plain to Mr Lyons that Parliament would demand the inquiry, and without waiting for Parliament to discuss the question, thereby incurring unnecessary delay, Cabinet has agreed that it should proceed."(48) The minutes of the Cabinet meeting of 18 February 1935 indicate that Cabinet, and Menzies in particular, feared that a majority of Members of Parliament might support the establishment of a Royal Commission and thus it was decided to announce the following day that the government would appoint a commission, rather than a parliamentary committee, to investigate the Australian banking and monetary systems. As the minutes record:

> Proposed Banking Commission - Prime Minister says all parties committed to it. AG [Attorney-General] agrees, but says it will not be possible to get a High Court Judge as Chairman and Commission cannot therefore be selected before Prime Minister leaves for England and hostile motion in the House must be anticipated and therefore agreement ought to announce definitely that a commission would be appointed - Agreed. (49)

It is likely that the Cabinet Ministers realized that by making an announcement, they would no longer be required to comment upon monetary and banking issues, or answer any questions relating to such matters. Any attempts by the Opposition to put the government on the spot could be countered by statements such as "the experts will be more qualified to deal with and explain such matters." Wreford himself believed the Royal Commission was set up as an expedient to satisfy Labor and CP politicians who had attacked the

banks.(50) Even Casey, who was not very enthusiastic about the idea at first, resigned himself to the holding of an inquiry, and told S.M. Bruce on 30 September 1935 that the Royal Commission "may even possibly do some good."(51)

The Personnel of the Royal Commission and Its Terms of Reference

Cabinet's decision was reported immediately in detail in most newspapers and in the financial press, including *The Age*, *The Sydney Morning Herald*, *The Australasian Insurance and Banking Record*, *The Labor Daily*, and *The Melbourne Herald*, though *The Argus* mistakingly claimed that the form of inquiry had not yet been decided.(52) According to *The Age*, the Ministry had finally recognized that the wish for an examination came from conscientious citizens searching for causes of weaknesses, remedies, and truth amidst discontent, fallacies, and manifold difficulties.(53) On 20 February 1935, *The Age* added that the announcement had received approval in industrial, political, and financial circles.(54) Once the government had committed itself, many Members of Parliament desired to have some part in the final selection of the Commissioners and the terms of reference. Various names were canvassed in the House of Representatives, and attempts were made to influence the government's decision; Lyons, however, sought at every opportunity to confirm Cabinet's responsibility.(55)

The time lag of nearly eight months which occurred between Cabinet's resolution to appoint a Commission in February 1935 and the actual announcement of the Commissioners and terms of reference in October 1935, was unique in itself. Cabinet members took considerable time to decide both the personnel and terms of reference of the Royal Commission, perhaps because the Ministry itself chose the difficult task of selecting the most appropriate Chairman and number of suitable Commissioners. *The Labor Daily* claimed on 19 February that Cabinet had agreed to shelve the issue while Lyons was overseas and owing to pending elections in three States.(56) But it seems clear, however, from the Cabinet minutes of 18 February, that the selection of the Commission was held up because an unbiased Chairman could not be located before Lyons' departure: Acting perhaps on the advice of the banks and a section of the business community, Casey suggested the appointment of a High Court Judge, preferably Justice Dixon, who could be considered impartial. This could not be arranged, however, and Cabinet did not have time to find a suitable alternative.(57) The absence of other Cabinet members over the period from April to August also meant that the details of important issues could not be properly settled. Parliament was, moreover, effectively out of action at this time, as some of the most senior Ministers were overseas.(58)

On 20 February, *The Age* reported that the personnel and terms of reference would not be finalized until after Lyons returned from abroad in September, at which time the inquiry would proceed almost immediately.(59) It was revealed in *The Melbourne Herald* and *The Canberra Times*, however, that the terms of reference would

be drafted during Lyons' absence.(60) In any event, the preparation of the terms of reference required careful consideration: They had to be wider in scope and more comprehensive than just an appraisal of the value of one monetary system compared with another if the resulting recommendations were to carry conviction. On 20 February, *The Age* quoted Lyons as saying the inquiry would possibly be conducted along lines similar to the Macmillan Committee of enquiry into the British monetary system.(61) In addition, the actual process of designating Commissioners was time-consuming, as many prospective candidates were not available, or were unwilling to offer their services. Cabinet had to choose the Commissioners carefully to ensure that the public would have complete faith in their impartiality. The government sought as much as possible to appoint members who were not associated with banking institutions. It seems the CP was influential in this decision. A.C. Davidson, General Manager of the Bank of New South Wales, would have been ruled out because he was a leading banker and personality whose ties with the government were perhaps too close. Australia's shortage of economists posed a problem when the Ministry attempted to select men who had not been involved in recent policy controversies. D.B. Copland, for example, was probably considered to be too close to the government, and he had been prominent in the financial debates during the Depression. Perhaps more relevant is the fact that he was abroad at this time, though this fails to explain why he did not submit any written evidence. The names of other prominent men, such as E.C. Dyason, a Melbourne stock and share broker, were also mentioned in the press; however, according to *The Labor Daily*, Cabinet was "afraid of political repercussions if any of these are entrusted with the commission."(62)

Part of the delay was due, moreover, to the government's attempts to appoint a Chairman from overseas who was not only free from any controversy surrounding the subject, but also knowledgeable of Australian conditions. Casey spoke to Sir Claude Reading of the Commonwealth Bank Board in mid-January regarding the personnel of the Commission and asked him to submit a list of names for consideration. Reading favoured the selection of a foreign Chairman, "somebody from the other side of the world of well known repute and ability."(63) He listed his choices in order of preference: R.H. Brand, who had been a member of the Macmillan Committee in England; Lord Macmillan himself; D.H. Robertson, a lecturer in Economics at Cambridge University; Bertil Ohlin, a widely known Swedish economist; O.W.M. Sprague, formerly Economic Adviser to the Bank of England; and Edwin Kemmerer, an American with a solid financial background. He indicated his preference for Macmillan over an American or a Swede if Brand was unable to accept the invitation: "It will probably be much more possible to get him [Macmillan] than to get No.1. If he was appointed it would be advisable to give him some sound economist to assist him." Reading apparently believed Brand and Macmillan would make the right decisions so far as the Bank was concerned. He hoped the government would choose wisely, adding that the Commissions' recommendations might mean radical changes in the Bank. Casey then asked Bruce to

make enquiries and report back on Ohlin. On 25 February, Casey informed Bruce that he had a particularly good impression of Ohlin, "until I got your cable praising him with faint damns": On the one hand, Ohlin was criticized for writing in the press too often, but on the other hand, he was described as possibly the most level-headed and objective Swedish economist.(64) At all events, Casey seems to have excluded him from further consideration. Likewise, despite assertions by the press that Cabinet sought the nomination of one or more British authorities, Casey did not think that a British Chairman would be acceptable, "except possibly Lord Macmillan himself and I expect it is doubtful if we could get him."(65) Lyons continued to tell the press that, during his absence, every effort would be made by the acting Prime Minister to find a competent Australian Chairman, yet it is very likely that he approached Macmillan during his visit to London in the hope of securing his services as Chairman.(66) It appears, however, that Macmillan declined the offer, due to the demands of his legal commitments, and, subsequently, the government decided to appoint an Australian as head of the Royal Commission, thus putting to an end reports that Lyons would recruit overseas experts to undertake the investigation.

Similarly, the private bankers, not easily discouraged by the official decision to establish the Commission, sought to bring pressure to bear upon Lyons regarding the membership and the number of Commissioners to be chosen. In fact it seems that pressure applied by the banks was a contributing factor in the delayed announcement of the personnel and terms of reference.

Apparently Cabinet believed at one stage that three members would be sufficient: The press stated that Cabinet favoured the selection of an impartial Chairman from abroad and two Australian members, one representing Labor and the other representing industry. The bankers, on the other hand, desired more than three Commissioners and joined several business representatives from Sydney and Melbourne in advocating the appointment of a member of the Australian judiciary as Chairman. In February 1935, *The Australasian Insurance and Banking Record*, reflecting the viewpoint of the bankers, stressed the desirability of at least five Commissioners and questioned the advisability of a foreigner filling the Chair.(67) After the Ministry revealed its intention to initiate an investigation, Healy indicated that the Associated Banks of Victoria disliked the idea of a British Chairman. To him, "the chairman should be a man with a close knowledge of Australian conditions....[and] an English banker without knowledge of our peculiar conditions would be a futile appointee. Secondly, three is too small a number: The commission should be composed of at least five members."(68) The bankers naturally hoped to have as many bankers or representatives sympathetic to their interests as possible on the Commission. On several occasions, the United Bank Officers Association asked Lyons to designate a representative of the Association.(69) In August 1935, *The Argus* and the *Herald* stated that Cabinet was likely to take cognizance of the qualities of three men: Sir Osborne Smith, Governor of the Reserve Bank of India, Sir Lennon Raws, Vice-Chairman and Managing Director of Imperial Chemical Industries of Australia and New Zealand Ltd., and W. Warren Kerr, Chairman of

Commissioners of the State Savings Bank of Victoria.(70) Again, the bankers criticized this selection. Davidson quite explicitly opposed the engagement of anyone who was associated with the Bank of England or who was pursuing overseas business interests. He asserted that Raws, Kerr,and especially Smith, were unsuitable and, hence, there would be no respect for a committee containing such men.(71) The bankers' reasons for wanting suitable representation were obvious; not so clear was their wish that there should be more than three Commissioners. Perhaps they aimed to reduce the likelihood of strong consensus in order to diminish the impact of the Commission's recommendations. As it turned out, Lyons appears to have realized that an unbalanced Commission could have unfavourable political repercussions. It might also be suggested that the preservation of unity within the coalition, particularly in the eyes of the public, required deliberative consideration of the choice of personnel. After eight months of intermittent bickering, the final compromise was decided upon: The government was content with its choice of supposedly unbiased men, and the bankers seemed satisfied with a Commission of six Australians.

Political problems encountered within Cabinet itself would also help to account for the late announcement of the personnel and terms of reference. Even after Casey finally submitted a roster of names of proposed Commissioners to Cabinet on 20 September, the matter was referred to a Sub-Committee of Cabinet which represented both CP and UAP interests and, consequently, an immediate decision was not forthcoming. For the most part, Lyons and the UAP supporters were searching for a group of men who they believed would not be critical of the government, and therefore "safe" with respect to the government's public esteem. Thus Casey took keen interest in, and may have been persuaded by McCall's remarks concerning the public's opinion of prospective Commissioners. On 17 September 1935, McCall had said that the appointments of Smith, Raws, and Kerr would receive a very unfavourable public reception from all sections of the community:

> rendering abortive any conclusions at which the Commission may arrive...Time has proved the financial authorities in Australia were right and experts overseas [Sir Otto Neimeyer, Professor Gregory, and Sir Ernest Harvey] wrong ... The appointment of Sir Osborne Smith would be looked upon as an indirect appointment from the Bank of England reviving controversy, charging the Bank of England with dominating Australian financial affairs... I think it would be better to abandon the idea of a Commission than to hold one which would produce political repercussions and unsatisfactory results generally. (72)

He believed that an Australian Commission would be useful in helping to tone down many of the calls for reform, explaining that an "Australian Commission comprised of men with liberal views on economics and banking would be acceptable to the majority and would materially assist in changing the views of many who are inclined to favour the discontinuance of the present system."(73) The CP, on the other hand, was motivated by the voices of its constituents to advocate the selection of a group of men who were more critical of the existing system. And the Labor Party, which disliked the idea of a foreign Chairman, would no doubt have made requests similar to those of the CP.

350
270
320
130
1070
-9
215

Despite all the forces making for delay, the government embarked on the final stages of deliberation towards the end of August. At this time *The Age* reminded the government that it owed a significant proportion of its general election majority to the understanding that a Commission would be established if Parliament requested it, and urged Cabinet to announce immediately the personnel and terms of reference.(74) On 2 September, one week after Cabinet formally resumed work, *The Age* asked the Ministry to make the terms of reference as wide as possible, and to secure the services of competent, open-minded, and representative Australians.(75) While the pressure exerted by the media cannot be overlooked, it merely reflected the views of various people and organizations that were communicating directly with the government and the Treasury. Indeed, it appears that the CP and its supporters made a strong impression on Casey and H. Sheehan, Secretary to the Treasury, who were deeply engaged in preparing a draft of the terms of reference and a list of personnel.

Although Casey and Sheehan devoted a considerable amount of time to the preparation of the terms of reference, perhaps even more time and effort was spent in determining the Commission's personnel. By early September, however, the selection process was in its final stages, and the names of many recommended men had been scratched. While it was impossible to suit everyone, Casey was looking for a group of commonsense Australians who would gain the confidence of the public as "outside appointments to the Commission would reverse the objects we're trying to achieve."(76)

Casey told Sheehan that since the services of a High Court Judge could not be obtained for the position of Chairman, he favoured the appointment of L.F. Giblin , Ritchie Professor of Economics at the University of Melbourne. Although Casey recognized that Giblin "could admirably fill the position", it seems that he was not chosen because he was regarded as being too close to the Commonwealth Bank and the government.(77) It is likely, moreover, that his participation in banking controversies, and the subsequent publicity which his views had received, ruled out his nomination. Casey then decided that a Supreme Court Judge would best fit the bill of a neutral Chairman. The engagement of a man with suitable qualifications proved difficult and time-consuming, however, and this also accounts for a large part of the delay in the announcement of the personnel of the Commission. Even though H.S. Nicholas, a N.S.W. Supreme Court Justice, was unable to accept the invitation, he suggested the appointment of H.D. Macrossan, a Justice of the Supreme Court of Queensland, J.M. Napier, who had become a Puisne Judge of the South Australian Supreme Court in 1924, or E.A. Douglas, a Justice of the Supreme Court of Queensland. He believed that Macrossan was probably more admired and competent than Napier, who was, nevertheless, a "good man". Douglas was described as a conservative judge with business experience.(78) In making his list, Casey included Napier and Douglas but replaced Macrossan with John Davidson, a N.S.W. Supreme Court Justice. It will be recalled that on 20 September, a roster of names was referred to a Cabinet Sub-Committee which consisted of Lyons, Page, Casey, and Senator A.J. McLachlan (UAP), who was Postmaster-General and Minister in Charge of Development and Scientific and Industrial Research. As late as

30 September, however, Casey informed Bruce that although the process of selecting the Commissioners was nearing an end, the Sub-Committee was finding it very difficult to get a "decent" judge as Chairman.(79)

As for the other members of the inquiry, Casey set out to locate a reputable academic economist, a public accountant to represent the business community of Melbourne, and one representative each from the rural sector and the Labor Party. Casey probably decided to include a Labor man partly in an effort to satisfy Labor's demands, and partly to ward off accusations that the inquiry was "rigged". Initially, he considered the appointment of C.E. Martin, the Lang Party representative for Orange and a member of the previous Labor Government, but the name of Ben Chifley of New South Wales, who had been Minister for Defence in the Scullin Government, appeared several times in discussions and was ultimately chosen instead. Chifley had lost his seat in Parliament at the 1931 general elections, and it is likely that it was Scullin who first proposed him as a Commissioner. He had always been involved in working class politics and public affairs in New South Wales and was interested and self-educated in the theory of money and government finance. Casey and other government supporters may have favoured his appointment because they believed he was a more moderate Labor man than the other Labor politicians available. The real significance of his appointment became evident in later years: After becoming a power in Federal Parliament again, as Commonwealth Treasurer in 1941, he began working, in June 1944, on the form of legislation which would incorporate the main principles of the Royal Commission's Report.

In contrast, the selection of a Country Party representative was relatively easy, as only one name was nominated. J.P. Abbott, pastoralist and President of the Graziers Association of New South Wales, was selected not only because of his dedication to pastoral affairs, but because Page pushed for his appointment both outside and within the Cabinet Sub-Committee. Towards the end of 1934, the Executive of the Graziers Association obtained an assurance from Page that he would support Abbott's nomination in Cabinet.(80) Abbott himself wrote to Page on 10 January 1935, explaining that it was very important for the pastoral industry to be represented on the inquiry, as any change in the financial system would greatly affect the rural sector.(81) He then asserted that he was qualified to fill the position: He had been involved in an intensive study of Commonwealth financial matters over the last four years, and he believed that he could adequately express the views of pastoralists. On the other hand, the selection of an expert economist was somewhat more complicated. It appears that Casey considered nearly all the major economists in Australia, including Melville, T. Hytten, Giblin, G.L. Wood, Copland, R.C. Mills, F.R.E. Mauldon, and J.B. Brigden, at one time or another. Reasons why Giblin and Copland were not nominated have already been suggested. As for the others, most of them, apart from Professor Mills, Dean of the Economics Faculty at the University of Sydney, had explicitly published their views on reform of the financial system. There is one additional factor which helps to explain why Brigden was excluded: He was an economist from Queensland, and Casey may have acted upon Hunter's advice that no one in Queensland was suitable enough to

serve on the Commission.(82) Casey apparently thought that Mills was almost unique in that he was not a self-professed advocate of reform. In this sense, he was a "safe" economist "who has not nailed his opinions to the mast in the press, as practically all the others have done."(83) In a personal interview with the author Sir John Phillips, the Commission's Assistant Economist who later became Governor of the Reserve Bank, added that Mills was chosen because he was a likable, fair, and gentle man.(84) It is very likely that Casey was influenced more by the fact that Mills was highly qualified academically to be the Commission's Economist. Before 1936, he had been a member of several inquiries into financial and economic issues. He was currently the Chairman of the Professorial Board at the University of Sydney, and was widely known for his historical and contemporary works; in addition, he was acknowledged as an authority on Australia's financial history, having written among other publications on aspects of money, monetary policy, banking, foreign exchange, currency, taxation, commerce, and public finance. Similarly, the accountant member of the Commission, E.V. Nixon, a very prominent and respected chartered account in Melbourne, seems to have been chosen because Casey felt confident that just as he had been an asset to the government while serving on the Royal Commission on Taxation, so he would again act in the government's interest on the banking inquiry. Casey himself told Bruce on 30 September 1935 that Nixon "did us extremely well on the Taxation Royal Commission. He may be Chairman if we can't get a Judge."(85) And even though Alex Stewart, a Scottish-born accountant in Melbourne, was also considered, he was quickly ruled out; perhaps Casey was unconvinced that he would do a good job for the government, and he may have suspected that the banks would object to his Scottish background. Athol Lewis, Secretary of the Commonwealth Bank, added to Casey's doubts when he said that Stewart had "many and wide interests."(86) It seems likely, moreover, that Stewart was suffering from a prolonged illness and was unable to accept the position. While it is not clear whether Casey suggested any specific names, it appears that the Sub-Committee discussed the desirability of appointing a young and active businessman, or some government official who had a thorough understanding of public administration and the financial system. Accordingly, at the end of September, the names of H.A. Pitt, Director of Finance in the Victorian State Treasury, and R.R. Stuckey, Director of Finance in the South Australian State Treasury, were reviewed. Page would have expressed his preference for Pitt, who had a strong interest in primary industry, having been Manager of the Australian Wheat Board from 1916 to 1922; Casey, McLachlan, and Lyons probably went along with his appointment because they thought he would defend the current monetary and banking systems. No doubt they were impressed that he was the Victorian State Representative on the National Debt Commission and was first President of the Institute of Public Administration (Victorian Regional Group).

In view of the great influence exercised by the Country Party, and Page in particular, during the personnel selection process, it was to be expected that a similar force would be brought to bear upon Casey and Sheehan in the determination of the terms of reference to be submitted to Cabinet. Page apparently campaigned

for very broad terms of reference in response to requests for a comprehensive Commission by different groups of primary producers, such as the Australian Wheat-Growers Federation. Hunter was also consulted during this preparatory stage. It will be recalled that he had previously introduced a motion in the House which proposed the desirability of conducting the Australian Commission along lines similar to the Canadian and British inquiries and he now took this further opportunity to restate his view. Although Sheehan's first draft was based on the ideas which were embodied in Hunter's motion and the terms of reference of both the Macmillan Committee and the New Zealand Monetary Committee, Casey apparently believed that this draft might unduly narrow the Commission's scope. Accordingly, he sought the advice of other members of the government, such as R.G. Menzies, the Attorney-General, and officials, such as Wilson who submitted a draft which specified aims that were broader than any previous terms of reference.(87) Reading also pressed Casey to avoid any undue restriction of the inquiry's scope.(88) Hence, Sheehan and Casey decided to delete phrases such as "to improve the conditions of industry and the unemployed" and made the reference sufficiently general to allow the Commission to deal freely with all the truly relevant and important issues and aspects of banking.(89) It might even be suggested that Sheehan and Casey, who were very perturbed by Davidson's anti-Commonwealth Bank campaign, attempted to lay the groundwork for an inquiry into the issue of whether the trading banks, especially the Bank of New South Wales, exervised too much power at the expense of the Commonwealth Bank. Given the pressures on the government, together with Lyons' procrastination, one might have expected Cabinet to reject the Treasurer's proposed draft of terms of reference. This, however, was not the case, and the submission was adopted on 20 September.[90] Even if Lyons required some prodding by Casey, and especially by Page and the CP Ministers, Cabinet was very fair in giving the Commissioners terms of reference which allowed the greatest scope possible and did not attempt to limit the investigation in any way. In fact, all those who desired to express criticisms, facts, and suggestions were encouraged to come forward freely. The terms of reference finally agreed upon were as follows:

> 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. (91)

In early October 1935, it seems that the Sub-Committee finally tied up loose ends with regard to the personnel issue and secured the services of Napier as Chairman; consequently, on 3 October, Lyons announced both the terms of reference and the personnel of the Royal Commission.[92] He averred that the Commission would not be restricted in any way in performing its important task, and the government felt fortunate in engaging men of such high status and wide experience. The Commissioners were to be Napier, Nixon, Abbott, Mills, Chifley, and Pitt. Although the Prime Minister had intended to assure the public that the Commissioners were not associated with existing banking organizations, this statement was later deleted from the speech. But it was true that none of the six men had voiced strong views during the heated arguments

surrounding banking and monetary issues during the Depression, nor did they represent specific banking interests. Nevertheless, each Commissioner had an interest in, knowledge of, or connexion with some aspect of finance and possessed a special affiliation with public affairs.

In the final analysis, it is fair to say that the outcome was the result of the "tail wagging the dog", in that, for the most part, the CP seems to have secured the sort of men it had been looking for, much to the dismay of many in the UAP. The only factor which seems to have been neglected in the selection process was the independent state of mind which each man was capable of exerting. In this sense, the result of the government's decision was unpredictable. When the personnel were first revealed, McEwen himself appeared to underestimate the capabilities of the Commissioners. He was one CP member who believed that the Commission would prove to be too conservative: It seemed to be dominated by theorists and actuaries, while commercial interests were not represented. The banking question, moreover, he thought, would not be removed from the arena of politics, as "the appointment of a former Labour Minister can be regarded only as a sop to Labour." (93)

While each of the members contributed to the work of the Commission, albeit in different ways, some were naturally more influential than others. Before examining the roles played by each Commissioner, one general point is appropriate. The Commission's final report was the result of an independent inquiry, as neither the government nor the Commonwealth Bank had a direct part in drafting it.[94]

Although Napier, Nixon, and Pitt were not the most influential Commissioners, their roles, both collectively and individually, are worthy of notice. Napier was, above all, important for his impartiality as a judge. When the Commission first began its formal sittings, some differences of opinion understandably arose, and he was able to fulfill his natural role of adjudicator. On one occasion, for example, Nixon and Chifley were engaged in an argument which was ended when Napier pulled Chifley into line.(95) As a matter of course, each Commissioner was involved in drafting questionnaries and parts of the Report which were then discussed, amended, and approved by the Commission. Napier was responsible, moreover, for preparing the section of the Report covering the Douglas Social Credit proposals for monetary reform. Nixon's background in accountancy would have assisted him in drawing up the questionnaires that were submitted to the insurance and trustee companies and to the stock exchanges. He wrote the basis of the chapter on "the capital reserves and profits of the trading banks 1893-1936". His most important contribution, however, was his sketch of the Commonwealth Bank's powers and its relations with all the other financial institutions. Pitt drafted the section on the relations of the Commonwealth Bank with the Commonwealth and State governments, and he and Mills wrote the history of government finance for the period 1928-1936.(96) It is of some interest that Napier, Pitt, and Nixon appear initially to have been at odds with the other Commissioners in believing that the existing system was adequate. But, as the Commission progressed, the evidence of the private bankers seemed to raise doubts in their minds, so much so that in the end they did not dissent from the general thrust for additional central banking powers.

Lines present

Mills, on the other hand, exercised the greatest influence over the Commission in general, and the structure of the Report owed much to him. In fact, not only did he prepare the questionnaire which was sent to the trading banks, but he and Chifley drew up a list of questions for the economists and other banks to answer. If the UAP had endorsed Mills' appointment primarily because it considered him less of a threat than the alternatives, its expectations proved wide of the mark. Mills pursued the important issues, such as the desirability of granting the central bank additional powers, both during the sittings and in the questionnaires. He did not hide the fact that he was aiming to strengthen the Commonwealth Bank, and he was the initial draftsman of the recommendations for increased central bank controls in the form of minimum deposits and access to London funds. Although he had an extraordinary ability to smooth over divergent viewpoints, he did not dictate to the Commission. But his views were not unique, for he often participated in informal discussions with other economists, such as Melville, who shared his convictions. He was also the author of large parts of the body of the Report, writing as he did the chapter on the Australian economy.(97) In outlining the operation of the monetary and banking system 1901-1936, he was assisted by Abbott, Nixon, Pitt, and especially W.T. Harris, the Commission's administrative secretary, who was chosen by Casey and McLachlan, and approved by Cabinet in mid-November 1935. The Commission formally endorsed his appointment on 7 December 1935. It appears that Harris, who was an accountant in the Commonwealth Sub-Treasury in Melbourne, was more than just an administrator. Not

earlier comment by Mills that R.C. was not up to [illegible] only did he participate in discussions of the Report and the Commission's recommendations, but he exercised some influence in the drafting process of the Report. In an interview with the author Coombs said that Harris was more of a searcher than an innovator.[98]

Similarly, Chifley was a significant force within the Commission. Like Mills, he did not live up to the government's idea of a "safe" Commissioner. Crisp wrote that Chifley accepted his nomination after ensuring that his membership would not contravene ALP policy.[99] On a few occasions, he was quite sharp with witnesses, especially with G.D. Healy, who was Superintendent of the Bank of Australasia and Chairman of the Associated Banks of Victoria from 1931 to 1932 and 1935-1936; by maintaining his tough line of questioning, he got the better of Healy and managed to get at the truth of the current situation. Although he asked many questions on competition, especially on lending rates, he prevented these and other political issues from becoming bogged down in technicalities. In a personal discussion with the author Sir John Phillips said that, even though Chifley wrote a minority report on Labor's behalf, this did not stop him from participating in any of the debates; in fact, he was vitally important in the drafting process, and was a strong advocate of the recommendations for additional central bank powers.[100]

Abbott satisfied the intentions of Page and the Country Party by pushing for the demands of the pastoral sector. He wrote the questionnaire applying to the pastoral institutions, and contributed to the section of the Report dealing with the history of the pastoral

218
263
481

350
130
170
270
920
481
439

finance companies.[101] Most importantly, however, he fought for a recommendation relating to the establishment of a mortgage bank.

In addition, the Commission was assisted by both a permanent and a temporary typist, several messengers, a Counsel, and an Assistant Economist. It seems that Mills was largely responsible for the selection of Phillips in November 1935 as an additional economist. His appointment was subsequently approved by Napier, and later endorsed by the Commission on 7 December. Phillips, a student of Mills, was Economist to the Research Committee of the New South Wales Retail Traders Association from 1932-1935. He later became the Governor of the Reserve Bank of Australia in 1968, having worked in the Economics Department of the Commonwealth Bank from 1937 to 1951, and as Investment Adviser to the Commonwealth Bank from 1954 to 1960. As Assistant Economist, he prepared the draft suggestions for the statistical tables which were published with the Report. It is likely that he played some part in the formulation of the Report, and he agreed with Mills and Chifley that the central bank required stronger powers of control. Again, in an interview with the author, he revealed that important issues and parts of the Report were discussed informally outside the meeting room by Mills, Chifley, Abbott, Harris, and himself.[102] It seems that these deliberations formed a significant part of the drafting process. In January 1936, the Commission approved Napier's request for legal assistance. The Chairman then conferred with the Attorney-General, and Edward Reynolds, a Victorian solicitor, was appointed as Counsel. His appearance as Counsel, however, was not received with enthusiasm by the majority of the

Commission, and his functions were restricted from the outset. The banks apparently told the Commission that they did not want to be cross-examined by the Commission's Counsel and unsuccessfully asked for legal representation on their own behalf. Reynolds, however, was not allowed to question representatives of banks in Melbourne. The Labor Party also disapproved of his appointment, but it too was denied legal representation. On 7 May, the Commission passed a resolution which stated that Counsel's employment was no longer necessary and his services were terminated on 3 June.[103]

The Committee's *Modus Operandi*

Towards the end of October 1935, there was talk that the inquiry would begin early in the New Year, after Napier was released from his judicial duties on 2 January 1936. Although the Commission was officially appointed by Letters Patent dated 15 November 1935, Cabinet decided that its first meeting should be postponed until 7 December, for two reasons. First, it feared that press coverage of a meeting scheduled prior to 7 December would adversely affect government loan prospects. Secondly, the delay would allow the Commission ample time to complete its staff arrangements.[104] On 7 December, therefore, all of the Commissioners, apart from Napier, met in Melbourne to make preliminary arrangements. Apparently, the headquarters of the Commission were established in Melbourne because it was considered the most central city. All correspondence to the Secretary was addressed to "Shell Corner", Bourke and William Streets, Melbourne. Taking control of its affairs, the Commission opened its first public inquiry in Melbourne on 15 January 1936

at 10.30 am. Both oral and written evidence was taken, the oral evidence being presented at one hundred and five sessions lasting until 17 November 1936. Witnesses were examined in Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart, and Launceston. Interested individuals and organizations were also invited to correspond with the Commission.

Napier announced the general plan of the investigation on the opening day of the public hearings.[105] The Commissioners were to collect information concerning the organization and working of the existing system from those institutions and organizations involved in the supply of credit. Evidence was also to be accepted from economists, representatives of industry and commerce, and the general public. Before the Commission commenced its sittings in each city, the press carried an invitation to the public to express ideas, criticisms, and proposals. A person was allowed to appear before the Commission only if the latter believed that the statements which were to be submitted merited consideration. Most witnesses were sent detailed questionnaires which had been designed according to the background of witnesses. Overall, the Commission took oral evidence from one hundred and forty witnesses and written memoranda from another seventy people. Several sessions, including some held with private bankers and the Commonwealth Bank, were held *in camera*.

In spite of the Commissioners' efforts, the inquiry did not always proceed smoothly and their work was sometimes derided. For example, although the Chairman of the Associated Banks of Victoria wanted to present a single statement on behalf of all the banks, several bankers objected to this suggestion. Davidson, in particular, strongly opposed the idea by stating that any investigation of the banks should be on an individual basis. The debate was settled, however, when the Commission sent a separate questionnaire to each bank.(106) In addition, the bankers had deep reservations about disclosing various sets of figures but the Commission eventually persuaded them to supply all the information it requested. While some statistics were treated confidentially on two separate occasions, the Commission resolved, with Nixon and Napier dissenting, to publish aggregate figures of inner trading bank reserves amidst loud protests by the banks. The Commissioners, themselves, were publicly criticized by the Premier of Tasmania, who claimed that the Royal Commission would not coerce some bank managers into producing certain facts and figures relating to the banking system.(107) Napier refuted this statement, confirming as he did that every bank had complied with the Commission's requisitions.(108) The members and work of the Commission were also reproved in an article published in *The New Times* on 18 January 1936, a matter that was subsequently dealt with under the provisions of the Royal Commission Act relating to defamatory criticisms of such bodies.(109)

In Table I.I, the one hundred and forty witnesses who gave evidence have been classified according to their background, the table having been constructed from information presented in the Minutes of Evidence of the Commission.

TABLE I.I

BACKGROUND OF WITNESSES WHO GAVE ORAL EVIDENCE

BACKGROUND OF WITNESSES	NUMBER OF WITNESSES	PERCENTAGE OF TOTAL WITNESSES
1. Economists (academic)	8	5.7
2. Bankers	34	24.3
3. Pastoral Finance Companies	11	7.9
4. Insurance Companies	9	6.4
5. Trustee and Investment Companies	12	8.6
6. Building Societies	8	5.7
7. Other Finance Companies	5	3.6
8. Chambers of Commerce and Manufacturers	10	7.1
9. Stock Exchanges and Stock Brokers	6	4.3
10. Government Officials	3	2.1
11. Primary Producers and Farm Organizations	5	3.6
12. Other Witnesses	29	20.7
TOTAL	140	100.0

Source of information:

Minutes of Evidence of the Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, Volumes I and II, Canberra, 1936.

A fair cross section of the community was represented by persons who gave evidence before the Commission. One government official examined was H.J. Sheehan, Secretary to the Commonwealth Treasury. Although Wilson was similarly classified as a government official, both he and Melville were qualified to provide their services in a dual capacity. It will be recalled that not only were they trained economists, but they also held prominent positions in public institutions; consequently, there was some uncertainty as to whether these men would appear as individuals or as public officials. Melville cleared up any confusion so far as his evidence was concerned by asserting that his statements reflected his own personal views as distinct from those of the Commonwealth Bank.[110] On the other hand, there were accusations that the evidence prepared by Wilson as the Commonwealth Statistician had been censored by Casey and Sheehan. These claims were based on the fact that Wilson sent a rough draft of his answer to a question concerning the technical procedure for obtaining statistics of capital flows from overseas to Casey and Sheehan in order to obtain their opinions. Apparently, Sheehan was more knowledgeable than Wilson on these data collection methods. Casey, moreover, was very interested in such matters, which he often discussed with Wilson. In fact, he had previously requested a memorandum on the possiblity of tracing capital movements in greater detail. In his covering letter to Casey, Wilson wrote that he had enclosed a copy of his answer to Sheehan, and joked that Sheehan would "no doubt exercise a blue pencil where necessary."[111] Sheehan, however, did not alter Wilson's reply. But, as it turned out, a

messenger inadvertently handed the documents to a Labor Member of Parliament whose name happened to be the same as Casey's private secretary, and the Labor Party sought to blow the issue out of all proportion in Parliament by asserting that the government frequently tampered with the evidence of Commonwealth government officials. Casey retorted that Wilson and Sheehan had neither been pressured nor influenced by the government and that the Labor members should have regarded the communication as confidential.[112] When he later appeared before the Commission, Wilson removed all doubt surrounding the integrity of his evidence, saying that apart from matters affecting finance and staff problems which had to be approved by Sheehan, he had always been "entirely free to direct the statistical organization of the Commonwealth, and to publish statistical results in accordance with the dictates of my own judgment."[113]

Other witnesses included reputable economists such as A.G.B. Fisher, Professor of Economics at the University of Western Australia, E.R. Walker, Lecturer in Economics at the University of Sydney, and Giblin. Some distinguished bankers and advisers to banks were T. Hytten, Economic Adviser to the Bank of New South Wales, Sir Claude Reading, Chairman of the Commonwealth Bank Board, Sir Ernest Riddle, Governor of the Commonwealth Bank, A.F. Bell, the Acting Chairman of the Commonwealth Bank Board, G.D. Healy, Chairman of the Associated Banks of Victoria and Superintendent of the Bank of Australasia, L.J. McConnan, Chief Manager of the National Bank of Australasia, E.O'Sullivan, Joint General Manager of the English, Scottish and Australian Bank, Davidson himself, A. Cooch, General

Manager of the State Savings Bank of Victoria, and C.R. McKerihan, President of the Rural Bank of N.S.W. The Commonwealth Savings Bank of Australia was represented by R. Sabeston, Chief Superintendent of the Bank, Bell, and A.H. Lewis, the Secretary of the Commonwealth Bank. There were also representatives from various Trustee and Investment Companies, Pastoral Finance and Insurance Companies, Chambers of Commerce and Manufacturers, Building Societies, and Stock Exchanges and Stock Brokers. In addition, primary producers and farm organizations, Social Credit theorists, and the Free Economy Movement presented evidence. Various organizations and individuals also submitted proposals for banking and monetary reform. After hearing all of the evidence, the Commission drafted an interim report, the terms of which were approved on 17 June 1937. Thereafter, a long process of deliberation and discussion was followed by the presentation of the final report to the government sometime between 15 and 19 July 1937; the document was made available to the press soon after, and published in August along with two lengthy volumes of evidence.

CHAPTER TWO

THE EVOLUTION OF THE AUSTRALIAN BANKING AND MONETARY SYSTEMS

When the Royal Commission began its investigation of the Australian monetary and banking systems early in 1936, it immediately expressed apprehension about the lack of sufficient central bank control. Indeed, its overriding conclusion that additional central bank powers were required to regulate money and banking derived principally from its discovery of a spontaneous, loosely organized, and essentially haphazard monetary and banking network in Australia.

The Structure of the Banking System *circa* 1936

At the time the Royal Commission was established, there was in Australia a rather strong private banking sector, with a long tradition, but central banking was comparatively weak and immature. The banking system comprised four main elements. To begin with, it is evident from Table 2.1 that the system was dominated by the private trading banks, of which nine formed the major part of the banking structure. Each of these large banks catered to its own interests and possessed a large, usually nation-wide, network of branches and agencies. Four other banks which performed trading bank functions on a limited scale were the Ballarat Banking Company, the Bank of New Zealand, the Comptoir National D'Escompte de Paris, and the Yokohama Specie Bank Ltd. From Table 2.1, it can

TABLE 2.1

BANKS' SHARE IN AUSTRALIAN BUSINESS IN 1936

(DEPOSITS PLUS ADVANCES)

MAJOR PRIVATE TRADING BANKS	PER CENT OF BUSINESS
Bank of New South Wales	27.34
The Commercial Banking Company of Sydney Limited	14.46
The Bank of Australasia	11.62
The National Bank of Australasia Limited	11.62
The Union Bank of Australia Limited	10.98
English, Scottish and Australian Bank Limited	10.54
The Commercial Bank of Australia Limited	7.93
The Queensland National Bank Limited	3.46
The Bank of Adelaide	2.04
	100.00

SHARE IN BUSINESS OF ALL MAJOR CHEQUE-PAYING BANKS*

Major Private Trading Banks	89.01
Commonwealth Trading Bank	10.99
TOTAL	100.00

* Note that only the Commonwealth Bank and the nine major private trading banks are included.

Source of Information: *The Report of the Royal Commission to Inquire Into the Monetary and Banking Systems at Present in Operation in Australia*, Canberra, 1937, pp.286-7, 292, 371-2.

be seen that the largest and most influential of the nine private trading banks, in terms of advances plus deposits, was the Bank of New South Wales. Its sum of deposits and advances accounted for the largest share in the total business of the major trading banks, and indeed, of all Australian commercial banking institutions. Apart from the Commercial Banking Company of Sydney, the second largest of the major trading banks, the approximate order of business importance for the remaining seven is shown in Table 2.1.

The second component of the banking system was the Commonwealth Trading Bank, which was relatively small in the business it handled at the time. Its share in the business of all cheque-paying banks, including both the Commonwealth Bank and the nine private trading banks, was only 10.99 per cent in 1936, compared with the private banks' share of 89.01 per cent.

The banking system also included various savings banks, and other banking institutions operating under state law. The Commonwealth Savings Bank of Australia, under the control of the Commonwealth Bank Board of Directors, was the largest of all the savings banks. Operating in all states, it was the only savings institution in N.S.W., Queensland, and Western Australia at the time the Commission sat. In the remaining states, however, it competed with the following savings banks: The State Savings Bank of Victoria, the Savings Bank of South Australia, the Hobart Savings Bank, and the Launceston Bank for Savings. In addition to these state and Commonwealth savings institutions, there were five state, or rural and agricultural, banks, namely the State Advances Corporation of Queensland, the Agricultural Bank of Tasmania, the Agricultural Bank of Western Australia, the Rural Bank of New South Wales, and the State Bank of South Australia. These organizations were primarily established to provide fixed loans for primary producers.

Finally, there was a diverse array of non-banking financial institutions. Twenty major pastoral finance companies, among which were included some of the largest public companies in Australia, supplemented the rural credit facilities that were provided by banks. Other financial services were provided by investment companies, such as life assurance societies and companies, trustee companies, building societies, and finance and cash order companies. In the supply of mortgage credit for housing and general business finance, these institutions ranked roughly in order of importance as follows: The pastoral finance companies, life offices, building societies, and trustee companies.(1)

The Development of Banking Before the Establishment of the Commonwealth Bank

The history of banking in Australia is one of disjointed growth, with periods of over-rapid expansion followed by reconstruction and consolidation when activity was decidedly more subdued. This sequence of accelerated and then more moderate growth both induced fluctuations in the expansion of the economy, and was itself influenced by trends in economic activity.

The origins of the Australian banking system may be said to have commenced in 1817 when a group of Sydney merchants created the Bank of New South Wales, their objective being to rectify an unsatisfactory currency situation and to encourage a sense of thrift among the small European community. Although banking in the eighteen twenties was still relatively undeveloped, it seems that the local authorities had made significant headway towards the creation of a dollar standard by the middle of the decade. Then, however, the British government directed that English money would become the monetary unit of account and British coins would be used. This decision facilitated both the growth of internal and international trade. By 1830, a number of savings banks were conducting business, together with seven note-issuing banks.

After 1830, the banking system experienced its first phase of rapid development, which was then succeeded by a slower tempo of growth in the 1840s. The spurt in banking activity in the 1830s resulted largely from the great upturn in economic activity based largely on the export of wool and the import of capital. Additional banks were formed, and most of the banks which had been established in the twenties grew at a fast rate throughout the 1830s. It was during this period that banking in Australia developed many of the characteristics of the British banking system; by 1840, there were about twelve dominant banks with many branches, and a number of related banking institutions in mainland eastern Australia and Van Diemen's Land. During the 1830s, these banks conducted banking business on a much larger scale than before, without being restrained by government regulations. The thirties also saw the establishment of competitive British banks in Australia. By providing a channel through which British capital could be transferred to Australia, these banks facilitated the growth of the Australian economy and enabled Australia to exploit the international capital market. In addition, the operations of the banks and a booming trade sector led to the emergence of a private foreign exchange market. The arrival of the British institutions also encouraged the rapid expansion of deposit banking and, consequently, promoted the rise of a domestic capital market. Although the role of the banks and other financial organizations in the process of economic growth should not be over-emphasized, the banking activity of the thirties did ensure that capital markets were firmly entrenched in the Australian colonies by the end of the decade.

The rapid development of banking activity was, however, temporarily suspended with the depression of the early 1840s, which, in turn, was partly the result of unrestrained monetary forces. During this decade, there were not many changes in the structure of the banking system. There were some attempts, however, to advance loans on the security of tangible property and, in fact, such activity constituted an important advance in the banking system after 1850. In addition, the implementation of the provisions of the Lien on Wool and Livestock Act of 1843 was important, not only because pastoralists in New South Wales were permitted to use livestock and unshorn wool as security for loans, but the new system represented the first major break with British banking tradition.

In the years after 1850, there were further important alterations in the banking system. For a start, the gold rushes provided the groundwork for a rapid, more complete implementation of a gold standard. And the abundance of gold in Australia gave rise to the establishment of a branch of the Royal Mint in Sydney in 1855. Henceforth, the activities of the Sydney Mint effectively fixed local gold prices. Much more significant, however, was the fact that the gold rushes marked the beginning of another period of banking expansion, which continued to about 1890 when the banking sector once more entered a phase of subdued activity. Growth in the banking system in this period consisted of an increase in the number of branches of existing banks and the creation of a number of new banks. Hence by 1890, there were twenty-eight banks of issue; by this time, all the private trading banks in operation in 1936 had been established.

TABLE 2.2

THE NINE PRIVATE TRADING BANKS IN 1936 AND THE YEAR IN WHICH THEY WERE ESTABLISHED

1) Bank of New South Wales, 1817.
2) The Commercial Banking Company of Sydney Limited, 1834.
3) The Bank of Australasia, 1835.
4) The Union Bank of Australia Limited, 1837.
5) English, Scottish and Australian Bank Limited, 1852.
6) The National Bank of Australasia Limited, 1858.
7) The Bank of Adelaide, 1865.
8) The Commercial Bank of Australia Limited, 1866.
9) The Queensland National Bank Limited, 1872.

Source of Information: *The Report of the Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia*, Canberra, 1937, p.153.

Before the 1850s, bank lending had taken the form principally of discounting commercial bills of exchange - that is, banks bought bills of exchange on the money market prior to maturity, having allowed for the interim compound interest. After the gold rushes, however, the new growth in advances to pastoralists, which were secured by mortgages on real property, contributed to a high level of pastoral investment. It led, moreover, to the increasing involvement of the banking system in the economy. Although they were largely concerned with deposits, the banks became very active in dealing in exchange and making advances to those engaged in local trade, industry, and commerce. In addition, they took a considerable interest in providing overseas trade finance.

A system of interlocking, yet diversified, financial institutions developed to mobilize and distribute domestic funds, and to attract overseas capital. Various stock exchanges emerged in the major cities, and a large number of residential and urban land financing institutions were also created. After the 1850s, and especially after the mid-1870s, many specialized pastoral finance companies were established to serve the pastoral industry by raising British capital. In fact, these institutions and the banks, which actively sought to secure British deposits, channelled massive sums of investible funds into a booming pastoral industry.

Despite outward appearance of prosperity and the long phase of economic and banking expansion which lasted to the early 1890s, the capital market had over-reached itself and became markedly unstable. Indeed, the financial system contributed in several ways to a destabilizing process of economic growth which occurred especially after 1880; the uneven development of non-bank financial institutions, lending and reserve policies, and attempts to attract overseas capital all resulted in a grave misallocation of investible funds. In the absence of a central bank to regulate the level and distribution of domestic credit and prevent fluctuations in economic activity, the banks and financial institutions were free to pursue policies which made them very vulnerable to serious economic disorders. They over-invested in various sectors of the economy, and allowed a substantial amount of their loans and, hence assets, to become potentially illiquid. The banks, moreover, did not take action to prevent a long-term decline in their reserve ratios. Thus, the inappropriate policies of banks and other financial institutions magnified the deep-seated economic causes of the general depression of the 1890s; these developments culminated in the financial crisis of 1893, which itself served to deepen the economic slump.

During the crisis, banking activity was greatly depressed. All the major banks were in severe difficulty; many of them closed during April-May 1893, as they were unable to cope with the wholesale run on deposits without the assistance of a lender of last resort. Banks such as the Bank of Australasia, which had adhered to more conservative lending and reserve policies during the period of expansion, were not forced to suspend payment. Although some banks never reopened, the reconstruction programs that were introduced allowed many banks eventually to reopen for

business. In order to remain in business, bank officials generally had to persuade depositors to freeze deposits, or convert a certain amount of their deposits into preference capital. The lack of government intervention to assist the plight of the banks meant that reconstruction was not completed until after Federation. Once achieved, the banks then experienced recovery and further growth from 1901 to 1914.(2) The collapse of the 1890s, however, marked a crucial turning point in Australian financial and banking history. Since that period, there has been an almost complete absence of bank failures. Much more importantly, it was from this time that serious calls commenced to be made for increased regulation and control - by way of central banking - over the Australian banking system. While some persons advocated voluntary cooperation between the banks, many farmers, wage earners, and, in particular, the labour movement, demanded government control through the establishment of a government bank. Although Labor traditionally desired to change the banking system, the banking crisis of 1893 raised the priority of banking reform in its policy platforms. In New South Wales, for example, the creation of a national bank was included as a plank in the first platform adopted by the Party in 1891, and the issue was increasingly emphasized in subsequent platforms. In addition, various commissions and select committees in several colonies began to consider the idea of a state bank and made recommendations on it. By the mid-1890s, state government banking was included on the parliamentary agenda in four colonies. In New South Wales and Victoria, a select committee and a Royal Commission, respectively, favoured the establishment of a state bank. The recommendations of the Victorian commission were translated into draft legislation which was extensively discussed in the Victorian Legislative Assembly and the press. In fact, part of it - that relating to the establishment of a mortgage bank - was passed as an Act. In South Australia, a state banking bill was debated at great length, and again a section of it became law. In addition, a state government note issue was adopted in Queensland in the 1890s. Deliberation of the idea of direct government involvement in the banking system was not, however, confined to colonial parliaments. Indeed, while the Victorian commission was conducting its inquiry in 1895 and 1896, a conference of bankers met in Sydney under the chairmanship of J.R. French, General Manager of the Bank of New South Wales, and agreed on suggestions for reform on the note issue in particular.(3) Federation in 1901, however, gave banking and financial powers to the Commonwealth Parliament and thus curtailed attempts by colonial politicians to establish state banks. After 1901, the most important event was the creation of the Commonwealth Bank in 1911.

The Functions and Activities of Private Financial Institutions

Clearly, at the time the Commission began its investigations, the Australian banking system was not a tightly knit organization; nor were the duties of the separate financial institutions the same. Indeed, most of their various functions were neither regulated nor coordinated by a central banking authority. But before an examination is made of the specific activities of the different institutions, a word about the

general functions of the banking system seems appropriate. One of its functions is to maintain business stability. Another responsibility is the provision of both short-term and long-term loans to individuals and to government. An additional object of the system is the efficient channelling or mobilization of community savings. Finally, satisfactory relationships with other monetary systems in the foreign exchange market should be preserved.

Apart from these general activities, the private trading and savings banks and other financial institutions performed specific duties since the degree of specialization had proceeded some considerable distance by the 1930s. At the time the Commission was sitting, the private trading banks dominated trading bank activities. Their main function was to provide current account and cheque facilities, accept deposits, and make advances; they also controlled a large proportion of Australia's foreign exchange business. Interest rates, moreover, were determined largely by the private trading banks operating in concert. In addition, they regulated the money supply by manipulating the availability of domestic credit in response to movements in the volume of "London funds" - the country's overseas reserves, which were held in the banks' branches in London. When these funds rose, the banks acted to encourage domestic credit expansion and, thus, increased the domestic money supply by expanding advances and reducing interest rates. On the other hand, if the level of such funds was considered to be too low, the banks reduced advances and increased interest rates, which would then reduce the money supply. Other responsibilities included the provision of finance for commerce and industry and special services were offered to attract and maintain business; for example, the banks acted as trustees for their customers, created facilities for safe custody of valuables, provided finance for Australia's overseas trade, and assisted in underwriting public loans.

Similarly, the savings banks engaged in numerous activities. Many people deposited considerable sums at favourable rates of interest with these institutions as a profitable investment, and, in fact, the savings banks competed with trading banks for short-term deposits. They accumulated sizable sums on fixed deposit, which were then invested in mortgages, fixed and long-term loans, and government or municipal securities; often savings bank deposits were re-lent to other financial institutions, notably the trading banks.

So far as other financial corporations were concerned, the state institutions were established primarily to provide fixed loans for primary producers. Pastoral finance companies supplied primary producers, and wool growers in particular, with both short-term and long-term capital. The influence of life assurance companies and societies upon the financial system stemmed from the sheer size of their funds, which were invested to provide for the subsequent payment of life and endowment policies. Their investments largely took the form of government securities, loans on mortgages, and loans on policies. In addition, trustee companies usually invested trust funds in either government securities or upon mortgages. The responsibility of

building societies, on the other hand, was to assist in the acquisition of private homes or business premises for occupation or investment. The major duty of finance and cash order companies was to supply relatively short-term credit for various purposes. Finally, stock exchanges were important in providing a meeting-place for buyers and sellers of government and private bonds and securities.(4)

The Australian Monetary System

Just as the private trading banks dominated the Australian banking system at the time the Royal Commission was established, so they largely governed the Australian monetary system. Prior to the creation of the Commonwealth Bank, the monetary system was to a great extent based on the unregulated activites of the principal trading banks, the most important financial institutions in Australia. Even after the Commonwealth Bank was established, it did not possess sufficiently strong central banking functions to influence the activities of the private trading banks. The colonial governments, too, had lacked firm control over monetary policy. While they had often acted upon various economic policy issues which had an indirect bearing on the monetary situation, they were usually reluctant to interfere directly with monetary matters except in times of extreme crisis. Before 1914, therefore, and to a lesser extent until 1931, monetary policy remained securely in the hands of the private trading banks, whose operations ultimately determined the volume and distribution of the system's credit, and hence money supply. These banks held the vast majority of deposits and supplied virtually all physical money until 1910, when the Commonwealth Treasury became the sole note-issuing authority; this duty was subsequently transferred in 1920 to the Note Issue Department of the Commonwealth Bank. Even so, the note issue was only a minor component of the money supply, the major part remaining the deposits of the private trading banks.

The trading banks' dominance over the monetary system extended beyond their control of the money supply. It will be recalled that they had a substantial influence over the determination of interest rates, colluding as they did to fix common levels of bank interest rates which, in turn, significantly affected the entire structure of interest rates. In addition, their activities were not inhibited by the need to maintain firm ratios of cash to deposits and liquid assets to liabilities. There were, moreover, no positive, conscious open market operations - that is, the purchase and sale of government securities by the monetary authorities. Discount policy was also inoperative due to the absence of a market for short-term treasury bills. Although the Commonwealth Bank sought to establish an open market for treasury bills in 1936, the Bank of New South Wales frustrated this attempt by raising its rates on fixed deposits, thereby demonstrating the Commonwealth Bank's inadequacy as a central bank. The Bank's lack of control over the operation of the system was also reflected in the fact that Australia's international reserves were held principally by the private trading banks. Apart from the temporary abandonment

of a fixed exchange rate system from 1914 to 1925, Australia had operated traditionally within the framework of a sterling exchange standard - Australia was nominally on the gold standard, but her currency was in reality tied to sterling from 1855 to 1930. During this period, until 2 December 1931, the private trading banks, generally through consultation, had determined the exchange rate, which remained fixed except for small adjustments within the gold points. Australia's remoteness from London and the dominance of the exchange market by banks with head offices in Britain resulted in the development of a system in which the banks held and manipulated their international reserves in London - the so-called London funds - so as to maintain exchange rate stability. In order to prevent large movements in the exchange rate, it was necessary for the banks to purchase, or sell, sterling in unrestricted amounts at the prevailing rates. To do this, they permitted their London funds to decline when sterling was at a premium; when sterling was at a discount, London funds were allowed to rise. Hence, by maintaining adequate reserves in London, and by allowing the London funds to fluctuate in the appropriate manner, the banks were able to stabilize the exchange rate. The task remained, however, to ensure a sufficient supply of London funds and, consequently, the banks were prompted to devise a special technique which enabled them to achieve this objective. To provide for seasonal requirements, they contrived to build up large London reserves during the export season, and permitted them to fall slowly over the remaining months of the year.

As mentioned earlier, movements in London funds, however, had domestic consequences both for advance policy and interest rate policy. In short, a decline in London funds, unaccompanied by a corresponding increase in Australian reserves would reduce the liquid resources of the banks; therefore, they would contract domestic credit by raising interest rates and decreasing advances. Conversely, when London funds increased without a corresponding decline in Australian funds, they would lend more and, hence, the money supply would be enlarged. If export receipts were low, government overseas borrowing reduced, or imports high, the liquidity of the system was reduced which, in turn, led to a contraction in the credit supply. If movements in London funds altered the banks' ratios in such a way that control over the exchange rate was threatened, the banks were able to maintain the rate of exchange by adjusting the domestic credit volume. For example, a fall in export receipts reduced the banks' London funds; it also reduced domestic deposits or raised the advances of the banks' customers. Hence, the ratios of advances to deposits increased, and the ratios of cash to deposits and liquid assets to liabilities declined. A sufficiently large alteration in the ratios caused the banks to restrict their advances and increase their interest rates, and thus, the advance-deposit ratios were lowered. This credit contraction lowered aggregate money income and reduced imports; consequently, London funds were restored, and fluctuations in the exchange rate were minimized. (5)

The foregoing description of the monetary system in operation serves not only to illustrate the great extent to which the private banks dominated the system, but it also explains why they were partly responsible, in the eyes of many, for Australia's slow recovery from the Depression of the 1930s. When the downturn began, general economic circumstances and the decline in London funds - resulting from lower export values and the cessation of overseas borrowing - forced the banks to contract credit in the interests of their customers and their own solvency. Such action served, however, to intensify the Depression. As a result, many people realized that a more efficient central bank was necessary to exert stricter control over the banks and their activities, and calls for a stronger national monetary authority gained momentum. Thus, in 1931, the Commonwealth Bank sought to assume control of the exchange rate; however, since the bulk of the London funds continued to be held by the private banks, the Commonwealth Bank did not gain effective control of the rate of exchange. The exchange mobilization scheme - a voluntary arrangement which was entered into in August 1930 by the Commonwealth Bank, the trading banks, and the government to ensure the provision of funds to meet government commitments overseas - gave the Commonwealth Bank somewhat greater control of the exchange rate. But still, on the eve of the Royal Commission's deliberations, the Australian monetary system was largely devoid of regulation by the monetary authorities; the private banks had lost a little of their autonomy perhaps, but not much.

The Creation of the Commonwealth Bank and its Acquisition of Central Banking Functions

Systematic argument in Australia relating to the need to create a central state bank dates back to the federal conventions of the early 1890s. At much the same time, the labour movement responded to the banking disasters and the depression of the 1890s by increasing its demands for the creation of a government-owned bank. Similarly, various publicists, pamphleteers, officials, and ordinary citizens commenced to express their desire for a government bank. In fact, from the establishment of the Federation, there were two main forces that led to the formation of the Commonwealth Bank in 1911. One was the advocacy by politicians, and the realization by some bankers, that a central bank was necessary. Associated with this movement was the question of a central note-issuing authority. This latter issue was resolved with the Bank Notes Tax Act of 1910, by which the Commonwealth Treasury took the note issue out of the hands of the private trading banks and into its own. The second, more important strand was the labour movement in general, and the Labor Party in particular. From the very beginning, Labor's platforms reflected the desire to create a national bank - in contrast to the concept of a central bank - which would compete with, and ultimately eliminate, the private banks. Indeed, the ALP Federal Conference supported the creation of a Commonwealth Bank as official party policy from 1905, and henceforth the movement towards such a bank gathered force. In particular, King O'Malley, a member of the Parliamentary Labor Party from 1901 to 1917, and a minister at intervals

during this time, made proposals concerning the establishment of a Commonwealth Bank which would carry out normal banking business and provide the appropriate mechanism for Commonwealth-State financial dealings. In 1911, Parliament passed the first Commonwealth Bank Act - introduced by the Labor Government of Andrew Fisher - and the Commonwealth Bank of Australia commenced its operations in the middle of 1912.

While the Bank was created both to compete against the private trading banks and to be Australia's central bank, central banking was still a vague concept in Australia. In fact, the Commonwealth Bank Act - giving the Bank only the combined functions of a savings bank and a trading bank - did not equip it adequately to perform the role of a central bank. Between 1911 and 1936, although the Commonwealth Bank gradually acquired some central banking responsibilities, its ability to exert control over the Australian monetary and banking system was quite small.

Over the period 1911 to 1924, not only was the Bank's development as a central bank very slow, but the authorities were not always able to perceive the direction in which such change should occur. During the first world war, and thereafter, the Bank became the Commonwealth Government's banker and, subsequently, the banker of four states. Its growing strength rested with its special relationship with state and Commonwealth governments and in its part in financing the war. At the same time, the Bank's progress owed much to Denison Miller, Governor of the Bank, who favoured the Bank's acquisition of central banking powers; support for this course, moreover, grew within the governing parties after 1920. Post-war banking and monetary problems - stemming, for example, from the abandonment of the gold standard, the heavy issue of paper, both during and immediately after the war, adverse situations in the balance of payments, and wide price variations between Australia and Britain - reinforced the belief that a central banking authority was necessary. In short, prior to 1924, three factors contributed towards the growth of a central bank. First, the Bank retained its important role as government banker, though the importance of this function declined somewhat at the end of the war. Second, it failed to become a significant commercial bank which meant there was more scope for developing central banking powers. Third, in 1920, the Note Issue Department of the Treasury was transferred to the Bank, which conferred upon it control of the issue of Australian bank notes. Apart from these duties, however, the Bank lacked any other central bank functions until 1924, when the Bruce-Page Government passed a new Commonwealth Bank Act with the expressed aim to convert the Bank into a central bank. It envisaged the Commonwealth Bank as a bankers' bank to aid, rather than control, the private trading banks. A by-product of this development was to be the solution of the financial difficulties of the period, which, it was averred, could be eliminated only by a central bank. The Act of 1924 in the event, however, fulfilled neither of these two intentions. In particular the Bank's acquisition of the specific power to re-discount bills of exchange and to publish a discount rate from time to time failed to increase its central banking authority; trade bills

played a relatively insignificant role in Australian business and banking operations, and the Bank could not rely on discount policy in the absence of a bill market. While the private trading banks were not obliged to maintain deposits with the Commonwealth Bank, the latter did become in the 1920s the clearing bank for all domestic exchange transactions. But the private banks were reluctant, however, to use the Bank as a reserve bank, and held only a fraction of their cash reserves with it. This was due in part to the fact that they feared the Bank would compete actively for their business, using their deposits for this purpose. In fact, in 1928, the Commonwealth government sought to end what was considered by the private banks to be unfair competition by constituting the Commonwealth Savings Bank as a separate institution, although it was to remain under the authority of the Bank Board.

While the authority and prestige of the Commonwealth Bank as a central bank increased both during the Depression and recovery, these years also more clearly exposed its inadequacy as a central banking authority. In 1929, the Bank gained control over Australia's gold reserves; it effectively acted as lender of last resort; and shared responsibility with the Loan Council for regulating the provision of deficit finance. Although an anti-Labor Senate majority prevented the Scullin Government from passing a Bill in 1930 designed to hasten completion of the central banking development process, the Commonwealth Bank inaugurated a Mobilization Agreement for London funds in September 1930 to preserve international solvency. This agreement - entered into by the trading banks, the

Commonwealth Bank, and the government - went part of the way towards giving the Bank control over the system's London reserves which was necessary for the proper regulation of bank liquidity, exchange rate stability, and safeguarding the balance of payments. What it amounted to was that the Commonwealth Bank and the private trading banks were to supply a proportion of their London exchange to cover government interest charges overseas and expenditure on government services abroad. The monthly contribution was to be made by the banks in proportion to their monthly receipts of London exchange. Still, this agreement - restricted by the fact that it was only a voluntary arrangement - did not constitute a complete mobilization of London funds, and it only gave priority to fixed government requirements. The private banks continued to hold the bulk of London reserves, and complete information concerning these holdings was denied to the Commonwealth Bank. Hence, even after the Bank officially accepted responsibility for managing the exchange rate with sterling in 1931, its effective control of the exchange rate was far from assured. In fact, the private banks continued to play the dominant role in the determination of the exchange rate, and the authorities continued to depend on their support to mobilize London funds. For example, although most of the private trading banks agreed late in 1936 to mobilize their London funds for the benefit of the Commonwealth Bank, the apathy of the Commercial Banking Company of Sydney and the hostility of the Bank of N.S.W. rendered the scheme inoperable. Above all, however, the Commonwealth Bank did not possess the means to implement the monetary policies it deemed necessary to

mitigate depression and create economic recovery.(6)

Thus, by the time the Royal Commission began its inquiry, the Commonwealth Bank had come to realize that, although some attempts had been made to invest it with traditional central banking levers of control, its ability to control and regulate the monetary and banking systems remained generally small. In particular, it desired to reduce short-run fluctuations in domestic economic activity, but it lacked instruments with sufficient power to achieve control over internal credit policy and the exchange rate. It will be recalled from the previous discussion of the operation of the monetary system that unless the Bank was able to regulate the volume of credit in response to a movement in London funds, severe fluctuations in these funds would ultimately cause either inflation or unemployment by inducing changes in the advance and interest rate policies of the private banks.

The Bank argued that the success of central bank action to regulate credit depended largely on the influence that could be brought to bear on the cash reserves of the private banks and, subsequently, on the banks' response to the alteration in their reserves. One of the main ways by which the Bank might seek to induce changes in these cash reserves was through open market operations. It could, for example, seek to contract or augment credit by buying or selling short-term government securities in the form of treasury bills. Yet the market for treasury bills was narrow, so much so that any successful endeavour to fund or discount treasury bills was likely to have adverse repercussions on interest rates. In any case, the success of funding operations in particular would depend on whether the cooperation of the Loan Council could be secured. And the Bank's only attempt to issue treasury bills as an instrument of short-term monetary policy was foiled in 1936 by the deliberate action of the Bank of New South Wales to thwart the operation by raising interest rates on deposits. Furthermore, the Commonwealth Bank was unable to rely on the purchase and sale of long-dated government bonds for the purpose of influencing the cash reserves of the banks - again, largely because of the narrow width of the market for government paper in Australia at the time. And, moreover, the meagre extent of the Commonwealth Bank's trading business precluded it from trying to alter the cash reserves of the private banks by attracting deposits and advances from the banks. Similarly, its minor share of banking business, and the lack of legislative authority, provided little scope for the Bank to control interest rates, which, in any event, was thought to be a rather weak instrument, inasmuch as its impact upon local credit conditions was concerned. All in all, therefore, the Bank's powers to influence the cash ratios of the private banks were considered to be especially weak.

This, however, was only part of its problem so far as the control of credit went. If the Bank were actually successful in altering the banks' reserves, the extent of the contraction or expansion in the volume of their advances depended on how much the banks were willing to cooperate with the Bank. More specifically, the banks could respond to the change in their reserves

by allowing their cash reserve ratios to fluctuate - a response which was not uncommon - and hence their advance policies would be unconstrained by central bank action, thereby reducing the impact on the credit base. The Bank knew, from past experience, that cooperation by the private banks - especially the Bank of N.S.W. - was not to be assumed and that it could not depend on the banks' support for effective policy implementation. In these circumstances, it was not long before the Commission set about to examine the possibility of using another instrument which was quite popular in other countries, namely, the imposition of a legal obligation upon the private banks to maintain a variable proportion of their cash deposits with the central bank. Indeed, the Commission came strongly to favour this arrangement, which it believed would allow the Bank to regulate the credit structure.

Although the Bank believed that insufficient control over domestic credit inhibited it from smoothing out fluctuations in the level of internal activity, it also felt that its inability to maintain domestic economic stability was due in part to its lack of authority over the London funds of the private banks. By possessing

wider area control

the ability to regulate these funds - to run them up when export receipts and loan funds were buoyant, and run them down when imports were excessive and receipts from exports and loans were at a low ebb - the Bank believed that it would be able to exert an additional influence upon the internal credit situation. And, moreover, by controlling London funds in this manner it would be able to bring greater influence to bear upon the exchange rate.(7)

Thus it was that the Royal Commission, both in its examination of witnesses and in its own deliberations, spent much of its time giving consideration both to a system of minimum deposits - whereby the private banks would be compelled to lodge a certain proportion of their deposits with the Commonwealth Bank - and to a renewed Mobiliziation Agreement - which would allow the Commonwealth Bank greater control over the foreign reserves of the banking system.

PART B

THE DELIBERATIONS OF THE ROYAL COMMISSION

CHAPTER THREE

MONETARY AND BANKING OBJECTIVES

Although the Royal Commission examined a wide range of issues during its investigation of the Australian banking and monetary systems, two matters that exercised much of the Commission's attention were the objectives of monetary and banking policy, and the instruments by which these objectives might be achieved. This chapter seeks to investigate the first issue, while the second is examined in the next chapter.

The broad objectives of the monetary and banking systems may be said to be two in number. To begin with, there is a micro-economic objective, namely, the provision of banking services, including the mobilization of savings, the allocation of savings, the furnishing of funds for investment, and the provisioning of the government's credit requirements. Secondly, the maintenance of economic stability is the principal macroeconomic objective. This can be divided into internal and external stabilization goals. Internal balance consists of full employment and stable prices, while external balance comprises equilibrium in the balance of payments. It is assumed that the attainment of these aims will contribute to the economic prosperity and welfare of the people of Australia. Recognizing that these objectives are occasionally inconsistent, a choice must often be made between them. This chapter will examine the views of the Commissioners regarding both internal and external

objectives, and will focus attention also on the opinions of the four main groups of witnesses who appeared before the Commission, namely, the economists, the central bankers, government officials, and private bankers.

While the Commission directed some of its attention to the first objective, decidedly more emphasis was placed on the second. The private bankers, with the possible exception of Alfred Davidson, General Manager of the Bank of N.S.W., seemed more concerned with the efficient provision of banking services, but the economists, the Commonwealth Bank officials, and government officials were all preoccupied with the preservation of stability in the economy. The last three groups primarily expounded the need to maintain internal rather than external stability, though there were important exceptions. This difference of focus no doubt contributed to the confusion in the minds of the private bankers when they read the Royal Commission's Report: It seemed to them to uphold the private banking system in Australia, proclaiming as it did that the banks were doing reasonably well in providing banking services, though there was a need for mortgage bank facilities for fixed and long-term lending and additional facilities to supply the capital needs of small secondary industries. On the other hand, the Report recommended that the banking system should be subjected to greater control by the authorities, since it had failed in the past to maintain economic stability. It took some time for the bankers to realize that these were separate issues and that the Report was not indeed self-contradictory.(1)

The Royal Commission and the Private Bankers on the Issue of Banking Services

The Royal Commission included in its Report a short dissertation on the first objective when it discussed the ideal structure and functions of the private trading banks. Whereas the central bank's duty was to regulate the volume of credit and currency, the function of the private banks was to mobilize and distribute the volume of credit throughout the economy. In discharging these responsibilities, the private banks were obliged to protect the funds deposited with them. The Report readily acknowledged that the banks had an important role to play 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."(2) It added that, insofar as these banks sought to act in their own interests in pursuit of profit, some limitation of their powers was necessary to protect the public from inappropriate credit policies; the central bank's duty, therefore, was to try to regulate credit in a manner which would cause the banks' interests to coincide with the public interest. Accordingly, the Commonwealth Bank was advised to "pay some regard to the distribution by the banks of the volume of credit amongst different industries", and to ensure that an adequate amount of credit was available.(3)

Apart from Davidson, the private bankers in their evidence, however, were generally conservative and much absorbed with the day-to-day management of their banking responsibilities, so much

so that the Commission found it difficult to draw out their thoughts on the wider aspects and objectives of monetary policy. This attitude of the bankers is naturally understandable, since their chief concern is with the provision of banking services and the protection of their own interests, rather than with matters of high economic policy. Thus Sir John Phillips', the Commission's Assistant Economist, comment to the author that the private bankers "were pretty good people in their own field but not with a very wide outlook on banking and its modern meaning. They were [then] very much the centre of the financial system."(4) G.D. Healy, Chairman of the Associated Banks of Victoria and Superintendent of the Bank of Australasia, exemplified the private bankers' approach when he chose to confine his attention to the main functions of the trading banks. All the major facilities provided by the banks were enumerated by him when he was asked to summarize the main responsibilities of the trading banks. In short, the banks were:

> engaged mainly in financing production, trade and industry. Deposits, which they receive from many sources, are lent to persons engaged in trade and industry, to financial interests, to governments, to primary producers and to others. Financing Australia's export and import trade employs a large part of their funds. (5)

Among other services, he pointed out that the banks accepted fixed deposits, provided cheque facilities, made arrangements for the transfer of funds, helped float public loans, and met government commitments in London.

u se

There were, however, two areas in which banking administration was lacking. First, Healy and other private bankers conceded that existing facilities for small secondary industries were inadequate, although it is true that these witnesses were rather hesitant to admit at length the difficulties faced by such industries in securing necessary finance, for fear of being criticized for this deficiency.(6) Second, it became clear to some that there was need for the establishment of facilities for long-term lending, especially for the primary industries. The banks admitted that even when they engaged in long-term lending, such a practice was not encouraged. The banks' attitude was well portrayed by Ernest O'Sullivan, Joint General Manager of the English, Scottish and Australian Bank, who informed the Commission that "we do not commit ourselves to long-term loans to industry. Such accommodation should be obtained by the issue of shares or debentures. I do not think any further facilities are necessary. All worthy objects can be catered for by existing institutions." (7)

The Royal Commission on the Issue of Economic Stability

Of the two major objectives of the banking and monetary systems dealt with during the inquiry, the second - concerning as it did the general aim of maintaining economic stability - was indubitably the most important. Indeed, to some extent, the first issue was examined more in the light of how it would best promote the achievement of the other objective, rather than as a distinct aim in itself.

The Report was, however, fairly vague in enunciating the stability objective. While it admitted that an ideal system should be flexible enough to help facilitate an efficient and full employment of resources, and promote a reduction of fluctuations in economic activity, further details and interpretation were to be left to the government's discretion. Thus, it asserted in a notable passage that:

> 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. (8)

To best achieve this goal, all Commissioners, apart from Chifley, favoured "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". (9)

In commenting upon the objective of economic stability in somewhat greater detail, the Report tended to place rather more emphasis on stabilizing the level of domestic activity than on internal price stability and exchange stability - although the achievement of the latter, in particular, was recognized as being important for the success of the former. The Commonwealth Bank was advised not to pursue a policy of altering the volume of credit according to variations in a particular price index. Several reasons were advanced for this view, of which the most important was the practical difficulty of there being no unambiguous indicator of how much change in the volume of credit would be required for a given increase or decrease in the price level. Instead, the Bank was to use movements in prices simply as a guide in formulating and implementing its policy. The maintenance of stability of exchange with sterling was likewise considered to be worthy of achievement and well-advised, but it was regarded to be of secondary importance. Although the advantages of a stable exchange rate for exporters and importers were recognized, the difficulty of carrying out such a policy was also made explicit. In fact, the Commissioners criticized the Bank's adherence to a policy of exchange stability; the fixed exchange policy to which the private banks had adhered in 1931 was similarly condemned. Apart from these subordinate policies, the ultimate objective of the Commonwealth Bank should be the preservation of stability in the internal level of economic activity.(10) The British Macmillan Committee Report had previously stated that the chief object of a central bank was "to maintain the stability of international prices both over long periods and over short periods".(11) The Australian Royal Commission, however, was adamant in declaring that the principal objective of economic policy should be the "reduction of fluctuations in general economic activity in Australia".(12) For this purpose, the Commission claimed that the money supply would have to be varied inversely with the level of economic activity. While it was hoped that the exchange rate could be

anticipating Keynes

maintained at a reasonably stable rate, the Commission took the view that it should be adjusted in the event of instability in the level of domestic activity. Thus, if the choice had to be made between stability of output and stability of the exchange rate, the Commission recommended that the monetary authorities should opt unequivocally for the former.

got this

Broad findings

Keynes contd. but did [illegible] notice

The View of Witnesses on Internal Stability

Some attempt will be made here, and in the following section, to identify what the different groups of witnesses expressed before the Commission concerning the issue of maintaining economic stability. Ideally, all the witnesses desired stability both in the level of domestic activity and in the exchange rate. They realized, nevertheless, that it would not always be possible to achieve both these objectives simultaneously and in the event of a conflict a choice would ultimately have to be made between them. There was, in fact, considerable disagreement among the various witnesses as to the *priority* which should be placed upon internal stability on the one hand, and exchange stability on the other hand. Thus, some witnesses placed their emphasis on minimizing fluctuations in the rate of exchange, while others believed the smoothing of aberrations in the domestic economy was more important. Many of those who selected the broad objective of internal stability went one step further and declared their dedication either to price stability or to the maintenance of full employment. Insofar as government officials did not comment upon the objectives of policy - as they

Remember pos by [illegible] Rozetta

were not specifically asked to do so - the discussion will concentrate on the views of the economists, the Commonwealth Bank officials, and the private trading bankers. Although the issue of economic stability as such, was not of great concern to the private bankers - with the exception of Davidson - they were asked at length about the desirability of exchange stability; this issue will be dealt with after an investigation into what the various witnesses in the remaining two groups - the economists and the Commonwealth bankers - said about internal stability.

The economists, with perhaps one exception, and the Commonwealth bankers, excluding the Chairman of the Bank Board, shared the opinions of the Commission concerning the maintenance of internal stability as the primary objective of the monetary authorities; most of these witnesses believed that a reduction of fluctuations in business activity was highly desirable. Yet beyond these generalizations there were divergent points of view, especially between the Commission and the economists, on the one hand, and the Commonwealth Bank Board on the other. While the Royal Commission was concerned that monetary policy should seek to maintain stability in the level of domestic economic activity - even if that meant some degree of price instability, though it hoped that the authorities could secure *both* price stability and stability in the level of activity - the Bank Board appears to have placed greater weight on price stability. The opinions of the economists, on the other hand, more closely resembled those that were ultimately expressed by the Commission; the Commissioners and the economists stressed the importance of reducing fluctuations in the level of domestic

activity and maintaining full employment - rather than price stability - or, in other words, the fullest use of Australia's productive resources. Indeed, for the most part, the economists tended to emphasize full employment even more than the Commissioners. Apart from these broad intra-group differences, however, opinions within the ranks of the two groups also varied. For example, L.G. Melville, Economist to the Commonwealth Bank, and Sir Claude Reading, Chairman of the Bank Board, emphasized exchange stability, and their views will be more appropriately discussed under that heading in the following section of this chapter.

While the Commonwealth Bank Board generally favoured the preservation of stability in the internal level of economic activity, the maintenance of relatively stable prices - and especially the prevention of an inflationary boom - was uppermost in the minds of the Board members. Sir Ernest Riddle, Governor of the Commonwealth Bank, appeared before the Commission on behalf of the Board as a whole. The majority of Board members held that a key objective of the central bank was the preservation of the internal value of the currency, and, as a means to that end, the Bank should seek to regulate internal credit. They were in agreement with the general principle announced in a resolution at the World Economic Conference in 1933, namely, that the central bank should regulate the aggregate volume of credit in order to mitigate undue fluctuations in business activity and in the internal value of the Australian currency.(13) Thus, although Riddle indicated that the Commonwealth bankers sought to avoid instability in the level of activity as well as price instability, he explained that the primary consideration of the Bank was to maintain the internal value of the currency, and hence to avoid fluctuations in the price level. He admitted, however, that he was expressing his own opinion, since the Bank had only recently decided upon its policy and had yet to clarify it. As he saw it, the Board aimed for price stability, "not in the sense of a condition that excludes all change but in the sense of a condition that excludes wide or rapid fluctuations to which the community cannot readily adjust itself."[14] Indeed, it was revealed that some internal stability and employment might have to be sacrificed in order to prevent an unhealthy expansion of credit from developing into a boom and then depression: If the Bank detected the development of an inflationary trend in the economy, it would induce a reduction in the level of economic activity. Riddle justified such action by stating that a gradual credit contraction and a slowing down in the rate at which the unemployed were absorbed would be preferable to a sudden and larger crash at the end. Copland ?

The economists, on the other hand, generally believed that the central bank's primary duty was to ensure the full employment of productive resources - and thus to maintain internal stability - through the regulation of credit. Since their views more closely coincided with those finally expressed in the Commission's Report, it is fair to say that they exerted the most significant influence upon the Commission. In private interviews with the author Melville, Coombs, and Phillips all agreed that the economists' evidence carried perhaps the greatest weight both during and after

Chap 1 Contra lack of influence.

the inquiry.[15] Unlike the Bank Board, the economists did not believe internal price stability was of utmost importance; for them, the greatest emphasis should be placed overall on the fullest use of resources - that is, on the minimization of fluctuations in domestic economic activity, and especially on the achievement of the full employment of labour. And indeed, four of the economists who appeared before the Commission believed that credit and currency control were the main means by which full employment and long-term internal economic stability could be attained. While the Commission asserted that the ultimate objective of the Commonwealth Bank should be the prevention of domestic instability and the maintenance of as-full-as-practicable employment during unavoidable credit contractions - the economists generally tended, as a group, to stress full employment above all else. There were, of course, shades of opinion even among economists. For example, one economist - J.B. Brigden - placed greater emphasis on maintaining a steady level of internal business activity without mentioning full employment.[16] Others varied their opinion by referring to the significance of a high level of real national income and income per head. Indeed, Giblin's evidence included an interesting discourse on income distribution.[17] And some economists listed price stability and currency stability as highly important, though of secondary significance as objectives of the monetary and banking systems.

Reg

J.B. Brigden, for example - then the Director of the Queensland Bureau of Industry and the former Director of the Bureau's predecessor, the Bureau of Economics and Statistics - maintained that the central bank should provide control of credit and currency in order to achieve steady business conditions.[18] Professor Torleiv Hytten - Professor of Economics at the University of Tasmania, and Economic Adviser to the Bank of N.S.W. - agreed that the central bank should be the guardian of credit and currency, which meant control both of the note issue as well as the entire creation of credit. Yet he also said that the Bank should strive to achieve as its basic objective the maximum employment consistent with long-term stability. He added that fluctuations in economic activity should be minimized, although a compromise between stability on the one hand and progress on the other was likewise desirable. This latter point was later incorporated in the Commission's Report. As Hytten explained:

> To the extent that economic activity falls below this [full employment] level, the resources of a country are wasted. When this state of affairs has been brought about, the central banks should concentrate on confining fluctuations in economic activity within reasonable limits. Insofar as it succeeds in this, the value of the currency is also likely to remain comparatively stable. These fluctuations in economic activity are never entirely due to monetary causes; but their intensity may be considerably lessened by enlightened monetary action. The part the banking system should play is to equate the money savings of the community with the investment in capital equipment, so that neither does such investment exceed savings, nor savings exceed investment. (19)

Similar views were expressed by Dr. E.R. Walker, Lecturer in Economics at the University of Sydney, who reviewed the different objectives of the monetary and banking systems as they had evolved in Australia, and explained why he stressed the achievement of two aims above all others. Just as Hytten placed greater emphasis

on full employment, Walker favoured, on the other hand, the avoidance, or mitigation, of depressions and unemployment. But, on the other hand, stabilization of the purchasing power of money was also deemed necessary. In the event of an inconsistency between these goals, the prevention of depression was to him the more important. He explained, moreover, that the widespread acceptance of the prevention of unequally distributed changes in the ownership of wealth and the avoidance of depressions as objects of monetary policy had become features of economic policy in the twentieth century.[20]

via wage stability

Price stability was nevertheless supported by him on the grounds that "violent changes in price levels involve sudden unsocial changes in the distribution of wealth."[21] The chief sources of Walker's beliefs were said to have been J.M. Keynes and Professor Irving Fisher, who both had recommended price stability; they had asserted that this objective should have precedence over the maintenance of the gold standard and a stable exchange rate.

Another economist, J.L.R. Gifford, Lecturer in Economics at the University of Queensland, revealed that his ideas were also basically Keynesian, but Keynes of *The General Theory* rather than of the *Treatise on Money*. For him, the Bank's objective should be to strive towards maintaining as-full-as-practicable employment and to prevent general trade depressions. He differed from other economists, however, in stating that the central bank should aim at sustaining booms without encouraging or permitting excessive credit expansion.[22]

Similarly, both A.G.B. Fisher - Professor of Economics at the University of Western Australia and temporary Economist to the Bank of New South Wales in 1934 - and W.B. Reddaway, Research Fellow in Economics at the University of Melbourne, emphasized the importance of the full employment of resources. The Commission was also impressed, in some measure, by Fisher's assertion that the central bank's primary objective should be to ensure an efficient distribution and use of the volume of one resource in particular, that is, savings. It may be recalled that Brigden and Hytten had directed some of their attention at currency control; similarly, Fisher named currency stability as the second function of the Bank. Taking these objectives together, he declared that the central bank should coordinate the banking system as a whole in order to ensure that the errors of an uncoordinated system were avoided as much as possible. Stability of the currency and the prevention of depression would be incidental to the establishment of a proper equilibrium between savings and capital expenditure.(23) Reddaway, too, stressed that the fundamental goal of the central bank ought to be to assist the economic system in the achievement of the optimum use of productive resources, both present and future, so far as was possible by monetary means. More specifically, he argued that the Bank should seek to enable the economic system to secure the maximum real national income now and in the future by promoting the full employment of resources. He added that, for this purpose, the central bank should deliberately regulate the internal level of credit.(24)

Stäckle

Professor L.F. Giblin - a member of the Commonwealth Bank Board and Ritchie Professor of Economics at the University of Melbourne - affirmed that his views largely coincided with those of Reddaway. But he stated firmly, in addition, that the aims of the Bank should be identical to those of the government: It ought to represent a compromise between the views of opposing alternative governments in order to secure the welfare of all Australians - that is, the greatest real income per head of the population. He advised the Bank to keep two points in mind, first, that an excessively unequal income distribution was undesirable; and, second, the population of Australia should increase at a moderate rate. Apart from this vague, but somewhat unique reference to income distribution, the attainment of a situation of full employment was declared by Giblin to be the fundamental, overriding aim of monetary policy.(25)

Evidence Presented on the Topic of Exchange Stability

While the objective of internal stability was strongly endorsed by many witnesses, some others - especially Melville, Reading and the private bankers - preferred to direct somewhat greater attention to the question of exchange stability. Most of those who were asked to comment about this objective recognized the importance of exchange stability, but there were differences of opinion as to the degree of stability that should be sought, and the means of securing this end. There was no consensus on the issue of whether or not Australia should return to the gold standard. Likewise, the reasons why some degree of flexibility in the exchange rate should be permitted also varied both between, and within, the different groups of witnesses. For the most part, the private bankers were favourably disposed to exchange rate stability, though more than half of them - and especially Davidson - were not prepared to argue that it should remain stable in all circumstances.(26) Similarly, while the Commonwealth bankers felt for the most part that a stable exchange rate was generally desirable, they were prepared to sacrifice this objective for internal price stability. Reading, however, differed to some extent from the other Board members by placing relatively greater stress on exchange stabilization. Yet he, too, admitted that this objective should not be pursued at all costs.(27) On the other hand, while none of the economists saw the necessity to maintain an absolutely stable exchange rate they did see some benefits in preserving a measure of short-term stability. Still, they were convinced, for the most part, that internal stability, and full employment in particular, were ultimately to be preferred to exchange stability in the event of incompatibility between these goals. In fact, the views of the economists - most especially those of Melville, Hytten, and Walker - made their greatest impact upon the Commission on this issue.

It is fair to say that, overall, the economists were relatively more prepared than the bankers to allow greater exchange rate flexibility in order to maintain full employment: Some economists, to be sure, were somewhat more inclined than others to place stress on exchange stabilization, but even they acknowledged that movements in the exchange rate would be required in certain circumstances.

Melville stood apart, both from the majority of economists and Commonwealth Bank Board members, in advocating a fixed exchange rate as the central aim of monetary policy. He did not, however, favour total rigidity, recognizing as he did that there might be occasions when adjustment to the rate of exchange was necessary. Because of Melville's position as Economist to the Commonwealth Bank, his influence on the Commission, and his later prominence as an adviser to Australian governments, it is instructive to provide somewhat greater detail concerning his views. He explained that stability in the exchange rate could be achieved if an adequate balance of London funds was accumulated and subsequently maintained through regulation of the domestic credit level. And the policy of a fixed exchange rate, he maintained, might more adequately enable the monetary authorities to secure the ultimate objectives of the monetary and banking systems - namely, stability in business activity, maximum production of goods and services, and as full employment as was practicable.(28) In an interview with the author, he explained that while he was the Bank's Economist he recognized the importance of these objectives, but he also realized it was very likely that a choice might have to be made between two of them. Thus, he specified one target and guideline - exchange rate fixation - in an attempt to prevent the monetary authorities from making a wrong decision and formulating an inconsistent monetary policy. It is his opinion, however, that the Commission merely complicated the issue, by including more than one objective in its Report.(29) In addition, whereas most of the witnesses who

[illegible] It would put at rest. He came about the CB by ruling it the Chairman commented on the subject of the gold standard were adamant about its inappropriateness as an international monetary system, especially for Australia, Melville's view on the matter was equivocal. While he considered the gold standard to be the most suitable basis for monetary policy for the world as a whole, stability with sterling was preferred for Australia. He contended, moreover, that the exchange rate should not be fixed week by week, or month by month; instead, he envisaged the ideal of a stable exchange rate as a sort of working hypothesis in which a constant relationship between the Australian pound and the British pound would facilitate the achievement of stability in the exchange rate. As he put it, "I think we should think in terms of a stable exchange for all ordinary occasions."(30) In this way, retaliation by other nations could be dismissed as presenting a real threat. Ultimately, however, even he conceded that the most important objective was the provision of a maximum output of goods and services, and he was prepared to admit that exchange rate stability might have to be foregone in order to attain this end. In essence, the rate of exchange should not be maintained through "thick and thin", but he also believed the rate should be adjusted only when rare, exceptional circumstances warranted an alteration.(31) He explained that the rate should not generally be allowed to vary in response to normal movements in the volume of London funds, though such variations should, for the most part, be permitted to affect the state of the domestic economy. The internal economy should not, however, always be

even M conceded

disturbed for every rise or fall in London funds. If it were a small, or temporary movement, "no action need be taken to adapt the internal economy to the altered conditions"; if the trend was expected to continue indefinitely, however, "there would need to be a contraction, or expansion, of credit - gentle at first, but applied with increasing severity until the internal economy had been suitably modified."(32)

Moreover, London funds might become so large, due to some extraordinary cause, that the exchange rate might have to be moved. In addition, he discussed several other situations in which the exchange rate might be adjusted. If, for example, it was impossible to vary the nominal wage rate in response to a sudden change in prices, then the exchange rate ought to be moved instead. He later explained to the author that although he believed some degree of inflation might be tolerated, there were times when the maintenance of a stable price level should assume priority. If, therefore, the economy was in a state of basic disequilibrium and deflation was either infeasible or undesirable, rather than adapt the economy to a fixed exchange rate, the adjustment should be made through an appropriate change in the exchange rate. In other words, although the rate of exchange should generally be kept stable, in the case of a conflict between the achievement of a maximum output of goods and services and full employment on the one hand, and exchange stability on the other, it might well be appropriate to adjust the rate in the interest of the former aim.

in extremis

He added that, in retrospect, the objective of a stable exchange rate might have been accomplished if people had been more dedicated to this end.(33)

For the rest, however, the economists who appeared before the Commission generally stressed the importance of greater exchange rate flexibility for the achievement of full employment, though they saw merit in attempting to keep the exchange rate as stable as possible. For example, while Giblin did not share Melville's conviction that exchange stabilization should be the principal target of monetary policy, he recognized the positive value of a relatively stable rate of exchange. In fact, their views on some aspects of the subject were quite similar. Both, for example, tended to oppose Australia's return to the gold standard, but Giblin acknowledged that it might be appropriate in certain circumstances; as a general rule he implied that it was not necessary for the maintenance of exchange stability. He preferred, instead, to think of this regime as a symptom, rather than the cause, of stability, saying that it "is not a question of being on a gold standard. The question is how certain you are to remain on it. It is stability you want, not any particular technique of measuring it."(34) Indeed, Giblin was surprised by the extent to which economists agreed on the question of exchange rate policy, Gifford [illegible] him being an exception. The reasons for changing the exchange rate and the differences regarding the proper amount of movement which were advanced by various economists, reflected, Giblin said, small disparities of opinion of no great importance.(35)

Discrepancies were bound to arise in part from inadequate information - which prevented identification of the stage of recovery that had been reached - and in part from different points of view. Some groups of witnesses - the trading banks, for example - would stress the short-run effect of policy on business, while the central bank, Treasury, and perhaps many economists, would emphasize the long-run effects. These differences of opinion were no cause for concern as long as they were not pushed to extremes. Basically, he favoured a stable exchange rate for two reasons. For a start, it would encourage new flows of private investment from overseas, which would act to sustain recovery and facilitate the drive towards full employment. Exchange stability would serve to revive international trade and would lead to a greater export income, which, in turn, would stimulate overseas investment and encourage population growth. Yet, although he believed the central bank should peg the rate to ensure there would be only small movements within narrow limits about a particular rate, internal considerations and the dominating objective of full employment remained uppermost in his mind; still, sufficient justification for varying the exchange rate would be required. Also, external events might create the need to alter the relation with sterling in order to avoid, for example, the threat of a temporary boom or protracted deflation and unemployment. And, in the event of a large disaster, a decline in the exchange rate might be the appropriate remedy:

> It cannot prevent or cure the first loss, but it can distribute it more evenly through the community. Without this depreciation, some part of the community might bear the whole of the first loss (e.g. export producers if the cause was a fall in export prices)... But it would be unwise, purely from internal considerations, to carry the exchange movement so far as to preserve intact the real income of the class first hit ... An all-round tightening of the belt is necessary, with variations up and down according to the ability and willingness of the various sections to stand it without damage to the structure of industry. (36) Melville

Alternatively, a tremendous rise in world prices would constitute another of the occasions when the exchange rate should be adjusted. If prices rose very high, Australia should move to parity with sterling and, perhaps, on to gold if necessary. Melville

Similarly, although Reddaway recognized the advantages of exchange stability, he also believed the exchange rate should be altered when there was sufficient cause for adjustment - for example, if internal stability and a high level of employment were seriously threatened. In fact, he thought, ideally, that a policy of maximizing real national income would be best achieved by allowing the exchange rate to find its own level. But the existence of various unmanageable forces, however, meant that this would be very difficult. It was for this reason that he advocated an alternative, less ambitious policy - that is, "the maintenance of stable exchange coupled with only modest variations in internal policy."(37) Certainly he did not subscribe to the view that Australia ought to have returned to parity with sterling after sterling left gold, but he averred that the central feature of policy

should be a stable rate of exchange between Australian currency and sterling, and this "is, in fact, simply a continuation of the [central] bank's present policy".(38) Apart from the convenience this policy offered to traders, it was desirable for several other reasons. For example, it represented a reasonably well defined policy - which might attract overseas capital - and it could be carried out without difficulty, except in abnormal times, with three qualifications. First, if a shortage of London funds were to render the Commonwealth Bank incapable of preventing the depreciation of the rate; here, although he recognized that a relatively minor setback could make it difficult for the Bank to combine exchange stability with the most desirable internal policy, a fixed exchange rate was nevertheless desirable. Second, he advanced the view that it was very difficult to know whether a change in the volume of London funds was temporary or permanent, and hence whether the rate should be maintained or altered. And third, if a movement in the rate was deemed necessary, it would be extremely difficult to decide the amount by which it should be adjusted. It was desirable, therefore, for the Bank to maintain a reasonably stable rate of exchange, but this did not mean that the authorities should not attempt to regulate internal credit in order to secure a high level of employment. While these two policies could normally be executed more or less independently, it was acknowledged that if a conflict arose between internal stability and exchange stability, and there was a very clear case for an alteration in the exchange rate, then the latter objective would have to be sacrificed for the former. Reddaway, in fact, did not think there would be much difference in practice between his views and those of Hytten; he agreed with Melville, however, that the rate should not be adjusted until there was conclusive proof of the need for variation. Overvaluation and undervaluation, for example, were not criteria for movements in the exchange rate. On the other hand, a wild boom would perhaps justify a raising of the rate: "Where the Commonwealth Bank sees no prospect of restoring equilibrium in the balance of payments without a considerable reduction of money incomes, then raising the exchange rate is the best solution."(39) He also stated that the rate should be adjusted during a severe depression, explaining that in the last resort, a high level of employment and national income was more important to trade than exchange stabilization. He then added that when a variation in the rate was warranted, a single, decisive move was to be preferred to small movements each week.

Similarly, Fisher's case for exchange rate stability - except when unusual circumstances produced the need for a variation - was much the same as that expressed by other economists. Advocating as great a degree of stability as possible, he said that reliance on variable exchange rate policies was apt to encourage the authorities to ignore the necessity for other, more drastic adjustments. While he believed that Australia would probably choose to return to the gold standard in the future - albeit a relatively more elastic regime than the traditional gold standard - he himself saw no theoretical need for it. He preferred instead a somewhat freer market for exchange and saw

no objection to small and frequent alterations, especially if they were within the limits formerly regarded as the gold points. Moreover, he believed that extreme conditions - such as a further sharp decline in the prices of the main exports, or a violent deflation in Britain - would necessitate further depreciation in the exchange rate. The question of a hypothetical conflict between internal and external stability was not put to Fisher, and he did not raise the issue himself.(40)

Although Brigden, Walker, and Gifford, despite Giblin's assertion about the latter, shared some similar views on the exchange issue - and on the ultimate importance of preserving a high level of employment if both exchange stability and full employment could not be achieved - they differed on the question of the gold standard. The latter two expressed their whole-hearted disapproval of the gold standard, whereas Brigden was not quite as definite. While he disliked the gold standard, Brigden stressed its positive attributes and could not think of anything better than gold: It was positive, definite, convenient, and "every one understands gold."(41) Still, the Bank should avoid pegging the rate indefinitely, and should take positive action when a variation was deemed appropriate. Like the other economists, he realized the benefits of a situation in which a stable exchange rate with sterling would be the governing force regulating internal credit policy, but stability should not be retained at all costs. As he explained, "As a criterion I do not put the stable rate of exchange as high as he [Melville] did."(42)

If a stable rate was harmful to internal business and employment, then it should be appropriately adjusted. Similarly, Gifford placed more emphasis on maintaining as high a level of employment as possible than on maintaining a fixed exchange rate. Although this objective would generally be consistent with a policy of preserving short-term stability of the exchange rate with sterling, it would involve changes in the exchange rate - even large movements - when they were necessary in order to sustain employment. There was no need for unlimited depreciation of the foreign exchange value of the Australian pound, and a large permanent change would be required only if Australia's exports were affected by a significant alteration in the structure of world production, or if world prices continued to rise or fall.(43) Likewise, Walker was aware of the advantages of a stable exchange rate, but he, too, was prepared to make concessions in order to maintain a high level of domestic economic activity. He favoured short-term stability of the sterling exchange, as shown by his opposition both to any mechanical method of varying the exchange rate and to frequent variations. He was adamant, however, that the rate would have to be altered in the long-term if internal stability and full employment were being undermined.(44)

Neo Keyns

all the ecn are refreshingly Keyn in orientn.

Like most other economists, Hytten was firmly of the opinion that the exchange rate should be sacrificed if it meant the preservation of full employment. Of course, he desired both exchange stability and full employment, but in the event of a conflict, he hoped the authorities would opt for the latter. An

ardent opponent of the gold standard, Hytten preferred a much freer exchange rate regime. Although there was no simple guide to exchange policy, internal "stability is far more important [than exchange stability], and if that should happen to mean changes in the rate from time to time, these must be undertaken."(45) Any alteration, whether rendered necessary by internal or external conditions, were best accomplished by a series of small steps. Still, while Hytten believed there was a striking difference in opinion between Melville and himself on the question of the exchange rate, Giblin considered in contrast that the two were not very wide apart. It was his view that:

> Differences in principle amount to little more than one taking for granted some unexpressed proviso, which the other would like to see in black and white. One takes as understood the possibility of a move in the exchange rate for sufficient cause, or the dominating objective of full employment [*sic*] while the other thinks it wise to remind us of them at every turn. On the other hand, one takes for granted the need to prevent violent booms, while the other thinks it is useful to keep these dangers constantly before us..(46)

Be that as it may, although the economists for the most part acknowledged the importance of exchange stability, they were generally willing to allow a significant degree of flexibility in the exchange rate in order to achieve full employment. The private bankers, on the other hand, were more inclined to emphasize exchange rate stability, though many of them acknowledged that there would be times when the rate should be moved. Yet, while the bankers as a whole tended to stress exchange stabilization - which was considered especially desirable for exporters and importers - no consensus was reached among them as to when an alteration in the exchange rate would be appropriate. For the most part, they were not asked to comment on the situation in which a conflict might arise between internal and external ends. Perhaps the Commissioners felt that the bankers were not experts in this area and therefore could not speak with authority. And, apart from Davidson, the bankers themselves did not raise the question on their own initiative. Davidson, however, was less dedicated to exchange stability than other bankers, and he showed considerable initiative in his advocacy of long-term exchange rate flexibility in order to preserve internal stability. Indeed, Sir John Phillips and Dr. H.C. Coombs - both later Governors of the Reserve Bank - informed the author that Davidson's awareness of contemporary economic thought was most unusual for a general bank manager. In Phillips' opinion, "you could fairly say he was the only one of the managers who really had the feeling for the theory and background of banking and he was a very dominant character and a very imaginative one."(47) It cannot be denied that Davidson was very knowledgeable concerning both monetary affairs and policy; however, his stance on the desirability of exchange rate flexibility was not a product of his intellect and experience alone. For his economic advisers - Hytten, and his former teacher, E.O.G. Shann - may have been the dominating influences. Whatever the influence, Davidson stood alone among the commercial bankers in his outright rejection of the gold standard, and he appeared to differ from many other witnesses - especially Melville, for instance - in his abiding

'one of us'

commitment to exchange rate flexibility.(48) Whereas Melville advocated stability as a general rule, Davidson preferred a flexible rate of exchange with small, frequent changes, while respecting the usefulness of a fixed rate over very short periods. Both of them, and ultimately the Royal Commission itself, agreed, however, that in the final analysis, exchange stability should rate second to internal stability. According to Davidson, exchange rate stabilization could be maintained if exchange balances were held both internally and externally; and, most importantly, if governments did not exceed their financial means. In this way, exporters, importers, and every other section of the community would benefit in the absence of violent fluctuations. The primary guide to exchange policy, however, should be internal economic conditions and their relation to conditions abroad. If internal or external circumstances changed drastically, then a corresponding sharp alteration in the rate would be necessary; otherwise, trade and expectations would all be damaged. An undervalued or overvalued rate, or a large disturbance in the Australian price structure, for example, would justify adjustment. The state of London funds was not, however, a completely safe guide to policy. Emphasizing the importance of central bank cooperation with governments and trading banks, he stated that the central bank must study both government policy and capital movements in determining exchange policy. Normally, "the central bank should watch carefully for minor maladjustments in the internal price structure or in prices abroad, and guard against them before they can have an effect on the internal economy."(49)

Opposing a system of weekly, monthly or quarterly fixation of rates, he favoured change only when it was desirable.

For the rest, the bankers generally agreed that stability in the rate of exchange for as long as was possible was highly advantageous, though some exhibited a tendency towards absolute rigidity, while others preferred more scope for movement. For example, L.J. McConnan, Chief Manager of the National Bank of Australasia, and P.F.G. Gordon - General Manager of the Commercial Bank of Australia and Chairman of the Associated Banks of Victoria from 1936 to 1937 - both desired long-term stability rather than total rigidity. According to McConnan, a stable rate was useful in that it allowed a bank to deal freely when both buying and selling without risk of loss. Exporters and importers, as well as governments, were able to estimate their exchange cost or benefit; but still, he believed the rate should be moved when necessary.[50] Similarly, Gordon advocated stability, but not at all costs, explaining that the exchange rate should be adjusted if, say, the level of imports was deemed to be too high.[51] In addition, C. Darvall, General Manager of the Commercial Banking Company of Sydney, desired stability in the exchange rate, saying that it was fundamental to the interests of Australia; however, he admitted that the exchange rate was determined in the final analysis by the laws of supply and demand, and hence the exchange rate should not be totally inflexible. He agreed, in short, that stability in exchange was desirable, partly as a means of achieving the more important objective of stability in the internal

price level, and partly as a convenience to importers and exporters.[52]

In contrast, many other bankers favoured rigidity over elasticity. G.D. Healy, who appeared before the Commission as Chairman of the Associated Banks of Victoria between 1935-1936 and as Superintendent of the Bank of Australasia, wanted a fixed exchange rate for several reasons. To begin with, it would ensure favourable trading conditions for exporters and importers; secondly, it would reduce exchange speculation; and thirdly, it would maintain steadier domestic price levels.[53] W.A. Leitch, General Manager of the Union Bank of Australia, moreover, desired a pegged rate and, more specifically, exchange parity with sterling.[54] E. O'Sullivan, Joint General Manager of the English, Scottish and Australian Bank, also had the interests of overseas traders in mind when he expressed his preference for a totally stable exchange rate.[55]

On the other hand, the Commonwealth Bank Board as a group favoured short-term flexibility and long-term stability in the rate of exchange in order to maintain internal price stability. There was, however, some difference of opinion between Reading, on the one hand, and the Commonwealth Bank Board, Sir Ernest Riddle - Governor of the Commonwealth Bank - and A.F. Bell, Acting Chairman of the Board and Director of the Bank, on the other. Reading, for example, stressed the importance of exchange rate stability to a greater degree than his Board colleagues, though even he was not prepared to argue that this objective should be maintained at all times. His views, incidentally, were probably influenced by the fact that he was actively involved with the tobacco industry, having been a Director of the British-Australian Tobacco Company from 1912 to 1934. Although he advocated rather strict adherence to exchange stability, he avoided the question of whether the Commonwealth Bank was attempting to achieve parity with sterling: On this and several other occasions, he preferred to say that it was a delicate matter, and one that the Commission should take up with the Board. For himself, the Bank's general aim, however, was to maintain a stable exchange rate, and this would only be achieved through control of the internal credit situation. Moreover, a policy of firmly controlling the rate was desirable for Australia, as it was for any country. When the Commission suggested that this goal might be less important than other considerations, Reading revealed that he was even more convinced of the need for exchange stability than Melville. "It is not so much that something dreadful may happen if it has to be changed, but I think it is in the best interests of the country as a whole, and in the best interests of the primary producers to maintain stability."(56) Ultimately, however, he conceded that stability should not be preserved at all costs. While acknowledging that if the internal situation was involved, all economic considerations - including the number of unemployed Australians - should be taken into account, he did not go as far as to advocate that exchange stability should be consciously sacrificed for internal balance.

In contrast, although Bell, Riddle, and the Board in general recognized the merits of a stable exchange rate, they

did not espouse this objective to the same extent as Reading seemed to do; rather, they emphasized the importance of maintaining internal price stability. In fact, they revealed the extent to which the Bank Board's opinions differed from those of Reading, its Chairman. The Board favoured the restoration of a satisfactory international monetary standard, but it took the view that parity with sterling was not altogether desirable.(57)

CHAPTER FOUR

THE INSTRUMENTS OF MONETARY POLICY

While it is acknowledged nowadays that the pursuit of economic stability can be undertaken either by monetary or fiscal policy, or by both, the Royal Commission tended to ignore fiscal policy - that is, the use of the government budget as a stabilization tool - and emphasized monetary policy instead. Two factors seem to have been responsible for this. First, the terms of reference naturally had a considerable bearing on the importance attached to monetary policy, for the Commission was instructed to investigate the monetary and banking systems prevailing in Australia. Secondly, the full significance of the somewhat newer fiscal arm of economic policy had yet to be widely understood, due in part to the comparatively slow diffusion of Keynesian economics in Australia.

Monetary Instruments

In its discussion of the instruments of monetary policy, the Commission tended to focus on two in particular. On the one hand, it recommended the imposition of a system of variable minimum deposits, and, on the other, it suggested the control of London funds by extending the current Exchange Mobilization Agreement.[1] Although these issues occupied much of the Commission's time, some attention was also directed at various other aspects of monetary control. To begin with, the Commission drew attention to the need for the control of monetary policy to be ultimately vested in the hands of the government. It believed that closer relations between the Commonwealth Bank, the Loan Council, and the State and Commonwealth governments, would contribute towards the maintenance of internal stability. It argued that while the day-to-day responsibility for monetary policy should be entrusted to the Commonwealth Bank by Federal Parliament, the latter should ultimately be answerable for monetary policy. In the case of a conflict between the government - the executive of Parliament - and the Bank regarding the most suitable monetary policy to be pursued, it was agreed that thorough consultation between the Bank and government authorities should be resorted to in order to reconcile disagreements; if it became clear that differences could not be settled, the government should then take command. The Commission concluded that while the government had no authority to interfere in the day-to-day administration of the Bank, "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."[2] Even so, complete unanimity on the issue was lacking. For example, Napier, the Chairman, accepted this statement subject to

reservation, while Pitt flatly dissented.[3] The latter contended that the Bank should be allowed to exercise its independence, and not subordinate its decisions to those of the government.

After presenting its views on government-Bank relations, the Commission discussed another matter which was associated with the control of monetary policy, namely, the issue of bank nationalization. While the majority of the Commission rejected the idea of a nationalized banking system - which was in any case considered to be a small matter of concern - Chifley took the opportunity to present a minority report, in which he not only advocated a more powerful government-owned central bank, but also suggested outright nationalization of the entire banking system in Australia. Indeed, he disputed the Commission's contention that the objectives of the monetary and banking systems could best be attained through the preservation of a system comprising both a government-owned central bank - which would regulate the volume of credit - and privately-owned banks, which would assume responsibility for distributing credit. The private trading banks, he argued - being primarily motivated by profit-making - had neither collectively chosen, nor had individually been able, to act in the best interests of the community in the past, above all during the years of the Depression. Thus, in condemning a system which included private banks, he asserted that "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."[4]

This is not to say, however, that Chifley worked against the other Commissioners. In fact, in an interview with the author Phillips, who was the Commission's Assistant Economist, went so far as to suggest that the minority report was more representative of the Labor Party's views than those of Chifley himself, who was obliged to submit to it. According to Phillips, Chifley's original ideas were substantially modified by the evidence which was presented by the economists; hence, during informal, unofficial discussions with Mills, Abbott, Harris - the Commission's secretary - and Phillips, it seems that Chifley tended more towards greater central bank control over the private banks as opposed to complete nationalization.(5)

On the other hand, while the Commission firmly repudiated nationalization of the banking sector, it believed that the Commonwealth Bank should have sufficient powers in order to perform its main function, namely, the regulation of the credit volume. The Commission soon realized, however, that the Bank's ability to control credit was dependent upon the effect of its action on the cash reserves of the private banks, and the latter's reaction to the resulting alteration in the level of their reserves. In the result, it appears that the Commission became very concerned that the Bank's existing instruments of control were inadequate to induce the changes in the cash reserves - and thus in the advance, and ultimately the interest, policies - of the private banks, which were needed to produce the desired alterations in the credit structure. Above all, it was this realization which prompted

the Commissioners to devote a great deal of their time to the issues of minimum deposits and control of London funds, and to emphasize the necessity for these radical additional measures.

While the Commission stated that the powers then available to the Commonwealth Bank should be used more fully and courageously, it also recognized that the limitations of these means of control prevented the Bank from operating as an effective central bank. Thus all Commissioners agreed that the current method of limiting the note issue was undesirable. Under the existing arrangements, the Bank was required by law to maintain a reserve of twenty five per cent of the notes issued in the form of gold or sterling. Without this restriction, however, the Bank would be able to use these reserves freely; Mills particularly objected to this limitation placed upon the note issue.(6) The Commission itself argued that gold backing for the notes issued was not necessary, except as a means of restricting the volume of notes; it added, however, that the reserve requirement was virtually ineffective as a means of preventing a rise in the volume of the notes issued in Australia, 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."(7) In addition, the Commissioners objected to the reserve limitation on the grounds that it could place the Bank in an awkward position if it wanted to reduce the exchange rate. The consensus was that a limit on the issue should be fixed at a stated maximum, with some provision for elasticity when necessary. With the exception of Pitt, they all recommended, at Mills' instigation, that a variable gold or sterling backing for the notes on issue should no longer be required, and that the note issue should be legally restricted to a fixed maximum, say, of sixty million pounds; however, the Bank s[hould] be able to extend the limit by a stated sum, for example by ten mil[lion] pounds, if the Treasurer approved such action. While Napier merely consented to these suggestions subject to reservation, Mills, Chifley, and Abbott agreed in no uncertain terms that the Bank should be free to deal with its gold and sterling funds as it saw fit. (8)

After directing its attention to note issue control, the Commission then turned to the main means at the Bank's disposal for regulating the cash reserves of the private banks; these, it believed, were insufficient. In respect of open market operations - the deliberate buying and selling of government securities for the purpose of credit control - the Commission exhibited considerable hesitancy. Here, Mills seems to have been the dominant influence; it was his view that, although the creation of a successful open market system was desirable, there were manifold problems to be overcome before its establishment could be seriously entertained. (9) In particular, the central bank was inadequately equipped with a sufficiently comprehensive portfolio of securities to create an open market on its own account; nor, more importantly, was the current market for government securities sufficiently wide to sustain heavy sales and purchases without

great fluctuations in security prices. This had been clearly demonstrated in 1936, when the Bank's sole attempt to establish a market for treasury bills proved unsuccessful as a result of the manoeuverings of the Bank of New South Wales. While Chifley believed that a market for treasury bills should be given a proper trial, he admitted that it would probably be a narrow market; and thus, it would not constitute a real weapon of control. Napier, too, expressed doubts about the effectiveness of such a market.(10) These views were then placed in a wider context when the Commissioners made a general statement on the purchase and sale of both long-term and short-term government securities. It was asserted that 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 been expressed to us that the market is wider than the Bank's views 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. [Reservation by Mills and Abbott]. (11)

Another instrument available to the Bank at the time, and which was investigated by the Commission, was the trading bank powers of the central bank. The consensus of opinion on the Commission was that the Commonwealth Bank should continue these activities in order to attempt to alter the cash reserves of the private banks. It could, for example, reduce the banks' cash ratios by drawing deposits away from them. While the Commissioners believed that the Bank should be at liberty to take on any ordinary business which it felt was not being adequately provided for by the private banks, they did not, however, encourage the Bank to compete aggressively with the private banks except where such competition would further central bank policy. Chifley was somewhat of an exception, as he naturally believed the Bank should accept all business being offered, provided it was sound and the Bank had sufficient funds. Yet he agreed with the other Commissioners that a recommendation on this issue was inappropriate. Apparently, they all realized that the Bank's relatively small-scale and undeveloped trading bank activities did not and, more importantly, could not, give it *effective* control over the cash reserves of the private banks. Thus, it was decided that no action on this issue should be taken, and that the operations of the Bank should continue merely as an adjunct of other central banking policies.(12)

The control of interest rates was yet another issue about which the Commission refrained from making any suggestions so far as central banking was concerned. Here again, Chifley's influence is evident, stating as he did that there were certain ways in which interest rates could be regulated, but they could not be controlled by the Bank with its existing powers.(13) And when the Commission sought to ascertain whether the Bank would be able to regulate credit by manipulating the level of interest rates, its conclusion was not very promising: Even if the Bank proved successful in changing the level of interest rates, such action

would not necessarily bring about the desired movement in the level of available credit. In fact, the Report declared that:

> 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 credits. (14)

This conclusion was based partly on the Bank's lack of firm control over interest rates, which had been amply demonstrated in March 1936 when the trading banks raised interest rates against the advice of the Commonwealth Bank; and partly on the Commission's assertion that more direct measures were needed to control the level of credit in the Australian economy.

In short, the Commissioners concluded that, while the Bank might be able to exert some limited influence upon the cash reserves of the private banks through the exercise of various existing powers, the Bank seemed to lack sufficient sovereignty over the credit structure. For the banks could offset moves by the Commonwealth Bank to increase or reduce their cash reserves and, thus, their advances, by maintaining flexible cash reserve ratios. One way of preventing such action, and ensuring that the central bank would, in fact, be able to control credit, was for the Bank to secure the cooperation of the private banks. The idea was that both the Bank and the private banks might consult on the aims of central bank policy, and the means by which they could be implemented. Although no formal recommendation concerning Bank cooperation with the private banks was advanced, the implication was that, ideally, cooperation should work both ways; the central bank should formulate its policy in consultation with the private banks, and the duty of the banks would be to assist in policy implementation. Yet the Commission was not convinced that complete cooperation by the private banks would always be obtained, and, indeed, past experience seemed to justify such doubts; therefore, it concluded that compulsory powers over the banks were essential in order to invest the Bank with the means it required to regulate credit.(15)

Before discussing these additional controls, however, one further instrument which came to the Commission's attention - namely, the allocation of advances to different activities - is worthy of notice. Mills, in particular, believed that as the Commonwealth Bank accumulated an adequate store of information, it should use this knowledge to guide the trading banks - by identifying desirable avenues for an expansion of advances, or the directions in which caution should be exercised. Once again, the similarity between his viewpoint and the discourse in the Report suggests that Mills carried considerable weight within the Commission. It will be recalled that, while nationalization was rejected, the Commissioners nevertheless felt there was some scope for enhancing the Bank's authority over the issue of credit. In a similar vein, the Bank was also directed to "pay some regard to the distribution by the banks of the volume of credit amongst

different industries", that is, the Bank should specify the industries that should be expanded and those that should not be encouraged to develop.(16) In sum, the Commission recommended that, although the distribution of credit should continue to be the banks' responsibility and:

> We do not suggest that the Commonwealth Bank should interfere in any way with the granting of particular advances by trading banks ... 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. (17)

Although Chifley did not dissent from this majority recommendation, he tended to disagree with the other Commissioners, declaring as he did in his minority report that the central bank should establish a trading bank department which would assume authority for the allocation of credit. He stated that policy objectives could only be attained if the Commonwealth Bank had a trading bank department which could distribute credit directly to industry. In fact, the Bank's trading activities "should be extended, with the ultimate aim of providing the whole of the services now rendered by private trading banks."(18) An extension of its existing trading bank functions and a more liberal advance policy would, moreover, increase its power to prevent the private banks from initiating a rise in rates on advances as they had in 1936. In response to an argument against the enlargement of the Commonwealth Bank's trading bank section - namely, that private bank deposits with the central bank could be used to compete with these banks - he replied that such funds should, and could, be separated from the resources of the Bank's trading department.

Two other aspects associated with the distribution of advances to different activities were also analyzed. First, the Commission revealed that existing provision for fixed and long-term borrowing was inadequate. Abbott, reflecting the interests of the rural sector, strongly favoured the establishment of mortgage banks. Napier summed up the opinion of the Commissioners when he asserted that it would be advantageous if these banks were formed.[19] Without specifying the type of bank that was desirable, the Commission's recommendation merely stated that a "mortgate bank or mortgage banks should be established to provide facilities for fixed and long-term lending."[20] Chifley, on the other hand, revealed his preference for the creation of a mortgage bank department within the Commonwealth Bank, and he disagreed with those who advocated the raising of advance rates as an effective means of preventing a boom, on the grounds that this action would also cause rates on fixed and long-term loans to increase. Furthermore, increased rates of interest would, in turn, impose an unequally distributed strain on governments and individuals alike during a downturn in economic activity.[21] Second, whereas Chifley stated in his minority report that an industrial bank department of the Commonwealth Bank should be formed to help provide capital for the development of manufacturing industry,

the recommendation of the Commission, which he helped to draft, was somewhat less radical, stating as it did that 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[ary] industries."[22]

The System of Minimum Deposits

While the Commission acknowledged the various instruments that were presently available to the Bank, it was convinced that they were insufficient. Hence, it sought to compensate for the inadequacy of these powers over the banking and monetary systems by recommending important and radical changes. In short, the maintenance of minimum deposits with the central bank and the provision for greater central bank control of London funds were advocated in the hope of vesting the Commonwealth Bank with the machinery of a fully-fledged central bank.

The minimum deposits recommendation was the first of the most critical issues to be discussed in the Report, but, interestingly enough, Phillips' notes on the recommendations indicate that the subject of London funds was examined by the Commissioners first.[23] Although the Report suggested that, ideally, control over the credit volume would best be accomplished through the use of existing channels and by seeking cooperation between the Commonwealth Bank and the trading banks, it went on to say that cooperation might not always be forthcoming; therefore, it advocated the creation of a system of minimum deposits which could be used by the Bank as an emergency power and only with the Treasurer's approval. It did not recommend that the private banks should be permanently obliged to maintain fixed minimum deposits with the Commonwealth Bank but, rather, it proposed that the power to require minimum deposits should be exercised with discretion and responsibility. Hence, no fixed percentage for these minimum deposits was specified; instead, it was suggested that the appropriate figure should be just enough to ensure that every bank complied with central bank policy. The formal recommendation began by stating that:

> 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. (24)

Napier and Pitt, however, expressed dissent. Napier believed the power to requisition funds should be confined to some modest percentage; Pitt was of the opinion that any legislation which incorporated the Commission's recommendation should set down a maximum deposit to be lodged with the Bank. Both hoped, moreover, that the Bank would be required to give the private banks reasonable notice in the event of a decision to requisition funds from them.(25) The Report indicated that not only should the deposits be variable over time, but they should be subject to a time limit:

> 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 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. (26)

The basis of these statements originated with Mills, and, ultimately, the majority supported him; however, important differences of opinion were expressed within the Commission, even among the majority, during its deliberations on the issue of private bank deposits to be kept with the Bank. Chifley, for example, believed that the Bank should specify a minimum percentage of deposits to be maintained with it; indeed, it was his view that the minimum deposits should not only be variable in total, but should also be variable as between banks.(27) Napier agreed that the Bank should be able to resort to a minimum reserve requirement if the private banks sought to counteract the Bank's attempts to control credit; however, he insisted that the minimum reserve should remain frozen at all times - that is, he felt that the Bank should prevent the banks from regaining access to the funds they deposited with the central bank. Moreover, it was his belief that part of the funds that were requisitioned by the Bank under the minimum deposits provision should be set aside as part of the private banks' contribution to the Mobilization Agreement.

Of most importance, however, was his criticism of Mills' suggestion that the minimum deposits scheme should be exercised for a certain time and then lapse unless the Treasurer's consent was obtained again; instead, the power to require minimum deposits should remain effective for a period of six or twelve months at a time. In addition, it should not continue for more than two periods without the approval of Parliament, rather than of the Treasurer.[28] Phillips, too, preferred the requisition of fixed minimum deposits.[29] Nixon, on the other hand, could not see any offsetting advantages in fixed reserves, although he was prepared to say that there might be occasions when they would be necessary as an emergency power, to be used against those banks which would not respond to central bank policy.[30] Abbott and Pitt differed from Mills in the emphasis they placed on obtaining the Governor-General's approval. Exclaiming that the power to compel variable reserves should be punitive, Abbott held that the central bank, with the consent of the Governor-General, ought to possess the authority to demand certain minimum deposits. While he did not believe that the central bank should have unlimited authority to requisition funds - that is to say, he felt that the Governor-General should have the authority to ratify such action - he was convinced that a system of variable deposits between banks should be recommended by the Commission. For his part, Pitt did not object to a low minimum deposit provision, but he was willing to grant the Bank power to require higher deposits with the endorsement of the Governor-General in Council, on the condition

that all the private banks would be subject to the same requirements.[31] Despite the fact that Mills stressed the authority of the Treasurer more than the others, ultimately, they all agreed with his proposals. As far as Mills was concerned, there was not much to be gained from the maintenance of certain fixed reserves which would cause unnecessary hardship for the smaller private banks. He asserted, moreover, that it would be very difficult to find the correct minimum percentage. Perhaps Mills, and the others who favoured his suggestions, believed that a very high percentage might be required in an unusual situation and, thus, they were reluctant to specify a limit which would meet such an emergency. In any case, such an arrangement was uncalled for, since considerable power could be wielded by the very imposition of variable reserves, without varying them from bank to bank. He was adamant, therefore, that an emergency power should be given to the Commonwealth Bank to impose variable reserves, subject to the consent of the Treasurer.[32]

London Funds

Apart from their concern with minimum deposits, the Commissioners believed that the Mobilization Agreement concerning London funds, which had been in force since 1931, should be re-examined, formalized, and extended to help finance government overseas debt, and to assist the Bank to operate effectively as a central bank. Even though the arrangement had worked satisfactorily heretofore:

> ... 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[s] 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 [overseas] debt service, and also for additional contributions to assist the Commonwealth Bank [in building up its London funds and, hence] in the performance of its central bank functions. (33)

Though they admitted the difficulty of determining a specific amount that would enable the Bank to retain an adequate reserve of London funds, the Commissioners stated that all the banks should contribute a minimum of £500,000 sterling per month; in return, the Bank was advised to compensate the banks at the rates at which the latter would sell to their favoured customers. Even so, Abbott and Mills expressed dissatisfaction with the suggestion, stating as they did that a binding agreement covering the debt service and other matters should not be forced upon the banks but, rather, should be left to their discretion. The agreement had originally been arranged, they argued, to deal with an emergency situation, and had worked well on a voluntary basis. Abbott, in particular, stressed that the existing situation was satisfactory and, thus, did not justify any alteration. The crisis had passed, he added, and so the matter was no longer as vital as it had been.(34) Pitt tended to agree with Abbott and Mills on this point; even in the absence of such an arrangement, they believed that sufficient funds would be available to the government for the purpose of servicing its overseas debt. Chifley, Napier, and Nixon, however, lacked faith in a scheme which was not

compulsory, and was unreliable; in the event, it was their view which was endorsed by the Commission.

The Views of Witnesses on Minimum Deposits

The call for minimum deposits, together with that for the control of London funds, originated with a concern shared by many witnesses that the central bank lacked the means to achieve its objectives and to fulfil its duties adequately. The representatives of the Commonwealth Bank who appeared before the Royal Commission conveyed the Board's conviction that additional central banking powers were necessary to ensure the Bank's operation as an effective central bank. Sheehan, who was Secretary to the Treasury and, incidentally, the only government official to comment upon the adequacy of existing instruments of control, was similarly convinced of the need for stronger controls over the private banks. The trading bankers, on the other hand, expressed strong opposition to the extension of central bank authority over credit policy. As for the economists, no clear consensus prevailed; in fact, they appear to have been evenly divided on this issue.

The representatives of the Commonwealth Bank Board who appeared before the Commission asked for new powers, and based their arguments - which were neither detailed nor strong - on the fact that the Bank was at that time unable to control the credit volume and the exchange rate. Reading, Chairman of the Bank Board, for example, sought to expose the limited control the Bank was able to exercise over the trading banks. Explaining that the authority of the central bank could only be indirectly exerted through the Bank's attempts to manipulate the cash reserves of the private banks, he concluded that the existing means by which these cash reserves could be altered left much to be desired; he added also that the prevailing financial structure prevented the Bank from controlling credit. Since the private banks were not required to maintain rigid cash ratios, and "provided the trading banks are prepared to see their cash ratios vary, action by the Commonwealth Bank to increase or decrease their supplies of cash need not be followed by any change in credit policy."(35) He said, therefore, that he strongly favoured the establishment of a minimum deposits provision. Riddle and Bell - Governor of the Commonwealth Bank and Acting Chairman of the Bank Board, respectively - similarly agreed that the Bank was ill-equipped to control credit, and they touched upon several arguments - though not at great length. For his part, Bell revealed that the Commonwealth Bank had come to favour the acquisition of wider powers in the light of its past experience, and especially in view of its inability to stimulate economic recovery during the Depression. Thus, the Bank Board wanted the banks to lodge minimum deposits with the Bank: Its formal request was for the "obligation on the trading banks to maintain with the central bank not less than a [certain] fixed percentage of their liabilities to the public."(36) Bell added that the Bank should be given the power to requisition funds because it was an impartial authority which would act in the best interests of the community as a whole; the minimum deposits instrument was, moreover, an important means of securing, first, trading bank

stability, and, secondly, the stability of the entire banking system. Furthermore, he asserted that, although the Board desired cooperation between the Bank and the trading banks, the possibility of a conflict of interest had to be reckoned with. Hence a compulsory system of minimum deposits was necessary in order to ensure that the banks conformed to the credit policy of the Bank. In the final analysis, the Board believed that its request was justified by the fact that proposals to maintain minimum reserves with the central bank had been accepted in other parts of the world, and minimum deposit schemes were, moreover, universally acknowledged as a general principle of central bank policy and legislation.

Yet the three bank witnesses were not very informative, or precise, so far as the details of their request were concerned, and this served to diminish the force of their appeal. It appears that the Board lacked total confidence in its capacity to demand the high minimum deposits which were deemed necessary for effective control. It may be that it shied away from asking for a high percentage in order to avoid outright conflict with the banks, with the loss of public confidence as a result; perhaps the Board was somewhat apprehensive about assuming the greater responsibilities which would accompany the receipt of stronger powers. The Board in general, and Reading in particular, seem to have desired a reserve power which would serve as a blatant encouragement to cooperation, and possibly as a backstop if such cooperation was not secured. Bell later explained that the Board sought, above all, an assurance that it could rely on cooperation from the banks. While his words reflected forceful undertones, Reading played down the role of direct control and stressed instead the desirability of a voluntary agreement.(37) Although the Board realized that variable minimum deposits - as opposed to fixed deposits - would give the Bank greater control over the private banks, it did not ask for this form of deposits, perhaps because it feared that the banks would be so enraged that they would fight even more bitterly against the general idea of minimum deposits. It also wished to avoid the practical difficulties involved in implementing a variable system; and, consequently, both Reading and Bell declared the Bank Board's preference for a fixed minimum reserve. Yet Bell also revealed that the Board had not even discussed the percentage of minimum deposits which should be kept with the Bank; indeed, it was "more concerned...[with] the acceptance by the commission and the incorporation in its report of the idea that there should be a minimum reserve."(38)

Apart from these rather general statements, the Board had very little else to say on the subject. Overall, it seems that its case for minimum deposits was somewhat weak. Indeed, the Commission asked the Board in February 1937 to clarify its reasoning for the desirability of minimum deposits. Thus a Commonwealth Bank memorandum was drawn up in an attempt to bring together the various arguments which had been advanced both during

and after the presentation of the Bank's evidence. The memorandum was probably drafted by Melville, who may have been assisted by A.H. Lewis, the Secretary to the Commonwealth Bank; following the Board's approval, the memorandum was submitted to the Commission, which then incorporated the Board's arguments in favour of minimum deposits in its Report.(39) For a start, the Board believed that the reserve provision would enable the Bank to control the volume of credit in Australia and allow it to influence the exchange rate. More specifically, 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."(40) Secondly, legal minimum deposits were necessary to ensure that the private banks actually maintained their liquid reserves on deposit with the Bank, rather than in the form of treasury bills or London funds. It was felt that, without this safeguard, the Bank might not be able to exercise the desirable degree of control over the rate of interest on treasury bills if an open market were established. In addition, if minimum deposits were not required by law, the trading banks would be free to hold funds, which ought to be maintained with the Bank, on deposit in London. Thirdly, it was argued that, insofar as the private banks were compelled to comply with the minimum deposits arrangement, they would need to request loans from the Bank from time to time; consequently, the Bank would increase its authority over the credit policy of the private banks.

Sheehan agreed with the Bank Board that a minimum deposits requirement was desirable, though he differed to some extent from the Board in asserting that there was a need for a *variable* minimum deposits system. He was adamant that the Bank should be "empowered to require an increase in such percentages whenever the Commonwealth Bank's London funds fell below a given amount."(41) But he believed that the Governor-General, acting on the advice of the government, and not the Treasurer, should be the authority responsible for approving a rise in the percentage of deposits to be requisitioned by the central bank.

The private bankers, on the other hand, were vehemently opposed to the extension of central banking powers - for at least five reasons.(42) First, they argued that existing powers were already very wide and, hence, entirely adequate. Secondly, the central banking system in Australia could not be expected to produce precise results, due mainly to large seasonal fluctuations. Third, they believed that any expansion of statutory central banking powers would be deleterious to the encouragement of central banking by cooperation and consultation - which was much preferred by the trading banks. Fourth, although it was admitted that elasticity in the banking system was an obstacle to control by the central bank, this flexibility was nonetheless considered to be necessary. Last, further powers were not desirable, nor would they improve the situation; in fact, their misuse would disrupt the operations of the monetary system. The banks also feared that if their resources were drastically requisitioned by the Bank, they would not be

returned when the banks believed they were needed. Present powers of control, although wide, were not strong in practice, but this was due to circumstances peculiar to Australia and to the Bank's reluctance to use them.

The private bankers as a group were especially united in their distaste for a minimum deposits provision. According to Phillips, minimum deposits became a symbol of central bank control of the private banks, which meant that the subject received an altogether unfavourable reception.(43) The banks signalled beyond any doubt that they would not willingly allow the Commonwealth Bank to determine their credit policy; they would submit to such control only if forced by legislation. The bankers gave various explanations for their attitude towards the proposal.(44) To begin with, it was argued that if fixed minimum deposits were required by law, the banks would have to protect their position by maintaining additional deposits in excess of the minimum. As a result, they would have to hold more cash, advance rates would increase, and borrowers would ultimately bear the cost. All in all, the Bank's power would not be strengthened. According to McConnan - Chief Manager of the National Bank of Australasia - "the introduction of a provision whereby the trading banks may be required to maintain minimum cash ratios with the Commonwealth Bank would be unlikely to succeed as a measure of credit control."(45) Secondly, seasonal changes in cash ratios would mean that the fixed minimum would perhaps be too low to be effective at a particular time of the year, and yet it might be an excessive burden to the banks at other times. Third, it was asserted that since cash reserve ratios were not maintained at uniform levels among the various banks, the deposits requirement was likely to affect some banks more harshly than others. Fourth, McConnan believed that differences in the economic structure of different states would make minimum deposits unequally onerous in certain states. Fifth, the minimum deposits proposal lacked adequate provision for elasticity, an essential prerequisite for the successful operation of the monetary system. Sixth, Darvall - General Manager of the Commercial Banking Company of Sydney - asserted that minimum deposits would accelerate the process of credit restriction in times of stringency.(46) Seventh, the banks contended that substantial deposits were already, and would continue to be, kept with the Bank on a voluntary basis. In fact, it was this particular argument which prompted Gordon - General Manager of the Commercial Bank of Australia - to admit that the formal implementation of a minimum deposits scheme, such as that which prevailed in New Zealand, would not harm the banks to any great extent - in view of the deposits currently maintained by these banks.(47) Apart from this confession, however, the banks generally opposed any proposal for minimum deposits. Finally, the banks were convinced that if the minimum was to be variable at the discretion of the Commonwealth Bank, it would have to alter from time to time, from place to place, and from bank to bank; in actual practice, however, this would prove to be almost impossible to administer. McConnan added that the banks would tend to maintain higher reserves than necessary, if variable minimum

deposits were made compulsory - in order to allow for any variations in the reserve requirement.(48) In short, the bankers, taken together, condemned the idea of statutory provisions, preferring instead to leave the matter of deposits to the discretion of the banks. O'Sullivan - Joint General Manager of the English, Scottish and Australian Bank - only acknowledged the desirability of some system of deposits after he was informed of the Macmillan Committee's recommendations. He even went so far as to say that legislation would be inevitable in the absence of a voluntary agreement; still, he doubted the effectiveness and wisdom of forcing the banks to keep minimum balances with the central bank, and expressed his opposition to compulsion very clearly: "The lessons of the recent Australian crisis", he noted, "seem to justify the conclusion that the size of these reserves to be placed on deposit with the central bank can properly be left to the prudence and discretion of the trading banks."(49)

The economists, on the other hand, exhibited a mixed picture on the issue of the adequacy of central bank control over the private banks. Those economists who called for change, especially Melville, played a key role in influencing the Commissioners, particularly those who lacked a preconceived opinion on the matter. The economists were notably important in that they modified Chifley's views to some extent. For his part, Melville strongly favoured the immediate acquisition of additional powers by the Commonwealth Bank. He explained that the present means of credit control were inadequate and, accordingly, advocated both a system of fixed minimum reserve balances and the establishment of an open market for treasury bills. Indeed, the Commissioners agreed with Melville that the central bank was not as influential as it ought to be; however, there was some differences of opinion as to what sort of new control was appropriate. While the Commissioners suggested the requisition of variable deposits only in an emergency situation, Melville asserted that a fixed deposits provision was necessary as a permanent instrument of control. While he did not altogether reject the relatively more drastic version of variable deposits which was recommended by the Commission, he preferred a system of fixed balances - on the grounds that it was more practicable in a political sense.(50) Other economists also tended to recognize the need for change. For example, A.G.B. Fisher, Professor of Economics at the University of Western Australia, called for more direct central bank powers to compensate for the ineffectiveness of traditional Bank instruments. He stated that it would be advantageous to prescribe "by law the reserves which trading banks are required to deposit in the central bank, and at the same time to allow the central bank (after consultation with, or perhaps with the approval of, the Treasury, or other appropriate government authority) to vary the legal ratios prescribed."(51) Brigden, Director of the Queensland Bureau of Industry, was constrained to admit that minimum deposits might be desirable one day and that the Bank would, consequently, need to obtain legislative authority so they could be drawn upon when that day arrived; but this was all he

was prepared to concede. It was his opinion that the Bank should place equal reliance on *gradually* evolving its powers and persuasiveness, and on obtaining specific powers, since the credit policy of the banks could not be sufficiently regulated in a formal way. None-theless, in view of the limitations of the Bank's present levers of control, it was advisable to grant the government the authority to confer further temporary powers upon the Bank. He qualified this suggestion, however, by indicating that the Bank should first have to apply for special powers before they could be awarded.(52)

But some economists had more extreme reservations about strengthening the authority of the central bank through the imposition of a minimum deposits provision. For example, Walker - Lecturer in Economics at the University of Sydney - was prepared to admit that the Bank's powers were limited, but he also believed that the Bank should be able to exert more control over the monetary system by a greater use of open market operations; he stated, moreover, that the Bank's ability to influence the policy of the trading banks would be enhanced if the Bank was able to command greater respect and cooperation from the private banks. He was convinced that the ideal method of controlling credit was by a combination of central bank and government action, and he did not favour the proposal to require the banks to hold minimum reserves with the central bank. Indeed, he revealed that he saw no advantage in prescribing such a minimum reserve. As he put it: "...I do not think it is necessary for the control of the Commonwealth Bank over the policy of the trading banks."(53) Similarly, Gifford, Hytten, and Reddaway opposed compulsory minimum deposits; unlike Walker, however, each of them generally felt that the Bank was already well equipped with sufficient means to carry out its tasks in an efficient manner, and were apt to concur with the trading bankers that the development of the central bank would proceed best along the same lines as had occurred in the past. In fact, Gifford assured the Commissioners that the Bank could operate quite well in most circumstances with the powers it already possessed. It was his opinion that the Bank required more power to prevent contractions in the credit volume during a depression, rather than acquiring the means to demand minimum reserves - which he thought would only serve to strengthen the Bank's ability to contract credit; the difficulty was that the Bank had declined to use its present instruments of control. Hytten was also unfavourably disposed to minimum deposits, preferring as he did greater cooperation rather than legislation. In contrast, Reddaway compromised by asserting that a minimum reserve provision was necessary only if the trading banks would not cooperate with the central bank; this statement was, however, subject to two qualifications: The percentage should be restricted to a low figure, and the provision should be reasonably elastic. For his part, Giblin merely said that his views tended to coincide with those of Reddaway, especially with regard to the extent to which the Bank already possessed control of the credit volume, and as to the most effective means of control.(54)

The Witnesses on Control of London Funds

Much of what the various witnesses said in regard to minimum deposits, and greater central bank control in general, was repeated in discussions on the extention of the Exchange Mobilization Agreement, the other major additional power sought by the Commonwealth Bank for its successful operation as a central bank. More formally, the Bank Board asked for the right to call upon the overseas funds of the trading banks. It seems that the Board in general, and Reading in particular, did not place much emphasis on the domestic credit implications of this request - that is, with the exception of Riddle, they tended to play down the fact that control of London funds would strengthen the Bank's ability to regulate credit. At all events, an official reason given to the Commission for the Bank's proposal was that "the distribution of...[London] funds between the trading banks and the Commonwealth Bank hampers their effective use."(55) In effect, the Board was concerned with the problem that two or three private banks normally had a surplus of London funds - even after they had made their contributions under the existing Mobilization Agreement. A situation could arise, and in fact did occur in March 1936, when the Bank's overseas reserves were very low, while a small number of private banks held more than they required and, in fact, had control of most of the London funds that were available. It was the Board's, and especially the Chairman's, view - and indeed the latter may have concerned himself with this issue perhaps to a greater degree than its significance warranted - that the Bank might not be able to maintain the exchange rate and would, in consequence, find itself in a difficult and most embarrassing position. The likelihood of this occurrence was increased by virtue of the fact that it was the Bank of New South Wales which held the trump card - having the largest, regular annual surplus of London funds - and relations between Reading and Davidson, the General Manager of the Bank of New South Wales, had been strained for several years. Indeed, Davidson on one occasion had independently initiated a rise in the exchange rate, and it seems that the Bank's request was directed almost solely at the Bank of New South Wales in an effort to prevent it from taking similar action in the future. Reading admitted that, even though exchange rate arrangements on the whole had been satisfactory in recent years, if one trading bank were to "break away", the entire exchange rate situation would become uncertain. He continued, saying as he did, that the greatest deficiency of the Bank was that it lacked "direct means of acquiring sufficient London funds to complete its machinery for operating effectively as a central bank."(56) Riddle, however, proceeded one step beyond Reading when he implied that access to London funds would enhance the Bank's control over domestic credit policy.(57) In any event, it was made very clear that the existing Mobilization Agreement was voluntary, and hence inadequate so far as the Bank's requirements were concerned. The Board, therefore, asked for access to London funds; it did not request unlimited rights to all the overseas reserves of the banks, but rather it sought to use only that portion which would meet its requirements.

Having notified the Commission of its desire for greater control of London funds, the Bank was virtually at a loss, however, when the discussion turned to the legal means by which this end might be achieved. For example, it was uncertain as to how to secure access to the ex-Australian assets of banks with head offices in London. Indeed, Bell was unable to offer the Commission much detailed information; he contended that the form of the proposed legislation concerning exchange mobilization should be determined by the Crown law advisers of the government.(58) While he mentioned that the funding of treasury bills would probably serve to increase the Bank's London funds, he failed to mention the licensing of Banks as a way of obtaining access to overseas reserves. Reading merely suggested that a certain minimum, or datum, level should be determined, and whenever the Bank's London funds fell below that level they should be restored. He maintained that it was the trading banks' duty to keep the Bank supplied with adequate funds, but he did not explain the means by which these funds might be secured.(59)

Similarly, Sheehan highlighted the shortcomings of the existing exchange mobilization scheme; although it had worked satisfactorily for six years, it lacked the "permanency which its importance makes necessary."(60) Asked by the Chairman if the new power would bring pressure to bear on the banks to dispose of their London funds, Sheehan replied that if the Bank gained access to the private banks' London funds, the banks would have to be prepared to supply the Bank with the reserves it required. This would mean that they would have to maintain a higher balance of reserves in Australia, and "that would, in some circumstances, at least involve their selling London funds." (61)

The private bankers, on the other hand, initially tended to reject the idea of central bank access to London funds - which they believed, would jeopardize their potential ability to control the exchange rate. With the exception of Davidson, however, they softened their stance somewhat as the inquiry progressed. It seems that many of these bankers came to realize the need for change and, hence, some agreement concerning this issue was reached between themselves and the Bank. It is even more likely that their half-hearted opposition to the Bank's request stemmed from their knowledge that the implementation of the new arrangement would pose no threat to their interests. Since many of the private banks normally had a deficit of London funds, they may have been largely indifferent as to whether the Bank gained control over surplus London funds. Although they largely agreed, at the outset, that the Bank should have the authority to maintain the exchange rate, yet they were aware that its ability to control the rate was rather limited. O'Sullivan, for example, argued that the Bank could hold the present exchange rate only as long as it was able to buy and sell London funds, conceding as he did that some additional provision for exchange mobilization was necessary. D.S. Forbes - Chief Inspector of the Queensland National Bank - was also of the opinion that the Bank should be given greater

control of London funds in an emergency.(62) The one banker who strongly argued that central bank access to London funds was not only undesirable, but also unnecessary, was Davidson of the Bank of New South Wales. It is not difficult to locate the source of his anxiety when it is recalled that, of the two or three banks in possession of a surplus of London funds, the Bank of New South Wales was by far the most important - having regard both to the size of its balances and the stubborness with which they were held. It was Davidson's view that the Commonwealth Bank was in command of the rate of exchange, and could hold it at whatever level it desired, since it could always command adequate funds either in Australia or in London. It is interesting to note, however, that the Commission did not seem to think that this latter condition would always be satisfied. Davidson denied, however, that there was any need for special access to London funds on the grounds of inadequate central bank control over the cash reserves of the private banks, saying as he did that the Bank possessed sufficient means to regulate credit. Still, it cannot be over-emphasized that there was one strong current underlying all of his objections to greater central bank control of London funds, and even to a minimum deposit provision. This was his fear that the Bank might well misuse its newly acquired powers to carry out a drastic requisitioning of his bank's resources. Furthermore, he claimed that the "centralization of foreign exchange reserves is undesirable because it opens the door to centralized control of foreign exchange transactions ... [which] would be highly dangerous."(63)

Finally, he asserted that the Bank's request for access to London funds would severely hamper the desire for cooperation between the Commonwealth Bank and the private trading banks.

Just as the bankers presented different viewpoints on the issue of whether the Bank's means of control of the exchange rate were adequate, so the economists similarly lacked a consensus; almost half of them did not believe that the central bank's powers in this respect were sufficient. Melville, Brigden, and Fisher asserted, for example, that the Bank could only determine the rate within definite limits as long as the banks were able and willing to buy and sell exchange in unlimited quantities at that rate; however, since cooperation by the banks could not be assured, Melville said it might be advisable to enlarge the Mobilization Agreement and make it compulsory. Acting on the advice of the Attorney-General, Melville explained that the Bank deserved the right to purchase London funds from the banks until its reserves were restored to an appropriate level.. In this way, the exchange rate could be regulated. He added that, without access to London funds, the Bank would remain on the brink of external default with no means of using the supply of overseas reserves which was scattered amongst the various banks.(64) In contrast, Hytten, Walker, Gifford, and Reddaway all opposed a compulsory mobilization arrangement. With the exception of Reddaway, they did not believe that the central bank required greater control of London funds. On the other hand, while Reddaway acknowledged that the private banks could thwart the Bank's actions if they failed to cooperate - and even admitted

the Bank's inability to stabilize the exchange rate at all times - he nevertheless expressed his disapproval of the Bank's solution; that is, its request for access to London funds. He suggested alternative means by which the Bank might obtain the exchange it desired, stating as he did that the form of control sought by the Bank would prove to be a source of weakness: Such control over London funds "would either be unfair to the trading banks or impossible to keep within desirable limits."(65) Again, Giblin made no specific comment on this issue, but it may be remembered that he generally agreed with Reddaway's answers on matters of central bank control.

The Witnesses on Other Instruments of Control

The Commission's recommendations regarding minimum deposits and greater control over London funds derived from its conclusion that existing instruments of control were insufficient to maintain monetary and exchange rate stability. In other words, it decided that the Bank was correct in asserting that its present powers were inadequate. The fact that the trading banks did not adhere to strict cash/deposit ratios, the problems associated with open market operations and discount policy, the inadequacy of interest rate changes as a method of credit control, and the lack of co-operation between the Bank and the private banks in the past had all encouraged the belief that a variable minimum reserve system was necessary; moreover, insufficient control of London funds meant that the Commonwealth Bank did not have full control over the exchange rate.

check M quote

However, although the private bankers formally denied that additional central banking powers over the trading banks were necessary or desirable, they tended to contradict themselves under cross-examination by admitting that there were deficiencies with central banking powers in practice. On the one hand, they thought in principle, that existing instruments were adequate, and there was therefore no need to seek new ones, arguing that the Bank would be able to achieve its objectives if it used the powers it already possessed in an effective manner. On the other hand, they demonstrated that, in operation, the means by which the Bank could regulate credit were not very strong and that without the cooperation of the private banks, the central bank could not, and had in the past been unable, to implement its policy. Davidson, for example, initially argued that open market operations were more effective than the Bank had indicated as a means of increasing, or decreasing, the cash of the banks. It had, moreover, other weapons in the exchange rate, its trading activities, the ability to alter the volume of treasury bills, its control of savings bank investment, and its capacity to reduce its advances and raise its deposits - when a contraction of credit was desirable. Yet Davidson admitted at several points in his presentation of evidence that the Bank's use of its powers was not as effective as it might have been. In fact, he exposed the central bank's lack of control over the monetary and banking systems by stating as he did that a successful central banking system depended essentially upon cooperation between the trading banks and the central bank, and - despite his past tendency to act against the wishes of the Bank Board -

he ironically went to great pains to assure the Commissioners that the banks would, without coercion, take careful *notice* of central bank policy and "immediately take steps to conform to it."(66) He also stressed the importance of fiscal policy and, consequently, highlighted the inherent shortcomings of monetary policy and the inadequacies of central bank power, especially over the non-banking financial intermediaries and the government. Action taken by the government, he said, could "easily work in a different direction to central bank action. The central bank has adequate powers of control over the trading banks, but unless it can gain the co-operation of all the other bodies influencing monetary policy, it may be frustrated in the attempt to reach its goal."(67)

Similarly, although the other bankers flatly rejected any direct proposals to increase the relative importance of the central bank, some of the answers that they furnished under cross-examination highlighted the weaknesses of the Commonwealth Bank as a central bank when it came to actual practice. For example, McConnan, Gordon, Leitch, Healy, O'Sullivan, and Darvall all admitted that the effectiveness of open market operations was limited by the sensitive nature of the market for securities in Australia.(68) So far as the quotation of rates for advances and deposits by the Bank was concerned, McConnan and Leitch stated that this power was not very effective in controlling the supply of credit.(69) Likewise, the ability to vary the exchange rate was said to be a relatively weak lever of control. Even the rate of rediscount on treasury bills and the willingness of the Bank to rediscount was considered to be a control of little importance. McConnan, in fact, aptly summarized the situation when he said the Bank's powers to exercise control over credit policy and the exchange rate were not completely effective in themselves.(70) Indeed, the central bank lacked direct power over the activities of any particular trading bank, because it did not use the instruments at its disposal. The Commission, however, agreed with the Bank that, although the latter had in fact attempted to regulate credit through the use of these powers, its efforts were frustrated due to the unwillingness of the private banks to cooperate with it.

While Sheehan of the Treasury failed to comment upon the Bank's existing instruments of credit control, it may be recalled, on the other hand, that not all the economists were convinced that the Bank required additional powers. While some of them believed that the central bank was capable of carrying out its duties with the controls it already possessed, others, including Melville, Fisher, and Brigden refuted the view that existing instruments wielded by the Bank gave it sufficient control over the monetary system. Indeed, Melville explained that the central bank had very little influence over the size of the primary credit base, in view of the shortcomings of the available means of altering it. He concluded, therefore, that the existing instruments, which included open market operations, the ability to advise and finance governments, the extension of loans to the banks, and voluntary cooperation were insufficient.(71) On the other hand, some economists, such as Hytten, Walker, Gifford, and Reddaway, agreed for the most part that the

Bank could exercise control over the credit base if it chose to use all of the weapons which were available to it - though some admitted that there might be occasions when the Bank's powers would be insufficient. For example, Hytten believed that open market operations, variations in interest rates, the Bank's trading activities, its persuasive influence, its ability to vary the exchange rate, and its power over the note issue, assured the Bank of adequate credit control. Even he acknowledged, however, that the power to vary interest rates was not very strong, due to the fact that cooperation between the Bank and the private banks was not firmly established. Yet he was not the only one who entertained such doubts. Indeed, Reddaway - who represented his, as well as Giblin's views - was of the opinion that existing central bank powers would be inadequate to, say, bring about a contraction of credit if the private banks chose to act against the wishes of the Commonwealth Bank; in this situation, he declared that it might be advisable to have a legal minimum reserve.(72) He then pointed out, as did various other economists, that fiscal policy was perhaps more powerful than monetary policy, and he felt that it was useless to try to regulate the quantity of bank credit without first securing government cooperation; above all, he considered that monetary policy alone would not prevent a general depression. Similarly, Giblin, Melville, and to some extent Hytten, believed there was a limit to the efficacy of monetary policy, and that the role of the government and other institutions was often more decisive. For his part, Melville cautioned the Commissioners not to expect too much of monetary policy in Australia.(73) He later informed the author that he expressed the view at the time that monetary policy was not always effective in view of the fact that government action could overrule action taken by the Bank: In short, fiscal policy was not "more powerful", but rather it was "all persuasive".[74] Above all, Giblin appropriately summed up the situation when he said that:

> If export prices fell heavily in relation to import prices and interest, if a large flow of overseas investment suddenly ceases, if the productivity of our land or mines is seriously lowered, we must suffer a loss of real income which no monetary measures can affect. We can only make it up by increasing productivity in other ways. All that monetary policy can do is to ease the shock and prevent the secondary effects of the first loss of real income - which may, unchecked, cause a loss considerably greater than the first loss. (75)

Approach of Giblin

These, then, were the views of the Commission and the various witnesses who appeared before it. When the recommendations of the Royal Commission were made public, they evoked a mixed reaction; it is to this response, especially by the press and leading academic commentators, that the sub-thesis now turns.

Link with Hytten Comm.

PART C

THE AFTERMATH

CHAPTER FIVE

THE PUBLIC REACTION

The Royal Commission's Report was presented to the government in July 1937, eighteen months after the Commission had begun its deliberations. Soon after the government received the Report, it released on 19 July a summary of the Commission's main recommendations, and on 20 July the full report, both of which were received by the public through the press with considerable interest and some eagerness; the printed version of the Report was not published until the following month. Both before and after the Commission completed the taking of evidence, the government was frequently asked by the Labor Party in Parliament when it expected to receive the Report.(1) An interim report was conveyed to the government on 22 June 1937. With the final report in hand the following month, Sir Earle Page, as acting Prime Minister, announced on 19 July that the Commissioners had been largely unanimous in their support of the present banking system. The government, he revealed, had decided to establish credit facilities for long-term mortgages and finance for small secondary industries; and the other recommendations were to receive careful consideration in due course.(2) Yet on 20 July, he added that the government had not committed itself to the Report in its entirety.(3) And on the same day, a Commonwealth publicity officer assured the community that the Report contained

no major recommendations for revolutionary change in the Australian banking structure.(4) In a speech in September 1937, Lyons acknowledged that while improvement was possible, he wished to retain the basis of the existing system.(5) At this stage, it would appear that the government was generally committed to take action on many of the Report's recommendations, but various pressures were already working for inaction and eventually they were to dominate the scene.

One force calling for immediate action, however, was the Labor Party. It will be recalled that Labor traditionally favoured strong government control of the banking system. When the government first announced its intention to establish the Mortgage Bank Department of the Commonwealth Bank, Curtin criticized the government on 21 July 1937 for not commenting on the Commission's proposals for additional central bank powers. The government, he contended, was unable to come to a definite decision.(6) H.C. Barnard (Labor) later announced that the implementation of all the recommendations would be the first step taken by a future Labor government.(7) According to Labor, the government's inhibitions were due to its domination by the private banks. Curtin asserted that a vital part of Labor's monetary and banking policy was the active use and expansion of the Commonwealth Bank's powers as competitor with the trading banks.(8) G.W. Martens (Labor) later claimed, in September 1939, that if the Lyons' Government had introduced legislation to give effect to the recommendations of the Commission, Labor had promised that it would allow the bill to pass with only one speech from the Opposithe said, had not really favoured the Report and, therefore, nothing had been done.(9) The Labor Party emphasized the public campaign of the private banks as being the major reason for the government's procrastination. *The Sunday Sun* was quoted as saying in June 1938 that the government would lose substantial party funds if banking reform was proceeded with.(10) The pressure brought to bear upon the government by the private banks to reject the Commission's Report will be examined in the next chapter. The object of this chapter is to note the public's reaction to the Report.

Press Comment

At first, the local press conveyed the impression that the public's response to the Report was favourable, both in Sydney and Melbourne. On 1 July 1937, even before a summary of the recommendations had been officially released, an article appeared on the front page of *The Daily Telegraph* regarding the Report. While its story was based on speculation and was in some respects inaccurate, many of the points it made were interesting nevertheless. For example it stated that the Commission's leading recommendation was that the central banking and trading sections of the Commonwealth Bank should be separated. "A notable suggestion", it added, "was that each trading bank, including the Commonwealth Trading Bank, should lodge as an annual deposit with the Central Reserve Bank a percentage of its profits."(11) It revealed the generally favourable response the Report had received from those who had been

privy to it:

> It is described as a report very much on the lines of the famous Macmillan Report on Finance and Industry, and *economists who have read the document* (my italics) consider that as a financial investigation it ranks only second to the Macmillan Report, with this advantage, however, that it relates to post-depression conditions as well as depression conditions. Practical banking as well as academic analysis are set out and the Government feels that the research, although few specific recommendations are made, has been well worth the £20,000 it has cost.

As early as 20 July 1937, *The Sydney Morning Herald* warned, however, that private bank opposition to the proposal for minimum deposits would be forthcoming. The Commission, it stated, had made proposals for restricting the private banks' freedom to carry out their business. The *Herald* predicted that the trading banks would face difficulties with the introduction of minimum deposits, and that strong criticism would be levelled at this recommendation by the banks.(12) On 20 July, *The Melbourne Herald* expressed its approval of the Report in an article entitled "Bank Report is Clear and Reassuring". It stressed the fact that nationalization had been rejected and agreed that the government should be the final authority on monetary policy. It added that the Report had spelt out definite powers of direction to be followed by the monetary authorities; however, the minimum deposits provision was not specifically commented upon. Yet it did conclude by saying that "there are neither sensational disclosures nor recommendations of a disturbing nature..... The Report is an eminently useful document of educational value."(13) Further approval of the Commission's recomendations was expressed in *The Age* on 22 July, which stated that efficient operation of the central banking system required some limitations on trading bank powers in the public's interest.(14) *The Argus*, on the other hand, preferred to stress the Report's vindication of the private banks which, according to *The Argus*, had performed a highly satisfactory role during the Depression, and had stood up adequately to various criticisms. It felt that "the general public can congratulate itself on having been furnished with a document that will set at rest all the genuine fears and all the unfounded suspicions that have been entertained against banking as now conducted in Australia." (15) *The Argus* did not foresee the need for radical change in the system, but it was concerned about the possibility of political interference. As for the recommendations it noted that "change will be made if made at all on evolutionary lines ... The possibility of change that would strengthen the political element against banking authorities is a matter, however, which would demand the closest investigation." It added that cooperation between the bankers and the government was best for the public.

The Age and *The Sydney Morning Herald* also published favourable editorials concerning the Report. On 21 July, *The Age* commented that "even in summarised form the recommendations of the Royal Commission on Monetary and Banking Systems are instructive and stimulating. It is clear at a glance that the full report is of prime importance, and that the Commission has thoroughly justified its appointment ... already it is

sufficiently clear that it is a report the making of which has been well worth while."(16) *The Age* looked kindly upon increased central bank powers. The financial system, it stated, was to be made more flexible and serviceable: The maintenance of minimum deposits was not a permanent power and would be exercised in a reasonable manner. In a separate article, *The Age* summarized the Commission's findings, emphasizing that nationalization of banking and Douglas Credit proposals had been firmly rejected by the Commission. In yet another article in the same edition, it relayed the impression that the Report had initially received a good reception in Melbourne business circles; however, the article also added that some bankers and financial leaders had failed to express an opinion because they feared that if they described the Report as "satisfactory", political capital might be made of their comments. At this early stage, criticisms of the Report had not yet been definitely formulated, although the same article expressed the hesitancy of the Chairman of the Associated Banks of Victoria - A.W. McNichol - to accept the provision for minimum deposits. Still, the article ended on a note of optimism expressed by A.W. Ralph, the Chairman of the Chamber of Commerce, who felt that "business men would approve the recommendations."(17)

After stressing the Commission's rejection of bank nationalization, *The Sydney Morning Herald* similarly reported favourably on the Report in its leading article on 21 July. It stated that:

> The Commission can ... be congratulated upon the thoroughness and the moderation which characterise its work. There will inevitably be disagreement with some of its conclusions and recommendations,but the general lines of its report are likely to win the approval of most of those who have given any serious thought or study to the problems with which it deals. While it recommends several notable changes, in broad outline the report gives its blessing to all that is fundamental in our present banking system. (18)

The Sydney Morning Herald also approved of increased government controls over the monetary system, but stated that some adverse opinion would probably be expressed, especially by the private bankers, on the subject of minimum deposits. Even if the trading banks were not receptive to this recommendation, the article stated that the government should assume overall responsibility for monetary policy, and it considered that this requirement was not "unreasonable if the Commonwealth Bank ...[was] to be properly equipped to discharge the full functions of a central bank."

Following this initially favourable impact, there seems to have followed a strengthening of the forces of opposition, which accordingly, was reflected in the press. By August 1937, the private trading bankers had become more organized in their campaign of criticism and their arguments appeared to have gained substance. The local media now played up the outbursts of the private banks, with the financial press taking the lead. Thus *The Australasian Insurance and Banking Record* on 21 August extolled the virtues of the banking system, saying that "the policy pursued by the banks has successfully stood the test of the last few years... The banks

have been of practical value to the Governments and to the public generally under adverse circumstances."[19] The *Record* was opposed to the recommendation concerning minimum deposits, which "would tend to hamper the banks in conducting their business, as was stated by various witnesses in their evidence, and this would not be to the advantage of customers." It was also pointed out that the Commission's Chairman, Mr. Justice Napier, did not agree with the proposal. And it opposed the proposal for additional Commonwealth Bank access to London funds, pointing out that various witnesses had strongly criticized this recommendation. In sum, it thought that the existing Mobilization Agreement was adequate. In an editorial dated 28 July, *The Bulletin* also expressed dissatisfaction with the recommendations regarding minimum deposits. The idea, according to this publication, was altogether too radical, representing as it did "a new branch of banking law ... and it would not attain desired ends or improve banking and financial conditions."[20] Yet *The Bulletin* did concede that "any government which is returned at the next elections will have to pay serious attention to the Report since any government meeting in 1938 will have to consider monetary reform."

However, just as the Report had initially evoked a positive response in the local press, so it was generally well received in overseas papers when its fundamental contents were first made public. On 20 July, the London *Morning Post* stressed the fact that nationalization of banking had fortunately not been supported by the Royal Commission.[21] On the same day, the London *Daily Telegraph* similarly commended the Commission for removing the question of monetary policy from the political sphere, adding its conviction that credit control would be kept out of politics if the Commission's recommendations were acted upon. The case for a central bank, it said, had gained momentum; indeed, it was "stronger than has been realized until recently by public opinion in the Dominions but if a central bank is to command confidence it must be above even suspicion of political pressure."(22) Again, on 21 July, both *The Morning Post* and *The Daily Telegraph* expressed satisfaction that the proposal for nationalization had been rejected, with *The Telegraph* conveying London's endorsement of the Report. It stated that the Commission had:

> made constructive proposals which should be useful. The recommendations [were] numerous and most technical. In brief, they aim[ed] at providing greater elasticity and efficiency, and a proper strengthening of the Central Bank without infringing upon private rights and without allowing political interference to become any more of a possibility than it is at present. British practice, it seems, is to be copied in several important ways ... At first sight, the Report commands the full respect and approval of London banking circles.(23)

Also on 21 July, *The Times* commented on the outstanding reception of the Report among the Australian business community. It noted that the Report had been similarly met with favourable reaction in London - at least at first sight: "Only summaries having been received on this side, opinion was more cautiously expressed in London, but it appeared to be favourable."(24) Even earlier, on 28 December 1936, *The Financial Times* in an article entitled "Australian Banking and London Funds", had given its support to the idea of minimum deposits and greater control over London

funds. Calling for increased central bank powers and the concentration of London funds with the central bank, it had revealed that:

> To an English observer there are strong arguments for making the Commonwealth Bank a fully-fledged central bank (and purely a bankers' bank) and concentrating London funds in its ownership... The Australian banking and credit system needs greater flexibility and less direct dependence upon the ebb and flow of external trade. (25)

The leading article of *The Financial News* on 21 July 1937, announced that the Report had met with the approval of many Australian bankers in London and it did not think the recommendations were very radical:

> The recommendations of the Australian Banking Commission will come as no surprise to anyone who has followed the trend of banking thought and evolution in Australia in recent years... But it is quite clear that this report, like many others of its kind, seeks a compromise between the two leading schools of opinion.(26)

It added that the Commission could have gone even further if it had really desired to make the Commonwealth Bank a central bank in the classical sense; however, in view of political constraints, the Commission had perhaps ventured as far as was practicable in its efforts to strengthen the Bank's authority. The paper applauded the Commission's attempts to equip the Bank with more comprehensive central banking powers, "for recent experience has shown that it is very desirable that the technical equipment of the central bank should be strengthened wherever possible." The proposal for minimum deposits was supported as a means of enabling the central bank to contract credit effectively. According to *The Financial News*, some of the proposals were certain to invoke opposition from the private bankers who feared that the Commonwealth Bank would compete unfairly with them. The solution to this problem, however, was to be found more in closer informal cooperation between the Commonwealth Bank and the trading banks than in legislative acts.[27] On the other hand, it was the view of the London financial publication, *Finance and Commerce* that the reforms proposed by the Commission were chiefly technical rather than fundamental. It noted that, as expected, the Report had already met with a certain amount of criticism, "the most notable being that published in a circular issued by the Bank of New South Wales."[28] It was important to bear in mind, however, that Australian conditions differed from those in Britain, and thus there was some truth in what A.C. Davidson, General Manager of the Bank of New South Wales, had been saying:

> That there is force in these [Davidson's] arguments cannot be denied ... The Commission, might, however, have done better had it suggested for the Commonwealth Bank the additional powers for which the Bank asked rather than the threat of variable minimum deposits by the trading banks and a voluntary mobilization agreement... [On the subject of minimum deposits] the Royal Commission went even further than the [Commonwealth] Bank contemplated.

Even so, the paper was prepared to concede that the Bank of New South Wales' suggestions were not altogether convincing. Davidson had contended that the central bank should not exert control over all the private banks' London funds. This argument was actually misdirected, according to the paper, for the Commonwealth Bank had not sought total control over London funds,

but "only wants to draw upon the ultimate reserve in case of difficulties to ensure it controls exchange."[29]

The Report was also received in a positive light in some North American, particularly Canadian, newspapers. For example, on 7 September 1937, *The St.John Citizen* stated that "the whole leaning of the commission's findings is toward a strong central bank which will regulate the volume of credit and pay some attention to its distribution". The rejection of the nationalization of banking was stressed.[30] On 9 October, *The Montreal Star* also upheld the Commission's proposals for greater control over financial institutions. The Report, it said, contained some observations that were of interest to Canada:

> Australia is manifestly giving the closest attention to effective control of her financial institutions. That, together with the curb on loans exercised by the Loan Council, should prove ample guarantee against any such unfortunate occurrences as have impaired the credit of some of our Canadian provinces.[31]

Although overseas newspapers, for the most part, responded agreeably to the recommendations advanced by the Royal Commission, the two British financial weeklies, *The Economist* and *The Statist*, were not as enthusiastic as the daily papers had been. On 24 July 1937, *The Economist* asserted that, on the basis of the summaries of the recommendations which had been cabled to London, the Report was "not a startling document."[32] It criticized the Commission's lack of detail concerning the call for minimum deposits, stating as it did that "no specific ratio of these minimum balances to the trading banks' own deposits is prescribed nor does the Report suggest the circumstances in which this power should be exercised." *The Economist* asserted further that mortgage bank facilities and the provision of capital for small industries were outside the Commonwealth Bank's scope of activity and if the Bank were to undertake these functions, it would be inconsistent with its development as a central bank.(33) On 25 July, *The Statist* was constrained to admit that the document was satisfactory, yet it claimed that the recommendations had met with only qualified approval:

> To say that its recommendations have met with unqualified approval in this country would be to overstate its welcome. But as a reasonable compromise between the political and financial interests that had to be considered by the Commission the report may be regarded as a satisfactory document. Action on the lines proposed by it will undoubtedly strengthen the whole structure of Australian banking and, in particular, tighten up the control of credit and currency within the Commonwealth. (34)

Still, with one important exception - that the Commonwealth Bank should have been relieved of its competitive commercial activities - *The Statist* conceded that the proposals amounted to a more effective credit control and were generally sound. After describing the Commission's recommendations concerning minimum deposits, which were to be variable within limits fixed by the Treasurer, the journal seemed to criticize the proposal for a new, more enduring and specific Mobilization Agreement:

> The intention is evidently to leave the trading banks less freedom than they have at present of accumulating London funds. These funds are for these banks a second line of defence - equivalent to the money at call of British banks- and their ability to transfer them to Australia makes for an independence from central bank control which the Commission are evidently desirous of curbing.

The Statist believed that this proposal would probably be strongly resisted by the trading banks because of the competition which the banks would experience in exchange business by the Commonwealth Bank. In fact, the minimum deposit and exchange mobilization proposals drove home the journal's statement that central banking should be of a non-commercial character:

> Here, [in the proposal for a new foreign exchange agreement] and in the matter of altering the percentage of reserve balances to be kept by the trading banks, are obvious illustrations of the objection to mixing central and commercial banking. (35)

By August 1937, both *The Economist* and *The Statist* were expressing their views more explicitly. On 14 August, *The Economist* repeated the private bankers' objection to the minimum deposit proposal: "From the business point of view the proposal is open to the objection that it would be of a hampering nature and might be used for political purposes."(36) On the same day, *The Statist* revealed that many people thought the Commission had only supported the private banking system with faint praise. The banks, it said, would not favour further restrictions upon their freedom of action, though the banks themselves had not presented a strong case for the retention of the existing system: "Their case would have been stronger had they supported with more unanimity the present system of control."(37) On 16 October 1937, *The Economist* compared the Australian banking inquiry with three earlier banking investigations, namely, the British Macmillan Committee on Finance and Industry of 1929-31, the Canadian Royal Commission on Banking and Currency of 1933, and the New Zealand Monetary Committee of 1934. According to *The Economist*, the Australian Commission "atoned for its tardiness by sitting longest and producing, this summer, the most lengthy report of all."(38) The four reports, it stated, could advantageously be read together. The British report had the most "fire and wit" - no doubt owing much to the presence of J.M. Keynes - although each of the reports had commendable literary qualities. Yet the Australian Report was singled out by *The Economist* for considerable praise:

The Econ praised the RC for its unanimity NB

> The latest of the series is more sophisticated, and more academic in the arrangement of its full and precise survey of the Australian economy. It argues its points fully and fairly, even, in fact, a little pedantically... it gives ... sixteen pages to the best and soberest refutation of his [Major Douglas' - the Social Credit theorist] ideas so far published.

Despite this lower

According to this journal, all the reports were very similar in their recommendations. In short, it predicted that the era of central banking and monetary policy, and its application to the economy, had arrived, especially in Australia. In the words of the article:

> One and all they inculcate the principle of monetary management and of the responsibility of Central Banking. They consecrate the support of these principles by public opinion throughout the Empire, and they give them their classical statement by lay authorities.

And the Australian Commission, it continued, had been more unanimous in its recommendations than the other commissions, inasmuch as the Australian Report contained fewer addenda, reservations, and minutes of dissent than any of the other reports; in length they equalled "no more than 6 per cent [of the Report], and even then they are reservations of small moment. For all intents and purposes it [the Report] is unanimous." This unanimity was all the more commendable and "impressive because of the profundity of the Commission's researches. Their report is admirably documented." One other aspect, concerning the objectives of monetary policy, was referred to by *The Economist* in passing:

> The British Macmillan Report stated the object of Central Banks to be "to maintain the stability of international prices both over long periods and over short periods". This report tells the Commonwealth Bank to "make its chief consideration the reduction of fluctuations in economic activity". In both cases the ultimate aim is, of course, identical, but the alteration in emphasis indicates a change in opinion about methods, interesting as a lesson taught by the past six years as well as a reflection on the special position of raw material-producing countries. The rest of the report shows clearly why the change has come about, and gives it an interest of its own. In fact, in every way this is a volume worthy of its predecessors and to be read by anyone interested in contemporary economic life. (39)

Finally, on 18 December 1937, *The Economist* took a strong stand on the issue of minimum deposits, prepared as it now was to see some merit in the Commission's recommendations.[40] The Bank of New South Wales, according to the journal, was in error when it stated that, insofar as open market operations were an effective and adequate instrument of credit control, minimum deposits were neither necessary nor advisable. *The Economist* held that open market operations did not afford the central bank an effective means of controlling the volume of credit and, therefore, the Commission's advice was sound. The proposal for exchange mobilization also seemed to possess some value as a device for augmenting the central bank's authority. The recommendations of the Commission, it maintained, carried added weight at that time for a political reason; specifically, if the government fell short of implementing the Report, then a Labor government might validly claim the right to go beyond the Commission's recommendations.

It is of interest to note, also, the stance taken by *The Round Table* in an article on the Report which was published in October 1937. For it, the most controversial aspect was the question of whether supreme authority for monetary policy should rest with the Commonwealth Bank or the government. And yet it was pointed out that the recommendations concerning the powers of the government and the Commonwealth Bank had not received much comment, except from the private banks which had generally advised caution and careful consideration.[41] In

October 1937, *The Bankers' Magazine* noted that, although the Report had initially been well received in Britain, the Australian banking community's opinion had definitely soured. And it felt that the criticism emanating from this quarter seemed to be valid:

> When the findings and recommendations of the Commission were first cabled to this country, there was general satisfaction that the Commission had apparently declared quite emphatically against any nationalisation of the banks, but now that the full Report has arrived together with innumerable comments from banking authorities in Australia, there would seem to be a very general feeling in the Australian banking community that if the actual word "nationalisation" has been avoided, many of the recommendations of the Report, if they were carried into effect, would mean such a measure of Government control as to give to the Government of the day complete power over currency and banking in Australia. (42)

Academic Response to the Report

As for academic comment upon the Report, it was generally supportive. On 21 July 1937, Dr E. Ronald Walker, who had presented evidence before the Royal Commission, publicly praised the Report, saying as he did that it had "offered a valuable analysis of the banking and monetary system of Australia."[43] He also approved of the Commission's recommendation concerning relations between the Bank and the government:

> The application of the Commission's recommendation that the Government should take full responsibility for monetary policy in the event of conflict between the Commonwealth Bank and the Government of the day may, on some occasions, raise difficulties, but I hope that the recommendation, which seems the most striking one in the report, will be adopted.

He had now come to see merit in the proposal for minimum deposits. It was most important, he felt, for the Commonwealth Bank to have the power to vary the percentage of the private banks' liabilities to deposits which should be maintained with the Bank: "The variation of the percentage would give the Commonwealth Bank Board power to prevent undue credit expansion in boom periods." And the government's announcement that it would establish a mortgage bank "was most encouraging." (44)

W.B. Reddaway, an economist visiting Melbourne University from Cambridge, and who had also appeared before the Commission, did not go so far as to admit that he approved of the Commission's recommendations in their entirety; he did comment, however, upon the minimum deposits provision, which, he considered, would prove a very strong instrument of monetary control:

> The Banking Commission's recommendation that every trading bank could be required for 18 months in 24 to keep a specified deposit with the central bank which could be varied at will by the central bank was a very powerful form of control. A similar provision in the federal reserve system of the United States had been effectively used to prevent the great influxes of gold being used as a basis for over expansion of credit. (45)

According to S.J. Butlin, A.G.B. Fisher, and D.B. Copland, the recommendations of the Royal Commission, and the Report itself, were useful and important. Butlin, in particular, praised the results of the inquiry, concluding that "as Royal Commissions go, that on the Banking System was worth the money." It was his opinion that:

> The Banking Commission...has given us a Report which can be set beside the model Report of 1929 on the Constitution. It is readable in style, it does present a very good synthesis of the evidence; it does (with two very important exceptions) really argue a case for its recommendations; and the evidence is to be printed - although rumour says the price will be prohibitive. The net was cast wide. (46)

Copland was also highly impressed by the Commission's work:

28.

> The Commission has naturally drawn very fully upon...[the] evidence, and has consequently given students of banking the best and most intimate picture of the Australian banking system so far available. The report, moreover, will occupy an honoured place among the many reports of commissions and committees of inquiry upon the banking systems of individual countries in recent years. (47)

The comments of these three academics upon the work of the Royal Commission will now be analyzed in detail.

Fisher's article, "Twentieth Century Banking in Australia", appeared in *The Economic Record* in December 1937. He noted that some critics believed that the government had established the Commission in order to cast its "pseudo-independent" blessing upon the Australian banking system; however, instead of vindicating the banking establishment, the Commission had pointed to certain significant defects in the Australian banking and monetary systems and had made notable recommendations which, if implemented, would lead to fundamental changes in these systems:

> Those who were sent for to bless the bankers did not exactly turn and curse them, but with disarming mildness, they have drawn attention to certain important defects in the Australian capital market. The consideration of these leads to important recommendations, which, if adopted by the Government, endorsed by Parliament and effectively administered by the Commonwealth Bank, would mean important changes in our general banking and financial structure. The Commission's criticisms are not always set out in elaborate detail, being in fact often left implicit in recommendations for change in future practice, but they are none the less important, and since the publication of the Report there has been a steadily widening recognition of this fact. At first there were those who claimed that the report was a complete justification of existing banking practices, while it was complained by others that the Commission had merely whitewashed the existing financial system. On second thoughts both friend and foe began to suspect that their first reactions had been a little hasty. In this case second thoughts were certainly best, for though the Report is moderate in tone, its recommendations contain a good deal more potential dynamite than either side had at first supposed. (48)

Fisher rightly recognized that the most important recommendations were those which sought to provide the Commonwealth Bank with the powers it required to function effectively as a central bank. He noted that many people were eager to strengthen the central bank, but had failed to take account of the fact that the Bank might base its decision-making on specious principles. Fisher added, however, that the Commissioners were aware of the problem:

> The Commission itself was apparently a little troubled by this dilemma...while the Commission felt itself compelled to recommend wider powers for the Commonwealth Bank, it felt a little dubious as to the way in which these powers would be used, and therefore indulged in a rather lengthy lecture on the errors committed in the past. In effect, they seem to say, you cannot be blamed for these mistakes, but don't do it again. The point at issue here is indeed one of immediate and pressing practical importance. (49)

He implied that, although the Commission desired a strong central bank in theory, central bank control in practice was another matter:

> "It is wholly unwise," the Commission tells us... "to wait until a boom or depression occurs before taking action." But does this mean that restrictive action should be taken in October or December, 1937... that we may approve of central bank control in principle, but may steadily refuse to admit that the present is ever a suitable time for applying the brakes which in theory we admit to be essential. (50)

He then discussed the Bank's instruments of control as they had been analyzed by the Royal Commission. The Commission, he said, approved of the Bank continuing its trading activities; however, a more radical recommendation concerned the power to compel the holding of trading bank reserves with the Commonwealth Bank. Even though Fisher used the word "radical" in his article, his following comments shed doubt on the possibility that he actually considered the recommendation on minimum deposits to be "radical":

> This is now a common practice in banking systems which cannot easily adopt Bank of England methods. The idea of making the legal reserve elastic at the discretion of the central bank and the Treasury is a still more recent development, applied already in the United States and in New Zealand. The Australian trading banks do in fact already keep deposits for clearing purposes with the Commonwealth Bank, but it is not obligatory to do so, and the Commission recommends that the Commonwealth Bank should have power to insist upon certain deposits. (51)

He noted that the Commissioners had not specified the amount of deposits to be maintained with the Bank and, furthermore, they had failed to reveal the reasoning behind the time constraint placed upon the Bank when exercising this power:

> No specific figure is mentioned, nor is the Commonwealth Bank to be permitted to exercise such power continuously, the period of exercise being limited, for some obscure reason, to eighteen out of any twenty-four months. (52)

He added that while the recommendations would increase the powers of the Commonwealth Bank and the Treasury, it was futile to say who would really control, or should control, the banking system. The answer would depend on personalities to some extent. He did agree with the Commission that in the last resort, the government, backed by Parliament, must prevail. In addition, he doubted whether the proposal to establish a mortgage bank was as important as its proponents had suggested:

tentative approval of G's

> There is something to be said for co-ordinating existing institutions, but farmers would be deceived if they supposed that such a Mortgage Bank would make available for their use a larger aggregate volume of credit. Lending with more discrimination, rather than more lending, is what is most needed in this connection. (53)

He also seemed wary of the recommendation for an investigation of the problem of setting up institutions to supply the financial needs of small units in manufacturing industry. In essence, he was not at all confident that these two provisions would achieve an efficient allocation of the community's savings. He was also disappointed by the Commissioners' failure to deal directly with the case for nationalization, although he noted that some of the most important issues raised by calls for nationalization had been indicated in the Report. All the same, he did not think that the case presented by the proponents of bank nationalization was very convincing: By depicting the banking system as the cause of credit shortages, the reformers were, he said, underplaying the more important criticisms that the banking system often granted too much credit, and was sometimes reluctant to stop such lending. He applauded the Commission for taking these sorts of questions into account in recommending greater powers for the Commonwealth Bank; still, he was not convinced by the Commissioner's rejection of nationalization:

> Their formal approbation of a system of privately owned trading banks controlled by a strong central bank would have been more convincing if they had addressed themselves more directly to the question whether even the strongest central bank can possibly limit unwise boom expansion of credit by vigorously competing trading banks.(54)

In conclusion, he conceded that complete implementation of the proposals would not bring "the millennium"; however, the Report provided the authorities with an opportunity to mitigate Australia's economic and monetary problems. Yet he also warned against placing too much emphasis on the extent to which banking reforms could improve the economic situation, agreeing as he did with the Commission that too much "should not be expected, even from the most enlightened policy of an all-powerful central bank."(55) Indeed, he was not over-sanguine that the recommendations would be acted upon: "One would feel more optimistic about the future if there had been a clearer indication of willingness to adopt and apply the more far-reaching recommendations which have been made."(56)

Professor Copland, writing on "Some Problems of Australian Banking" in *The Economic Journal* in December 1937, also stressed the fact that the Commission was not entirely satisfied with the functions of the existing Australian monetary and banking systems. He stated that the Commissioners' recommendations concerning the improvement of credit facilities for long-term mortgages and finance for small manufacturing business were minor matters compared with its investigation of the extent to which the system carried out desirable monetary objectives. Copland

seemed to agree with the Commission that Parliament should be ultimately responsible for monetary policy. The Commission, he said, assumed that the government and the Bank would normally work out a satisfactory compromise. He believed that:

> This is fundamental to its major recommendations on the note issue, the powers of the Bank and the place to be assumed by the Treasurer in determining banking policy. Those who regard as dangerous the Commission's declaration on the relations of the Government and the Bank will object to the recommendations of the Commission for increasing the Bank's control over banking policy and for regulating the note issue. For the Commission's proposals will substantially extend the right of the Treasurer to make important decisions upon banking policy in the normal discharge of his functions as liaison officer between the Government and the Bank. (57)

Turning to minimum deposits with the central bank, Copland argued that, unless the private banks held a portion of their liquid assets on deposit with the Commonwealth Bank, central control of the banking system would be limited for two major reasons:

> a) The central bank may not have sufficient resources to purchase funds in London or securities in Australia required for its control of the exchange rate and internal credit policy.
>
> b) In a period of favourable trade balances, the trading banks may hold their liquid assets in a form (treasury bills or London funds) over which the central bank has insufficient control, and the banks may therefore pursue a lending policy inconsistent with the desired objective of the central bank. (58)

He sought to expose the weaknesses in the argument of the Bank of New South Wales to the effect that the central bank already possessed sufficient powers to implement its policies. The Bank of New South Wales had argued that the central bank could force the trading banks to transfer London funds to the former, principally by the execution of open market operations. But Copland explained that the bank's reasoning was ill-founded:

> The argument assumes that what is true of a highly specialised money market is true also of conditions in a simple money market, as in Australia, where a) open-market operations are limited, b) fluctuations in interest rates do not cause international movements of funds, c) small movements in the exchange rate do not promote substantial short-term changes in the balance of payments, and d) changes in the money-market conditions have important repercussions on Government finance, and therefore give rise to political difficulties.(59)

He believed that the same reasoning could be used to refute the Bank of New South Wales' assertion that the Commonwealth Bank already possessed the means to control the cash reserves of the banking system. Copland was convinced that minimum deposits were necessary to ensure that the Commonwealth Bank was equipped with the means to manage the monetary system:

> If we could consider the operations of the central bank *in vacuo*, we might concede its ability to control the cash reserves of the trading banks. But there are other influences, political and financial, that prevent the Bank from pursuing its policy to the bitter end. The importance of giving the central bank sufficient resources to implement its policy was recognised by the Macmillan Committee, which justified the obligation of the private banks to keep

> reserves with the central bank on the ground that it was necessary to provide "the Central Institution with adequate resources...[with which] to manage the monetary system." If this is true for a highly developed money market, it is still more true for the Australian money market. (60)

Indeed, Copland did not believe that the Commission's recommendation concerning minimum deposits had gone far enough. The private banks, he held, were able to restrict the powers of the Commonwealth Bank by virtue of the fact that they could maintain a substantial portion of their liquid assets in the form of London funds and treasury bills. Hence, Copland explained that:

> To require the banks to hold a certain proportion of their liabilities on deposit with the Commonwealth Bank would not be sufficient. The banks could increase their London funds and discount treasury bills, or sell ordinary Government securities to maintain their deposits at the Bank. This would leave the Bank in a sound enough position to buy London funds, but its capacity to sell funds would be limited. It would not control the international currency reserve of the country. (61)

The Commission, he said, had failed to discuss these problems; although they had been impressed by the arguments put forward by the Commonwealth Bank, the Commissioners had not recommended the exact powers sought by the Bank.

Noting that the Commission had stressed the desirability of bank cooperation, Copland also believed voluntary cooperation between the central bank and the trading banks to be a most satisfactory arrangement. Yet he was fully aware that the attainment of voluntary cooperation was likely to be a very slow and frustrating process. He suggested that the Commission had realized this point and consequently sought to hasten such co-operation by recommending latent powers of compulsion. Copland approved of this recommendation for several reasons: First, the reserve power would probably bring about a good working arrangement between the Bank and the trading banks with respect to deposits maintained with the former; second, an increase in trading bank deposits with the central bank could not disadvantage the banks as regards interest on liquid funds when compared with the pre-depression situation; third, minimum deposits would furnish the central bank with greater funds, thereby strengthening its position in the banking system; and fourth, the increase was in line with developments in other countries with less specialized money markets. This power, however, would not give the Bank control of the international currency reserves. Thus the Commission had recommended that the Bank's holding of London funds should be increased and a new Exchange Mobilization Agreement was proposed accordingly. Copland admitted that there were two dissentients to the recommendation concerning the need to negotiate a new agreement; however, he did not feel that they were dissenting from the proposal that the Bank should increase its London funds at the expense of the trading banks.(62)

Finally, it was his belief that the Commission had taken a "realistic" view of the function of a central bank, for it had recognized that cooperation was a precondition for the effective exercise of central bank powers. The Commission

ant., - David

revealed that central banking required sagacity on the part of the monetary authorities, and Copland had confidence in the Bank's capability to undertake its duties, for the most part, without having to resort to compulsion:

> The Commission took a realistic view of the function of a central bank, recognizing that the Bank must have adequate powers, but should only exercise these powers when other methods failed. Normally the Bank would act after consultation with the trading banks and with their full concurrence. Without the co-operation of the trading banks, and of other financial institutions, the central bank would have very limited powers to discharge its main function of attempting to promote economic stability. The obligation to secure this co-operation is not less on the trading banks than on the central bank, and the Commission leaves one in no doubt that it regards the trading banks as essentially public utilities. On the other hand, it is emphatic that the technique of central banking is a highly specialized and responsible function, necessitating on the part of the directors and the senior officers judgment and understanding of a high order. The Commonwealth Bank is still learning the technique of central banking, and, it is perhaps fortunate in the past ten years in the prestige it has acquired for pursuing an enlightened policy not always of its own making. (63)

On the Commission's decision to stress, as the chief objective of the monetary system, the need to maintain stability in the level of economic activity, Copland congratulated it:

> This is a very simple statement of what all students of monetary reform will know to be a highly complex problem. But the Commission is to be congratulated on deliberately avoiding the appearance of being too learned on the problem, while drawing the attention of the banking system to its public responsibility for using its undoubted influence to mitigate industrial fluctuations. The policy is not precise. It demands different action at different times, and it requires a common attack on all fronts - the Commonwealth Bank, the trading banks in their attitude to advances, the Governments in their loan policy, and the general enterprise of other financial institutions. (64)

Copland chose to cover much the same ground in his article in *The Economic Record* in April 1939; again, his principal focus was on the issue of greater central banking control.(65)

In September 1937, *The Australian Quarterly* published S.J. Butlin's review on "The Banking Commission's Report". He stressed, like Fisher, that the Commission had been no white-washing exercise:

> In fact, one of the important implications is a qualified approval of the Scullin Government's policy. Criticism has been freely distributed where it was due, with great even-handedness... Similarly, two trading banks are accused of showing "no disposition to co-operate with the Commonwealth Bank" in keeping down deposit rates in February and March,1936, after the open-market offer of Treasury Bills. Then the Commission turns on the Commonwealth Bank, and accuses it of indecision and lack of purpose in this matter, and criticizes the open-market offer itself... The Commission's purpose is, obviously, not mud-slinging, but indicating defects in [the] present structure and past policy, with a view to securing something better. It realises the difficulties which have faced the Commonwealth Bank. But, nevertheless, the general impression created by the Report of the past activities of the Commonwealth Bank is unfavourable. It suggests

> the bank [was] digging in its toes, like a calf that won't be led, behaving as if it didn't want to be a central bank, and yielding only when it had to. (66)

Butlin added that not only did the Commission criticize past actions of the Bank, but it also indicated that the Bank had failed to make adequate use of its existing powers. Yet its major criticism was levelled at the lack of control the monetary authorities currently possessed over the Australian monetary and banking systems:

> The Commission evidently has no faith in unregulated private banks, and the completeness of its lack of faith is shown by the degree of direction it wants the Commonwealth Bank to give. The trading banks, if the Commission's recommendations were adopted, would have no discretion as to the total amount of credit, interest rates, or exchange, and only a limited discretion as to the distribution of credit between industries. And the Commission is serious about it. If the Commonwealth Bank used its existing powers as the Commission would have them do, and had the new powers proposed, it would be king. It could simply eliminate any bank which did not conform to the policy prescribed. The implications of such proposals hardly justify the headline under which one Sydney newspaper wrote up the Report: "Australia has a good banking system ." (67)

After reviewing several of the Commission's recommendations, such as that concerning mortgage banking, which was, he said, "quite a minor suggestion", Butlin then directed the greater part of his commentary to a discussion of what he considered to be the three truly significant conclusions of the Commission: " Political control" of the central bank, almost dictatorial powers to the Bank, and no nationalization." (68)

Butlin favoured the Commission's recommendation concerning relations between the government and the central bank. Yet he asserted that this proposal was nothing new, for the same situation already prevailed elsewhere: "This is, of course, the situation in England. It is also [a] good democratic principle since central banking is one of the most important aspects of politics; and it is implicit in the ideas of all those who have inveighed against the New Despotism of bureaucracy and 'independent authorities."(69) He sided firmly with the Commission in its advocacy of political control as the most desirable alternative:

> The Report shows clearly that the Commonwealth Bank has chosen to carry out its own views on policy, in opposition to the Government of the day, and, one can safely say in the particular case quoted, in opposition to public opinion. The Report, too, takes the view that the particular policy (reduction of treasury bills) was contrary to the general interest. Moreover,"independent" control can produce the sort of situation we have already had, of the Government deciding on a public works policy, the bank carrying out a credit policy, and the Arbitration Court a wages policy, all three being mutually inconsistent and conflicting with one another. In other words, in the past, the independent system has worked worse than political control would have done. This writer, at least, is with the Commission in preferring political control to administrative dictatorship by the Commonwealth Bank. It is only to be regretted that the Report does not argue the case more fully. (70)

Butlin went on to say that the issue was especially important in the light of the Commission's desire for complete central bank control of the private banks. Not only did the Commission want the Bank to exercise its existing powers, including its trading bank functions, more fully, but it had proposed the

significant new power of minimum deposits. He praised the Commission for this recommendation and especially for advocating a variable system rather than a fixed one:

> The Commission has not been seduced by the scheme of fixed minima which the bank board itself suggested. These proved inadequate in the United States, and were modified in 1935. Nor did it make the mistake of prescribing a maximum limit to the reserves which the bank could require, which the Chairman and Mr. Pitt urged. A fixed minimum, as American experience proves, is merely stupid. If set low enough to be workable in all circumstances, it is not high enough for control. The system of a maximum limit, on the other hand, is meaningless, for the appropriate maximum to meet all possible situations would have to be set so high that the limit would not matter. (71)

He explained that the minimum deposits requirement, as recommended by the Commission, would greatly enhance the Bank's power over the banking system, since it would be able to set an upper limit to total bank lending:

> The scheme surmounts the two difficulties which most central banks, including the Commonwealth Bank at present, experience in setting such a limit. Other means of influencing the cash available to the trading banks are indirect and do not always work efficiently; open-market operations, for instance, are clumsy and inefficient in the special conditions in Australia. Secondly, a trading bank can at present to some extent meet central bank action on cash resources by a change in ratios. The power to require and to vary minimum deposits provides the simple solution of demanding more as a weapon for securing co-operation. It is an ideal weapon, for it should never be necessary to use it; no trading bank would be so foolish as to refuse the mere requests of a central bank armed thus. Added to the rest of the Commonwealth Bank's armoury, it means absolute authority. (72)

On the other hand, the Commission's treatment of the nationalization issue was not well received by Butlin. The press, he argued, had misled the public by headlining the rejection of the proposal when, in fact, the Commissioners had simply not included the issue among their recommendations. He was himself highly critical of the way the Commission had ignored nationalization without adequate justification. He was especially disappointed that Chifley's minority report was so short, since he regarded the issue to be one worthy of a detailed case and more analysis. "Nevertheless," he added, "Mr. Chifley made out, even in his three pages, a better case for nationalisation than the Majority did for private ownership." (73)

Finally, there were the objectives of monetary policy to which Butlin thought the Commission had given insufficient attention. Even its statement concerning the aim of reducing fluctuations in economic activity, he felt, was "rather vague, but at least there should be a large measure of agreement on it, until we start to define terms like 'stability'."(74)

Melville
Shaw

Overseas, H.V. Hodson provided comment on the Commission's Report in the September 1937 issue of *The Banker*. But it is interesting, first, to examine a previous article he had published in July 1936. Then, he had identified the true problem to be the relationship between the monetary authorities and the banking system. If there were a conflict between the trading banks and the central bank, a dangerous situation might arise:

> No effort to secure governmental authority will be fully successful unless it extends to the trading banks or includes much more stringent statutory restrictions upon their operations. On the other hand, if the loyalty of the banking system to the central banking authority is such that the country's monetary and credit structure can be controlled through the decisions of the Commonwealth Bank alone, the problem is reduced to a very simple shape, namely, how to secure that the policy of the Commonwealth Bank is genuinely and wisely conceived in the interests of the whole nation. (75)

He maintained that, in the final analysis, stronger central bank powers were desirable, concluding that "there can be little doubt that the incompleteness of the central bank's authority in Australia does represent a certain handicap in this respect."(76)

Turning to the more recent article, Hodson dealt briefly with the Commission's major recommendations. First, he noted that the government should be acknowledged as the final authority on monetary matters. Nationalization, he averred, had been rejected by the Commission: "But its approval of independence and private enterprise in the banking system was accompanied by a recommendation whose effect was to make the government the ultimate arbiter of policy for currency and credit."(77) On the subject of minimum deposits, he observed that a great deal of controversy had been stimulated in Australian banking circles:

> It has been defended as necessary to proper central control of the credit mechanism, analogies being drawn with the minimum percentage rules in the Federal Reserve system. It is attacked as locking up the liquid assets of the trading banks and leaving them inadequate scope for legitimate enterprise which may require deviation from the average, and as a supremely dangerous instrument in the hands of a Socialist Treasurer.(78)

Next, he took up the issue of London funds. According to Hodson, the Commission had demonstrated that control of these funds would play an important role in regulating trading bank activities and, ultimately, the country's credit structure. This issue, he noted, had provoked "the keenest controversy". Representatives of the Commonwealth Bank claimed that the central bank should obviously have charge of what is in effect the national exchange reserve. The trading bankers retorted that their intimate commercial relations with London forbade them from putting themselves at the mercy of a central bank...[which wished to] secure their sterling requirements... The Commission compromised."(79) But controversy, Hodson said, not only related to the exchange rate question and to the general problem of controlling Australian monetary policy. For the Commonwealth Bank had been directed to make the stability of economic activity the chief priority of monetary policy, rather than price or exchange rate stability. In addition, the Report encouraged the Commonwealth Bank to expand its powers by actively using its trading bank functions. In sum, "the very core of...[the Commission's] report is the desire to establish in Australia a strong and all-pervading central bank, which shall nevertheless be submissive in the

last resort to Government policy."(80) But to strengthen the position of the Commonwealth Bank would weaken the autonomy of the private trading banks, and whether they would take that lying down was very much to be doubted.

CHAPTER SIX

THE CAMPAIGN BY THE PRIVATE BANKS

A vigorous and highly effective public and private campaign, waged against the principal recommendations of the Royal Commission by the private trading banks in late 1937 and throughout 1938, occupied a predominant place in the aftermath of the publication of the Commission's Report. The evidence presented by the banks to the Commission had been an early warning of the inevitable clash of interests involved, and, even before the Report was completed, the set pieces of the battle scene were being laid. When the Commission was considering its report, it was generally recognized that greater central banking powers would be recommended and appropriate legislation would probably follow. Soon after the publication of the Report, as early as 7 September 1936, R.G. Casey, the Federal Treasurer, informed S.M. Bruce in London that the Commission would probably recommend legislation on the subject of London funds, in view of the fact that one trading bank - namely, the Bank of New South Wales - would prevent the settlement of any voluntary agreement between the Commonwealth Bank and the private banks:

> I feel *sure* [Casey wrote] that we could get a good watertight voluntary agreement between the Commonwealth Bank and *all but one* of the trading banks - but of course this isn't good enough, bearing in mind that the one Bank that is unlikely to agree is by far the biggest of the lot in general business and in London funds. So that the Royal Commission may (and I think probably will) recommend some form of legislation on the subject. (1)

Indeed, Casey's presumption soon proved correct, for in the absence of legislation, cooperation by the Bank of New South Wales was not forthcoming. Before the Report was completed, two conferences between the Commonwealth Bank and the private banks were held for the purpose of discussing the issues of fixed minimum deposits and access to London funds. The result of the first conference, held on 6 October 1936 - from which Davidson, the General Manager of the Bank of New South Wales, was absent - was very favourable: While the private banks maintained their stance on the undesirability of a minimum deposits provision, they agreed to recommend an extended Mobilization Agreement. This consensus was short-lived, however, as Davidson rejected the proposal.(2) In the hope of reaching agreement among all the banks, another conference was called on 30 November with Davidson in attendance. The outcome of this conference was less promising than the first, as the bankers would not consent to a new Mobilization Agreement within an atmosphere which had become "tense", to say the least. It became very clear that some of the private banks were resolved to stand by the evidence they had presented to the Commission and opposed any intervention in their affairs. Davidson, in particular

saw no need for a new exchange agreement which, he said, would cause inflation; the London funds of the private banks, he argued, were reserves and hence were unavailable for exchange purposes. He added that he was not concerned about rumours of banking legislation, nor about the Commission's Report which was being prepared. Moreover, he revealed his readiness to stage an anti-Report, anti-legislation campaign once the Report was completed.(3) It was at this point, in fact, that the private banks, led by the Bank of New South Wales, began to organize themselves for a bitter fight against any measures which would subject their credit policy to effective control by the Commonwealth Bank. Yet, when the Report was first released, some bankers chose to remain silent and several even responded favourably to the recommendations. But by the end of August 1937, many private bankers began building up an opposing case, which then gathered momentum with the announcement in Parliament on 30 November 1937 that legislation would be introduced by the government.(4)

A Brief Overview of the Banks' Campaign

The general thrust of the banks' opposition soon became clear: They made it known that effective control of monetary policy would not be secured by voluntary cooperation on their behalf. In particular, they would refuse to accommodate themselves to the specified needs of the Commonwealth Bank, nor would they agree to the main recommendations of the Commission. Many statements which had been presented to the Commission were now repeated, and their unhappiness with the entire business of increased central bank control was pre-eminent. At times, some of the banks tended to manipulate the recommendations of the Commission to suit their own ends; half truths were often stated; and the central bank's arguments for greater regulation were cleverly evaded. The banks were at one in agreeing that the minimization of central bank authority was imperative; this was to prove the stronghold of unity among them. A general examination of the banks' arguments reveals that there were two major points of criticism. To begin with, the bankers feared that the implementation of some of the recommendations of the Commission would lead to increased competition by the Commonwealth Bank. The problem, which was not really resolved until the creation of the Reserve Bank of Australia in 1959, was that the Commonwealth Bank was a trading bank competitor as well as the central bank. The government's desire to establish a Mortgage Bank Department in the Commonwealth Bank, together with the possibility of establishing special facilities in the Bank for lending to secondary industry, was similarly resented by the bankers as an infringement upon their traditional spheres of activity. There was the added difficulty here that the Commission had proposed that the Commonwealth Bank should actively engage in - indeed extend - its trading activities. This, too, heightened the banks' fear of increased inroads into their business by the Bank. In short, consideration for profits was a predominant factor causing concern among the banks. The proposal concerning minimum deposits, moreover, added insult to injury, in that the trading banks believed that their deposits lodged with the central

would be used to compete against them. This point, in fact, had been advanced frequently before the Commission itself.[5]

The major source of unease, however, was the private bankers' belief that the implementation of many of the recommendations would curtail their independence, and thus erode their prestige. According to Sir John Phillips, some of the private banks "remained fairly anti. I suppose none of them accepted that considerable control from the central bank was really a good idea. They were pretty keen on the maintenance of their independence."[6] For this reason, the recommendations regarding minimum deposits and control of London funds were subjected to especially vigorous criticism. Some of the banks believed that their judgments on appropriate monetary policy were likely to be superior to those of the Commonwealth Bank. The practical objection to minimum deposits was that they would involve both a contraction of advances and higher interest rates. And this might occur at a time when business conditions required expansion rather than contraction; the private bankers would be required to make the proposed central bank control effective by raising their deposits with the Commonwealth Bank to the ten per cent provided for in the proposal. Thus, there would be less money available for advances, which would have to be contracted. With a larger proportion of their funds immobilized in this way, the banks would have to raise interest rates in order to keep their "heads above water". This argument appeared to be very pertinent in 1938, in the light of an impending recession during which deflationary policies were undesirable. It was argued, too, that this proposal, by necessitating the Treasurer's approval, could lead to political interference which the Lyons' Government opposed. Similar arguments were brought to the fore by the banks in order to discredit the Commission's recommendation regarding greater central bank control of London funds. Not only was it contended that such control was unnecessary, but if it were to occur, it would seriously impede the banks' independence to conduct their business as they wished.

Early Criticism by the Banks

With this background in mind, it is of interest to observe in somewhat greater detail the unfolding of the banks' arguments and how they became more frequent and intense as time progressed. At first, the banks tended to adopt an ambivalent approach; on the one hand, they believed it was necessary to avoid controversy by stressing the great moderation of the Report, hailing it as a vindication of the existing private system of banking; on the other hand, they set about to obtain a moderation of those recommendations which were likely to prove most detrimental to the interests of the private banks. This latter approach was most clearly expressed by the bankers' view - propounded in particular by Davidson - that while the Commission's conclusions might seem to be wholly adequate in theory, they were extremely dangerous in practice.

The banks did not really begin to organize their arguments until late in August 1937. Indeed, on 21 July 1937,

A.W. Ralph, the President of the Melbourne Chamber of Commerce, helped to establish a general atmosphere of approval when he declared that "business men would approve the recommendations." (7) A.W. McNicol, the Chairman of the Associated Banks of Victoria, expressed satisfaction that the Report had vindicated the views presented by the bankers in their evidence before the Commission, namely that privately-owned trading banks were able to provide the public with the best banking service at the lowest cost. He then, however, expressed his concern at the minimum deposits proposal, commenting that "a varying minimum percentage of its deposits...might strengthen the banking system, but only experience would show the ultimate effect. Unforeseen disadvantages might arise." (8) On 19 August, the Chairman of the Commercial Bank of Australia, J.L. Webb, stated that the Report was:

> a valuable and permanent record of Australian finance. The findings emphasize the sound and efficient manner in which the banking business has been conducted. Some recommendations require careful thought. Regarding minimum deposits we want to cooperate with any idea likely to benefit the banking system, but the recommendation in the form submitted in the report is too far reaching and, under certain circumstances, likely to create difficulties greater than the emergencies it was obviously designed to meet. It may seriously interfere with trading banks' ability to lend and reflect adversely on the community generally, as the resulting uncertainty may cause the banks to carry an unnecessarily large percentage of liquid assets. (9)

In an effort to weaken the Commission's recommendation, he argued that a reasonable *maximum* percentage of deposits, to be lodged with the central bank, should be specified in any legislative act.

Davidson Takes Charge

It was at this point that Sir Alfred Davidson entered the debate. As the leader of the most powerful and best informed of the private banks, he took it upon himself to awaken and organize the banks into an effective campaign against the Report and its recommendations for minimum deposits and greater control over London funds. Davidson became the militant leader of the private banks, as it may be recalled that the Bank of New South Wales had most to lose from any banking legislation; indeed, the new mobilization scheme was aimed principally at the Bank of New South Wales. Stating his opposition clearly and frankly, Davidson believed that if the Commonwealth Bank were to encounter difficulties, the Bank would have only itself to blame for its ineptitude and failure to exercise its existing, adequate powers. He declared that the Bank of New South Wales would conform to central bank policy only if a satisfactory explanation of the policy was forthcoming, and if he agreed with the policy. It was his ultimate objective not to lose the independence and influence which he and his bank had traditionally enjoyed.(10)

2

a useful point
shows that
eco deterioration
in '37

As to Davidson's fear concerning the possibility of minimum deposits, an important factor to be taken into account was the economic uncertainty prevailing in late 1937 and throughout 1938. Export prices fell sharply towards the end of 1937 and continued to fall during most of the following year. Drought also reduced export production at a time when imports were rising on account of the increased level of economic activity in

1936/37. Hence, in 1938, the banks' liquidity was low, and since it appeared that advances would not be easily reduced, the banks were seeking to protect their deposits. By June 1938, the banking outlook had deteriorated significantly; Davidson believed that drought and falling export prices might deprive the banks of cash to finance the pending Commonwealth loan, and he expected a further reduction in London funds. By the September quarter of 1938, the Bank of New South Wales' ratio of advances to deposits had increased to 92.4 per cent - largely as a result of an increase of £6.5 million in advances during the year - and the ratio of cash and treasury bills to deposits had fallen to nine per cent. Davidson, therefore, not unnaturally stressed the danger of an economic crisis if minimum deposits were imposed at a time when credit was excessively tight.(11)

Lacking only a formal lobby, Davidson's campaign utilized every available outlet, with the banks acting collectively and individually, and through various members of bank boards with contacts in government. The public campaign involved energetic and extensive discussions with, and distribution of circulars to, bank staff, politicians, and businessmen about the dangers of political control of banking. Davidson encouraged bank representatives - especially bank staff and individual bank board members - together with sympathetic organizations, to communicate with Members of Parliament and Ministers. He himself approached politicians with his arguments, exploiting as he did his close personal association with B. Stevens, the Premier of New South Wales. In addition, the bankers aligned themselves with a section of the business community which opposed change in the banking system.[12]

In particular, the private banks were able to use the press as a crucial channel of communication. While some press reports were critical of the bankers, especially of Davidson, the anti-Commission cause capitalized on the publicity it received. For example, *The Financial Post* stated that the recently published Report of the Royal Commission was "a model document in many respects"; it added, however, that some of the recommendations had "evoked the ire of Australian bankers, and several..[had] been outspoken in their criticism." [13] It then referred to the anti-Report circular produced on 23 August 1938 by the Bank of New South Wales and approved by many other Australian bankers. This circular was the most critical of any public statements issued to date: It helped to solidify the bankers' defence and to recruit support, particularly through the additional publicity it received in *The Bankers' Magazine* in October 1937.[14] In the circular, Davidson stated that the Commissioners had lacked actual banking experience and that their recommendations seemed to be compromises between the various views which had been advanced. Although the Commissioners had condemned nationalization they had suggested provisions which opened the banking system to political interference. "In practice the Commissioners recommend what they expressly repudiate. This most dangerous and paradoxical result seems to arise from a fundamental inconsistency between the text of the report and the recommendations with which it concludes."[15] Here, one could imagine Davidson's

bewilderment as to why the Commission advocated "nationalization" in practice, when it had been appointed to bring in a report against any form of nationalization. Moreover, the implementation of the Commission's proposal concerning future relations between the Bank and the government would remove the safeguards and independence of the Bank; in particular, "the central bank would find that it had no margin left in the administration of the note issue and reserves."[16] Further, he believed that the minimum deposits and exchange mobilization recommendations would open the door to political interference in the banking system:

> In two other equally vital respects the recommendations of the Commissioners again expose the central bank to the danger of substantial political pressures: the control of the Commonwealth Bank over the minimum deposits of the trading banks, and the right of the Commonwealth Bank to requisition part of the London funds of the banks. In both these important matters the Bank is to act *with the consent of the Treasurer* ... If this is intended as a protection for the Board it will be a very small one, for if these recommendations are adopted the Commonwealth Bank will find itself in a weak position if it has in the future to advise a government that a certain line of action will endanger the international financial position of Australia ... A future Treasurer, if he were so minded, could press for the introduction of a system of more or less complete exchange control in order to conceal the economic consequences of a mistaken government policy... and to this extent the safeguards for the central bank will be diluted.[17]

Nor was that all, for the recommendations might also be dangerous from an economic point of view because they were "likely to be exercised principally in periods of financial difficulty and their use at such times will be calculated to produce just those conditions of alarm and uncertainty which it should be the task of statesmanship to avoid in times of stress." (18)

Davidson, furthermore, did not feel that a minimum deposit provision was required as a means of controlling the level of credit in Australia, or that a new Moblilization Agreement was necessary to control London funds:

> ... if the Commonwealth Bank wishes to increase the reserve deposits of the trading banks it can always do so by purchasing securities upon the stock exchanges. It only needs powers to *compel* the trading banks to increase their reserve deposits with it if it wishes to buy from them not government securities but something which for the time being they do not wish to sell. In the case of Australia, that something is London funds. Given this power of requiring minimum reserve deposits, the Commonwealth Bank will, if it chooses, be able to compel the trading banks to sell their London funds to it ... Yet there is no evidence that trading banks have refused to sell these in the past, and much that they have worked well with the Commonwealth Bank whenever the position required it. (19)

This emphasis on London funds seems understandable in view of the Bank of New South Wales' large surplus of such funds. Davidson took it upon himself to explain at some length why the power to requisition London funds was undesirable:

> Unless the Commonwealth Bank is to become possessed of foresight to an almost superhuman degree, it will find itself asking for the right to exercise its powers at times when a weakness in the exchanges is already developing. But the exercise of this right at such times will be likely to increase the weakness in the exchange market, because by warning the public that the central bank is short of foreign exchange it may frighten all traders who need exchange in the ordinary course of their business to cover their requirements immediately and before the shortage gets worse.

> In consequence, the demand for London funds will increase very markedly, and the effect will be to intensify the shortage which is already embarrassing the central bank. Instead of allaying uneasiness in difficult times and fortifying confidence in the Australian pound, the exercise of the reserve power to requisition London funds in the way in which the Commissioners suggest is likely to produce conditions under which there will be a heavy sale of Australian currency. Thus the financial reserves of the nation will be wasted in meeting the crisis which will have been intensified by its own resort to compulsory powers... [The recommendation] will almost inevitably cause alarm both internally and externally, and bring about just that flight from the currency which it should be the object of the central bank to do everything in its power to prevent ... It is greatly to be hoped that the government in Australia will hesitate long before it gives its central bank the right of running up a red flag to warn the world that the Australian financial position is weak at just exactly those moments in which it should be the task of statesmanship to restore confidence both at home and overseas. (20)

Although Davidson was the strongest exponent of non-interference in the monetary and banking systems, other supporters of the Banks also voiced considerable dissatisfaction with many of the Commission's recommendations. For example, on 25 August 1937, Professor Hytten, the Bank of New South Wales' economist, expressed his concern at the inconsistency between the main theme of the Report and its specific recommenations; as reported in *The Financial Times*:

> The implications throughout the report certainly are that the Commonwealth Bank has allowed itself to be led rather than to lead, and that there is no constitutional reason for this position. It is therefore a shock to come to the recommendations which seem to imply that the bank's inferiority complex is due to a lack of legal powers. (21)

He was opposed to the minimum deposits proposal, which he described as very vague:

> Any such regulation is surely both unnecessary and harmful in a banking system like the Australian with a few large units... But, if it has to be, a definite proportion is desirable. The Commission, however, has recommended a fluctuating amount with no maximum, and that at the pleasure of the Treasurer and not the Commonwealth Bank. No bank can feel safe under such circumstances against the whims of a Treasurer, whose object it might be to demand a hundred per cent deposit with the intention of nationalising the whole system.(22)

Similarly, on 24 November 1937, Ward of the English, Scottish and Australian Bank commented that "some of the thirty recommendations of the report we take strong exception to in their present form as they are inconsistent with the body of the report."(23)

The Banking Conferences and the Private Bankers' Offensive

Between January and the end of April 1938, the banks were given several opportunities to convey their views to the Commonwealth Bank and the Treasury on the proposals for legislation concerning minimum deposits and exchange mobilization. The first formal conference between the Commonwealth Bank, the Treasury, and the trading banks was held in March 1938. Subsequently, a sub-committee of trading bank representatives - known as the Bankers' Sub-Committee - was formed in order to present the banks' case to Casey during a series of April meetings. Although there are few formal minutes of these meetings extant, the trading banks clearly indicated from the outset that they would

fight to the end for their independence. In effect, these conferences marked the beginning of the most intense and effective stage of the banks' campaign. The trading bankers aired many of their criticisms regarding these two extremely contentious issues, but they were wary not to expose information which might be used against them; the authorities themselves were not entirely frank with the banks, either. As a result, a complex political struggle ensued. By this time, with the prospect of banking legislation in the air, the bankers were altogether more organized and stronger in their opposition than they had been before and during the Royal Commission. In fact, this stage of the campaign appears to have been a precursor of the banks' battle against bank nationalization in 1947. Many arguments which were advanced by the banks in 1938 resembled, at a less desperate level, those presented later in the banks' anti-nationalization campaign.

Several factors served to intensify the banks' criticisms during this 1938 offensive. For a start, the appointment of Harry Sheehan, Secretary to the Treasury, to the position of Governor of the Commonwealth Bank in March 1938, increased Davidson's fear of greater Treasury influence over the central bank; he was also concerned that none of the Bank Board members had any background in private banking. In addition, the banks, and especially Davidson, doubted the Chairman's ability to use the proposed powers efficiently. The banks, moreover, played upon political feelings to a considerable extent by exploiting divisions within the government to their advantage. Apparently, there were several members of the government who were not at all confident that the Bank Board would be able to exercise monetary control wisely; and there was uncertainty within the governing parties concerning the Bank's ability to function adequately as a central bank and administer the central banking system with competence and discretion. Thus the Bank of New South Wales, itself harbouring these doubts, jumped at the opportunity to cultivate the government's suspicions.

The Authorities Take Note of Private Bank Criticisms

Although nothing had been resolved when the various conferences were concluded at the end of April 1938, Commonwealth Bank and Treasury officials set about the difficult task of analyzing the barrage of criticisms from the private bankers in order to pinpoint and counter their arguments. While the content of these counter arguments will be discussed in the next chapter, it is now appropriate to examine "behind the scenes" correspondence in order to appreciate the diversity of private bank opinions and the problems they posed for the authorities.

The acting Secretary to the Treasury, S.G. McFarlane, sent a memorandum to Casey on 11 March which asserted that the most significant criticisms were those of the English, Scottish and Australian Bank, together with those of the Associated Banks of Victoria.[24] It is likely that McConnan, Chief Manager of the National Bank of Australasia, prepared and sent a statement on behalf of the Associated Banks to Casey, since he was the principal

spokesman for the Associated Banks, and he often corresponded with Casey. But Davidson was probably the major influence upon McConnan. McConnan argued that there was no need for additional Commonwealth Bank instruments to regulate credit as this could be accomplished by open market operations. In reply to the recommendation concerning minimum deposits, the Associated Banks stated that every bank already maintained substantial deposits with the Commonwealth Bank. Even if the power to require minimum deposits was established as an emergency power, they averred that there would be undesirable consequences, such as credit contraction. The central bank's aims would be better achieved through consultations with the trading banks in order to convince them of the correct lines of policy, rather than by coercion. Moreover, the Associated Banks were opposed to the exercise of trading bank activities by the central bank, on the grounds of unfair competition. More importantly, they raised objections to the exchange mobilization provision by emphasizing the fact that Mills and Abbott had recognized no need for such a provision.[25]

Some perspective on the banks' arguments was provided in a summary by L.G. Melville, the Commonwealth Bank's economist, which stated that the banks wanted their activities to be totally free from control:

> To be sure they state that the Commonwealth Bank has now adequate powers to regulate the system. The arguments by which they support these claims are those which they placed before the Commission, and which the members of the Commission, after careful consideration, rejected unanimously... The Banking Commission thought, reasonably enough,

> that the strength of individual banks was not inconsistent with some central control. But the trading banks will have none of it. They will accept neither the recommendations of the Banking Commission nor the more moderate proposals of the Commonwealth Bank Board and they are not prepared to offer any alternative suggestions by which this central control can be exercised. They want to preserve the banking system of Australia as a kind of museum piece in a world which has moved on to new banking practices.(26)

He noted that the banks had advanced four major arguments against the renewal or extension of the Mobilization Agreement:

> That an important minority of the Commission dissented from the original recommendation.
> That the Central Bank requires a free exchange market as a guide to Central Bank policy.
> That an appropriate Central Bank policy will guarantee that ample supplies of foreign exchange will flow normally to the Commonwealth Bank.
> That the external assets of the Commonwealth Bank in recent years have steadily increased.(27)

And, as he mentioned, there were other matters they had raised as well, including the irrelevance of a Mobilization Agreement in the absence of an emergency: The requisitioning of funds abroad was only practiced in countries suffering from exchange control; and the banks were prepared to continue the present arrangements if the central bank was unhappy with open market operations.

Melville, in addition, gave a brief summary of the banks' arguments against the imposition of variable minimum deposits:

> That all banks already keep substantial deposits with the Commonwealth Bank.
> That legal minimum reserves are not a real reserve since they cannot be drawn upon in an emergency.
> The present powers of the Commonwealth Bank are adequate to give it effective control over the credit policy of trading banks.
> That minimum deposits might be used for political purposes to destroy the trading banks.
> That central bank objectives can better be achieved by convincing the trading banks of the right line.(28)

Moreover, the banks had suggested that the imposition of minimum deposit requirements by the Commonwealth Bank would place the trading banks in a position where they would be unable to meet those requirements. It was argued that total cash in the banking system was determined by the central bank. An individual bank could, therefore, only obtain cash to place on deposit with the Commonwealth Bank by selling some of its assets, or by calling in advances, operations which would themselves withdraw cash from other banks. Hence, all banks could not meet the increased requirements of the central bank unless the central bank was itself prepared to increase the total cash in the banking system.

The bankers, themselves, continued to make their views known through means outside the private conferences. On 31 March 1938, Sir John Sanderson of the Bank of Australasia praised the Commission for recognizing the role of the private trading banks. But he did not approve of the recommendations which would introduce excessive rigidity into the system:

> The report contained recommendations that were not greeted with unqualified approval, among them the granting of wider powers to the Commonwealth Bank in certain directions. In the event of a decision by the Commonwealth Government that, following the Commission's report, certain legislation is required, one may express the wish that the existing elasticity of the Australian banking system, which has stood the country in good stead for so many years, will be preserved. So far as possible the legislation should not seek to impose rigidity in cases which many authorities feel convinced can better be left to be treated by reason and good will rather than by compulsion.(29)

He also informed the Commonwealth Bank that the Australian banks with head offices in London would prefer to fix their own minimum deposits by mutual agreement; however, in the event of legislation they opposed Melville's suggestion that there should be differentiation between the banks; they desired equal reserve requirements and a low minimum which would not vary except by further legislation. According to Sanderson, these banks opposed variable deposits as they felt they would not be able to make full use of the deposits when the opportunities arose. In addition, the banks would have to offer a lower interest rate to depositors, and the availability of bank services would be hindered.(30)

Clive Baillieu, Managing Director of Austral Development Ltd., director of other companies, including the English, Scottish and Australian Bank, and a prominent member of the Bankers' Sub-Committee, corresponded with Casey during the banking conferences. While he understood the central bank's point of view, he did not agree with its idea of the correct solution to the banking issue.(31)

Baillieu realized that the government was committed to legislate generally along the lines specified in the Commission's Report and he agreed that, for political reasons, the legislation would have to include compulsory deposits and further exchange mobilization. This sympathetic view of the government's obligations may have stemmed from the fact that he was a representative of the Commonwealth Government on the Imperial Economic Committee. Be that as it may, he indicated that the government was facing several difficulties of a high order, including a large loan conversion operation, an increase in defence expenditure, and a rise in taxation; it was thus a matter of concern to him that the Commonwealth Bank's proposals might disturb confidence and investment at such a critical time. But, although Baillieu opposed the government's proposals, he said that he and the majority of his colleagues did not adopt "a *non-possumus*" attitude towards them. In fact, he suggested an alternative mobilization scheme, which would ensure that London funds were equally distributed throughout the system and that the dangers associated with the present proposals would be eliminated. Similarly, he did not think that compulsory deposits would be very useful as an instrument of credit control, believing, as he did, that the Bank's proposal was more designed to satisfy possible political criticisms. If such a system had to be imposed upon the banks, he hoped that it would be a fixed one, rather than the variable scheme which had been recommended by the Royal Commission. But he maintained that the real political attack upon Casey would be directed at the Treasurer's authority in the matter of minimum deposits. Still, he added that the bankers were determined to reach an agreed settlement which would not be built upon fear and compulsion.

On the other hand, Davidson seemed to adopt a decidedly more "*non-possumus*" attitude to the proposals enunciated by the authorities. He adhered strongly to the idea of a voluntary banking system and private enterprise. Unlike Baillieu, he expressed the view, in a letter to Casey in April, that legislation was entirely unnecessary. He noted that he always kept what seemed to him to be a *reasonable* percentage of cash to deposits, and the central bank had neither criticized the balances he held with it, nor had it ever suggested a "reasonable" percentage for him to hold. Davidson stressed the willingness of the banks to cooperate if they were given a chance; the trading banks, he added, considered the central bank's attitude to be one of dictation rather than cooperation. Of particular interest was the view he expressed to the effect that the Bankers' Sub-Committee would make constructive proposals if given sufficient time. In short, as he put it to Casey, "the Commonwealth Bank itself will also suffer if legislation is passed which makes the whole system rigid and automatic, and therefore entirely unresponsive to rapidly changing needs in a crisis."(32)

McConnan was another private banker who was heavily involved in putting the banks' case to the government. From September 1936, he had been trying to secure an agreement on

voluntary cooperation between the Commonwealth Bank and the private trading banks, and he claimed to have made some headway in this endeavour. By 1938 he was active in the negotiations on the issue of minimum deposits. G.M. Shain, who became Manager of the Commonwealth Bank in 1937, wrote to Melville in April 1938 informing him that McConnan was seeking to draw upon American experience to strengthen his argument. According to Shain, the National Bank was searching for information:

> regarding the recent credit position in the United States and this was confirmed to him by Mr.Stuart of Eric Morgan and Co., on the morning of April 13. The National Bank wanted to make a case showing that when the Reserve Bank increased the reserve requirements, the [current] U.S. recession was begun. This is doubtless being used by McConnan in bolstering up his arguments in connection with the proposed reserve requirements here.(33)

In the face of the banks' mounting offensive against legislation, Casey began his own attempts to clarify the banks' arguments. In correspondence with Reading, he noted that the trading banks had asserted that they would still have to create a body of *free* liquid funds outside their deposits with the Commonwealth Bank if minimum deposits were imposed. They had insisted that this would be so despite the fact that the Commonwealth Bank was "the Bank of last resort" and would come to their assistance in troubled times. As Casey observed, these additional funds were viewed by the banks as having two functions: First, to ensure their solvency; and, secondly, to allow them to undertake an expansionary policy. Yet he contended that these were spurious needs, for the central bank would not allow the solvency of the banks to remain in doubt; and, if an expansionist policy was in accord with central bank policy, the Commonwealth Bank would not obstruct that path.[34] On 11 April 1938, Casey conveyed to Reading the nature of the trading banks' fears surrounding the imposition of minimum deposits:

> I have had a long talk on the telephone with [W.I.] Potter [who advised McConnan] and he is coming to see me tomorrow. He tells me that there is real apprehension on the part of some of the Trading Banks as to the minimum deposits provision. Substantial selling orders for Commonwealth Bonds have already been placed by some Banks - but he tells me confidentially that other banks are still buyers. I gather that Potter is being present at the Bankers' Sub-Committee meetings here in Melbourne. (35)

On 13 April, Casey relayed to Reading the arguments which had been expressed at the meetings of the Bankers' Sub-Committee. The banks were still genuinely disturbed about minimum deposits, and repeatedly said that they would cooperate with the central bank. According to Casey, the bankers had informed him:

> individually and collectively that, if we put this provision into the law, they will feel themselves absolutely obliged to recommend to their Boards the creation of additional cash reserves over and above the stipulated maximum percentage that may be mentioned in the Bill, and that this will mean calling in advances beginning at once and carried out progressively until they have brought the average of their deposits with the Commonwealth Bank up to probably 2½ to 3% above the stipulated maximum percentage of 7½% or 10% or whatever it is. In the meantime some Banks will sell Bonds in an endeavour to help themselves - although they realise that this means that the Bank that does so is only helping itself at the expense of the others. I am told by Brokers that this process has already started. They point out that with a drought on us, which promises a slowing up of deposits owing to reduction of national income, coupled with a demand for increased advances - the effects are liable to be drastic over the next nine months. At the same time, they promise real cooperation with the Commonwealth Bank - and repeat this continuously. I said that if this took place, the minimum deposits power was unlikely ever to be used - and so the necessity to anticipate its use (by piling up extra cash resources) was quite unnecessary. However, they repeat that (maybe, they admit, out of undue prudence and conservativeness) if the Commonwealth Bank has power to "demand" and so put some of their cash outside their control - they will have to do as I have said. (36)

Reading, in turn, believed that the banks had two major grievances concerning minimum deposits: First, that the power might be used arbitrarily to embarrass the trading banks; and, second, that the possibility of minimum deposits being required would cause the trading banks to contract credit in order to have the necessary cash available at all times.[37] But, on several different occasions in April and May, Reading acknowledged that the fears, threats, and forebodings of the banks in connection with minimum deposits were groundless and could be safely dismissed. At all events, if problems did materialize, they could be quite comfortably met.[38]

Casey also wrote to Reading in April about the London funds mobilization scheme. Although the banks had exhibited enthusiasm for this scheme, he declared that they were, as a whole, comparatively less hostile to it than to minimum deposits.

Nevertheless, he advised Reading to take into account the fact that some of the banks regarded a part of their London funds in the light of London reserves; that is, the funds served to promote a geographical spread of the risks faced by the banks. He believed this was especially true of the London-owned trading banks.(39)

After the conclusion of the conferences with government and Commonwealth Bank officials, the banks continued to inveigh against legislation to implement the Commission's recommendations. On 7 May 1938, the Chairman of the Bank of Adelaide, Sir Howard Lloyd, strongly attacked the recommendations of the Commission in what was the first official comment by a bank chairman. He praised the Report for vindicating the policies of the trading banks, both before and during the Depression, and their contributions toward recovery; however, he maintained that:

> The recommendations of the Royal Commission on Banking, if put into practice completely would place the whole banking system under political control, a development against which the country has already on three occasions emphatically recorded its vote...there would be a grave danger that not only the banks but the whole financial system would lose strength and flexibility which the Commission itself says is essential...[for maintaining stable] conditions in Australia...We quite concede that a strong Central Bank is a very important part of the financial system but we do not admit that any good purpose can be gained by weakening the trading banks to the undue advantage of the Central Bank, particularly as it is considered by experts that the Commonwealth Bank already has all the powers necessary to function efficiently as a central bank if it cares to use them...It is to be sincerely hoped that commonsense will prevail, and that a survey of the proved English system will convince the Government that it is advisable to allow the Australian system to develop along the same sound lines rather than to adopt a policy based upon political expediency and academics.(40)

3

Credit Contraction as a Weapon

By this stage, the banks began to circulate widespread warnings that a system of minimum deposits would force a deflationary policy upon them; in fact, instances of credit contraction by some banks were made public as part of the banks' case against banking legislation. On 18 May, 1938, McCall of the UAP asked Casey in Parliament whether he had seen the statement made by Sir Howard Lloyd to the effect that the mobilization scheme would reduce both the banks' liquidity and their power to maintain or expand advances; he also asked Casey if he had noticed the credit contraction which had been carried out by some of the banks in anticipation of the measure. Casey evaded direct replies by stating that the first statement was purely hypothetical; and so far as the second question was concerned, the government had valid reasons for wanting to introduce banking legislation.(41)

Indeed, by the middle of 1938, the campaign by the banks had reached a new stage of intensity. On 25 May, Sir James Elder, Chairman of the Board of Directors of the National Bank of Australasia, expressed his concern about the government's proposal to introduce banking legislation. The National Bank, he declared, desired the least legislative control of banking that was possible, and he refuted the belief that there was a public demand for control of banking. Elder stressed his bank's desire to cooperate completely with the central bank. And he committed himself and the National Bank to the anti-legislation arguments which had been advanced so far by the private banks:

> The contention of the trading banks - and I believe it to be soundly based - is that the present powers of the Commonwealth Bank in this regard are ample for all reasonable purposes, and any additions to them can only be effected by means of irksome legislative restrictions on the trading banks. We agree with the Commission's view of the merit of a strong central bank, and we also agree with its pronouncements that 'too much should not be expected, even from the most enlightened policy of an all-powerful central bank.' Be it noted, central banking has by no means brought all the benefits expected of it, and has, accordingly, somewhat declined in prestige during the last decade. (42)

He maintained that the exercise of the minimum deposit requirement as an instrument of credit control would be a major mistake, since it would fail in its objective and achieve nothing more than a measure of credit contraction, with a lessening of the lending capacity of the trading banks. A compulsory, rigid, and far-reaching Exchange Mobilization Agreement was no less undesirable:

> The exchange market, within the limit of rates set by the central bank, should be free and open for Governments and traders alike to operate in, but, pending the development of a better exchange technique, this bank, along with its competitors, willingly undertakes to continue the present understanding, whereby it plays its part voluntarily in the servicing of Australia's overseas debt. It does, however, object to legislation which is suggestive of ultimately forcing exchange business into one channel and thus destroying the advantages accruing from the free interplay of supply and demand, which in the final issue must always determine exchange policy. My concern lies in the possibility of a rigidity in the control of our exchange, which most certainly would react unfavourably upon the economic progress of Australia. (43)

There were yet other participants in the banks' battle. For example, J.L. Webb of the Commercial Bank of Australia asserted that legislative restrictions which inhibited business would be highly dangerous in the light of the sensitive economic position presently prevailing in Australia. Flexibility and liquidity were necessary, as had been shown by the American example in which the freezing of funds by central bank action was largely responsible for the slow economic recovery of the United States' economy. (44) The Melbourne Chamber of Commerce stressed the fact that the minimum deposit proposal would freeze part of the banks' funds and cause them to restrict advances; in the result, there would be adverse consequences for investment, production, and employment. Fear was also expressed that the Treasurer would be able to demand the transfer of an unlimited percentage of deposits to the central bank. (45) James Ashton of the Commercial Banking Company of Sydney similarly warned against any action that would create weakness in the existing banking strucutre, which, he claimed, had "stood the test of experience over a long period." (46)

By June and July 1938, it became increasingly evident that the banks were successfully convincing many people that legislation would be unwise. On 27 June, A.H. Lewis, Secretary to the

Commonwealth Bank, received a letter - perhaps from Reading - which revealed the magnitude of the effect of the trading banks' arguments upon the public:

> The Australian trading banks are trying to prevent the Government from introducing banking legislation of a kind likely to be helpful to the Commonwealth Bank by representing to the public that the amendments proposed regarding minimum deposits would force a deflationary policy upon them. I am satisfied that their arguments are not valid, nevertheless, they are being presented so widely and with sufficient ingenuity to persuade many people that the Government would be unwise to introduce the legislation it is contemplating.(47)

On 17 June, *The Bathurst National Advocate* printed an article about a protest meeting of the Bank Officers Association, at which criticism concerning bank legislation in general, and minimum deposits in particular, was the cardinal item of discussion.[48] Moreover, Reading sent a letter to McFarlane, Secretary to the Treasury, on 18 July which revealed the extent to which the public was being upset by the banks' arguments:

4

Mills

> You are, no doubt, fully aware that the propaganda has been very intensive and widespread, and there is now evidence that the public mind is getting seriously disturbed by the fear that there will be a serious curtailment of credit facilities.[49]

Enclosed was a memorandum which had been prepared by Commonwealth Bank officials showing the nature of the opposition to the proposed banking legislation and the nature of the propaganda that was being used.[50] The memorandum disclosed that the leading part in the organization of bank opposition had been taken by the Bank of New South Wales. In several public statements, Davidson had

outlined the basis of his opposition. The most complete statement, however, according to the memorandum, had been given in a recent address by Davidson to the Sydney Junior Chamber of Commerce and reported in *Commerce* on 6 June 1938.[51] In that address, he had argued that the proposal to require trading banks to place ten per cent of their public deposits on reserve with the central bank would require them to seek additional cash to the amount required by such deposits - estimated by Davidson at thirty million pounds. Such a provision, he added, would have five undesirable consequences, namely:

> To cause a contraction in advances of from £30 to £45 million.
> To make necessary a reduction in bank dividends, affecting the valuation of bank and other shares on the Stock Exchange.
> To cause an increase in interest rates on advances and a fall of rates on deposits.
> To compel banks to reduce the number of their branches and of their staff, and
> To bring about a serious depression, involving lower turnovers, a fall in prices, and increased unemployment.

A somewhat closer examination of this memorandum reveals the form which the opposition was taking at this stage of the campaign.[52] Bank opposition was discussed under five categories: First, the reduction of advances; second, the effect on the stock exchange; third, the effect on branches and staff; fourth, the likelihood of a general depression; and fifth, the activities of the Sound Finance League. The first matter concerned reports that some banks were informing their customers that they would be asked to reduce their overdrafts if the banking legislation were introduced. Indeed, there was evidence that some requests of this nature had already been made. According to the memorandum, most of the evidence of this type of propaganda was hearsay; however, the press had reported that such statements were being made to customers, especially in Sydney and its suburbs. Various Commonwealth Bank branches in New South Wales reported cases where applicants for advances from five different private banks had been advised that no new advances were being made. Several similar cases of credit contraction, due to the projected legislation were reported in Queensland, Victoria, and one case in Tasmania. But most of the examples of deliberate reductions in advances seem to have occurred in New South Wales. For example, the Commonwealth Bank branch at Inverell reported that a "customer of [the] Bank of N.S.W. approached us for accommodation and said he had been informed that his present bankers were not doing fresh advance business pending proposed banking legislation by the Commonwealth Government." The Commonwealth Bank at Moree issued the following report:

> Local newspaper reported [a] meeting of officials of Trading Banks and passing of resolution opposing projected legislation. Our manager reports that following recent newspaper articles and [a] statement of Sir Alfred Davidson, local feeling is for continuance of [the] present system....
> Specific cases reported confidentially as follows:-
> Customer of Bank of N.S.W. - owed that Bank £600 unsecured. Given two weeks to clear debt. Reason - owing to projected legislation it was necessary to drastically reduce credit to find sufficient funds to lodge with Commonwealth Bank. Was informed that Bank of N.S.W. was taking similar action with numerous other advances.

> Customer of National Bank - was told must not draw further cheques and bank looked for reduction in overdraft. Reason - necessity to lodge large deposits with Commonwealth Bank.(53)

Similar reports arose concerning branches of the Commercial Bank of Australia at Hurstville, the Commercial Banking Company of Sydney at Lane Cove, and the Union Bank at Randwick.

The memorandum noted that the possibility of a reduction in advances was causing widespread concern, especially in country districts. The Federal Convention of Australian Graziers, for example, had carried a resolution opposing the introduction of minimum deposits on the grounds that it would affect the banks' ability to assist the financing of industry in general, and the grazing industry in particular. The *Country Life* newspaper, the organ of the Graziers Association of New South Wales, included an article which opposed the introduction of minimum deposits on the basis of arguments similar to those which had been advanced by Davidson.(54) The article also expressed the fear that such action would prevent the financing of re-stocking of stations which had been rendered necessary by the recent drought. And country newspapers in general revealed the extent of concern in country districts, which appeared to be widespread.

The second problem - the effect on the stock exchange - revolved around the opinion, which had been expressed for some months, that banking legislation might cause a decline in the attractiveness of bank shares; prices of such shares had, in fact, already been moving downwards. This, the memorandum explained, however, was partly due to factors causing a general fall in security prices. But a statement that the weakness in bank shares might cause other share prices to decline was made in an article in *Smith's Weekly* which referred specifically to a statement made by Davidson in which he opposed banking legislation. The article repeated the argument that the ten per cent minimum deposit had to be regarded as a frozen asset and could be provided only from advances.(55)

The third form of propaganda - the effect on branches and staff - was based on the belief that the proposed banking legislation would cause banks to reduce the number of branches and employees. Concern was especially evident among bank officers. This was expressed in the 2 June 1938 issue of the *Australian Banker*, the organ of the United Bank Officers Association, in an article entitled "New Menace to Bank Officers".(56) According to the article, statutory minimum deposits could be met only from advances; the consequent loss of revenue by banks would involve a curtailment of expenditure on salaries, bonuses, promotions, and other benefits received by bank officers. In addition, many country newspapers were reporting meetings of bank officers in important country towns throughout New South Wales which had been called to discuss the proposed legislation; it was pointed out, for example, that:

> These meetings are being addressed by the President of the United Bank Officers Association who has repeated the arguments that a reduction of advances by about £45 million is likely and that this would precipitate a decline in business activity. The meetings have resulted in the organisation of opposition to the proposed legislation which has taken the form of statements to the press and of letters to Federal Members, a copy of one of which has been received by the Commonwealth Bank from the Hon.V.C. Thompson.(57)

Widespread fear that the proposed legislation might lead to a general depression was the fourth mode of propaganda. This concern was reflected in discussion in many business organizations. For example, the journal of the Sydney Chamber of Commerce had for several months included the question of banking legislation among the list of matters discussed by the Council of the Chamber.(58) In addition, a statement warning that business might be adversely affected was issued by the Melbourne Chamber of Commerce.(59) And a committee of the Sydney Junior Chamber of Commerce was preparing a report on the Royal Commission.(60) Moreover, the Institute of Chartered Accountants was addressed by Davidson on the likely effects of the proposed legislation; he stated that a decline in business activity, incomes, and employment would inevitably result.(61) Also, the Queensland Taxpayers Association recorded opposition to the proposed legislation, on the grounds that it might involve an increase in unemployment.(62) On the other hand, certain Labor Party newspapers observed the opposition by the Bank of New South Wales to the Commonwealth Bank, and declared that Australia had been brought close to a financial crisis as a result of an "internicine conflict between the Commonwealth Bank and the Bank of New South Wales."(63)

Finally, the Sound Finance League conducted a strong campaign in opposition to the legislation. In circulars issued by this organization, the legislation was portrayed as an attempt to increase central bank powers in order to impose a policy of credit contraction upon Australia, and to place the central bank - and through it, the financial system as a whole - under political control. The contents of these circulars were brought together in a pamphlet, copies of which were said to be available at the counter of branches of the National Bank.(64) Indeed, the League was reportedly supported in New South Wales entirely by the Bank of New South Wales, and in Victoria substantially by the National Bank.

One final and important point deserves attention. Much of the publicity about the nature of the banking proposals was embarrassing to a government which was not politically hostile to the private banks. Lyons apparently drew Davidson's attention to the dangers of the campaign which the latter was waging. The policy of credit contraction occurring within the private banking system was damaging to the government's prestige, and Lyons warned Davidson that if the campaign proceeded much further, the government could be forced to introduce a banking bill in order to demonstrate to the public that the government was not, in fact, run by the banks. In response, Davidson dismissed the notion of deliberate attempts to contract credit, pointing out that credit had become tighter due to decreasing export prices. But by emphasizing the danger of a crisis if minimum deposits were demanded at a time when credit was already tight, Davidson stuck by his principles and indicated, in no uncertain terms, that he would oppose banking legislation to the end.(65) And it would appear from the government's procrastination that Davidson was able to have his way.

CHAPTER SEVEN

ATTEMPTS TO DRAFT LEGISLATION

It is commonly implied that no serious attempt was made by the Lyons Government to implement the recommendations of the Royal Commission; nothing, however, could be further from the truth.[1] For the government - in particular R.G. Casey, the Federal Treasurer - and its advisers spent many trying months throughout late 1937 and during 1938 attempting to translate the Commission's recommendations into legislation. The government's task was rendered especially difficult by the fact that it soon became the target of opposing forces; while some encouraged it to proceed with the drafting of legislation, others were strongly against it. The final result - inertia - was due to the interaction of these conflicting pressures which were brought to bear upon the government.

At the outset, it did appear that the forces working for change would prove stronger than those making for inaction. That the government, ultimately, was unable to succeed reflects the magnitude of the manifold influences exerted upon it to shelve proposals to regulate the private banking sector. Certainly, its intentions were impeded by the economic and political exigencies of the late 1930s; but, more importantly, it was forced in the event to succumb to vested interests - namely, the private banks -

and to the will of the banks' friends in Cabinet, led principally by R.G. Menzies. In this respect, therefore, Lyons' death in April 1939, and his subsequent replacement by Menzies, was of critical importance. Thus, the government failed to incorporate the principal recommendations into law until the advent of Curtin's Labor Government to office late in 1941 when it was achieved through the National Security Regulations; the Mortgage Bank Department of the Commonwealth Bank was created in 1943; but of supreme importance was Labor's introduction in 1945 of permanent legislation embodying most of the Royal Commission's recommendations.

Early Attempts at Drafting

The evidence suggests that once it had received the Commission's recommendations for banking reform, the Lyons Government felt itself obliged to act upon them; consequently, Casey began to work towards this end soon after the Commission submitted its Report.(2) It was his intention to introduce simultaneously two banking bills. The process of drafting the first bill - the Commonwealth Bank Bill, which was primarily concerned with the establishment of the Bank's Mortgage Bank Department - was begun almost immediately and continued until the bill was introduced to the House of Representatives in November 1938.(3) The second, and decidedly more contentious bill - known as the Trading Banks Bill - contained proposals for minimum deposits and the new Mobilization Agreement. Although Casey was himself particularly anxious to have the second bill introduced - he was quite enthusiastic about

the minimum deposits requirement - it is clear that the forces seeking to obstruct its introduction were insurmountable; however, this is not to say that the prospects for legislation were always impossible. The origins of this bill date back to 20 August 1937 when Casey submitted a memorandum to Cabinet in which he asserted that the government would have to take action along the general lines of the Commission's recommendations if the Bank was to be vested with effective instruments of credit control. While he agreed with the Commission that minimum deposits were necessary, he went somewhat beyond its proposals on the matter by stating that any legislation which was brought down should specify a certain percentage of trading bank liabilities that must be maintained on deposit with the central bank. He may not have been entirely certain that he had chosen the appropriate figure but, in the event, he suggested that the private banks should be required, at the discretion of the Bank:

> to maintain with the Commonwealth Bank, up to a maximum of, say, 7 per cent, of their deposits...[Also,] there should be a reserve power, to be exercised by the...Bank, with the approval of [the] Treasurer, to oblige the Trading Banks to maintain a percentage of deposits with the...Bank over and above 7 per cent and up to a given percentage should the London funds of the...Bank fall below a given amount. (4)

Casey's approval was also expressed for an extension of the Mobilization Agreement, more or less along the lines set out by the Royal Commission.

By September 1937, the government was still undecided on the issue of minimum deposits, despite Lyons' rather vague election promise that central bank control of the private banks would be strengthened if the recommendations of the Commission were enacted.(5) Since the central banking issues contained in the Trading Banks Bill are of more importance than the matters involved in the Commonwealth Bank Bill, this chapter addresses itself in the main to the former bill. A Cabinet document reveals that the government wished to increase the powers of the Bank without impinging greatly upon the activities of the private banks; this explains why government officials and Ministers - Casey in particular - took considerable time in their examination of the proposal for minimum deposits, and its implications, before it was brought to Cabinet for a decision.(6)

In September 1937, the Treasurer approached the Bank Board in an attempt to clarify his views and to establish some consensus on the details of a minimum deposits provision and a fresh Exchange Mobilization Agreement.(7) The appointment of Harry Sheehan, Secretary to the Treasury and a member of the Bank Board between 1932 to 1938 - and who was himself inclined to support greater central bank control - to the position of Governor of the Commonwealth Bank in February 1938 facilitated close liaison between the Treasury and the Bank. Even before Sheehan's transfer to the Bank, however, the Board - and Professor Giblin in particular - was generally favourable towards banking legislation. It agreed with Casey that the Commission's recommendations could not be adopted unless several alterations were made.

To begin with, it strongly believed that, in conjunction with an effective Mobilization Agreement - by which the Bank would gain access to the surplus London funds of the trading banks - the Bank should also have the right to require every trading bank to keep with it a percentage of its liabilities to Australian depositors; that the percentage should be variable at the Board's discretion up to a maximum of ten per cent; but that the percentage should not be variable as between banks. If a new exchange arrangement could not be obtained, the Board was convinced that the maximum percentage should be much higher than ten per cent.(8)

Meanwhile, the Labor Party was bringing pressure to bear upon the government to legislate. In reply to the Governor-General's Speech delivered early in December 1937, Curtin criticized the government's failure to implement the Commission's main recommendations. Lyons retorted, however, that new banking proposals by the government would be forthcoming in due course.(9) In fact, by 15 December 1937, it seems that Cabinet had directed Casey to draft and re-submit his banking proposals to Cabinet.(10) While it is unclear whether his recommendations concerned both minimum deposits and London funds, an anonymous newspaper article, dated 23 January 1938, hinted that the two issues would be carefully discussed, both by Cabinet and Parliament. Furthermore, it announced that legislation designed to strengthen the Bank as a central bank would be introduced at some future date, though the preparation of banking legislation was likely to be a very slow process, for two reasons: First, the services of several Ministers were required for missions overseas; and secondly, the drafting process itself was a complicated and time-consuming task.(11)

The Draftsmen

Of the several forces which favoured the introduction of banking legislation, clearly the Commission's Report and its recommendations were of utmost importance; moreover, the significance of Casey's efforts and the influence exerted by the Labor Party, and the Bank Board - though not very strong - must also be acknowledged. But the efforts of the government's advisers themselves cannot be over-emphasized and, in this regard, the role played by Commonwealth Bank and Treasury officials, together with W.T. Harris - the Commission's secretary - were most notable.

It is evident that the Bank's economists, namely, L.G. Melville and H.C. Coombs - who shared a desire for more effective central bank controls - greatly assisted Casey in the drafting of legislation. Melville, in particular, asserted that the Bank should obtain an extension of the existing Mobilization Agreement and "the power to impose minimum deposits up to 7½ per cent of the liabilities of the trading banks to the public in Australia and up to 10 per cent with the consent of the Treasurer." In addition, between late February and early March 1938, Melville sought to expose the weaknesses of the private banks' criticisms of these two proposals and, apparently, many of his arguments were adopted by Casey. For a start, he demonstrated that, on four counts, the banks' objections to the proposed Mobilization Agreement

were ill-founded. First, the banks had emphasized the fact that two Commissioners, namely, Mills and Abbott, had dissented from the majority recommendation that a new London funds arrangement should be established. Melville, however, explained that Mills and Abbott did in fact favour greater central bank access to London funds. But the banks, by taking the Commissioners' dissent out of context, had misinterpreted the Commissioners' position to suit their own ends. Second, the banks had advocated a free exchange market and hence, he argued, they contradicted their claim that the Bank should regulate the exchange rate as an instrument of credit control. Third, while the banks argued that an appropriate central bank policy would enable the Commonwealth Bank to obtain an adequate supply of foreign exchange, Melville replied that the Bank lacked the means to ensure the volume of London funds it required. Fourth, the banks' assertion that the Commonwealth Bank's external assets were increasing was not substantiated by the relevant figures.(13) On the other hand, Melville advanced five counter-arguments to the banks' criticisms of the recommendation for minimum deposits. In reply to the banks' argument that they already maintained substantial deposits with the Bank, he claimed that not all the private banks kept a significant level of deposits with the Bank at all times. Secondly, he undermined the banks' warning that advances would have to be restricted if minimum deposits were imposed, by stating that such action would be unnecessary in view of the fact that the banks could borrow from the central bank. Third, while the

Melville's Heritage

banks contended that the Commonwealth Bank had sufficient existing powers to control the volume of credit, Melville did not hesitate to point out the inadequacies of the Bank's current instruments of credit control. Fourth, the banks feared that a minimum deposits provision might be used for political purposes to destroy them; however, Melville was convinced that the minimum deposits scheme which was sought by the Bank could not be employed for that purpose. Finally, the banks had asserted that central bank aims could best be achieved if the Bank endeavoured to secure their cooperation, but Melville knew - as did others - that cooperation had not always been readily forthcoming in the past, and there was nothing to suggest that it would in the future.(14)

Melville later informed the author that while he and the Bank Board in general both favoured and encouraged the drafting of legislation which would incorporate the Commission's principal recommendations, there were some Bank officials who opposed the recommendations and the government's moves to draft legislation. The balance tended to lean towards government action, but, overall, it seems that the Bank Board did not exert very powerful pressures either for, or against legislation. Melville recalls that there was quite a degree of vacillation among the Commonwealth bankers. On some occasions, banking legislation was considered necessary as a political expedient, yet at other times, the Board believed it would be unwise and dangerous to continue with the drafting procedure.(15) In fact, such hesitancy was characteristic of one Board member in particular - namely, Reading, the Board's

Chairman - who played a rather peculiar part in the negotiations between the Treasury and the Commonwealth Bank. On the one hand, he was closely associated with the Treasury and the government and, for the most part, he cooperated with them; but on the other hand, he was not keen for action. And, apparently, he helped to delay the introduction of legislation, for he and Casey often found themselves at loggerheads with one another. Reading - and the Board as a whole for that matter - was not satisfied with the Commission's recommendation for *variable* minimum deposits, and he did not want the minimum deposit requirements to be set excessively high; he was, however, in full agreement with the Board that the trading banks ought to be required to keep deposits with the Bank, but only up to 7½ per cent of their liabilities to the public.(16) In any event, and despite Reading's procrastination, Phillips and Murdoch - two Commonwealth Bank officials - moved to Canberra in 1938 on behalf of the Bank to join the government in directing the draftsmen; Phillips informed the author that he was generally satisfied with the Commission's recommendations, and that both men pushed for banking legislation.(17)

Above all, Roland Wilson, Commonwealth Statistician and Economic Adviser to the Treasury, like Melville, seems to have been invaluable to Casey in the initial stages of drafting the legislation for minimum deposits and exchange mobilization. He had been deeply involved in advising the Treasury since February 1935, and he became the technical expert on the banking legislation. Indeed, his views became those of "the Treasury" which had, for some time, apart from the clerks, consisted essentially of Sheehan and Wilson himself. On 12 May 1980, he said he could not recall whether he was happy with the Commission's recommendations in their entirety, and he had been only mildly in favour of the Commission's establishment. Soon after the recommendations had been published, however, he was given the task of drafting legislation based on the Commission's Report; in fact, it seems that he devoted a great deal of time and effort to the drafting of both bills, which he personally hoped would be introduced. In addition, he mentioned that J.Q. Ewens, a parliamentary draftsman, similarly played an important part in the drafting process, though in a legal, rather than in an economic and financial sense.(18)

Similarly, Harris assisted Casey in the preparation of draft legislation and in the provision of counter-arguments to meet the private banks' criticisms. In reply to the Associated Banks' objection to compulsory minimum deposits, Harris informed Casey that their arguments lacked the strength of conviction. He cited an admission by the Midland Bank of Britain in 1932 that monetary management was necessary; he stated also that the banks had failed to act in concert to restrain the development of booms and, thus, a strong central bank was imperative. The private banks, he added, had misunderstood the Commission's intentions regarding minimum deposits, for the Commission did not favour the imposition of a permanent obligation to keep fixed deposits with the central bank; rather, minimum deposits were to be imposed only in cases of emergency to ensure that the trading banks would

adhere to central bank policy. While the Associated Banks had argued that the private banks would cooperate with the Commonwealth Bank in the absence of minimum deposits, Harris contended that if that were the case, then the banks would have nothing to fear from the minimum deposit provision.(19) Harris also assisted Casey in the preparation of submissions to Cabinet; in fact, on 25 March 1938, he told Casey that the case for minimum deposits might be strengthened if reference were made to a statement of the Macmillan Committee to the effect that central banks should have the power to impose minimum deposits upon the banking system; he also encouraged Casey to proceed with the legislation by sending him a collection of excerpts from the banks' evidence, in which the bankers appeared to concede the inadequacy of the Bank's existing powers in practice.(20)

Renewed Attempts to Draft Legislation

While the efforts of the government's advisers contributed significantly towards the drafting of the Trading Banks Bill, it is clear that much of the credit belongs to Casey, who, together with Wilson, spent long hours in informal and official consultation with his advisers - and with Melville and Reading in particular - in order to prepare the draft clauses for submission to Cabinet on 3 March 1938. At that Cabinet meeting, Casey stressed the importance of introducing legislation which incorporated the Commission's most important recommendations, namely, the provision of a new Mobilization Agreement and a system of minimum deposits.(21) He explained that if the government accepted the Commission's fundamental proposition that the central bank should be responsible for credit policy, then it would have to face the necessity of giving the Commonwealth Bank power to impose minimum deposits to enable it to fulfil its responsibilities. He maintained, further, that if the strength of central banking was dependent mainly on compelling trading banks to lodge deposits with the Bank, the deposits should represent a high percentage of the public's deposits with the banks. This percentage, however, could be greatly reduced if the trading banks were simultaneously required to provide the Bank with the London funds it needed both to meet current government payments and to accumulate suitable reserves of London funds. But he now rejected the Commission's recommendation for variable deposits, on the grounds that the private banks were to make exceedingly large deposits of cash with the Bank; in fact, he suggested that Cabinet should permit the Bank to requisition ten per cent of the banks' deposits with the Treasurer's consent. Furthermore, he recommended that the draft schedule - the so-called "Undertaking" - should be approved. The banks, he said, would not voluntarily sign a binding exchange arrangement. Thus the Undertaking represented the minimum provisions which the Bank considered essential for an effective Mobilization Agreement. In fact, the Undertaking - which stimulated much controversy - was accompanied by a legal arrangement which ensured that the Mobilization Agreement was made binding, and that the Bank would be able to maintain an adequate supply of London funds in order to control the exchange rate. Casey also advised Cabinet to approve clauses which would require the banks to possess a licence before they could conduct banking business; the granting of

such a licence was to be made conditional upon a bank's compliance with the terms of the Undertaking.

The progression of events following the submission of Casey's memorandum to Cabinet is somewhat obscure as there are gaps in the State papers. Cabinet minutes of the meetings held on 3 March - when the submission was made - and again on 4 March 1938, merely state that banking legislation was discussed; further details are lacking.[22] However, since discussions of banking legislation continued periodically up to the end of May 1938, Cabinet must have pondered at length the Commission's most controversial recommendations. It is clear that Casey and Wilson continued to work very hard on the preparation of banking legislation; close contact was also maintained between the Treasury and the Bank; Casey and Wilson consulted with the private banks; and Casey sought the views of overseas authorities, such as Montagu Norman - Governor of the Bank of England - on the subjects of minimum deposits and London funds on several occasions. Indeed, on 7 March 1938, Casey seemed optimistic that the banking legislation would be introduced when he informed Norman of his belief that he had "now broken the back of...[the banking legislation,] although there is a great deal of bread and butter work still to be done. The Parliament is in recess until 27 April, by which time I hope to have... [the banking] measures ready to present to the public gaze."[23] Yet the situation was not as certain as Casey would have liked; indeed, on 11 March, he informed S.M. Bruce in London that he was "now fairly in the midst of the battle about the framing of this Banking legislation."[24]

Casey's main dilemma was how to fashion a compromise in the form of legislation which, while strengthening the central bank would steer between Labor's demands for bank nationalization and the obscurantist, hands-off attitude of the Bank of New South Wales. Meanwhile, Cabinet continued to concern itself with Casey's memorandum on draft banking legislation. In fact, on 19 March 1938, it seems that after Casey once again proposed that the draft clauses of the banking legislation should be approved, Cabinet discussed and agreed, in principle, to the general thrust of the draft Trading Banks Bill - though the exact wording was probably not decided upon at this meeting; an extract from the Cabinet minute simply declared that the "proposal submitted by [the] Treasurer was agreed to."(25) On 21 March, two days after the Cabinet met, Casey mentioned in correspondence with G.S. Knowles of the Attorney-General's Department that the legislation would be submitted to the House of Representatives in due course.(26)

Pressures to Postpone the Legislation

Despite Casey's optimism, banking legislation designed to strengthen the central bank was not introduced into Parliament. The reasons for this are extremely diverse - for example, the drafting process itself was very time-consuming. But, more importantly, several factors served to undermine government confidence and hence impeded firm decision-making and legislative action. Hesitancy on the part of the government and the Treasury may have been due in part - as Phillips has suggested - to the fact

that central banking was still a new and relatively underdeveloped subject in Australia.(27) Yet one must dig much deeper to locate the major sources of government inertia. The government's resolve to take action was gradually weakened in the face of disagreement among the leading personalities involved; in particular, Reading did not desire reform to the same extent as Casey; and there was doubt and uncertainty within the Cabinet itself.

Moreover, the significance of various economic events - namely, drought and an important conversion loan - together with the preparation for, and then the outbreak of war, meant that banking legislation became increasingly an issue of secondary concern. And, naturally, the impact of economic recovery from the Depression damped down calls for banking reform and, hence, reduced the pressure upon the government to legislate. Above all, the vigorous public and private campaigns of opposition waged by the private trading banks - which received the support of other sections of the business community - were largely responsible for the failure to introduce banking legislation. The banks were able directly to retard the possibility of banking legislation by gaining the support of many members of the governing parties, both inside and outside Cabinet, including eventually Casey himself. And the conservative attitude of the Treasury - especially after the replacement of Sheehan by McFarlane - did not lend support to Casey when his legislative zeal began to wear thin. Self-preservation was almost certainly the government's main motive, since the prospect of legislation threatened the appearance of government unity as well as the substantial financial and political support provided by the banks. Thus, the process of legislation was stifled by the lack of motivation from within the Treasury, the government, and Cabinet. But as Wilson, Coombs, Melville, and Phillips have all acknowledged, it was finally the private trading banks that held the strongest hand; a 1947 Treasury working paper entitled "Notes for Banking Bill Debate" similarly suggests the weight of pressures brought to bear upon the government by the banks:

> The Banks opposed [the] recommendations of the [Royal] Commission for strengthening Central Bank control. The Government of the day was influenced by the representations of the Banks and failed to bring down measures to give effect to any of the recommendations of the Banking Commission. (28)

The *Coup de Grâs* Delivered by the Banks

By 7 March 1938, Casey believed that he had worked out a "fair" solution to what was required in the way of banking legislation, and he was quite optimistic that legislation would be introduced.[29] However, there was much uncertainty within Cabinet regarding the details of the proposals - which were drawing loud protests from the banks - and Casey himself expected a prolonged and turbulent campaign of opposition by the banks. Thus, at the end of March 1938, he arranged a conference between the Treasurer, the Commonwealth Bank, and the private banks in an effort to

bring the private bankers onside with regard to the proposed legislation. At the outset of the conference, Casey announced that, while the government did not favour all the Commission's recommendations, it had approved in principle the proposals regarding London funds and minimum deposits, though it disagreed with some of the methods suggested by the Commission for implementing them.[30] He added that the government sought to "thrash out" the details of the issues with the private banks in order to obtain the greatest possible degree of harmony between the banks and the Commonwealth Bank. The government felt that minimum deposits were needed, as the Bank's existing powers were not strong enough to induce the private banks to conform with central bank policy. While acknowledging the banks' objections to minimum deposits, he told them that their criticisms were unsubstantiated; for many countries had already seen fit to introduce this particular instrument of control; the Bank's power to impose minimum deposits was to be exercised only in an emergency; and the banks had exaggerated the consequences of imposing such deposits. He added that a binding Mobilization Agreement was imperative in order to ensure that the Bank gained effective control over London funds and, ultimately, over the exchange rate. In a rather desperate attempt to bring the bankers around to his point of view, Casey warned that if the banks continued to resist the government's proposals and actually thwarted its good intentions, the assumption of a Labor government to office in the future might lead to the implementation of decidedly more drastic banking legislation. He believed himself that his proposals had been formulated with the real interests of the banks in mind, and he was optimistic that a large measure of agreement could be reached through the cooperation of all parties concerned. The banks, on the other hand, not only refused to make any compromises with the government and the Commonwealth Bank, but they now became even more obstinate and hostile to the proposed legislation. In fact, it is fair to say that this conference was a disaster from the government's point of view, so much so that it marked the turning point in the government's attempts to translate the Commission's chief recommendations into law; henceforth, Casey had virtually no chance of introducing a Trading Banks Bill into Parliament, for the banks stepped up their representations and complaints to their friends in Cabinet.

Anti-Legislation Forces Reveal Their Strength

Despite the fact that the odds became increasingly stacked against him - amply demonstrated by the fact that he was unable to call the tune during a series of follow-up meetings in April with the Bankers' Sub-Committee - Casey continued his attempts to make some headway with the banking proposals. On 19 April 1938, a draft bill which included minimum deposits and exchange mobilization was printed for the first time, but there is no evidence that Cabinet approved the specific details of it. The bill spelled out an Undertaking and a minimum deposits scheme, by which the Bank was to be given the power to require all the banks to deposit the same percentage - ten per cent - of their liabilities with it; if a bank failed to maintain the required deposits at the Commonwealth Bank, it was to become subject to a

penalty equivalent to six per cent per annum of the deficiency, for each week the failure to comply continued.(31)

The proposed banking measures began to worry Casey, however, and he sought the opinions of Professor T.H. Gregory - of the London School of Economics - and Sir Otto Niemeyer - of the Bank of England - in order to gain some re-assurance. Although their replies were not received until after the draft bill had been printed, both Gregory and Niemeyer supported Casey, especially on the issue of minimum deposits.(32) Justifiably encouraged by this favourable response, Casey told Bruce on 3 May 1938 that his anxiety over banking legislation would soon be remedied, and that he was making progress towards a final decision on each of the two most contentious issues - the "only two problems worth bothering about in the Banking Business".(33) However, he revealed that he expected much opposition from the private banks:

> I've sweated blood to try to evolve provisions that'll do most good and least harm - and to that end I have had multitudinous conferences with the Commonwealth Bank and the trading banks - individually and collectively....Whatever I come to will be greeted with shrill cries of alarm and despondency from the so-called Trading Banks. They really are a most unintelligent crowd. (34)

Casey 1938
comment

But by this stage, there was not even the remotest possibility that Casey's hopes of introducing the printed bill would be fulfilled; and there are no documents to suggest that any later agreement was reached, or that further action was taken by the government. Moreover, there is nothing to suggest that the printed bill was ever submitted to, or discussed by Cabinet; nor is there any evidence to indicate that Cabinet made any new decisions one way or the other on the matter at this time.

In short, pressures for delay won the day and it is to these numerous and varied forces that attention will now turn. Political pressures in Parliament, within the governing parties - especially in the UAP - and in Cabinet, contributed in some measure to indecision and inertia. As early as 17 November 1937, Casey informed Bruce that he expected the government might face some opposition to banking legislation in Parliament, especially in the Senate.(35) By 7 March 1938, he had become increasingly more aware of the unfavourable reception which the Trading Banks Bill would receive at the hands of many government Members of Parliament. As he explained to Norman, "there will be (from two entirely different points of view) high jinks in Parliament over its passage."(36) There were, in fact, elements within all three of the major political parties which opposed minimum deposits, and many staunch supporters of the UAP and the Queensland Country Party, in particular, had somewhat mixed feelings regarding the proposed legislation. Uncertainty within the government was demonstrated further when it refused to allocate time in Parliament for a discussion of the Commission's Report, despite the fact that permission to discuss its recommendations had been granted in October 1938.(37) Above all, Cabinet did not share Casey's enthusiasm for establishing control over the monetary system, and as the bankers' campaign intensified, Cabinet responded by

solidifying its opposition. It failed to agree upon the extent to which monetary control should be handed to the central bank, and the extent to which the Treasurer should be allowed to exercise ultimate authority. There was, moreover, disagreement - both within Cabinet and between the government and the Commonwealth Bank - as to the exact form and nature of the new Mobilization Agreement and the specific percentage of trading bank liabilities to be kept on deposit with the central bank. It had been quite difficult to discover a way to make the Mobilization Agreement effective, and doubt was still harboured concerning the link between compliance with the Undertaking and the granting of licences to carry on banking business.(38) Melville, Wilson, and Coombs all subscribe to the view that, apart from Casey - who himself began to lose enthusiasm - no one in Cabinet pushed hard for banking reform. According to Coombs, "the government went cakey" in response to private bank opposition, and Wilson agrees that the government simply wanted to get the Commission's Report and recommendations "off its back."(39) Although he was not a politician, Harry Sheehan, Governor of the Commonwealth Bank, had an intriguing understanding of the workings of politics and government; in this capacity, he was able to advise Casey in a manner which Melville was unable to do. On 18 May 1938, he highlighted the doubts surrounding banking legislation which were shared by Members of Parliament - especially UAP representatives - and the Cabinet - Menzies in particular - when he wrote the following:

> Apart from the position in the House, there is a good ground for keeping back the Trading Banks Bill. Mr. Casey will be pretty lonely in the Party on this Bill and will have a much better chance of securing satisfactory legislation if he waits until he has Mr. Menzies' support in Cabinet and in the Party Room. (40)

In fact, not only did Menzies oppose the Commission's Report, but, according to Coombs, Melville, and Wilson, he was not well-disposed towards banking legislation in general.[41] *The Sydney Morning Herald* lent further support to the view that Casey alone bore the burden of introducing legislation when it stated in a recent article that "Casey faced a largely indifferent Government. He never succeeded in enlisting the real interest or any more than the token support of the Prime Minister or his Cabinet colleagues." [42] Lyons, moreover tended to be a compromiser who lacked strong positive views on the banking issue. Yet it was just this sort of lack of consensus within the government which enabled critics, such as the private bankers, to play government members against one another with the result that nothing constructive was accomplished. Indeed, Lyons himself had close ties with the banks, stating as he did that he would stand behind the private banks so far as minimum deposits were concerned and that the government was opposed to political control of banking. On 23 July 1938, he announced that there was no immediate prospect of change as the Ministry was still undecided on several aspects of banking legislation. Again, as late as 9 August 1938, he repeated his earlier announcement that no decision on banking issues had yet been made and pledged his

In the final analysis

government's support for the banks.[43] In these statements, the Prime Minister signalled to the private banks that they had nothing to fear, for banking legislation concerning greater central banking powers would be sufficiently moderate to be acceptable to them.

Just as the government became inert on the banking issue, so it seems that the Treasury lacked any strong conviction for the introduction of banking legislation. Melville explained that while the Treasury - which was a traditionally conservative department - recognized the political necessity for banking reform in order to quell widespread criticism of the banking system, it was not convinced that such change would be economically and financially expedient. Treasury officials certainly cooperated with Casey, but they did not go as far as to push actively for change.[44] Casey himself acknowledged that there was a shortage of strong officials of senior rank in the Treasury: On 17 December 1937, he informed Bruce that there would be problems in locating a suitable successor for Sheehan, the former Secretary to the Treasury; in fact, Sheehan's departure from the Treasury indirectly contributed to the postponement of legislation, since his successor - S.G. McFarlane - was hardly a reformer.[45]

Nor was that all, for Casey and Wilson also began to entertain doubts about the desirability of the banking measures. Wilson, for example, has remarked that, while the draft bill was the best that he and Casey could arrange with the private banks and "all sides concerned", he was still not completely satisfied with the draft, as some parts were not quite right. He added, moreover, that the process of drafting, negotiating, and redrafting the bill was very time-consuming and that was partly responsible for the delay.[46] But more relevant to an explanation of why the proposals were shelved was the fact that Wilson, and even Casey himself, were not totally convinced of the effectiveness of minimum deposits as an instrument of credit control. Perhaps Wilson preferred more drastic controls. Indeed, he explained to C. Baillieu - a prominent member of the Bankers' Sub-Committee:

> that except to afford the Commonwealth Bank a special weapon for use in the establishment and operation of an open market for Treasury Bills, compulsory Deposits, with the maximum proposed of 7½ to 10 per cent, would be of little use as an instrument of credit control.(47)

Casey judge revealed agn.

Casey, however, continued to seek the opinions of bankers, Commonwealth Bank officials, and overseas experts. Wilson aptly described him as being more of an efficient engineer than a politician; he was a man who was often influenced by the people to whom he had last spoken, and was a person who sought all the objections to his proposals; the upshot of these traits was his eventual sympathy with the bankers, who frequently had the last say.[48] Thus, it seems that he decided it might not be advisable to require the banks to maintain seven and a half, or even ten percent, of their liabilities on deposit with the Bank, expecially in view of the prevailing economic situation in Australia. On 13 April 1938, he admitted to Reading that he was:

Banks con 306

> rather anxious about the Minimum Deposits proposal in its present form - especially with a drought on and the big Conversion in prospect [about which more will be said later]... [the banks, he said,are] foolish enough to go like a bull at a gate in relation to it [minimum deposits] - and lay the blame for the consequences on us. It doesn't need a great deal to start a definite set-back in Australia under the set of conditions that exist in Australia and in the world outside - and *I do not want any action of mine to precipitate it.* (49)

But there were other reasons why Casey was hesitant to push through his draft bill. It will be recalled that while the Bank Board generally favoured the recommendations of the Commission and banking legislation, since it desired stronger central banking powers, it did not exert strong pressure during - and it did not play a very significant part in - the drafting process. In May 1938, Casey accused the Bank of being too lethargic towards change, although Sheehan commented to Wilson that the accusation was "scarcely justified in view of the generally honest efforts we have made...it might be remembered that we are all out to help as far as we can." (50) Indeed, Sheehan often spoke to Casey on various banking issues and the former generally acted upon the government's instructions. Coombs has informed the author that there was a considerable interchange of views between the Treasury and the Commonwealth Bank at this time. Giblin, for example, favoured the imposition of variable minimum deposits, but because of his position on the Board, he could only voice his support in a confidential memorandum.[51]

BN

Yet Melville, according to Wilson, was "scone hot" on the issue of legislation, as was E.B. Richardson, Secretary to the Commonwealth Bank.[52] Coombs, too, accepted what Casey was trying to accomplish - though he admitted that the Commission's recommendations, while they were "sensible", did not go as far as he would have liked.[53] However, while it is quite apparent that the Bank was not a main force for delay, it is true that, though some Board members desired change, others did not. Thus Casey was especially annoyed that he could not come to any firm agreement with the Bank Board one way or another as to the details of his legislative proposals. More importantly, he, along with other members of government, began to lose faith in the capacity of Reading - whose knowledge of central banking was somewhat inadequate - to use greater powers and administer the central banking system in a wise manner; Casey, moreover, may have agreed with other government officials that the Board was unable to look beyond the present, and that the Chairman's advisers were perhaps too theoretical at times. It seems that, although Reading was initially in favour of banking legislation - as shown by his advice to Casey on 14 April 1938 to "dig your toes in" - his commitment waned, and he became increasingly obstructive as time passed; he began to display some sympathy towards various opponents of compulsion; and relations between himself and Casey deteriorated to some degree as they failed to agree on banking issues.[54] Further evidence that Reading was not a fully-fledged reformer is amply demonstrated by the fact that he fought furiously against Chifley's banking measures in the early 1940s.

Casey's Time Expires

In the final analysis, of all the forces making for delay, it was Casey who failed to take a firm stand and to finalize the issues at stake before practical difficulties and the rise of more important problems overwhelmed the possibility of banking legislation. By mid-1938, he was swamped with pressing commitments. Even by the Easter break of 1938, National Insurance legislation had become of greatest concern to him, and this issue kept him fully occupied until June. Then he became involved in the preparation of the Budget, which was not completed until sometime in October. Above all, however, a defence scare in mid-1938 prompted Casey to devote increasing attention to war preparations.[55] Indeed, Casey's abiding interest in defence and international affairs was responsible to a significant degree for the postponement of banking legislation, which rapidly became of secondary consideration to him. According to Wilson, the Trading Banks Bill, which was "going to do all sorts of good things slipped away, having become less urgent, and so was pushed further and further down the agenda."[56]

Early in May 1938, Casey decided to delay the legislation concerning the private banks and resolved instead to proceed with the Commonwealth Bank Bill; however, difficulties concerning the parliamentary timetable prevented its introduction until November.[57] Before taking a brief look at the fate of the Commonwealth Bank Bill - which included the establishment of mortgage bank facilities - it is of interest to note that Wilson made several further attempts to clear up the details of the provisions for exchange mobilization and minimum deposits with the Bank. Unfortunately, it seems that neither party was keenly supportive and, in consequence, nothing was settled. In fact, on 18 May 1938, Sheehan admitted to Wilson that he did not think the new Mobilization Agreement was practical, although he made it clear that the Bank would be receptive to further negotiations.(58) However, before any additional talks could be arranged, and just when Casey was freed from his Budget responsibilities, an important and difficult loan conversion of £67 million required attention; consequently, the Trading Banks Bill was put off until the following year. Although Casey began to worry about this loan as early as April 1938, it was not actually open to subscription until the period 9 November to 19 December 1938. The fact remains, however, that its success was imperative, and the government - and Casey in particular - hesitated to introduce the controversial Banks Bill for fear of destroying confidence among investors, both locally and overseas. As Casey explained to Cabinet, "it seems very unwise to bring such legislation before the House during the time when the big Conversion Loan is being dealt with. The volume of other business to be got through during this session is also very considerable." (59) In addition, Coombs suggested to the author that there may have been taking place a change in public opinion: The measure of economic recovery achieved meant that fewer people were advocating change, and this relieved some of the pressure on the government to act. (60) In any event, by November 1938, the government

had still not made up its mind on the minimum deposits issue.

On the other hand, while the fate of the Commonwealth Bank Bill was more successful so far as Casey was concerned - on 15 September 1938 it was approved by Cabinet, after amendment, and was submitted to Parliament in November - it, too, met considerable resistance; indeed, it did not proceed past the second reading in the House of Representatives on 6 December, and it was not debated in Parliament again. Before the bill was submitted to Parliament, Cabinet and elements within both the Country Party and the UAP had not settled all the bill's details. On the one hand, the UAP was not strongly in favour of its introduction and, in fact, many members of the Party opposed the bill; the Country Party, on the other hand, generally pushed for the bill's submission to Parliament. The bill had originally incorporated some relatively unimportant proposals, but it did provide for the creation of a Mortgage Bank Department in the Commonwealth Bank; however, in view of all the controversy surrounding the bill in its initial form, Sheehan advised Wilson to inform Casey that it would be better to introduce a revised bill, which included only the provision relating to the Mortgage Bank.(61) When this proved impossible, it was decided to proceed with the original bill, which included provision for: First, the creation of a Mortgage Bank Department in the Commonwealth Bank; second, the implementation of the Commission's recommendations relating to the Bank's constitution; and third, other minor amendments which were deemed desirable. However, the impending war may have caused disinterest in the proposals; and, more importantly, the opposition - especially from the UAP - proved insurmountable. While the proposed bill partly satisfied the demand for the establishment of an institution, or institutions, which would assist in ordinary home purchase and building finance, a section of the UAP objected to the proposed bill because it did not make provision for direct lending to homemakers; the government was divided, too, over the proposal to treat rural borrowers differently from urban borrowers.(62) In 1940, Wilson commented on these criticisms by the UAP, saying as he did that he expected "fairly strong pressure from various sources to amend the bill in such a way as to throw a bigger burden on the Commonwealth Bank." (63) Not only was the UAP critical of the proposed legislation, but the bill's introduction provoked opposition from many other quarters, including the Bank of New South Wales, which resented the Bank's interference in such matters; even Melville did not campaign for the bill, as he said that it did not deal with the issue of greater central banking powers. (64) In addition, some members of the Country Party itself raised objections, since they feared that an extension of the Bank's functions would detract from its ability to assist primary industry; nor was that all, for the Country Party desired additional assurances that the Mortgage Bank Department would provide cheap credit to its constituents in rural areas. (65) Members of the Labor Party also expressed misgivings, for they suspected that provisions for raising capital by debentures would create "investor control" of the institution. (66)

Similarly, the Commonwealth Bank was not very enthusiastic about the establishment of the Mortgage Bank Department: It seemed to think that existing facilities were sufficient. For its part, the public responded with mixed feelings : Various primary producers and their organizations favoured the proposed bill, but considerable adverse opinion was also expressed by the community; for example, the "Save the People's Bank Campaign" voiced their opposition in correspondence with Casey. (67)

The Last Round

It will be recalled that towards the end of 1938, the introduction of the Trading Banks Bill was postponed until the New Year. Accordingly, on 15 December 1938, the government advised a deputation from the Australian Natives Association - a strong advocate of banking legislation - that it contemplated further action in relation to those parts of the Commission's Report which dealt with the trading banks. It assured the deputation that, although the government's preoccupation with urgent war preparations had delayed a final decision on banking legislation, the government acknowledged the importance of the matter, which would continue to engage the government's attention. (68)

Thus, at the beginning of 1939, the draft Trading Banks Bill was reconsidered in an attempt to iron out the details of the proposals. New attempts were made to satisfy, as much as possible, the banks' criticisms. But by February 1939, despite Wilson's correspondence with the Bank, and the considerable amount of work done on the draft to prepare it for the April parliamentary session, agreement on a minimum deposits provision had still not been settled. It was during February that Reading and Casey began to discuss, at great length, the financial measures that would be necessary in the event of the declaration of war, for the likelihood of war was at this time very high; Reading's attitude towards controversial banking issues changed further as he now put the highest priority upon defence preparations. He informed Casey that while minimum deposits were relatively unimportant in view of the latest overseas developments, he believed there might be unfortunate political repercussions if they were suddenly dropped by the government. But he revealed his true loyalty to the opponents of change by suggesting, as he did, that minimum deposit obligations upon the private banks should be made only nominal.(69) Thus, the clauses in new draft legislation pertaining to this matter were drastically watered down: They now provided that the central bank might require the trading banks to keep *notes plus deposits* at the Commonwealth Bank *at any percentage up to seven and a half* of their deposit liabilities. And that was not all, for a trading bank - if it experienced any difficulty - could allow the cash reserves to fall below any percentage that might be prescribed, although it would have to pay a penalty at the rate of six per cent per annum of any "deficiency".(70) Here again, the banks were allowed some flexibility, in that a deficiency would not be deemed to occur until, on the average of the last thirteen weeks, the banks had failed to satisfy the requirement.(71) On the other hand,

Reading stressed the necessity for a mobilization arrangement in view of the Bank's lack of control over London funds, and Wilson was asked, accordingly, to draft new proposals. By 29 March 1939, Wilson was indicating that, although the draft bill was in a very incomplete form, and there was much work to be done, "every effort will be made to have the drafting completed at an early date."(72) Evidently, he consulted Phillips on several occasions while drafting this amended Mobilization Agreement; for example, on 12 April 1939, Phillips sent Wilson a rough draft of the proposed amendments to the Undertaking as it had been set out in a draft bill of 19 April 1938.(73) At this time, it is significant that the Mobilization Agreement issue seems to have become somewhat less controversial - except from the viewpoint of the private bankers - in the light of its increased importance as the likelihood of war became more obvious; in fact, there was now a greater consensus between the Bank and the Treasury on the issue, and it seems that agreement was much closer at hand.

The Government Fails

Despite indications that progress was being made at last, the inherent instability of the government was yet another important factor which diverted the government once more from taking action on banking legislation. Apparently, Lyons - whose health was deteriorating rapidly - had wanted to retire in 1937, but he was persuaded by strong Melbourne UAP backers - especially by members of the business and financial community - to lead the

Party through the next election. Following the election, therefore, the question of who would be the new party leader assumed new importance as a matter of urgency. Rivals for the leadership of the UAP began to compete for support; most especially there emerged a power struggle between Menzies and Casey - whose personalities clashed sharply - and their antagonism towards one another intensified as time lapsed. When the government failed to proclaim the National Insurance Act, Menzies protested and displayed his disloyalty to Lyons openly by resigning from Cabinet in March 1939. In the subsequent Cabinet re-shuffle, Casey's status was raised; this was interpreted to mean that Lyons was contemplating his resignation and that Casey was his chosen successor. However, anticipation of this event seemed to cause a split in the Cabinet, and its meetings became ineffective and devoid of action.(74) When Lyons died in April, ministerial changes shifted the emphasis of government policy away from banking legislation. Lyons was replaced by Menzies on 26 April 1939; the new Prime Minister, however, had always been sceptical of the proposed banking reforms. Wilson informed the author that the change in Cabinet was important, since Menzies was never really interested in economics "unless it was going for him", and he had not been closely involved with banking legislation.(75) He was, moreover, traditionally a friend of the banks; according to Sir James Elder - Chairman of the National Bank of Australasia - Menzies was a successor "to whom we tender our assurances of cooperation toward the achievement of the ideals he has propounded."(76) Of significance, too, were the changes Menzies made in the Cabinet, above all the

demotion of Casey - the only Cabinet Minister who had really pushed for banking reform - to the position of Minister of Supply and Development. After serving only nine months under Menzies, Casey left Australia to become the first Australian envoy to Washington. Yet another source of Cabinet instability was the friction between Menzies and Page, who resigned from Cabinet in September 1939. This was due not only to poor personal relations between Page and Menzies, but also to internal dissensions in the Country Party over the terms on which it would join a government under Menzies; this further weakened the advocates of banking reform. Furthermore, Casey's duties in respect to banking fell to the new Assistant Treasurer, P.C. Spender (Menzies himself being Treasurer, as well as Prime Minister); and it seems that he was not very interested in banking, especially with the outbreak of war so close at hand.(77) No further action was taken on the Commonwealth Bank Bill, which was allowed to lapse in its existing form. In May 1939, a Treasury document declared that the proposed bill had been introduced to please the Country Party, and it was not regarded as an urgent necessity in certain quarters.(78) Later, in December 1939, Menzies declared that a Mortgage Bank Department was still favoured by his government, but, again, no action was taken.(79)

The Coming Man - Menzies

On the other hand, the Trading Banks Bill was not yet completely abandoned. In fact, several genuine attempts were made to revive it - by Wilson in particular. On 1 May 1939, F.R.E. Mauldon of the Commonwealth Bureau of Census and Statistics explained to McFarlane that Wilson personally had been handling the details of the draft bill, and further inquiries were needed before the bill could be brought down.(80) A Treasury document dated 1 May 1939 - entitled "Proposed Treasury Legislation: Banks Bill" - also revealed that, although much work remained to be done before the bill could be introduced into Parliament, the new draft would be less radical; this is not surprising in view of the pressure still being exerted upon the government by the private banks. The Treasury Memorandum referred to the draft bill which had arisen from the recommendations of the Royal Commission; the main purpose of the bill was to regulate the trading banks, and the two important provisions which were to achieve this objective were minimum deposits and the mobilization of London funds. But, as it explained:

> These points are both very contentious. Alterations are under consideration to "water down" the original intentions regarding minimum deposits and to provide for the mobilization of London funds. A good deal remains to be done before a Bill could be got ready and consideration would need to be given to possible reactions of the Sydney trading banks to legislation affecting London funds. (81)

By 30 May 1939, Wilson informed Phillips that Cabinet had discussed banking proposals and had agreed with the general thrust of the projected draft Trading Banks Bill - almost certainly because the controversial issues had now been made more acceptable to the private banks. (82) But even though a new draft bill was printed the same day, there is no evidence that the printed version was endorsed by Cabinet. It included provision for an Under-

taking which was similar in some respects to that specified in the 1938 draft, but with several amendments - for example, the new draft was toned down in such a way that there was no provision for the licensing of banks. The minimum deposits scheme had also been watered down in a manner which afforded the private banks greater discretion: In short, the reserves to be maintained with the Bank were to comprise both notes as well as bank deposits; second, the percentage of deposit liabilities to be lodged with the central bank was reduced as compared to the percentage specified in the earlier draft; and third, the banks were to be permitted to reclaim their deposits with the Bank at any time:

> Each bank shall establish a reserve of deposits with the Commonwealth Bank and Australian notes [sic] and shall maintain an average reserve of such deposits and Australian notes not less in amount than an amount representing such a percentage (not exceeding seven and one-half) of the deposit liabilities in Australia of the first-mentioned bank as is fixed by the Board of the Commonwealth Bank and notified to the first-mentioned bank from time to time:
>
> Provided that:
>
> a) the Board of the Commonwealth Bank shall fix the same percentage in respect of all banks; and
>
> b) nothing contained in this sub-section shall be construed so as to empower the Commonwealth Bank to refuse to allow a bank to withdraw wholly or in part deposits lodged by it in pursuance thereof or otherwise. (83)

These "diluted" proposals received a more favourable reception by the private banks than had earlier drafts, and indeed, the result was a somewhat greater degree of consensus between the Bank, the trading banks, and the government. Phillips, for example, sent Wilson various amendments to the draft bill, and the latter was prepared to include them in the next printing of the bill. But as Wilson revealed, on 30 May 1939, the fate of the bill was by no means certain as the government had not confirmed that it was still committed to the introduction of the bill into Parliament:

> I've adopted your suggestions for incorporation in the *next* print of the Bill. I'm in general agreement with your proposals but they involve changes in what was agreed to by the Bank, trading banks and Cabinet. Therefore, I want to have the Bill printed in accordance with the forms (e.g. loans, advances) as they now stand. Your suggestions can then be considered by responsible authorities with the present draft in front of them. The Bill will have to be altered a number of times anyway. No doubt the banks will object to your postscripts but I think there should be a possibility of discussing the matter further with them after the Government has re-announced its intentions of proceeding with the Bill (*if it does*). (84)

In any event, Wilson was intent on drawing up additional drafts of the Trading Banks Bill; given time, the government may well have announced its renewed determination to proceed with banking legislation. According to Melville, if war had not broken out, the government would have introduced legislation concerning a new Mobilization Agreement, though he is of the opinion that the minimum deposits issue would not have been resolved, for it was still too controversial.(85) Clearly, the outbreak of war pre-empted any possibility of further action; indeed, as early as June 1939, the approaching war began to dominate all government activity. Wilson, as Commonwealth Statistician, became deeply involved in the compilation of the National Register. In addition, he and other Treasury officials became absorbed in formulating war-time financial

regulations, and peace-time banking legislation was pigeonholed as Parliament rose on 16 June 1939 and did not sit again until 22 September, after war had been declared. In August, the establishment of full exchange control had rendered the Mobilization Agreement unnecessary, and the minimum deposits provision, as it appeared in the last version of the draft bill, was to be only nominal. It was not, however, until the introduction of war-time regulations - and, in fact, not until the 1945 banking legislation - that the Royal Commission's recommendations were translated finally into law.

Epilogue

Despite the government's failure to introduce the proposed central banking legislation before the war, it appears that the Commission's recommendations were accepted with enthusiasm by many of the Commonwealth Bank's younger staff. This became obvious in 1938 when the Bank offered to provide the initial funds for the establishment of private bank deposits with the central bank. On the surface, it appears that this move was intended to help the banks avoid any restriction of their advances; however, the trading banks detected a hidden motive behind it, namely, to lure the private banks into a position of dependence on the central bank. Whatever the reason, the private banks did not make use of the assistance offered to them, and true central banking policy continued to be impeded by the lack of information on, and control over, the credit base.

With the outbreak of war in 1939, central banking was transferred from its experimental state to a war-time necessity, requiring as it did greater understanding of the banking and monetary systems by the Bank's staff, and increased cooperation by the private banks. By the end of this transition in 1942, the additional powers gained by the central bank in regard to minimum deposits and London funds were decidedly greater than those which had been embodied in earlier draft legislation. While little resistance was offered to the enforced concentration of London funds with the Bank - especially in the light of the precarious position prevailing in Britain in June 1940 - the private banks were somewhat less congenial on other matters, such as interest rates, and lending and investment policies. Just as the private banks doubted that the Bank would use these controls effectively, the government had its own misgivings, but it sought to clamp down on private bank autonomy in an effort to curb inflationary pressures. The Treasurer, Arthur Fadden, favoured the imposition of a special deposits scheme which would require the trading banks to lodge as special deposits with the central bank all assets in excess of those on a given day. The Bank would then lend corresponding amounts to the government, and these funds would be used to finance the war effort. While the government was contemplating whether the scheme would be carried out by National Security Regulations or by legislation, Reading was pushing for a Bank Board resolution in favour of a voluntary agreement with the banks.(86) The government expressed its willingness to compromise, and the private banks, under threat of National Security Regulations, reluctantly pledged

their cooperation and accepted the Bank's ultimate authority. In addition, the government decided on a firm Undertaking - based on voluntary cooperation - which was announced by Fadden in his Budget speech on 25 September 1941. But still, he declared that he would not hesitate to invoke the National Security Act if it were necessary to prevent secondary expansion by the trading banks.(87)

However, the government was defeated on the Budget and was replaced on 7 October 1941 by the Curtin Labor Government, with Chifley as Treasurer. By early 1942, the powers advocated by the Royal Commission, together with additional regulations, had been awarded to the Commonwealth Bank under the war-time National Security Regulations. The introduction of these regulations by the Curtin Government occurred without much public discussion, and the private banks appeared to be reasonably satisfied that the new provisions were somewhat similar to the voluntary agreements which had been reached with the previous government. The regulations required the banks to comply with the advance policy specified by the central banks from time to time, and to make special deposits with the Bank:

> A bank shall 'lodge' in a Special Account with the Commonwealth Bank such part of its surplus investible funds as the Bank may direct, on a plan approved by the Treasurer. 'Surplus investible funds' are defined as the excess at any time of assets in Australia over their average amount in August 1939.
> A bank shall not withdraw from its Special Account except with the consent of the Commonwealth Bank.
> The Commonwealth Bank shall pay interest on Special Accounts at a rate designed to ensure that the profits of the bank are not greater than the average of the three pre-war years. The rate was not in any case to exceed

> a maximum rate fixed by the Treasurer from time to time. (88)

In short, the regulations generally encompassed the principles set down by the Royal Commission and, thus, a centralized and fully-controlled banking system was created. And, further, the Commission's recommendation for the establishment of mortgage bank facilities was resurrected from its parliamentary rejection in 1938 with the creation of the Mortgage Bank Department of the Commonwealth Bank in 1943.

After winning the general elections in 1943, the Curtin Government declared its intention to translate the war-time banking regulations into permanent peace-time legislation.[89] And by mid-1944, both the government and the Bank Board were anticipating the need for strong monetary control during the final stages of the war and the early post-war period. In drawing up their proposals, Chifley and his Treasury advisers received the Board's opinions on many technical aspects of war-time experience. This experience had done much to "break the ice" before the plunge into the implementation of Labor's banking policy. This experience was further fuelled by Chifley's personal efforts as Treasurer. Sir John Phillips told the author that the Royal Commission's major impact was the education of Ben Chifley: It was this development that helped to produce the legislation of 1945 which finally incorporated most of the Commission's recommendations and formed the basis of Australian banking for the next forty years. Even so, it is Phillips' opinion that, although Chifley was a very

strong force behind the legislation, much of it would have happened anyway; and, of course, it was the war which established a precedent for peace-time banking legislation.[90]

Early in 1945, Cabinet made its policy decisions in regard to banking; consequently, on 9 March, legislation was introduced by Chifley, backed by Labor majorities in both Houses: There were two bills, a Commonwealth Bank Bill and a separate Banking Bill. Unlike Casey, Chifley wisely avoided consultations with the trading banks on any aspect of the legislation, and this served to limit their impact on the government's decision. Labor argued in the parliamentary debate that the Opposition, by opposing the government's legislation, was abrogating its earlier decisions to establish the Royal Commission and its attempts to draft legislation.[91] It appears that the Opposition was no longer politically obliged to feign attempts at banking reform and, therefore, its loyalty to the private banks was publicly renewed. This, in itself, did not greatly assist the private banks' cause, for the value of support from Menzies and Fadden was undermined by statements they had made earlier. For example, Menzies had previously admitted the need for special post-war legislation regarding a special deposits scheme, which, he said, was an essential instrument for an Australian central bank.[92] The Country Party had likewise made a resolution at a conference held on 11 April 1945 in support of the powers sought by the Government.[93] In addition, the banks failed to re-stimulate public support, which, at the time, was running in Labor's favour. Therefore, with the House dividing on strict party lines, only minor ammendments were made to the two bank bills, which became Acts of the Commonwealth on 3 August 1945. The government had both the will and the numbers to push its legislation through.

The bills themselves represented a radical departure from the earlier, pre-1939 situation of piecemeal central bank control which had, in the final analysis, depended on private bank cooperation.(94) The measures afforded the Bank power to enforce its policy, although it is true that the effectiveness of the legislation still depended to some degree on trading bank cooperation. The general plan of the government had been to put into law the modified recommendations of the Commission on the subject of minimum deposits. The system of variable minimum deposits along the lines recommended by the Commission was considered, but was rejected in favour of continuing the war-time special accounts arrangement. In principle, this machinery of control was less radical than that recommended by the Commission. As well, both the Commission and the 1945 legislation dealt with the control of London funds; whereas the government believed the Bank required full access to the London funds of the trading banks, the Commission intended the Bank to have access only to that portion of London funds it required. The Commission had recommended that the arrangement should be binding. In the legislation, however, not only was access to London funds made compulsory, but there was also a provision for exchange control. In this way, the government ensured that the Bank would maintain control of the exchange rate.

The Commission stated that the power to alter interest rates was a relatively ineffective means of credit control and, consequently, it did not recommend any extension of Bank control over interest rates. The 1945 legislation, nevertheless, granted such control to the Bank. Furthermore, the government went beyond the Commission's recommendations by retaining the war-time provision requiring the banks to follow the advance and investment policies laid down by the central bank. The Commission merely recommended that the Bank might equip itself with the means to identify economic trends so that it could advise trading banks as to the appropriate directions in which advances should be made. In addition, the legislative parallel to the Commission's recommendation for the greater availability of bank finance for small enterprises involved the establishment of the Industrial Finance Department of the Commonwealth Bank. The 1945 legislation, for the first time, also prescribed the Bank's essential policy objectives to be the maintenance of currency stability, the achievement of full employment, and the pursuance of the economic prosperity and welfare of the Australian people. Coinciding with these policy objectives was the vestment of final authority of monetary and banking policy with the Treasurer. And a further insult to earlier private bank opposition was the provision, under the 1945 Act, for a new General Banking Division, the aim of which was to pave the way for the Bank to pursue its commercial activities in a more competitive manner than in the past.

Overall, then, the year 1945 marked an important turning point for the Commonwealth Bank. It had finally obtained a comprehensive central banking authority after a twenty year struggle. While the influence of Chifley as Treasurer and the war-time National Security Regulations may have been the catalysts, the Royal Commission's stimulation of interest in central banking helped in large measure to make reform inevitable.

N O T E S

INTRODUCTION

1. Committee of Inquiry into the Australian Financial System, *Interim Report*, Canberra, 1980, p.ix-x.
2. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1937, p.1.
3. CA 11/CRS A571, item 37/4600, notes by Casey, no date, but probably written in mid-November 1938; CA 12/CRS A460, item A5/56, Part 2, policy speech by Lyons, 28 September 1937.
4. *The Melbourne Age*, 21 July 1937.
5. *The Economist*, 16 October 1937.
6. Butlin, S.J.: "The Banking Commission's Report", *The Australian Quarterly*, Vol.IX, September 1937, p.40.
7. *The Australian Financial Review*, 29 August 1980.

CHAPTER I

1. Personal interview with Dr. H.C. Coombs, 22 April 1980, 11-11:30 am.
2. See, for example, Harvey, Ernest: "Central Banking", *The Economic Record*, Vol.III, May 1927, pp.1-14; also, Copland, D.B.: *What Have the Banks Done? An Essay on Banking Policy* (Sydney: Angus and Robertson, 1931), pp. 7, 40-44; Copland, D.B.: *Credit and Currency Control: With Special Reference to Australia* (Second edition, Melbourne: Melbourne University Press, 1932), pp. 71-100.
3. H. of R. Debs., 31 March 1933; quoted in CA 12/CRS A460, item A5/56, Part 1; *The Argus*, 31 March 1933.

NOTES TO PP. 12-15

4. On the issue of calls for an inquiry, see, for example, CA 12/CRS A460, item A5/56, Part 1, letter from the Victorian Board of Directors of the ANA to Lyons, 20 July 1933, in which the ANA repeated its request for a banking investigation which had been conveyed to the government in 1932; evidence of Lyons' procrastination will be found in H. of R. Debs., 15 November 1933; quoted in CA 12/CRS A460, item A5/56, Part 1.
5. Crisp, L.F.: *Ben Chifley: A Biography* (Melbourne: Longmans, Green and Co. Ltd., 1961), pp. 166-67.
6. CW. Parl. Debs.,31 March 1933, pp. 750-67.
7. *The Argus*, 7 February 1933.
8. See Robertson, John: *J.H. Scullin: A Political Biography* (Nedlands: University of Western Australia Press, 1974), pp. 422-23.
9. H. of R. Debs., 4 July 1934; quoted in CA 12/CRS A460, item A5/56, Part 1.
10. CA 12/CRS A460, item A5/56, Part 1, note from the Victorian Board of Directors of the ANA to George Pearce, 13 June 1934.
11. *The Melbourne Age*, 9 August 1934.
12. On the issue of Lyons' defense of the banking system, see that on 21 August 1934, *The Melbourne Age* quoted Lyons as saying on 5 April and again on 10 May 1934 that the private banks had carried Australia through the Depression; an example of the banks' support for Lyons can be located in CA 12/CRS A460, item A5/56, Part 1, letter from the General Secretary of the United Bank Officers Association to Lyons, 14 March 1934; see further endorsement of Lyons' stance in CA 11/CRS A571, item 32/3191, note from the General Manager of the Union Bank of Australia to Lyons, 7 December 1933.
13. CA 12/CRS A460, item A5/56, Part 1, letter from the President of the Associated Chambers of Commerce to Lyons, 11 May 1934.

NOTES TO PP. 15-22

14. On the issue of the government's reluctance to hold an inquiry at this time, see Casey's statement that Cabinet generally wished to avoid an investigation in CA 11/CP 503/1, item Bundle 2, memo by Casey to Cabinet, late 1934; for evidence that Cabinet re-assessed its position on the issue of an inquiry, refer to CA 12/CRS A460, item A5/56, Part 1, memo from the Secretary to the Treasury to the Secretary of the Prime Minister's Department, 1 August 1934.
15. The resolution made by the CP in March 1934 was cited in *The Australasian Insurance and Banking Record*, 21 March 1934; Page's proposal was referred to in *The Argus*, 30 August 1934.
16. CA 12/CRS A460 A5/56, Part 2, note from Page to Roy Head of Broken Hill, New South Wales, 8 April 1935; he added that the issue of the Royal Commission would not be shelved as the government was definitely committed to the appointment of such a commission.
17. *The Melbourne Age*, 20 August 1934.
18. *The Sydney Morning Herald*, 27 August 1934.
19. Broadcast by Lyons from Melbourne, 13 September 1934; quoted in Sawer, Geoffrey: *Australian Federal Politics and Law, 1929-1949* (Melbourne: Melbourne University Press, 1963), p.73.
20. Hodson, H.V.: "The Australian Banking Commission", *The Banker*, Vol. XXXIX, July 1936, pp. 13-14.
21. *The Sydney Morning Herald*, 1 August 1934; *The Argus*, 27 September 1934.
22. See Pease's statement in *The Sydney Morning Herald*, 16 October 1934; see O'Sullivan's statement in *The Sydney Morning Herald*, 4 July 1934.
23. *The Sydney Morning Herald*, 24 October 1934.
24. CW.Parl. Debs., 31 October 1934, p.85.
25. CW.Parl. Debs., 6 December 1934, p.839.

NOTES TO PP. 22-27

26. *The Melbourne Age*, 20 February 1935.
27. H. of R. Debs., 11 April 1935; quoted in CA 12/CRS A460, item A5/56, Part 2.
28. *The Sydney Morning Herald*, 13 December 1934.
29. Personal interview with Sir Leslie Melville, 23 April 1980, 9:30-10:35am.
30. Interview with Dr. H.C. Coombs, 22 April 1980.
31. Personal interview with Sir Roland Wilson, 12 May 1980, 4:30-5:50pm.
32. Interview with Sir Leslie Melville, 23 April 1980.
33. *The Sydney Morning Herald*, 13 December 1934; *The Sydney Morning Herald*, 21 December 1934.
34. *The Australasian Insurance and Banking Record*, 21 December 1934.
35. *The Australasian Insurance and Banking Record*, 21 December 1934.
36. *The Australasian Insurance and Banking Record*, 21 January 1935.
37. *The Melbourne Herald*, 19 February 1935.
38. *The Sydney Morning Herald*, 8 January 1935.
39. *The Melbourne Age*, 8 January 1935.
40. CA 12/CRS A460, item A5/56, Part 1, note from McCall to Lyons, 23 January 1935.
41. CA 11/CRS A571, item 35/517, letter from Casey to Page, 22 January 1935.
42. *The Labor Daily*, 19 February 1935.
43. CP 23/CRS A1421, Bruce's papers, memo from Casey to Bruce, 30 September 1935.
44. *The Argus*, 21 October 1935; see also CA 11/CRS A571, item 35/852, Part 2, statement by Casey, undated, but probably made on 20 October 1935.
45. *The Argus*, 21 October 1935.
46. CA 11/CRS A571, item 37/4600, notes by Casey, no date, but probably written in mid-November 1938.

NOTES TO PP. 27-34

47. Interview with Dr.H.C. Coombs, 22 April 1980; interview with Sir Leslie Melville, 23 April 1980.
48. *The Melbourne Age*, 20 February 1935.
49. CA 3/CRS A2694/XM, item Vol.13, Part 1, Cabinet minutes, 18 February 1935.
50. See the speculative comments by Wreford, in *The Australasian Insurance and Banking Record*, 21 December 1934.
51. CP 23/CRS A1421, Bruce's papers, memo from Casey to Bruce, 30 September 1935.
52. *The Argus*, 20 February 1935.
53. *The Melbourne Age*, 20 February 1935.
54. *The Melbourne Age*, 20 February 1935.
55. See, for example, H. of R. Debs., 26 September 1935; quoted in CA 12/CRS A460, item A5/56, Part 2.
56. *The Labor Daily*, 19 February 1935.
57. CA 3/CRS A2694/XM, item Vol. 13, Part 1, Cabinet minutes, 18 February 1935.
58. *The Melbourne Age*, 26 August 1935.
59. *The Melbourne Age*, 20 February 1935.
60. *The Melbourne Herald*, 19 February 1935; *The Canberra Times*, 20 February 1935.
61. *The Melbourne Age*, 20 February 1935.
62. *The Labor Daily*, 19 February 1935.
63. CA 11/CP 503/1, item Bundle 3, letter from Reading to Casey, 16 January 1935.
64. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 25 February 1935.
65. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 25 February 1935.
66. See, for example, Lyons' statement to the press in *The Melbourne Age*, 21 February 1935.
67. *The Australasian Insurance and Banking Record*, 21 February 1935.

68. *The Melbourne Herald*, 19 February 1935.
69. See, for example, CA 12/CRS A460, item A5/56, Part 1, notes from the General Secretary of the United Bank Officers Association to Lyons, 14 March 1934 and 10 December 1934.
70. *The Argus*, 30 August 1935; *The Sydney Morning Herald*, 30 August 1935.
71. CA 11/CP 503/1, item Bundle 3, letter from Davidson to Casey, 30 August 1935.
72. CA 11/CP 503/1, item Bundle 3, note from McCall to Casey, 17 September 1935.
73. CA 11/CP 503/1, item Bundle 3, note from McCall to Casey, 17 September 1935.
74. *The Melbourne Age*, 26 August 1935.
75. *The Melbourne Age* 2 September 1935.
76. CA 11/CP 503/1, item Bundle 3, memo from Casey to Sheehan, no date, but probably written in early September 1935.
77. See Casey's opinion of Giblin's capabilities in CA 11/CP 503/1, item Bundle 3, memo from Casey to Sheehan, early September 1935.
78. CA 11/CP 503/1, item Bundle 3, letter from Nicholas to Casey, 20 September 1935.
79. CP 23/CRS A1421, Bruce's papers, memo from Casey to Bruce, 30 September 1935.
80. Referred to in CA 11/CRS A571, item 35/517, letter from Abbott to M.F. Bruxner, N.S.W. Minister for Transport, 10 January 1935.
81. CA 11/CRS A571, item 35/517, note from Abbott to Page, 10 January 1935.
82. CA 12/CRS A460, item A5/56, Part 2, letter from Hunter to Lyons, 14 September 1935.
83. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 30 September 1925.

84. Personal interview with Sir John Phillips, 5 May 1980, 6-8 o'clock pm.
85. CP 23/CRS A1421, Bruce's papers, letter from Casey to Bruce, 30 September 1935.
86. CA 11/CP 503/1 , item Bundle 3, memo from Lewis to Casey, 21 September 1935.
87. See Wilson's draft terms of reference in CA 11/CP 503/1, item Bundle 3, note by Wilson, 15 February 1935.
88. CA 11/CP 503/1, item Bundle 3, note from Reading to Casey, 6 September 1935.
89. CA 11/CP 503/1, item Bundle 3, memo from Sheehan to Casey, undated, but probably written in mid-September 1935.
90. CA 3/CRS A2694/XM, item Vol.14, Part 2, Cabinet minutes, 20 September 1935.
91. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1937, p.1.
92. CW.Parl.Debs., 3 October 1935, p. 506; see also CA 12/CRS A460, item C5/56, memo by Lyons, 3 October 1935.
93. *The Argus*, 4 October 1935.
94. The following information concerning the drafting of the Report is based largely on a personal interview with Sir John Phillips on 5 May 1980.
95. *The National Times*, week ending 3 February 1979.
96. See CA 1332/CRS A1920, Minute Book, 17 January 1936 and 27 October 1936.
97. Butlin, S.J.: "Richard Charles Mills", *The Economic Record*, Vol. XXIX, November 1953, p. 182.
98. Interview with Dr. H.C. Coombs, 22 April 1980.
99. Crisp: *Ben Chifley: A Biography*, p.103.
100. Interview with Sir John Phillips, 5 May 1980.
101. CA 1332/CRS A1920, Minute Book, 17 January 1936 and 27 October 1936.

NOTES TO PP. 49-55

102. Interview with Sir John Phillips, 5 May 1980.

103. This information concerning the Commission's Counsel can be found in CA 5/CRS A432, item 35/1445, no signature, but probably written by the acting Attorney-General, no date, but most likely drawn up in mid-May 1936; see also CA 5/CRS A432, item 35/1445, T.C. Brennan, acting Attorney-General, 14 May 1936.

104. CA 11/CP 503/1 , item Bundle 3, note from Casey to Sheehan, 16 November 1935.

105. See *The Sydney Morning Herald*, 15 January 1936.

106. Holder, R.F.: *Bank of New South Wales: A History* (Sydney: Angus and Robertson Ltd., 1970), Vol.II, p.817.

107. On the question of the publication of the private banks' statistics, see CA 1332/CRS A1920, Minute Book, 24 June 1936; and on the issue of the criticism made by the Premier of Tasmania, see *The Melbourne Herald*, 23 April 1936.

108. *The Melbourne Age*, 24 April 1936; *The Argus*, 24 April 1936.

109. Referred to in CA 1332/CRS A1920, Minute Book, 12 February 1936.

110. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Minutes of Evidence*, Canberra, 1936, p.1116.

111. *Minutes of Evidence*, pp.1397-98.

112. H. of R. Debs., 29 September 1936; quoted in CA 12/CRS A460, item A5/56, Part 2.

113. *Minutes of Evidence*, p.1397.

NOTES TO PP. 60-71

CHAPTER 2

1. Comprehensive accounts of the structure of the banking system at the time the Royal Commission was established can be found in the following references: Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1936; Holder, R.F.: *Bank of New South Wales: A History* (Sydney: Angus and Robertson Ltd., 1970), Vol.II; Butlin, S.J.: *Australia and New Zealand Bank: The Bank of Australasia and the Union Bank of Australia, 1828-1951* (Melbourne: Longmans, Green and Co.Ltd., 1961); and Blainey, Geoffrey: *Gold and Paper: A History of the National Bank of Australasia* (Melbourne: Georgian House Pty.Ltd., 1958).

2. For a history of the Australian banking system prior to 1911, perhaps some of the best accounts are in: Mackay, A.L.G.: *The Australian Banking and Credit System* (London: P.S. King and Son Ltd., 1931); the chapter on money and banking in Jackson, R.V.: *Australian Economic Development in the Nineteenth Century* (Canberra: Australian National University Press, 1977); and *The Commonwealth Banking Corporation: Its Background, History and Present Operations* (Sydney: 1980).

3. Two books that offer a detailed introduction to the history of central banking are: Gollan, Robin: *The Commonwealth Bank of Australia: Origins and Early History* (Canberra: Australian National University Press, 1968); see also May, A.L.: *The Battle for the Banks* (Sydney: Sydney University Press, 1968), pp.1-2.

4. Excellent discussions of the functions and activities of the Australian private financial institutions are provided in The *Report*; Arndt, H.W.: *The Australian Trading Banks*

NOTES TO PP. 74-89

(Melbourne: F.W. Cheshire, 1957); and Gifford, J.K. and Wood, J.V.: *Australian Banking* (Brisbane: University of Queensland Press, 1947).

5. See The *Report*, pp. 40-43.
6. For comprehensive summaries of the Commonwealth Bank's origins and development, one might like to consult: Schedvin, C.B.: *Australia and the Great Depression: A Study of Economic Development and Policy in the 1920s and 1930s* (Sydney: Sydney University Press, 1970); Amos, D.J.: *The Story of the Commonwealth Bank* (Eleventh edition, Adelaide: E.J. McAlister and Co., 1943); *Reserve Bank of Australia: Functions and Operations* (Third edition, Sydney: 1977); McConnell, W.K.: *The Origin and Development of the Commonwealth Bank* (Sydney: Institute of Public Affairs (N.S.W.), 1945); and Giblin, L.F.: *The Growth of a Central Bank: The Development of the Commonwealth Bank of Australia, 1924-1945* (Melbourne: Melbourne University Press, 1951).
7. The Commonwealth Bank Board revealed its lack of effective powers and the need for additional levers of control in the evidence it presented to the Royal Commission.

CHAPTER 3

1. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1937, pp. 205-8, 256.
2. The *Report*, p.207.
3. The *Report*, p.202.
4. *The National Times*, week ending 3 February 1979.
5. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Minutes of Evidence*, Canberra, 1936, p.89.

NOTES TO PP. 90-104

6. *Minutes of Evidence*, pp.105-6.
7. *Minutes of Evidence*, p.253.
8. The *Report*, p.201.
9. The *Report*, p.262.
10. The *Report*, pp.203-4, 213-15.
11. Committee on Finance and Industry (Macmillan Committee), *Report*, Cmd. 3897, H.M.S.O., London, 1931, p.121.
12. The *Report*, p.204.
13. *Minutes of Evidence*, p.32.
14. *Minutes of Evidence*, p.34.
15. Personal interview with Sir Leslie Melville, 23 April 1980, 9:30-10:25am;
    Personal interview with Dr.H.C. Coombs, 22 April 1980, 11-11:30am;
    Personal interview with Sir John Phillips, 5 May 1980, 6-8 o'clock pm.
16. *Minutes of Evidence*, pp.1160,1170-71.
17. *Minutes of Evidence*, pp.1341-43.
18. *Minutes of Evidence*, p.1170.
19. *Minutes of Evidence*, p.1222.
20. *Minutes of Evidence*, pp.1289-90, 1305.
21. *Minutes of Evidence*, p.1290.
22. *Minutes of Evidence*, pp.1182-1201.
23. *Minutes of Evidence*, pp.1201,1210-12.
24. *Minutes of Evidence*, pp.1325, 1327.
25. *Minutes of Evidence*, pp.1341-45.
26. *Minutes of Evidence*, pp.428-435, 438-448.
27. *Minutes of Evidence*, pp. 15-29.
28. *Minutes of Evidence*, pp.1117-20, 1130-37.
20. Interview with Sir Leslie Melville, 23 April 1980.
30. *Minutes of Evidence*, p.1135.
31. *Minutes of Evidence*, pp.1119-20, 1130-37.

NOTES TO PP. 105-119

32. *Minutes of Evidence*, p.1118.
33. Interview with Sir Leslie Melville, 23 April 1980.
34. *Minutes of Evidence*, p.1347.
35. *Minutes of Evidence*, pp.1344-47.
36. *Minutes of Evidence*, p.1345. Melville
37. *Minutes of Evidence*, p.1327.
38. *Minutes of Evidence*, p.1325. Redbury
39. *Minutes of Evidence*, p.1331.
40. *Minutes of Evidence*, p.1203, 1214-19.
41. *Minutes of Evidence*, pp.1297-98, 1316-24 (Walker), pp.1184-86, 1189-96 (Gifford), p.1170 (Brigden).
42. *Minutes of Evidence*, p.1178.
43. *Minutes of Evidence*, pp.1184-86, 1189-96.
44. *Minutes of Evidence*, pp. 1297-48, 1316-24.
45. *Minutes of Evidence*, p.1238.
46. *Minutes of Evidence*, p.1344. Gibln.
47. Interview with Sir John Phillips, 5 May 1980; interview with Dr. H.C. Coombs, 22 April 1980.
48. *Minutes of Evidence*, pp.428-52.
49. *Minutes of Evidence*, p.446.
50. *Minutes of Evidence*, pp.149-155.
51. *Minutes of Evidence*, pp.199-202.
52. *Minutes of Evidence*, pp.301-9.
53. *Minutes of Evidence*, pp.108-17.
54. *Minutes of Evidence*, pp.219, 231-36.
55. *Minutes of Evidence*, pp.261-64.
56. *Minutes of Evidence*, p.28.
57. *Minutes of Evidence*, pp.60-71 (Bell), pp.32-38 (Riddle).

NOTES TO PP. 121-132

CHAPTER 4

1. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1937, pp.228-29, 230-231.
2. The *Report*, p.206.
3. The *Report*, pp.258,269.
4. The *Report*, p.263.
5. Personal interview with Sir John Phillips, 5 May 1980, 6-8 o'clock pm.
6. RBA C-3.7 - 4.11, statement by Mills, no date, but probably made towards the end of 1936.
7. The *Report*, p.225.
8. RBA C-3.7 - 4.11, statements by Mills, Chifley, and Abbott, no date, but, again, probably made in late 1936.
9. RBA C-3.7 - 4.11, statement by Mills, undated, but probably late 1936.
10. RBA C-3.7 - 4.11, statements by Chifley and Napier, late 1936.
11. The *Report*, pp.225-26.
12. The *Report*, pp. 225-26; see also RBA C-3.7 - 4.11, statements by Chifley and other Commissioners, late 1936.
13. RBA C-3.7 - 4.11, statement by Chifley, late 1936.
14. The *Report*, p.226.
15. The *Report*, pp.225-26.
16. The *Report*, p.202.
17. The *Report*, pp.237-38.
18. The *Report*, p.264.
19. RBA C-3.7 - 4.11, statements by Abbott and Napier, late 1936.
20. The *Report*, p.255.
21. The *Report*, pp.264-66.
22. The *Report*, p.256.
23. RBA C-3.7 - 4.11, notes by Phillips, late 1936.

NOTES TO PP. 133-144

24. The *Report*, p.228.
25. The *Report*, pp.259, 269-70.
26. The *Report*, pp.228-29.
27. RBA C-3.7 - 4.11, statement by Chifley, late 1936.
28. RBA C-3.7 - 4.11, statement by Napier, late 1936.
29. Referred to in RBA GGM-37-1, note from Melville to Phillips, 15 February 1937.
30. RBA C-3.7 - 4.11, statement by Nixon, late 1936.
31. RBA C-3.7 - 4.11, statements by Abbott and Pitt, late 1936.
32. RBA C-3.7 - 4.11, statement by Mills, late 1936.
33. The *Report*, p.230.
34. The *Report*, p.260; RBA C -3.7 - 4.11, statements by Abbott and Mills, late 1936.
35. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Minutes of Evidence*, Canberra, 1936, p.15.
36. *Minutes of Evidence*, p.60.
37. *Minutes of Evidence*, pp.60-67, 75-84 (Bell), pp.15-32 (Reading).
38. *Minutes of Evidence*, pp.31-32 (Reading), p.64 (Bell).
39. Dr. H.C. Coombs told the author on 22 April 1980 that Melville and Lewis drafted much of the Bank Board's memoranda to the Royal Commission; this particular memorandum, dated 15 February 1937, can be found in RBA C-3.7 - 4.2.
40. The *Report*, p.227.
41. *Minutes of Evidence*, p.1390.
42. The private banks' arguments are discussed in RBA C-3.7 - 4.11, Phillips' papers, no date, but probably written towards the end of 1936.
43. Interview with Sir John Phillips, 5 May 1980.
44. Some of the bankers' objections to the minimum deposits provision can be found in The *Report*, p.228; for a more detailed discussion of their arguments, see RBA C-3.7 - 4.11,

NOTES TO PP. 144-158

Phillips' papers, late 1936.

45. *Minutes of Evidence*, p.156.
46. *Minutes of Evidence*, pp.311-13.
47. *Minutes of Evidence*, p.205.
48. *Minutes of Evidence*, pp.156-58.
49. *Minutes of Evidence*, p.274.
50. *Minutes of Evidence*, pp.1122-25, 1148-53; Sir Leslie told the author on 23 April that fixed minimum deposits were politically more viable.
51. *Minutes of Evidence*, p.1202.
52. *Minutes of Evidence*, pp.1160-64, 1171-72.
53. *Minutes of Evidence*, p.1309.
54. *Minutes of Evidence*, pp.1183-6, 1190-1201 (Gifford), pp.1224-32 (Hytten), pp.1325-29 (Reddaway), p.1343 (Giblin).
55. *Minutes of Evidence*, p.60.
56. *Minutes of Evidence*, p.31.
57. *Minutes of Evidence*, p.40.
58. *Minutes of Evidence*, pp.61-62.
59. *Minutes of Evidence*, p.31.
60. *Minutes of Evidence*, p.1390.
61. *Minutes of Evidence*, p.1391.
62. *Minutes of Evidence*, pp.261-64 (O'Sullivan), pp.355-56 (Forbes).
63. *Minutes of Evidence*, p.456.
64. *Minutes of Evidence*, pp.1122-23, 1131-48 (Melville), pp.1164-65, 1177-79 (Brigden), pp.1202-3, 1214-22 (Fisher).
65. *Minutes of Evidence*, pp.1238-50 (Hytten), pp.1316-24 (Walker), pp.1185-1202 (Gifford), p.1326 (Reddaway).
66. *Minutes of Evidence*, p.464.
67. *Minutes of Evidence*, p.465.
68. *Minutes of Evidence*, pp.156-60 (McConnan), pp.203-5 (Gordon), pp.237-9 (Leitch), pp.118-20 (Healy), pp. 265-67 (O'Sullivan), pp.311-12 (Darvall).

NOTES TO PP. 158-165

69. *Minutes of Evidence*, pp.155-60 (McConnan), p.237 (Leitch).
70. *Minutes of Evidence*, p.160.
71. *Minutes of Evidence*, pp.1118-58 (Melville), pp.1201-19 (Fisher), pp.1160-82 (Brigden).
72. *Minutes of Evidence*, pp.1223-40, 48-78 (Hytten), pp.1290-1324 (Walker), pp.1183-1201 (Gifford), pp.1325-41 (Reddaway).
73. *Minutes of Evidence*, pp.1325-34 (Reddaway), p.1345 (Giblin), pp.1118-41 (Melville), p.1225-1251 (Hytten).
74. Personal interview with Sir Leslie Melville, 23 April 1980, 9:30-10:25am.
75. *Minutes of Evidence*, p.1345.

CHAPTER 5

1. See, for example, CW.Parl.Debs., 18 June 1937, p.102.
2. *The Melbourne Age*, 20 July 1937.
3. *The Melbourne Age*, 21 July 1937.
4. See CA 12/CRS A460, item E5/56, note by a Commonwealth publicity officer, 20 July 1937.
5. Quoted by Sawer, Geoffrey: *Australian Federal Politics and Law, 1929-1949* (Melbourne: Melbourne University Press, 1963), p.98.
6. *The Sydney Morning Herald*, 21 July 1937.
7. CW.Parl.Debs., 12 September 1939, p.432.
8. Quoted by Hodson, H.V.: "The Australian Banking Commission", *The Banker*, Vol.XLIII, September 1937, p.285.
9. CW.Parl.Debs., 13 September 1939, p.513.
10. CW.Parl.Debs., 28 June 1939, p.2758.

NOTES TO PP. 165-179

11. *The Daily Telegraph*, 1 July 1937.
12. *The Sydney Morning Herald*, 20 July 1937.
13. *The Melbourne Herald*, 20 July 1937.
14. *The Melbourne Age*, 22 July 1937.
15. *The Argus*, 21 July 1937.
16. *The Melbourne Age*, 21 July 1937.
17. *The Melbourne Age*, 21 July 1937.
18. *The Sydney Morning Herald*, 21 July 1937.
19. *The Australasian Insurance and Banking Record*, 21 August 1937.
20. *The Bulletin*, 28 July 1937.
21. *The Morning Post*, 20 July 1937.
22. *The (London) Daily Telegraph*, 20 July 1937.
23. *The Morning Post*, 21 July 1937; *The (London) Daily Telegraph*, 21 July 1937.
24. *The Times*, 21 July 1937.
25. *The Financial Times*, 28 December 1936.
26. *The Financial News*, 21 July 1937.
27. *The Financial News*, 21 July 1937.
28. *Finance and Commerce*; quoted in RBA S-h38-3.
29. *Finance and Commerce*; quoted in RBA S-h38-3.
30. *The St.John Citizen*, 7 September 1937.
31. *The Montreal Star*, 9 October 1937.
32. *The Economist*, 24 July 1937.
33. *The Economist*, 24 July 1937.
34. *The Statist*, 25 July 1937.
35. *The Statist*, 25 July 1937.
36. *The Economist*, 14 August 1937.
37. *The Statist*, 14 August 1937.
38. *The Economist*, 16 October 1937.
39. *The Economist*, 16 October 1937.
40. *The Economist*, 18 December 1937.
41. *The Round Table*, October 1937, pp.178-81.

NOTES TO PP. 180-193

42. *The Bankers' Magazine*, October 1937, p.489.
43. *The Sydney Morning Herald*, 21 July 1937.
44. *The Sydney Morning Herald*, 21 July 1937.
45. *The Sydney Morning Herald*, 21 July 1937.
46. Butlin, S.J.: "The Banking Commission's Report", *The Australian Quarterly*, Vol.IX, September 1937, p.40.
47. Copland, D.B.:"Some Problems of Australian Banking", *The Economic Journal*, Vol. XLVII, December 1937, p.686.
48. Fisher, A.G.B.: "Twentieth Century Banking in Australia", *The Economic Record*, Vol.XIII, December 1937, pp.159-60.
49. Fisher: "Twentieth Century Banking in Australia", p.162.
50. Fisher: "Twentieth Century Banking in Australia", pp.162-63.
51. Fisher: "Twentieth Century Banking in Australia", p.163.
52. Fisher: "Twentieth Century Banking in Australia", p.163.
53. Fisher: "Twentieth Century Banking in Australia", p.166.
54. Fisher: "Twentieth Century Banking in Australia", p.160.
55. Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Report*, Canberra, 1937, p.205.
56. Fisher: "Twentieth Century Banking in Australia", p.167.
57. Copland: "Some Problems of Australian Banking", p.690.
58. Copland: "Some Problems of Australian Banking", p.692.
59. Copland: "Some Problems of Australian Banking", pp.692-93.
60. Copland: "Some Problems of Australian Banking", p.693.
61. Copland: "Some Problems of Australian Banking", p.694.
62. Copland: "Some Problems of Australian Banking", pp.694-95.
63. Copland: "Some Problems of Australian Banking", p.696.
64. Copland: "Some Problems of Australian Banking", pp.687-88.
65. Copland, D.B.: "The Commonwealth Bank; Co-operation or Compulsion", *The Economic Record*, Vol.XV, April 1939, pp. 21-34; also, the accompanying "Discussion".

NOTES TO PP. 194-205

66. Butlin: "The Banking Commission's Report", p.43.
67. Butlin: "The Banking Commission's Report", p.45.
68. Butlin: "The Banking Commission's Report", p.45.
69. Butlin: "The Banking Commission's Report", p.46.
70. Butlin: "The Banking Commission's Report", p.47.
71. Butlin: "The Banking Commission's Report", p.48.
72. Butlin: "The Banking Commission's Report", p.48.
73. Butlin: "The Banking Commission's Report", p.50.
74. Butlin: "The Banking Commission's Report", p.42.
75. Hodson, H.V.: "The Australian Banking Commission", *The Banker*, Vol. XXXIX, July 1936, p.17.
76. Hodson: "The Australian Banking Commission" (1936), p.16.
77. Hodson: "The Australian Banking Commission" (1937), p.381.
78. Hodson: "The Australian Banking Commission" (1937), p.283.
79. Hodson: "The Australian Banking Commission" (1937), pp.284-85.
80. Hodson: "The Australian Banking Commission" (1937), p.285.

CHAPTER 6

1. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 7 September 1936.
2. Giblin, L.F.: *The Growth of a Central Bank: The Development of the Commonwealth Bank of Australia, 1924-1945* (Melbourne: Melbourne University Press, 1951), pp.226-27.
3. Giblin: *The Growth of a Central Bank*, pp.227-28.
4. CW.Parl.Debs., 30 November 1937, p.7.
5. See, for example, the statements made by C. Darvall in Royal Commission to Inquire into the Monetary and Banking Systems at Present in Operation in Australia, *Minutes of Evidence*, Canberra, 1936, p.313.
6. *The National Times*, week ending 3 February 1979.

NOTES TO PP. 207-217

7. *The Melbourne Age*, 21 July 1937.
8. *The Melbourne Age*, 21 July 1937.
9. *The Australasian Insurance and Banking Record*, 21 September 1937.
10. See that Davidson, in fact, had always been willing to follow the central bank only if he agreed with its views-in Holder, R.F.: *Bank of New South Wales: A History* (Sydney: Angus and Robertson Ltd., 1970), Vol.II, p.820.
11. Holder: *Bank of New South Wales*, Vol.II, p.831.
12. Sir Leslie Melville told the author on 23 April 1980 that the bankers exploited every available contact in government; Casey referred to Davidson's close association with Stevens and the fact that they often worked as a team in CP 23/CRS A1421, Bruce's papers, letter from Casey to Bruce, 2 November 1935.
13. *The Financial Post*, 16 October 1937.
14. *The Bankers' Magazine*, October 1937.
15. Quoted in *The Bankers' Magazine*, October 1937, p.491.
16. *The Bankers' Magazine*, October 1937, p.492.
17. *The Bankers' Magazine*, October 1937, pp.493-94.
18. *The Bankers' Magazine*, October 1937, p.494.
19. *The Bankers' Magazine*, October 1937, p.495.
20. *The Bankers' Magazine*, October 1937, pp.495-96.
21. *The Financial Times*, 25 August 1937.
22. *The Financial Times*, 25 August 1937.
23. *The Australasian Insurance and Banking Record*, 21 January 1938.
24. CA 11/CRS A571, item 37/4600, memo from McFarlane to Casey, 11 March 1938.
25. CA 11/CRS A571, item 38/731, Part 1, statement from the Associated Banks of Victoria - most likely composed by McConnan - to Casey, March 1938 (probably early March).

NOTES TO PP. 218-227

26. CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 9 March 1938.
27. CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 9 March 1938.
28. CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 9 March 1938.
29. *The Australasian Insurance and Banking Record*, 21 May 1938.
30. RBA C-3.7 - 4.8, note by Sanderson, undated, but probably written in mid-1938.
31. CA 11/CRS A571, item 38/731, Part 2, letter from Baillieu to Casey, 26 April 1938.
32. CA 11/CRS A571, item 38/731, Part 2, note from Davidson to Casey, 8 April 1938.
33. RBA C-3.7 - 4.8, memo from Shain to Melville, 13 April 1938.
34. CA 11/CRS A571, item 38/731, Part 2, letter from Casey to Reading, 4 April 1938.
35. CA 11/CRS A571, item 38/731, Part 2, note from Casey to Reading, 11 April 1938.
36. CA 11/CRS A571, item 38/731, Part 2, letter from Casey to Reading, 13 April 1938.
37. CA 11/AA 1968/482, item Box 1, memo from Reading to McFarlane, 23 September 1938.
38. See, for example, that Reading believed the banks' fears and threats could be safely disregarded in CA 11/CRS A571, item 38/731, Part 2, letter from Reading to Casey, 14 April 1938 and in CA 11/AA 1968/482, item Box 1, memo from Reading to Casey, 6 May 1938.
39. CA 11/CRS A571, item 38/731, Part 2, note from Casey to Reading, 13 April 1938.
40. *The Mail*, 7 May 1938.
41. H. of R. Debs., 18 May 1938; quoted in CA 11/CRS A571, item 38/731, Part 2.

NOTES TO PP. 228-235

42. *The Melbourne Herald*, 25 May 1938.
43. *The Melbourne Herald*, 25 May 1938.
44. *The Australasian Insurance and Banking Record*, 22 August 1938.
45. CA 12/CRS A461, item M344/1/2, letter from the President of the Melbourne Chamber of Commerce to Casey, 7 June 1938.
46. *The Australasian Insurance and Banking Record*, 22 August 1938.
47. CA 11/AA 1968/482, item Box 1, letter to Lewis, 27 June 1938.
48. *The Bathurst National Advocate*, 17 June 1938.
49. CA 11/AA 1968/482, item Box 1, letter from Reading to McFarlane, 18 July 1938.
50. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, undated, but probably written in mid-1938.
51. *Commerce*, 6 June 1938.
52. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, undated, probably mid-1938.
53. Quoted in CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
54. Referred to in CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
55. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
56. *Australian Banker*, 2 June 1938.
57. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
58. Referred to in CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
59. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
60. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.

NOTES TO PP. 235-240

61. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
62. CA 11/CRS A571, item 38/1805, note from the Secretary of the Queensland Taxpayers Association to Casey, 28 June 1938.
63. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
64. CA 11/AA 1968/482, item Box 1, memo by Commonwealth Bank officials, mid-1938.
65. Holder: *Bank of New South Wales*, Vol.II, p.830.

CHAPTER 7

1. Both Professor L.F. Crisp and L.F. Giblin, for example, play down the attempts which were made by the government to translate the Commission's recommendations into law; see Crisp, L.F.: *Ben Chifley: A Biography* (Melbourne: Longmans, Green and Co.Ltd., 1961), pp.171-72; Giblin, L.F.: *The Growth of a Central Bank: The Development of the Commonwealth Bank of Australia, 1924-1945* (Melbourne: Melbourne University Press, 1951), pp.229-36.
2. This was confirmed by Sir Roland Wilson in a personal interview on 12 May 1980, 4:30 - 5:50pm.
3. Casey, in fact, told Cabinet on 20 August 1937 that the mortgage bank recommendation had been adopted, and legislation would soon be ready for consideration by the government-in CA 11/AA 1967/482, item Box 1, memo by Casey; the sequence of the drafting process can be found in the Cabinet minutes.
4. CA 11/AA 1967/482, item Box 1, memo by Casey, 20 August 1937.
5. Quoted by Sawer, Geoffrey: *Australian Federal Politics and Law, 1929-1949* (Melbourne: Melbourne University Press, 1963), p.98.
6. CA 11/CRS A571, item 37/4600, memo by Casey, September 1937 (probably late September).

NOTES TO PP. 240-249

7. Casey told Cabinet that Treasury-Bank discussions had begun in September 1937-in CA 3/CRS A2694/XM, item Vol.18, Part 2, memo by Casey, 3 March 1938.
8. CA 11/CRS A571, item 38/731, Part 2, memo by the Commonwealth Bank Board, no date, but probably written in late 1937.
9. CW.Parl.Debs., 1 December 1937, p.56 (Curtin), p.58 (Lyons).
10. CA 3/CRS A2694/XM, item Vol.17, Part 3, Cabinet Minutes, 15 December 1937.
11. The anonymous newspaper article, dated 23 January 1938, is included in CA 12/CRS A460, item A5/56, Part 2.
12. CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 28 February 1938.
13. Melville's arguments are summarized in CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 9 March 1938.
14. Again, Melville's counter-arguments are summarized in CA 11/CRS A571, item 38/731, Part 1, memo by Melville, 9 March 1938.
15. Personal interview with Sir Leslie Melville, 23 April 1980, 9:30-10:35am.
16. CA 11/CRS A571, item 38/731, Part 2, letter from Reading to Casey, 14 April 1938.
17. Personal interview with Sir John Phillips, 5 May 1980, 6-8 o'clock pm.
18. Interview with Sir Roland Wilson, 12 May 1980.
19. CA 1332/MP 578/1, memo from Harris to Casey, no date, but probably mid to late March 1938.
20. CA 11/CRS A571, item 38/731, Part 2, notes from Harris to Casey, 25 March 1938.
21. Casey's memorandum to Cabinet, dated 3 March 1938, is included in CA 3/CRS A2694/XM, item Vol.18, Part 2.
22. CA 3/CRS A2694/XM, item Vol.18, Part 2, Cabinet minutes, 3 and 4 March 1938.
23. CP 23/CRS A1421, Bruce's papers, letter from Casey to Norman, 7 March 1938.

NOTES TO PP. 249-255

24. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 11 March 1938.
25. CA 3/CRS A2694/XM, item Vol.18, Part 2, Cabinet minutes, 19 March 1938; both Mr. J.Q. Ewens - on 25 April 1980 (2:30-3:05pm) - and Sir Roland Wilson - on 19 May 1980 (4-5:20pm) - believe that Cabinet probably agreed to the principles underlying the draft bill on 19 March 1938; discussions with Professor L.F. Crisp - on 1 April 1980 (4:10-4:30pm) - and the Honourable E.G. Whitlam - on 23 April 1980 (10:45-11 o'clock am) - regarding Cabinet procedure lent further support to this view.
26. CA 11/CRS A571, item 38/731, Part 2, memo from Casey to Knowles, 21 March 1938.
27. Interview with Sir John Phillips, 5 May 1980.
28. This was confirmed by Sir Roland Wilson (12 May 1980), Dr. H.C. Coombs (22 April 1980), Sir Leslie Melville (23 April 1980), and Sir John Phillips (5 May 1980); see the 1947 Treasury working paper in CA 11/AA 1967/482, item Box 4.
29. CP 23/CRS A1421, Bruce's papers, note from Casey to Norman, 7 March 1938.
30. CA 11/CRS A571, item 38/731, Part 2, notes by Casey, 29 March 1938.
31. See the bill, dated 19 April 1938 in CA 5/CRS A2863, item 45/14.
32. CA 11/CRS A571, item 38/731, Part 2, telegram from Gregory to Casey, 25 April 1938; CP 23/CRS A1421, Bruce's papers, letter from Niemeyer to Casey, 22 April 1938.
33. CP 23/CRS A1421, Bruce's papers, note from Casey to Bruce, 3 May 1938.
34. CP 23/CRS A1421, Bruce's papers, letter from Casey to Bruce, 3 May 1938.

NOTES TO PP. 256-261

35. CP 23/CRS A1421, Bruce's papers, memo from Casey to Bruce, 17 November 1937.
36. CP 23/CRS A1421, Bruce's papers, letter from Casey to Norman, 7 March 1938.
37. CW.Parl.Debs., 20 October 1938, p.952.
38. Referred to by Sir Roland Wilson, 19 May 1980; for an example of Bank-Treasury disagreement over the details of projected legislation, see CA 11/AA 1968/482, item Box 1, note from Reading to Casey, 6 May 1938.
39. Interviews with Sir Leslie Melville (23 April 1980), Sir Roland Wilson (12 May 1980), and Dr. H.C. Coombs (22 April 1980, 11-11:30am).
40. CA 11/AA 1967/482, item Box 1, letter from Sheehan to Wilson, 18 May 1938.
41. Interviews with Dr.H.C. Coombs (22 April 1980), Sir Leslie Melville (23 April 1980), and Sir Roland Wilson (19 May 1980).
42. *The Sydney Morning Herald*, 19 June 1976.
43. See the statement made by Lyons in July 1938 in *The Argus*, 23 July 1938; his later announcement was reported in *The Melbourne Age*, 10 August 1938.
44. Interview with Sir Leslie Melville, 23 April 1980.
45. Casey's note to Bruce, dated 17 December 1937, is included in CP 23/CRS A1421, Bruce's papers.
46. Interview with Sir Roland Wilson, 12 May 1980.
47. Quoted by Baillieu in CA 11/CRS A571, item 38/731, Part 2, letter from Baillieu to Casey, 26 April 1938.
48. Interview with Sir Roland Wilson, 19 May 1980.
49. CA 11/CRS A571, item 38/731, Part 2, note from Casey to Reading, 13 April 1938.
50. CA 11/AA 1967/482, item Box 1, note from Sheehan to Wilson, 18 May 1938.
51. Interview with Dr.H.C.Coombs, 22 April 1980; see Giblin's

NOTES TO PP. 262-267

memorandum, dated September 1938, in CA 11/AA 1968/482, item Box 1.
52. Interview with Sir Roland Wilson, 19 May 1980.
53. Interview with Dr.H.C. Coombs, 22 April 1980.
54. CA 11/CRS A571, item 38/731, Part 2, note from Reading to Casey, 14 April 1938.
55. Several of Casey's commitments are discussed in Giblin: *The Growth of a Central Bank*, p.233.
56. Interview with Sir Roland Wilson, 12 May 1980.
57. Casey's change of plan was referred to in CA 11/AA 1967/482, item Box 1, letter from Sheehan to Wilson, 18 May 1938.
58. CA 11/AA 1967/482, item Box 1, note from Sheehan to Wilson, 18 May 1938.
59. CA 11/AA 1967/482, item 7, memo by Casey, undated, but probably composed in November 1938.
60. Interview with Dr. H.C. Coombs, 22 April 1980.
61. CA 11/AA 1967/482, item Box 1, letter from Sheehan to Wilson, 18 May 1938.
62. See *The Sydney Morning Herald*, 7 and 8 October 1938.
63. CA 11/AA 1967/482, item 10, letter from Wilson to Spender, 15 April 1940.
64. See that the Bank of N.S.W. opposed the bill in Holder, R.F.: *Bank of New South Wales: A History* (Sydney: Angus and Robertson Ltd., 1970), Vol.II, p.830; Sir Leslie Melville admitted his lack of concern for the bill on 23 April 1980.
65. See *The Sydney Morning Herald*, 7 October 1938; Sawer: *Australian Federal Politics and Law, 1929-1949*, p.113.
66. Sawer: *Australian Federal Politics and Law, 1929-1949*, p.113.
67. Referred to in CA 11/AA 1967/482, item Box 1, circular letter from Casey to Members of Parliament, 3 April 1939.

68. CA 11/AA 1968/482, item Box 1, statements by the government, 15 December 1938.
69. Quoted by Casey in CA 11/AA 1967/482, item Box 1, memo from Casey to McFarlane, 28 February 1939.
70. Giblin: *The Growth of a Central Bank,* p.236.
71. Giblin: *The Growth of a Central Bank,* p.236.
72. CA 11/AA 1967/482, item Box 1, note from Wilson to McFarlane, 29 March 1939.
73. See RBA C-3.7 - 4.10, memo from Phillips to Wilson, 12 April 1939.
74. Hazlehurst, Cameron: *Menzies Observed* (Sydney: George Allen and Unwin Australia Pty. Ltd., 1979), pp.157-64.
75. Interview with Sir Roland Wilson, 12 May 1980.
76. *The Australian Insurance and Banking Record,* 21 June 1939.
77. This was acknowledged in a telephone conversation with Sir Percy Spender on 4 May 1980.
78. CA 11/AA 1968/391, item 92, notes by McFarlane, 1 May 1939.
79. Referred to in CA 12/CRS A461, item 0344/1/2, letter from the Secretary of the Department of Commerce to the Secretary of the Prime Minister's Department, 14 February 1941.
80. CA 11/AA 1968/391, item 92, memo from Mauldon to McFarlane, 1 May 1939.
81. CA 11/AA 1969/391, item 92, notes by McFarlane, 1 May 1939.
82. RBA C-3.7. - 4.10, letter from Wilson to Phillips, 30 May 1939.
83. The draft legislation dated 30 May 1939 can be seen in CA 5/CRS A2863, item 45/14.
84. RBA C-3.7 - 4.10, letter from Wilson to Phillips, 30 May 1939.
85. Interview with Sir Leslie Melville, 23 April 1980.
86. Giblin: *The Growth of a Central Bank,* pp.281-83.
87. Quoted by Giblin: *The Growth of a Central Bank,* pp.284-85; see also CA 11/AA 1967/482, item Box 4, speech by Chifley, 15 October 1947.

88. Quoted by Giblin: *The Growth of a Central Bank,* p.286.
89. See, for example, CW.Parl.Debs., 30 November 1944, p.2398.
90. Interview with Sir John Phillips, 5 May 1980.
91. See, for example, CW.Parl.Debs., 6 June 1945, p.2642.
92. Quoted in CA 11/CRS A571, item 58/464, Part 2, notes prepared for Chifley, undated, but they were probably composed in mid-1945.
93. CW.Parl.Debs., 30 May 1945, p.2278.
94. See the 1945 Commonwealth Bank Bill in CA 5/CRS A2863, item 45/13 and the 1945 Banking Bill in CA 5/CRS A2863, item 45/14.

BIBLIOGRAPHY

Unpublished Papers

Australian Archives Office Papers. The materials used are:

CA 3 Cabinet Secretariat I, 1901-1968:

CRS A2694/XM, Lyons and Page Ministries [folders and bundles of] minutes and submissions (not complete), 1932-1939

CA 5 Attorney-General's Department, 1901-:

CRS A432, Correspondence files, annual single number series, 1929-

CRS A467, Special files, SF single number series, 1906-1952, SF 5, financial agreements, 1932

CRS A472, Correspondence files, W (war) single number series, 1939-1949

CRS A2863, Bill files, 1901-

CA 11 Department of the Treasury, 1901-1976 :

CP4/5, Papers of the Right Honourable R.G. Casey, 1935-1940

CP197/1, Correspondence between the Treasurer and the Resident Minister in London on conversion of London loans, 1932-1933

CP503/1, Papers of the Right Honourable R.G. Casey, 1930-1936

CRS A571, Correspondence files, annual single number series, 1901-1976

AA 1967/480, Agenda and meetings of banking establishments, 1939-1965

AA 1967/482, Commerce and Industry Branch: Drafts and working papers on banking legislation, 1938-1963

AA 1968/390, Papers from the Secretary's Office, 1896-1952

AA 1968/391, Papers from the Secretary's Office, 1916-1958

AA 1968/482, Commerce and Trade Branch: Drafts and working papers on banking legislation, 1938-1963

CA 12 Prime Minister's Department, 1911-1971:

CRS A458, Correspondence files, multiple number series (second system) 1924-1933

CRS A460, Correspondence files, class 5 (Royal Commissions), c.1921-1950

CRS A461, Correspondence files, multiple number series (third system), 1934-1950

CP 23 Stanley Melbourne Bruce, 1883-1967 :

CRS A1421, Personal papers of Stanley Melbourne Bruce, folders of correspondence with R.G. Casey, M.P. (Assistant Treasurer 1933-1935, Treasurer 1935-1939), 1933-1938

CA 1332 Royal Commission on Monetary and Banking Systems, 15 Nov. 1935-Jul.16 1937:

MP 578/1, Personal papers of Mr. W.I. Harris relating to banking and monetary policy affecting the national economy, 1911-1945

CRS A1920, Minute Book, 1935-1937

Casey Papers, Australian National Library

Reserve Bank of Australia Archives Office Papers. The materials used are:

RBA C-3.7 - 4.2, Banking Commission, questionnaire to the Commonwealth Bank

RBA C-3.7 - 4.4, Banking Commission, correspondence Melville-Copland

RBA C-3.7 - 4.8, Banking Commission

RBA C-3.7 - 4.10, Banking legislation, 1936-1939, statistical F

RBA C-3.7 - 4.11, Royal Commission on Monetary and Banking Systems, J.G. Phillips' papers, 1936

RBA S-36-8, Secretary's records, Royal Commission on Monetary and Banking Systems in Australia, evidence, Bank of New South Wales and Bank of Australasia, 1936

RBA S-36-9, Secretary's records, Royal Commission on Monetary and Banking Systems in Australia, evidence, Commonwealth Bank, Note Issue Department, 1936

RBA S-36-10, Secretary's records, Royal Commission on Monetary and Banking Systems in Australia, evidence, Commonwealth Bank/Savings Bank, 1936

RBA S-36-15, Secretary's records, Royal Commission on Monetary and Banking Systems in Australia, press cuttings, 1935-1936

RBA S-36-17, Secretary's records, Royal Commission on Monetary and Banking Systems in Australia, comments on Report, 1937

RBA GGM-37-1, Governors and senior personnel, L.G. Melville, Royal Commission on Banking Systems, 1936-1938

Serial publications

The Advertiser

The Age

The Argus

The Australasian Insurance and Banking Record

Australian Banker

The Australian Financial Review

The Bankers' Magazine

The Bathurst National Advocate

The Bulletin

The Canberra Times

Commerce

Commonwealth Parliamentary Debates

Commonwealth Parliamentary Handbook

The Daily Telegraph

The Economist

The Financial News

The Financial Post

The Financial Times

The Labor Daily

The (London) Daily Telegraph

The Mail

The Melbourne Herald

The Montreal Star

The Morning Post

The National Times

The New Times

The Round Table

The Statist

The St. John Citizen

The St. John Telegraph

The Sydney Morning Herald

The Times

The West Australian

Who's Who in Australia

The Windsor, Richmond, Riverstone, and Kurrajong Carrier

Interviews and correspondence

Sir Hermann Black (telephone conversation), 4 May 1980

The Lady Casey (correspondence), 18 April 1980

Dr. H.C. Coombs (interview), 22 April 1980

Emeritus Professor L.F. Crisp (interview), 1 April 1980

Mr. J.Q. Ewens (interview), 25 April 1980

Dr. L.J. Hume (interview), 28 March 1980

The Right Honourable Sir John McEwen (correspondence), 16 April 1980

Sir Leslie Melville (interview), 23 April 1980

Sir John Phillips (interview), 5 May 1980

The Right Honourable Sir Percy Spender (telephone conversation), 4 May 1980

The Honourable E.G. Whitlam (interviews), 2 and 23 April 1980

Sir Roland Wilson (interviews), 12 and 19 May 1980

Books, articles, and official reports

Abbott, J.P.: "Exchange and the Commonwealth Bank", *The Australian Quarterly*, Vol.IV, September 1932.

Amos, D.J.: *The Story of the Commonwealth Bank* (Eleventh edition, Adelaide: E.J. McAlister and Co., 1943).

Arndt, H.W.: *The Australian Trading Banks* (Melbourne: F.W. Cheshire, 1957).

Arndt, H.W.: *The Banks and the Capital Market: The English, Scottish and Australian Bank Limited, Research Lecture - 1958* (Brisbane: University of Queensland Press, 1960).

Arndt, H.W. and Stammer, D.W.: *The Australian Trading Banks* (Fourth edition, Melbourne: Cheshire Publishing Pty.Ltd., 1973).

Bellerby, J.R.: "The Monetary Policy of the Future", *The Economic Journal*, Vol. XXXIV, June 1924.

Blainey, Geoffrey: *Gold and Paper: A History of the National Bank of Australasia Limited* (Melbourne: Georgian House Pty.Ltd., 1958).

Butlin, S.J.: "The Banking Commission's Report", *The Australian Quarterly*, Vol.IX, September 1937.

Foundations of the Australian Monetary System, 1788-1851 (Sydney: Sydney University Press, 1953).

"Richard Charles Mills", *The Economic Record*, Vol.XXIX, November 1953.

War Economy, 1939-1942 (Canberra: Australian War Memorial, 1955).

Australia and New Zealand Bank: The Bank of Australasia and the Union Bank of Australia Limited, 1828-1951 (Melbourne: Longmans, Green and Co. Ltd., 1961)

and Schedvin, C.B.: *War Economy, 1942-1945* (Canberra, Australian War Memorial, 1977).

Cannan, Edwin and others: "Annual Meeting of the Royal Economic Society - Discussion on Monetary Reform", *The Economic Journal*, Vol. XXXIV, June 1924.

Committee of Economic Enquiry (Vernon Committee), *Report*, Vol.1, Melbourne, 1965.

Committee on Finance and Industry (Macmillan Committee), *Report*, Cmd. 3897, H.M.S.O., London, 1931.

Committee of Inquiry into the Australian Financial System, *Interim Report*, Canberra, 1980.

Committee on the Working of the Monetary System, *Report*, Cmnd. 827, H.M.S.O., London, 1959.

The Commonwealth Banking Corporation: Its Background, History and Present Operations (Sydney: 1980).

Commonwealth Bureau of Census and Statistics, *Finance Bulletin No.27*, Canberra, 1936.

Commonwealth Treasury, "Treasury Paper No.1: Some General Issues in the Functioning of Financial Markets", Submission to the Committee of Inquiry into the Australian Financial System (Campbell Committee), September 1979.

"Treasury Paper No.2: Monetary Policy", Submission to the Committee of Inquiry into the Australian Financial System (Campbell Committee), September 1979.

Coombs, H.C.: *The Development of Monetary Policy in Australia: The English, Scottish and Australian Bank Limited, Research Lecture - 1954* (Brisbane: University of Queensland Press, 1955).

Copland, D.B.: "Australian Banking and Exchange", *The Economic Record*, Vol.I, November 1925.

What Have the Banks Done? An Essay on Banking Policy (Sydney: Angus and Robertson Ltd., 1931).

"Australian Banking Policy in the Crisis", *The Economic Journal*, Vol.XLII, December 1932.

Credit and Currency Control: With Special Reference to Australia (Second edition, Melbourne: Melbourne University Press, 1932).

"Some Problems of Australian Banking", *The Economic Journal*, Vol.XLVII, December 1937.

"The Commonwealth Bank ; Co-operation or Compulsion", *The Economic Record*, Vol.XV, April 1939.

Crisp, L.F.: *Ben Chifley: A Biography* (Melbourne: Longmans, Green and Co.Ltd., 1961).

Davidson, A.C.: *Central Reserve Banking: A Paper Read Before the Perth (W.A.) Branch of the Economic Society of Australia and New Zealand on 28th June, 1928* (Sydney: Angus and Robertson Ltd., 1929).

"The Gold Standard in Australia", *The Australian Quarterly*, Vol.I, December 1929.

Davis, K.T. and Lewis, M.K.: *Monetary Policy in Australia* (Melbourne: Longman Cheshire Pty.Ltd., 1980).

Einzig, Paul: *A Textbook on Monetary Policy* (Third edition, London: The Macmillan Press Ltd., 1972).

Encel, S.: *Cabinet Government in Australia* (Melbourne: Melbourne University Press, 1962).

Faulkner, C.C.: *The Commonwealth Bank of Australia* (Sydney: The Commonwealth Bank of Australia, 1923).

Fisher, A.G.B.: "Twentieth Century Banking in Australia", *The Economic Record,* Vol.XIII, December 1937.

Fisher, Douglas: *Money and Banking* (Homewood: Richard D. Irwin, Inc., 1971).

Giblin, L.F.: *The Growth of a Central Bank: The Development of the Commonwealth Bank of Australia, 1924-1945* (Melbourne: Melbourne University Press, 1951).

Gifford, J.K. and Wood, J.V.: *Australian Banking* (Brisbane: University of Queensland Press, 1947).

and Reitsma, A.J.: *Australian Banking* (Second edition, Brisbane: University of Queensland Press, 1955).

Gollan, Robin: *The Commonwealth Bank of Australia: Origins and Early History* (Canberra: Australian National University Press, 1968).

Halm, G.N.: *Economics of Money and Banking* (Revised edition, Homewood: Richard D. Irwin, Inc., 1961).

Harvey, Ernest:"Central Banking", *The Economic Record,* Vol.III, May 1927.

Hawke, G.R.: "The Government and the Depression of the 1930s in New Zealand: An Essay Towards a Revision", *Australian Economic History Review,* Vol.XIII, September 1973.

Hazelhurst, Cameron: *Menzies Observed* (Sydney: George Allen and Unwin Australia Pty.Ltd., 1979).

Hodson, H.V.: "The Australian Banking Commission", *The Banker,* Vol. XXXIX, July 1936.

"The Australian Banking Commission", *The Banker,* Vol.XLIII, September 1937.

Holder, R.F.: *Bank of New South Wales: A History* (Sydney: Angus and Robertson Ltd., 1970), 2 Vols.

Isles, K.S.: "Australian Monetary Policy", *The Economic Record,* Vol. VII, May 1931.

"Australian Monetary Policy Reconsidered", *The Economic Record,* Vol. VIII, December 1932.

Jackson, R.V.: *Australian Economic Development in the Nineteenth Century* (Canberra: Australian National University Press, 1977).

Jauncey, L.C.: *Australia's Government Bank* (London: Cranley and Day Ltd., 1933).

Kirschen, E.S. and others: *Economic Policy In Our Time* (Amsterdam: North Holland Publishing Co., 1964), Vol.I.

La Nauze, J.A.: "Richard Charles Mills (1886-1952)", *The Economic Record,* Vol. XXVIII, November 1952.

McCallum, J.A.: "Public Control of Banking", *The Australian Quarterly,* Vol. VI, June 1934.

McConnell, W.K.: *The Origin and Development of the Commonwealth Bank* (Sydney: Institute of Public Affairs (N.S.W.), 1945).

Mackay, A.L.G.: *The Australian Banking and Credit System* (London: P.S. King and Son Ltd., 1931).

May, A.L.: *The Battle for the Banks* (Sydney: Sydney University Press, 1968).

Melville, L.G.: "Federal Banking and Exchange Proposals", *The Australian Quarterly,* Vol.II, December 1930.

Millar, T.B. (ed.): *Australian Foreign Minister: The Diaries of R.G. Casey, 1951-60* (London: William Collins Sons and Co. Ltd., 1972).

New Zealand Monetary Committee, *Report,* Wellington, 1934.

Page, Earle: *Truant Surgeon: The Inside Story of Forty Years of Australian Political Life* (Sydney: Angus and Robertson Ltd., 1963).

Reserve Bank of Australia (Sydney: 1966).

Reserve Bank of Australia: Functions and Operations (Third edition, Sydney: 1977).

Reserve Bank of Australia, "The Reserve Bank and Its Role in the Australian Financial System (Paper No.2)", Submission to the Committee of Inquiry into the Australian Financial System (Campbell Committee), 1979.

"Monetary Policy and Economic Management (Paper No.8)", Submission to the Committee of Inquiry into the Australian Financial System (Campbell Committee), 1979.

Rouch, B.A : "What the Crisis Has

Australia", *The Econ*

Royal Commission on Banking

Ottawa, 1933.

Royal Commission on Banking a

Royal Commission to Inquire

at Present in Opera

2 Vols., Canberra, 19

Report, Canberra, 193

Runcie, Neil (ed.): A

Readings (Lond

Vol.I.

Samuelson, P.A.,

Australian

P

Sawer, Geoffrey

Australian

Sch