AUSTRALIA AND NEW ZEALAND BANK

S. J. BUTLIN

AUSTRALIA AND
NEW ZEALAND BANK

The Armorial Bearings of
AUSTRALIA AND NEW ZEALAND BANK LIMITED

College of Arms,
London.

Anthony R. Wagner.
Richmond Herald

AUSTRALIA AND NEW ZEALAND BANK

The Bank of Australasia and the Union Bank of Australia Limited 1828-1951

S. J. BUTLIN
B.Ec. (Sydney), M.A., Litt.D. (Cantab.)
Professor of Economics, University of Sydney

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FOREWORD

THE HON. SIR GEOFFREY C. GIBBS, K.C.M.G.
Chairman of Directors

When the Bank of Australasia and the Union Bank of Australia Limited were merged in 1951, two names which had been prominent in Australian banking since 1835 went out of existence. The two banks, however, were perpetuated in the lusty infant, Australia and New Zealand Bank Limited, which took their place.

It was then resolved that a history of the two banks should be written while their names were still familiar and while A.N.Z. Bank was still young. The tenth Anniversary of the new Bank was selected as the most appropriate date for publication.

The Bank of Australasia and the Union Bank of Australia were among the earliest banks established in the young colonies of Australia and New Zealand. Their history is in large measure the history of Australia and New Zealand. They took a leading part in the development of the colonies they served and Professor S. J. Butlin has faithfully traced their evolution from the early arduous days of banking in small colonial settlements.

It was purely by accident that the Bank of Australasia and the Union Bank of Australia were established at the time when joint stock banking was just coming into existence in the United Kingdom. But it was no accident that they were formed to operate in distant colonies. It was, for the historian, a happy circumstance that the two banks, with their Head Offices and Boards of Directors in London, carried on their business 12,000 miles away with the result that their correspondence, faithfully preserved, not only gives a full account of activity over the whole of the period of their existence, but also many of the reasons for decisions which had been made and the full circumstances of the changes in business conditions which influenced their fortunes and those of the countries in which they operated.

It was because of the historical significance of the two banks in the economic growth of Australia and New Zealand, that Professor Butlin, a noted scholar of banking history, was invited to write their story in the expectation that it would emerge as an integrated history of the development of banking, finance, commerce and industry in the colonies which have since become the dominions of Australia and New Zealand.

Those of us who have been associated with Professor Butlin in his work feel that he has achieved this purpose in the fullest possible degree. We are proud of the long history of A.N.Z. Bank through its precursors, the Bank of Australasia and the Union Bank, and indeed the Cornwall and Tamar Banks and the Bank of South Australia, which contributed so much to the growth and development of the two great countries which A.N.Z. Bank continues to serve.

Frontispiece

The Grant of Arms was presented to the Directors by the officers of A.N.Z. Bank who had been on the staffs of the two old banks. The following extract from the Grant issued by the College of Arms on 6th September 1960 gives the blazon in detail:

"Do grant and assign unto Australia and New Zealand Bank Limited the Arms following that is to say: Chequy Or and Azure on a Chief Gold three Mullets of eight points also Azure; And for the Crest, On a Wreath of the Colours a three masted Ship proper sails set Azure each charged with a Mullet of eight points Or, the Pennons and Flag flying Gules . . . and further grant and assign the Supporters following that is to say: On the dexter side an Heraldic Antelope Argent attired and crined Or, and on the sinister side a Unicorn also Argent armed and crined Gold both collared Gules."

The design is based on the coloured drawing submitted by Mr. H. K. Hall, the Bank's Archivist, and is explained as follows:

The main shield bears a direct relationship to the well-known A.N.Z Bank symbol of the chequerboard with stars, while the crest, a three masted ship, signifies the overseas origin of both banks. The initial letters of the supporters—the Antelope and Unicorn—are allusions to represent the Australasia and Union Banks, whilst the motto (Tenacious of Purpose) is the family motto of the Honourable Sir Geoffrey C. Gibbs, K.C.M.G., the first Chairman of the Bank.

PREFACE

Australia and New Zealand Bank Limited was created in 1951 by the merging of the Bank of Australasia and the Union Bank of Australia. Both were incorporated in and mainly capitalized from Britain, and their head offices were in London. The former began business in 1835, and in its early years absorbed two small banks: the Cornwall Bank in Launceston, and the Bank of Western Australia in Perth. The latter commenced in 1837, absorbing both the Tamar Bank and Archers Gilles & Company in Launceston, the Bathurst Bank (New South Wales) and the Bank of South Australia, itself a 'British' bank, and the first bank in South Australia.

This book is an account of the history of eight banks which Australia and New Zealand Bank counts as its ancestors. It is not meant, at least not primarily, for specialists in history or economics, but for a wider audience. The materials used are vast, scattered, and extremely diverse, mostly in manuscript, and largely not available for public reference. To have documented the work with a wealth of footnotes might have satisfied a scholar's conscience, but for the general reader would have interposed an unnecessary and discouraging barrier, while the professional historian or economist would have been frustrated and irritated by voluminous references to source material which could not be consulted. Footnotes have therefore been ruthlessly excluded, references to quotations being woven into the text.

Source material comprises the great wealth of the Bank's own records, divided between London, Australia and New Zealand; material in the Public Record Office in London, and the official archives of New Zealand and every Australian State; newspapers, books, parliamentary papers, and other material. No one person could personally read through everything to locate and extract what is relevant, and I have necessarily depended upon various forms of assistance. I have visited every depository in which relevant records exist, and handled every class of material involved, so that I could work from other people's extracts with understanding of the source. A great deal of it I have explored personally, but much of it has come to me in the form of verbatim extracts located for me by a number of people working to precise and detailed instructions. I have been well served by these assistants without whose dredging and drudging the task would have been impossible.

Mr W. J. McCarty, now of the University of New South Wales, did invaluable pioneer work in the original searching for and assembling of the Bank's records. He was succeeded by E. C. Oakley who, after retirement as an Inspector of the Bank, displayed an unsuspected flair for historical research from which he derived enormous enjoyment, terminated unhappily by his death. Mr H. K. Hall, another retired officer, took over the care of the Bank's archives and, to his workmanlike help as my chief assistant in Melbourne, added special contributions by reason of his skill as a photographer. Several of the illustrations are his work. In New Zealand Mr G. M. Miller, of the University of Canterbury, has done a vast amount of delving in the New Zealand records, mainly of the Union Bank. Mr J. D. S. MacLeod, then economist to the New Zealand Division, smoothed the way for my own work in New Zealand, whilst Mr J. N. D. Paine made work in London extremely pleasant as well as profitable. Many other bank officers in all three countries have helped me in a multitude of ways. Most of all I am indebted to Mr D. H. Merry, the Bank's Chief Economist, who originally persuaded me to undertake the work, and in the midst of an extremely busy life has always been available to discuss the work as it progressed.

To staffs of libraries and Archives of all Australian States and of New Zealand, and of the Public Record Office, in London and at Berkhamsted, I owe a great deal, especially to Miss M. Lukis of the J. S. Battye Library, Perth, who has met promptly and efficiently my many requests by correspondence.

Finally Miss J. D. Fisher worked with me throughout, especially in assembly of statistical material which provides authority for many statements in tracking down and authenticating many of the illustrations, in preparing the typescript for the printer, in reading proofs, and making the index.

S. J. BUTLIN

University of Sydney
1 May 1960

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Illustrations for which no source is stated are from material in the possession of Australia and New Zealand Bank Limited.

Diagrams

CHAPTER 1

THE ENTRY OF THE BRITISH BANKS

THE merger in 1951 of the Bank of Australasia and the Union Bank of Australia fused together two institutions whose origin and development are of peculiar many-sided interest. They have special importance in the history of banking in Australia and New Zealand. They were leading examples of the 'Imperial' banks, that is banks originating in Britain, but operating primarily overseas. Aspects of their development are significant in the study of banking in general. Theirs is no local colonial story nor confined to the significance merely of a house history.

Its beginning may be dated legitimately in 1828, the year in which was established the Cornwall Bank in Launceston, Tasmania, destined to be absorbed as the first Launceston branch of the Bank of Australasia. In that year banking in the Australian colonies was in its early primitive phase. British settlement was confined, in New South Wales, to Sydney and a sparsely settled hinterland, and in Tasmania, to a narrow strip between Hobart and Launceston. With New Zealand there was sporadic contact by missionaries, whalers and less reputable adventurers, but no systematic or official settlement. Technically New South Wales meant then the whole mainland west to the 135th meridian. Modern Queensland, Victoria, and South Australia had yet to be carved out; Western Australia was to see in 1829 the first meagre efforts at colonization. The population of New South Wales was 36,598 and of Tasmania 18,128; a majority were convicts or of convict origin.

In Sydney were two banks so named: the Bank of New South Wales and the Bank of Australia, together with one merchant firm, Cooper & Levey of the Waterloo Warehouse, which dabbled in banking. To these was added in 1834 the Commercial Banking Company of Sydney. Tasmania boasted more: the Bank of Van Diemen's Land and the Derwent Bank in Hobart, as well as the small Tasmanian Bank then almost out of operation. (It had disappeared by the next year.) In Launceston was the newly established Cornwall Bank. By 1834 it was joined by the Tamar Bank, created by the separation of a branch of the Bank of Van Diemen's Land. The year 1829 saw also the establishment of the Commercial Bank of Tasmania.

The number of these institutions in such small communities points to an obvious truth: they were small local institutions with many of the characteristics of English country banks of the same period. Their resources were not drawn from deposits but largely confined to subscribed capital and note issue. Their lending was predominantly concerned, directly or indirectly, with the finance of oversea trade. Their policies were conservative and they were more interested in protecting their restricted local territories from potential local competitors than with adventuring in the finance of the rapid development which was imminent. Branches were virtually unknown. There was the one in Launceston already noted, which was not maintained, and there may have been one other brief experiment by the Tasmanian Bank. Even the Bank of New South Wales operated from 1817 to 1850 in a single office in Sydney.

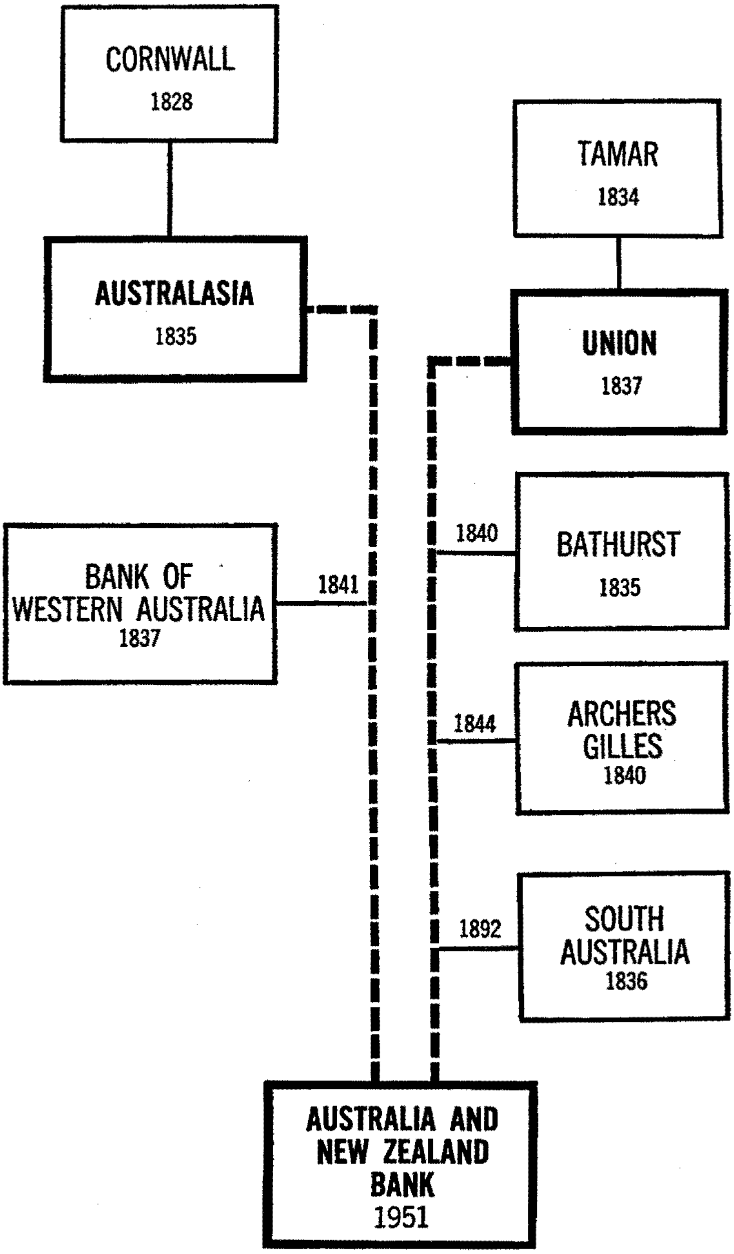
The appearance in the eighteen thirties of the English banks—'Anglo' was the half-fearful, half-derisive label attached by the colonials—was notable in many ways. The colonies were entering on an explosive phase of economic development, predominantly a great pastoral expansion which established wool as the staple Australian industry, as it swept sheep over virtually all those parts of New South Wales and (modern) Victoria where sheep could thrive. In the feverish boom South Australia was settled and New Zealand annexed, although not primarily as sheep runs. Ten years from 1830 to 1840 had transformed the penal colonies of New South Wales and Tasmania. Their population had grown from 70,581 to 175,462. A small free population, when the Cornwall Bank opened in 1828, was being grateful for a tiny instalment of representation in the 1828 New South Wales Constitution, wrangling with Governors as to whether a newspaper might criticize their policies, and arguing as to the feasibility of trial by jury in a community of convicts and ex-convicts. Within ten years, when the Union Bank was barely born, a free population outnumbering convicts was scrambling for opportunities to profit from the golden fleece, brushing aside contemptuously the efforts of governors to contain unauthorized squatting on Crown land, belabouring the same governors for delay in subsidizing immigration of the labour urgently wanted for more and yet more sheep runs. Penal settlements with a free fringe uneasily tolerated had become free enterprise economies embarrassed by penal appendages.

The material basis of that vast expansion was the classical trilogy—land, labour and capital. Pastoral land was to be had for the occupation and small fees to the Crown. Labour, not always efficient and never in adequate supply, was to be found in ex-convicts and assisted migrants from Britain. Colonial Office and governors' patronage in the form of land grants was impatiently swept aside in favour of sale and permissive occupancy, and a new land revenue was, with over-neat logic, earmarked to finance assisted migration to provide labour. Local capital resources were grossly inadequate for the opportunities that glittered before colonial eyes. The answer was found in the Anglo banks and in British mortgage companies. They provided, both in themselves and by the spur of aggressive competition, a transformed banking system to mobilise colonial resources more efficiently, furnished large resources in their own capital, and supplied new channels for the transmission of British funds for direct investment in the colonies.

Only one colonial bank, the Derwent, was enterprising enough to offer the same functions from a colonial head office, by seeking British deposits, attempting to develop the rudimentary exchange mechanism, and acting as investment agent. But vision was not disciplined by foresight and within a decade depression brought disaster. In any event, colonial institutions could scarcely hope to compete in the British capital market at this time (things were different thirty years later) with the companies forming in Britain: the Bank of Australasia in 1835; the Bank of South Australia, attached to the South Australian Company, in 1836; the Union Bank in 1837; the Australian Trust Company and the British Colonial Bank & Loan Company in 1839; and the Scottish Australian Investment Company in 1840—to say nothing of the abortive British & Australian Bank and the unhappy Royal Bank of Benjamin Boyd. Colonial enterprise was spent in purely local institutions—the Tamar Bank in 1832, Commercial Banking Company of Sydney in 1834, Bathurst Bank in 1835, Bank of Western Australia in 1837, Sydney Bank and Port Phillip Bank in 1839, as well as a spate of projects in small country centres. Except for the Commercial Banking Company of Sydney not one of these survived five years.

The Anglos transformed the banking system in many ways. Much must, it is true, be allowed for the decade of boom which was in its first upward surge when the Australasia was projected. The banking system would have expanded and changed its nature in any case. But it was the Anglos who largely determined the shape of the changes, who led the way and set the pattern which belatedly the colonial banks were driven to follow.

Thus, as has been noted, branches were nearly unknown and, in 1828, their absence could have an obvious explanation. With a small population which, outside the few metropolitan centres (at



Predecessors of Australia and New Zealand Bank that date one could reckon only Sydney, Hobart and Launceston) was scattered thinly over wide areas of pastoral and farming land, it was evident that both the need and the opportunities for branches were few. But in the 'thirties both need and opportunity emerged in the growth and development of country towns. The colonials were slow to see or to seize the chances. The Commercial Banking Company of Sydney is the only real exception and even it was so little convinced of the occasion for branches that it abandoned all it had in the depression of the eighteen forties.

By contrast, the Australasia and Union were from the outset organized as confederations of main branches, co-ordinated by a chief officer of each bank in the colonies and more remotely by a board in London. Each contemplated from the outset expansion by branches associated with the main ones, and, while each was cautious in making commitments in small country towns, neither failed to seize any clear opportunity. The colonials, with the temporary exception of the Commercial Banking Company of Sydney, ignored these changes so that by the mid-forties the only branches were those of the Anglos and, not until the next great period of growth in the golden decade of the 'fifties, were the colonials interested. By then branch banking was the established Australasian type.

Again the importance of deposits for banking resources was, to banks originating in Britain, self-evident. In general, the colonials had been content to accept deposits when offered, but had not sought them and did not offer interest. The Commercial Banking Company of Sydney once more was, in 1834, an innovator in making it a matter of policy to attract deposits by the payment of interest. The colonials were, in general, content to rely on shareholders' funds and on note issue, and even the early years of the pastoral boom did not greatly change their policies. But the great boom of the 'thirties could not be financed thus. Local capital formation was less important than British investment, but, as it grew in the boom, was most readily mobilised through the channel of bank deposits which, as the expansion became most rapid, had to be offered ever higher rates. There ensued a fierce competition between the banks for deposits including the offer of 4 per cent on the daily balance of current accounts, a competition in which the Anglos were the leaders. When the wreckage of the subsequent slump had been cleared, the banking system, Anglo and colonial alike, emerged as one in which deposits were the primary source of banking funds.

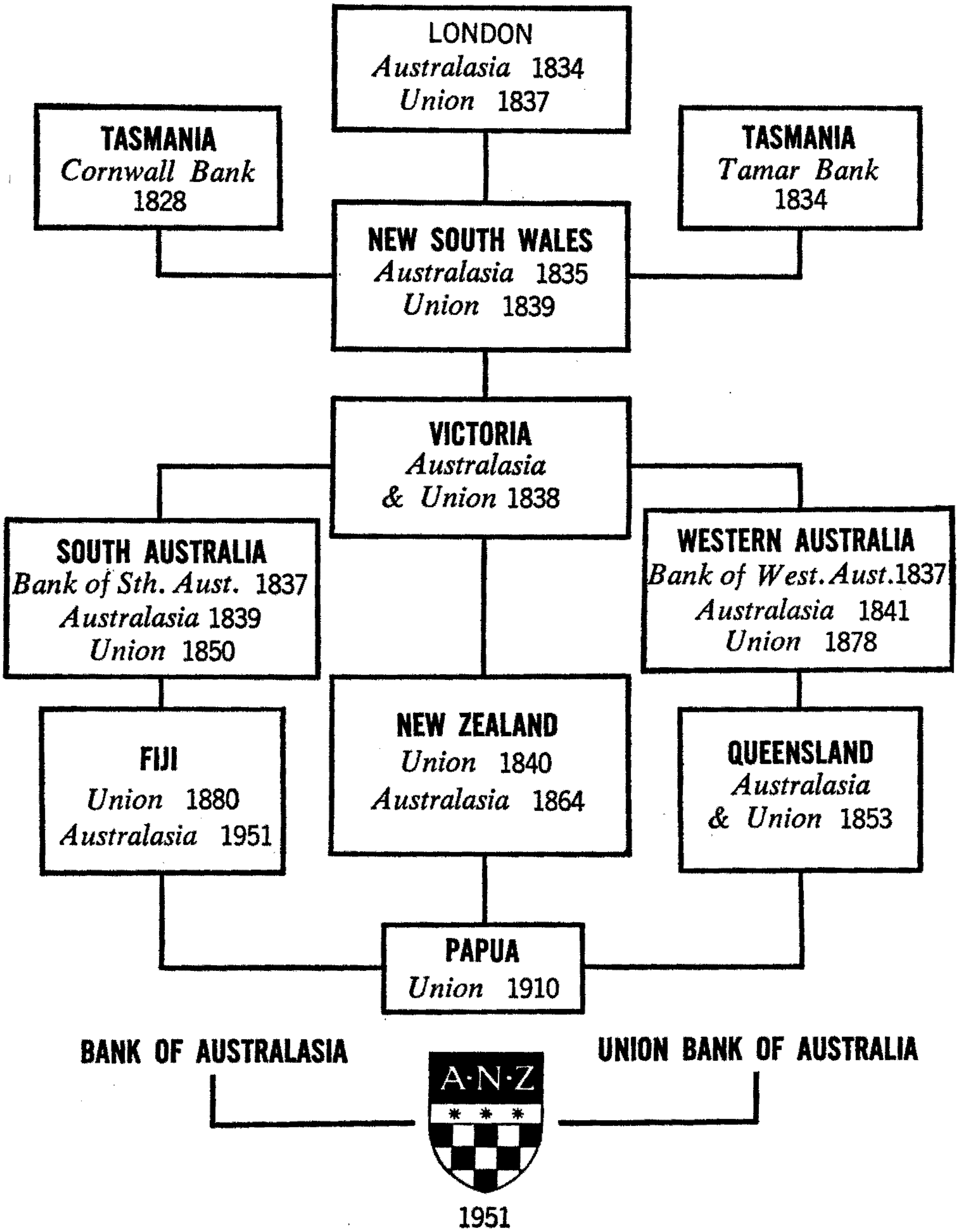
The most striking contribution of the Anglos was in the foreign exchange market which had not, except incidentally, been a bankers' field at all. Until the late eighteen twenties, the principal source of oversea funds had been British government expenditure on the penal settlements which provided a supply of bills of exchange on the Treasury for sale to importers and others with payments to make in Britain or elsewhere. Not until private capital inflow and exports were of substantial size could other sources of oversea funds compete with the virtual monopoly of the foreign exchange market enjoyed by the Commissariat, the British Treasury agency which managed disbursements within the colonies. Until the 'twenties all other sources of sterling were unimportant; by then there was a growing, if very modest, flow of capital; exports—primarily wool—were growing and, while still small, were clearly a permanent new source. Both capital inflow and export of wool were to surge upward to high levels in the 'thirties.

In these circumstances the foreign exchange market was primitive and dominated by the Commissariat, which from 1825 sold 'Treasury bills' at a fixed premium of 3 per cent, until 1828, and 1½ per cent thereafter. The modest private market operated outside the banks, except to the minor extent to which they occasionally acted as middlemen between buyers and sellers of bills; mostly these latter groups sought out each other. The colonial banks did not respond to the changed situation of the 'thirties, leaving the foreign exchange market to the Commissariat and the Anglos; no colonial bank had an oversea agent until the late 'forties. (A formal exception was the Derwent Bank, but its purpose was the soliciting of oversea deposits, not participation in foreign exchange dealings.)

By contrast, foreign exchange was an essential part of the plans of the Australasia, Union and South Australia. Initially their establishment required the transfer of their own capitals, mediated by the obvious device of selling in the colonies bills of exchange on the London head offices. The same machinery was available to transfer the funds of migrants and British capital for investment in the colonies. From the outset a middleman rôle was planned: active purchase of bills, on London mainly, drawn in the colonies by exporters and others, was part of all three plans. Almost immediately the Anglos took a commanding position in the exchange market, Australasia and Union competing against each other, but untroubled until the 'fifties by the colonials. The Commissariat took a minor place, even before, in the 'forties, restriction of transportation to Tasmania brought decline in Commissariat expenditure and hence in the supply of Treasury bills. Within three or four years the Anglos had made foreign exchange a bankers' market, albeit with a fringe of outside competitors (who remained until 1931); until the eighteen fifties it was, subject to this fringe, exclusively their own.

Changes such as these—branches, deposit banking, a non-government exchange market, and others—were in some sense inevitable. That they came as and when they did, is primarily due to the Anglos. They were not merely an enlargement of the native Australian system, but the instruments by which, between 1830 and 1845, it was transformed. Each of the three banks had, too, in its foundation years its special contribution to make. Earliest in foundation, the Australasia provided the pattern in structure, policy, and practice for the Union; until its unfortunate involvement in the affairs of the Bank of Australia in 1843, it was the more aggressive of the pair. The Union, however, by its agreement with the New Zealand Company, had the privilege of initiating banking in New Zealand at the outset of settlement, and for some years had the field to itself. In a corresponding way, the Bank of South Australia, as a department of the South Australian Company, sent its colonial manager with the first settlers in the new province.

It is time to look more closely, if briefly, at the colonial banks in operation when the Australasia entered the field. In New South Wales there were three, all operating at that time from single offices in Sydney. (The Waterloo Company of Cooper & Levey had abandoned banking before the Australasia arrived.) The Bank of New South Wales, the first of all Australian banks, had been created in 1817 at the instance of Governor Macquarie, and had thus far conducted a modest and restricted business. Nominally it was established as a chartered bank, but the charter issued by Macquarie (which purported to give limited liability) was never of legal force and was dropped in 1828. The Bank, after surviving serious difficulties in the crises of 1826 and 1828, was in the early 'thirties in no mood to be adventurous. The Bank of Australia, on its foundation in 1826, was christened by the press 'the pure merino bank' because its founders were exclusive about the numbers they admitted to participation and in rejecting any ex-convicts (who had been associated with the Bank of New South Wales). It was not otherwise significantly different from its older competitor, and accepted a similar restricted rôle. Last of the three was the Commercial Banking Company of Sydney whose origin in 1834 came after the Australasia project was well developed, and was provoked by the early signs of the pastoral boom. It was less conservative than the other two, contemplating a



Time-table of extension into Australian States, New Zealand and Pacific Islands limited development of branches and a cautious offering of interest on deposits.

The scale of business of these three banks can be assessed by the following average figures for the first half of 1836. These are the earliest official returns for all banks, and measure their scale in the period when the Australasia was first in operation; they were substantially smaller when the Australasia was conceived.

1836 January - June Averages

(£)

	Notes in circulation	Deposits	Coin	Notes and bills discounted
Bank of New South Wales	32,138	120,480	56,027	192,824
Bank of Australia	35,939	108,066	39,208	192,827
Commercial Banking Company of Sydney ..	28,160	90,340	45,168	182,804

In Hobart there were three similar banks. The Bank of Van Diemen's Land (official name of the colony until 1853) had been modelled on the Bank of New South Wales and like it purported to have a charter when created in 1823. Its first competitor was the Derwent Bank largely, at its inception in 1828, the instrument of a group of public officials. In 1830 it passed into the effective control of a former army officer from India, Captain Charles Swanston, although still retaining the government connection. The most interesting personality in Australian banking in this period, Swanston ran the bank as if it were his own property, combining it with, and using it to further, his importing interests and adding an extensive business as investment agent to dispose of funds solicited in Britain, India and China. In pursuit of this activity he had a London agent and sought British deposits. The third Hobart bank was the Commercial Bank of Tasmania, which originated in 1829 as the 'Commercial Bank' simply, then, at least ostensibly, the venture of a single man John Dunn. In 1832 it was converted into a joint-stock company.

For two of these banks returns are available for the first half of 1836. For the Commercial no useful data are to be had earlier than 1837; it was, however, smallest of the three at this time.

1836 January - June Averages

(£)

	Notes	Deposits	Coin	Discounts and loans
Bank of Van Diemen's Land	11,091	43,886	22,306	70,499
Derwent Bank	11,840	60,930	20,861	119,366

All six of these banks were described as companies but, in law, were partnerships comparable with the 'joint-stock' banks made possible by the British Act of 1826. That is, they all had a large number of shareholders (legally partners) who bore unlimited liability; in legal proceedings by or against the bank, a nominated officer acted in the name of the bank. Indeed it could have been held that, after the passage of the Colonial Laws Validity Act, adopting all British law applicable in colonial circumstances, the 1826 British Act was available to local banks. In practice the procedure adopted was the passage of individual private Acts of the colonial legislatures to the same effect as the general British Act, which clearly provided the model followed by colonial draftsmen, not least in the absence of restrictions on constitution, management, or, in particular, note issue, and of any requirement to furnish returns of business.

There remain two small banks, of the same general type and legal status, which are of especial interest for the present story and constitute indeed its prelude: the Cornwall Bank and the Tamar Bank, both of Launceston. (Place names in northern Tasmania were extensively borrowed from Cornwall. Launceston itself is obvious; the northern part of the island formed the 'county' of Cornwall, which provided the name of one bank; the river on which Launceston stood was called Tamar from the river beside the Cornish Launceston, and thus explained the name of the other bank.) The Cornwall Bank was absorbed by the Australasia and the Tamar by the Union to become, in each case, the foundation Launceston branch. The tradition which persists in Launceston to this day, that the genesis of each English bank sprang from the initiative of its Launceston precursor, is, however, quite at variance with the record.

The currency arrangements of the colonies were far from simple. From the early years of settlement a miscellany of British and foreign coins had been accepted, although, apart from the British, the most generally used was the Spanish dollar, then the form of money with the widest international acceptance. In New South Wales in 1822 the local government had set out to establish the Spanish dollar as the local unit of account and legal means of payment, and had succeeded to a substantial degree in creating an operative dollar standard, including its extension to Tasmania which was, until late 1825, part of the older colony. The British government held its hand until 1825 when it implemented a programme for creating a sterling-exchange standard for the Empire, a too-logical corollary of the definitive adoption of a gold standard for Britain a few years earlier.

The colonies were directed to maintain fixed exchange rates on Britain (by selling Treasury bills at a fixed premium) and to give legal tender status to British silver coinage, supplies of which were shipped to them. The fixed exchange rate did not survive the entry of the English banks into the foreign exchange market. In New South Wales the dollar was deprived of legal tender status and, with supplies of British coinage increasing, soon disappeared. But Tasmania was slower in receiving British coin, retained the dollar as a legal coin (with a fixed value of 4s. 4d.), and with persistent coin shortage, added in the 'thirties various other dollars, mostly South American, as well as, for a brief period, Sicca rupees.

One substitute for coin, current from the earliest days, was private notes which flourished until, under British instructions, notes under £1 were prohibited in 1826 in conformity with current domestic policy in Britain. Private notes in the Australian colonies for 3d., 6d., 1s., had been common, as well as notes for £1. After 1826 notes for less than £1 rapidly disappeared. Private issues for £1 persisted a little longer but in metropolitan centres did not survive the appearance of the more acceptable notes of banks. In country areas, however, storekeepers' notes (often for less than £1) were more long-lasting and did not finally vanish from the more remote areas until the middle of the twentieth century. When the English banks arrived, therefore, dollars were still legal tender and widely used in Tasmania; private notes were still not uncommon, while the 'orders' on town agents and storekeepers drawn by country residents were familiar.

In Britain itself the bank formations of the 'thirties, of which the Australasia was the first, came at a time of active monetary controversy when policy was being hammered out and implemented, and these formations both illustrated and contributed to that emergent policy. From the time of the 1826 Act authorizing joint-stock banks, the Treasury had been concerned with issues of banking policy and control over banking, and fairly consistently regarded the colonies as extensions of Britain, to which should be extended, with necessary modifications, principles evolved for domestic application. As early as 1830 it had adopted a group of principles for colonial banking which provided the framework for a full-bodied set of Colonial Bank Regulations in 1840. In the next year or two it had to consider several applications for charters for purely British banks, and had elaborated an administrative procedure for handling applications;

it had in 1832 to cope with the inquiries and controversies that preceded the renewal of the Bank of England Charter.

It was at this stage that the Australasia promoters sought a charter, and its issue was delayed because it inevitably became the occasion for determination of principles, the drafting of a charter which was to be the model for later ones. The charter as it emerged was therefore not merely the embodiment of the Treasury's views on the restrictions which should be imposed on chartered banks, but, in all main essentials, embodied the rules of the Colonial Bank Regulations which, in their ultimate 1840 form, the Treasury sought to have applied, at least to all new banks of local colonial origin, and also embodied principles which in the 'thirties and 'forties were to be incorporated in British domestic legislation. The Australasia charter is therefore a significant document in the purely British history of banking, and in the history of colonial banking in general.

The Union and the South Australia were less important in this respect. The Union was refused a charter, the Treasury regarding the vigorous objection of the governor of one of the several colonies in which it proposed to operate as adequate reason for refusal. Gipps, governor of New South Wales, was hostile to the Anglo banks, whom he regarded as contributing largely to the eighteen forties depression; by the time the refusal was definite, the Union had had some years of successful operation and evidently decided the advantages of a charter were exaggerated. The South Australia illustrated yet another aspect of Treasury policy, for it was refused a charter while it was subordinate to the land-dealing and commercial company of which it was legally a department; meeting this objection was the reason why the Bank became a separate legal entity. In a broader sense, the Australasia, Union and South Australia were important in British banking history. They were not the first of the 'Imperial' banks, banks incorporated in England to do business in the colonies, but they were early in the field and were amongst the most important. Their story is therefore a major chapter in this phase of British banking development.

In a special way their story contributes importantly to the even broader history of banking in general. As banks with headquarters in London and operative branches in faraway colonies, they created records which could only come into existence in these circumstances. Boards and chief officers in London had to send instructions, advice, and admonition to staffs in distant branches, in the knowledge (especially in the nineteenth century) that what they wrote was based on information several months old and would not be read for several months more. It was necessary to explain policy and to give reasons in ways which would not have been necessary for a bank operating in a small country or a single centre. From the other side of the world, chief officers had to explain at length the conditions they faced, and why London directives were inapplicable. In the later years more speedy communication did not greatly alter the situation. The coming of the cable after 1872 permitted rapid contact on urgent matters, but only with economical brevity; until airmail developed in the nineteen thirties ordinary letters were not, even in the twentieth century, read until at least five weeks after they were written. In western Europe smallness of area and ease of detailed central control produced a different sort of banking, with a much closer integration which had no need for elaborate documentation at the level of high policy; in America the dominance of the unit banking system left even less record of this quality. There have been other 'Imperial' banks but it does not appear that they have been so fortunate in the preservation of records of this type. For the Australasia, Union and South Australia, the London to Australia and New Zealand correspondence and the converse series are not complete, but there has been a very high degree of survival. The archives which Australia and New Zealand Bank Limited has concentrated in London, to a modest extent in Wellington (New Zealand), and above all in Melbourne, may well be a unique set of banking records. Even if parallel collections have survived in other non-Australasian institutions, Australia and New Zealand Bank archives are one of the great collections of banking records, not merely by virtue of their degree of completeness, but because they embody explanations by bankers to bankers of their policies and activities, written, not for the information of the curious of a later age, but as guides to action at the time they were written.

CHAPTER 2

THE PRECURSORS: CORNWALL AND TAMAR BANKS

LAUNCESTON in 1828 was a substantial small town, still overshadowed by Hobart which, only 120 miles to the south, had the advantages of being the seat of government administration and of possessing a superior port. In 1828 the population of the whole island was only 18,128; and of these, 7,449 were recorded as convicts. Even allowing that some ticket-of-leave convicts had bank accounts, a total population of this size could only provide modest numbers for a banking system, which by the beginning of 1828 already comprised two banks in Hobart. It is true that Launceston was a trading centre for its surrounding district, but this was barely beginning to develop in a significant way. Most of the smaller centres of population were nearer to Hobart; near to Launceston was as yet only a thin pastoral and farming population. The port was of limited usefulness and only occasionally was visited by oversea ships; its forty-mile long estuary was shallow, and the width inadequate for the safety of sailing vessels. Not until Melbourne and Adelaide were founded, was it closer in time than Hobart to major population centres. Direct oversea trade was not therefore a major factor in a need for banking facilities; the most important merchants were in Hobart.

In these circumstances, for most Launceston business, accounts in the Bank of Van Diemen's Land must serve; its notes were a convenient if slightly risky way of making remittances thither, while cheques and 'orders' on the Bank of Van Diemen's Land and on Hobart merchants could circulate in the town and district before presentation. For at least important loans, the trip to Hobart was not unduly far.

The first inadequate departure from this dependence on Hobart came from the tiny, unsuccessful and shortlived Tasmanian Bank, established in Hobart in August 1826 by the former Attorney-General, J. T. Gellibrand. This opened early in 1827 a Launceston agency which did not survive the year because notes of the Bank, issued in Hobart, were met by the agent, not in cash but in drafts on Hobart, at 2½ per cent discount. The Tasmanian Bank itself was out of existence by 1829, possibly transferring its small Hobart business to the new Commercial Bank of John Dunn. Its only importance, apart from being the first Australian experiment in branch banking, was that it pointed to the dilemma which explained why the Bank of Van Diemen's Land and the promoters of the new Derwent Bank (opened January 1828) rejected Launceston approaches early in 1828 for a branch. The balance of the flow of cash was to Hobart, and a branch would entail the cost of maintaining cash reserves unless local residents could be paid in drafts on Hobart. These had no special attractions in Launceston—they were little different from the use of cheques and orders on Hobart which already prevailed.

Accordingly local residents turned to self-help, and planned in February 1828 their own Cornwall Bank. An initial proposal for a nominal capital of £30,000 in 600 £50 shares was scaled down to 400 shares, and a deed of settlement was signed by eighty-nine shareholders on 18th February, only two days after a drafting committee was appointed. Local alacrity, which prompted a debate as to whether capital should be increased to £25,000, is partly explained by only a modest proportion of capital being called. So speedily were plans matured that the Bank opened for business on 1st May, inviting deposits and offering discounts, as well as issuing notes. A Hobart agency for the cashing of these notes was abandoned after a few months' trial, and instead drafts on the Bank of Van Diemen's Land were offered, normally at a charge of 1 per cent. The directors were W. E. Lawrence (chairman), James Cox, P. A. Mulgrave, T. Williams, W. Barnes, J. H. Reibey, A. Thomson, R. Dry, T. Landale, J. W. Gleadow. A private Act to enable the Bank to sue and be sued in the name of the cashier (that is the manager) was sought in September; this was not passed, however, until March 1830.

Its early business was modest but profitable, consisting almost wholly of discount of local bills, and receipt of deposits without interest. For its second half-year (there is no record of the first) it was able to pay a dividend of £1 4s. per share 'computed on a gross profit of £22 16s. 2d. per cent'; a year later it could raise this dividend to £1 12s. per share, although this was paid after an 1829 call of £2 10s. per share. In 1830 it was able to secure the Launceston account of the government, which was normally in credit (no interest was paid) and also yielded gains from government remittances to Hobart being made in cheques on the Bank. To facilitate this latter a mutual agency arrangement with the Bank of Van Diemen's Land was completed in May 1830.

Records indicating the scale of business for this period are very fragmentary. In December 1830, notes in circulation were £5,184; in September of the same year, the maximum for weekly discounts was increased, from an unknown figure, to £1,600. These figures do not suggest extensive operations, and even in this limited field the Bank was presently threatened by competition.

The Bank of Van Diemen's Land in mid-1832 resolved to open a Launceston branch, which began business in July. To this move the Derwent Bank responded by planning an agency in Launceston so swiftly that it began business a day before the Van Diemen's Land branch. However, the agency was subject to restrictive rules which made it vulnerable to aggressive Van Diemen's Land competition and three months later it was abandoned as unprofitable.

The Cornwall initially reacted to the threat of competition by planning an extension of capital, optimistically contemplating sale of new shares at 5 per cent premium. But feelers from the Van Diemen's Land for absorption were welcomed, and for a few weeks in November 1832 dissolution seemed certain. Explanation of the dropping of the proposal can only be inferential, but it seems certain that this arose from discovery of the confused state of the Cornwall's affairs, which must have created great uncertainty as to what its assets and liabilities really were.

This was not a new situation. The Minute Book for 1830-1834, the only domestic record known to survive, is very imperfectly kept; from internal evidence, not all meetings were recorded, while at others important matters were omitted; and other records seem to have been kept on the same pattern. Intermittent complaints of accounts being in arrears began in 1830, when the accountant was instructed that account books were not to be taken away from the Bank. In 1831 he was threatened with dismissal if he did not mend his ways, but by May 1832 the minutes of a general meeting record:

> Resolved, that the long-continued, generally complained of, irregularities in the department of the Accountant of this establishment having been submitted by the Directors to this meeting,
>
> It is resolved that the censure of the proprietors be communicated to the Accountant, with notice that unless his management of the accounts be more approved by the Directors during the ensuing three months he will receive notice of dismissal.

When the long-suffering cashier attempted to enforce this instruction the accountant walked out; the directors replaced him, but took legal action to compel him to work out the time of a proper notice.

The new man, David Kennedy, found many things wrong, which involved the cashier himself. Many accounts were overdrawn, and mistakes and confusion were widespread, although there was no suggestion of embezzlement. These discoveries, which decided the Cornwall directors to accept the Van Diemen's Land terms forthwith, led the latter bank to withdraw from the proposal, and the Cornwall resolved to wind up. Proceedings were protracted, but by mid-1833, when the Bank was, for practical purposes, closed, a new force entered the situation. Rankin, the cashier, died and was replaced by the accountant after advertisement had failed to produce a single applicant. A month later the minutes record baldly: 'Resolved that Mr Charles Henty be appointed to succeed Mr Wills in the arrangement of the accounts of the Bank'. A pencilled note, apparently by whoever kept the minutes, adds: 'Mr Henty came to the Cornwall Bank on Thursday, 4th July 1833'.

The Hentys were a Sussex farming family whose head, Thomas, became interested in the plans for the Swan River settlement in Western Australia. Three of his sons were despatched in advance of the rest of the family to choose land, but, after extensive surveys, abandoned Western Australia for Van Diemen's Land, where they arrived in 1832, to be joined in April of that year by Thomas and his entourage—the remainder of his large family, employees, stock and equipment. The Hentys' later pioneering at Portland on the mainland is not directly relevant to the present story, but two of the sons are. James, born 24th September 1800 (died 12th January 1882) was the eldest, the principal adviser of his father on the abandonment of Western Australia and active in many farming and commercial ventures in Australia. His father had been partner in a provincial bank, established in 1805 at Worthing, with branches at Arundel, Steyning and Horsham. Charles (born 1807, died 1864) was, before the emigration, employed in banking; James had had some early business training in his father's bank and in 1828 he described his brother Charles as 'manager of the bank at Arundel', 'that stupid concern' as he called it. Charles was then twenty-one, and his salary less than £200; 'manager' must have been a courtesy title for the running of the small branch of a small bank. Now, at twenty-six, appointment at Launceston as accountant of a minor bank in liquidation must have appeared simply a convenient employment until the family future was more settled.

Perhaps the family planned greater things from the beginning. Certainly within four months (on 1st November), plans for reorganizing the Bank and its reopening were implemented. The deed of settlement was amended so that any holder of ten shares might be a director (previously a director must have held ten shares for at least three months before election); this made members of the Henty family eligible immediately. Two hundred new shares were offered and reopening for business was announced for 1st January 1834. Charles Henty, still five months short of twenty-seven, was appointed managing director and cashier at a salary of £350 a year; Thomas, who had clearly called the financial tune, was amongst the directors. (James was about to leave for England to press the family claims for land in the Port Phillip district at Portland; he sailed on 16th March.)

Resumption of active business was cautious. At the end of the first week the limit of weekly discounts was set at £750; note issue was deferred. In February, note issue to a maximum of £2,000 was approved, raised in April to £4,000, while in March the weekly discount limit was increased to £1,500.

Caution was all the more necessary because of other changes in Launceston banking. The Bank of Van Diemen's Land resolved to close its Launceston branch, but agreed with some of the Launceston directors to make this change date from 1st January 1835, when the Van Diemen's Land would be operating under a new deed of settlement; business would then be handed over to a new local bank promoted by these directors.

In February 1834 the prospectus of the new Tamar Bank appeared. Capital was set at £20,000 in 400 £50 shares; 10 per cent was to be paid up at the beginning of December and a further 65 per cent at the end of that month. If this latter were observed the Bank would have started with paid up capital of £15,000. Three-quarters of the shares were said to be already subscribed. Interest on 'dormant deposits' was promised, and cash credits 'according to the Scotch banking system' were to be offered. In May advertisement appeared for a managing director and cashier; directors elected in June were Lewis Gilles (managing director and cashier), T. Williams, M. Connolly, F. D. Wickham, P. Oakden. Gilles (1797-1884) had been a naval officer and subsequently in business before emigrating to Tasmania. Oakden, who was to have a key rôle in the creation of the Union Bank, was born in 1784. Of considerable personal charm, and clearly regarded by all his business associates as a man of ability whose advice was welcome, and as a man to trust, his own business ventures nevertheless brought him no great fortune. His earliest efforts in London ended disastrously, and he removed in 1816 to Hamburg as a 'commission merchant' in partnership with Osmond Gilles, a brother of Lewis and later first Treasurer of South Australia. Modest success enabled Oakden to repay his creditors in 1827, but a few years later he decided to emigrate to Tasmania, reaching Launceston in 1833. There he engaged in various business activities, none of any great magnitude, but including his share in the creation of the Tamar Bank. In his private life he was busy with charitable work and the promotion of Wesleyan interests. Towards the end of his life, in 1848, he was a leader in forming the Launceston Shipping Company which, however, did not recover from the wreck in 1851 of its ship the *Philip Oakden*. Much his most important business achievement was his part in the creation of the Union and in inaugurating its Tasmanian operations.

In due course the Van Diemen's Land branch closed, and the Tamar commenced business under its own name on 1st January 1835. The Cornwall did not take this lying down. Its half-yearly dividend at the end of 1834 was 10 per cent, and plans for expansion were laid. Capital was to be raised to £15,000 paid up, by treating the existing £50 shares, on which £15 was paid, as fully paid up, and offering further shares to a total of 1,000. Bait for prompt subscription was that those who paid in full by July would be allowed 10 per cent rebate, and shareholders' bills would be discounted to the amount of their subscriptions. The half-yearly dividend announced in July was 15 per cent per annum, which the Tamar more than matched by paying 20 per cent per annum. For only one other item, note issue, is it possible to compare the two banks. In December 1835 the Tamar's note issue was £11,722, while that of the Cornwall was £4,489. The Tamar was evidently ahead in the race.

But, in fact, a new chapter was about to open. The May issue of the Launceston *Independent*, which carried the advertisement for a managing director and cashier for the Tamar, referred to rumour of plans by the Bank of Australasia to open in Launceston and by October it had already been announced that the Cornwall shareholders were to meet to consider a proposition from that Bank.

CHAPTER 3

THE BANK OF AUSTRALASIA

THE eighteen thirties were a decade of remarkable economic expansion in the Australian colonies. Wool, far more than other partly developed resources, was the dominant element. From the textile mills of England came large and growing demand; wool could be handled by the clumsy and costly transport both inland and from Australia; in relation to value of output, wool demanded only limited labour, and that not highly skilled—ex-convicts and convicts assigned to private employers were readily available; apart from sheep the capital investment required was small; land could be had by simple squatting for small license fees.

By 1830 the basic requirements for a great geographical expansion of the wool industry had been established. The country west of the mountains of the east Australian coast had been reconnoitred, practicable routes identified, the art of growing sheep in a strange environment roughly acquired, the nature of the land tentatively learned. The metropolitan base for pastoral advance had been created, with the organizations to provide supplies on credit and to dispose of the output; shipping to carry the wool to Europe had been developed. The times were ripe for rapid growth.

Within ten years half a continent was occupied as the straggling sheep went west, north and south. In the first half of the decade wool production was multiplied by four, and in the second half was doubled again. On the mainland effective settlement was, in 1830, confined to an area the limits of which were marked by Bathurst to the west, Port Macquarie to the north, and Wollongong to the south. A semi-circle 150 miles from Sydney would enclose it all, and much of that area was rugged mountain country. By 1845 half of (modern) New South Wales and Victoria was under pastoral occupation. In Tasmania expansion was necessarily less dramatic since little suitable land remained to be occupied. Even in South Australia settlement was a by-product of the boom.

Behind the boom, and providing its financial life blood, was a great flow of British capital. Imports into New South Wales, for example, rose in 1840 to six times their value in 1831; the excess of imports over recorded exports was multiplied by ten. A still rising volume of British expenditure on the penal settlements; the formation in Britain of banks and mortgage companies to operate in the colonies; transfer of funds by absentees in England, Scotland, India, for investment by agents in the colonies; imports of cash and goods by migrants—these were the channels through which came the flood tide of capital.

Overwhelmingly it was British capital and, accordingly, British banks and other companies were dominant in providing the financial mechanism: the Bank of Australasia, Bank of South Australia, Union Bank of Australia, as well as the Trust and Loan Companies, or the Royal Bank of Benjamin Boyd. These overseas institutions brought, both in their own capital and through their transfer facilities, vast sums for investment. They also brought to local banking new principles of operation and keen competition; for the first time local deposits could be fully mobilised for investment.

By contrast local banking enterprise necessarily lagged behind—the capital was from Britain. The Derwent Bank adapted itself to share in the flow; the Commercial Bank of Tasmania reorganized, but its expansion was limited by local resources; the Commercial Banking Company of Sydney, formed in 1834, was the most important local competitor the British banks had to face.

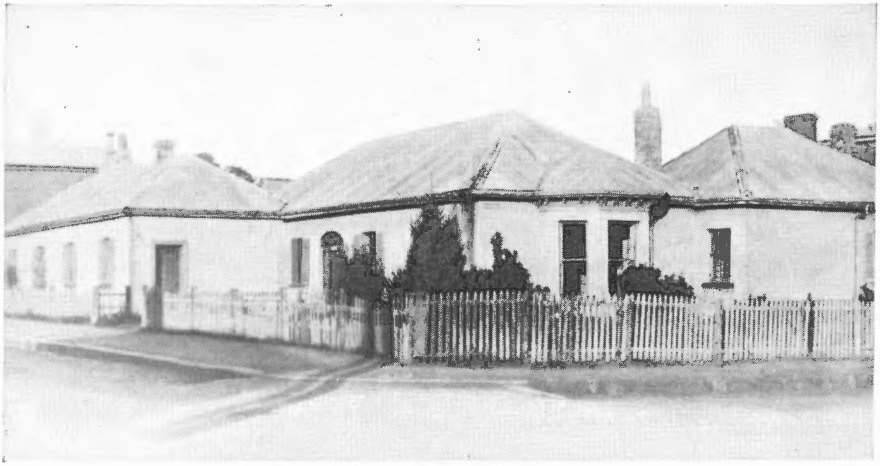
The great expansion of banking operations in the decade is measured by the rise in bank loans. Between 1830 and 1836 they rose by between 600 and 700 per cent (imperfect figures exclude precision); in the next four years they quadrupled again. In such figures of growth—of wool production, of external trade, of bank loans—is the measure of the massive economic boom of the eighteen thirties.

And in that boom is the explanation of the formation of major British banks designed to operate, with British capital and London control, in the Australian colonies. Among them, pride of place as innovator and pathfinder goes to the Bank of Australasia.

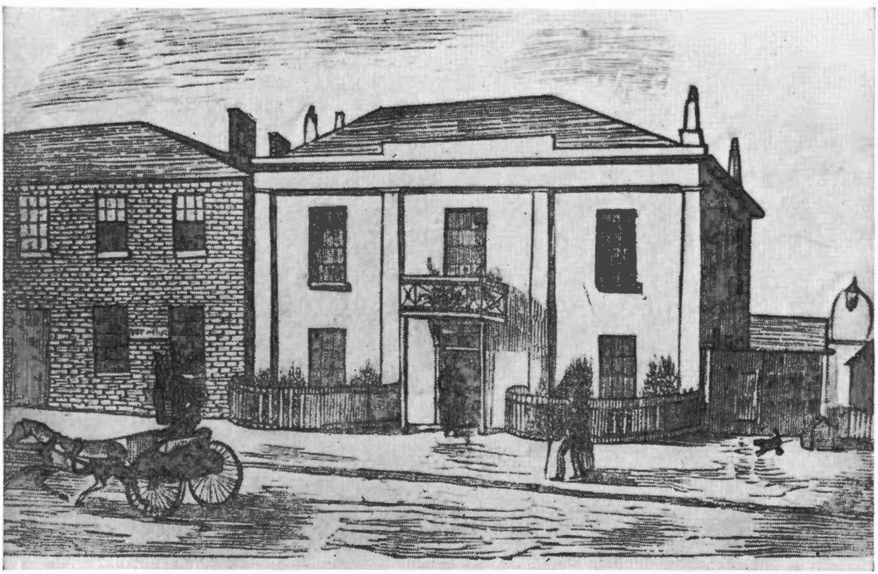
The genesis of the earliest plan for the Bank of Australasia is somewhat obscure. Early in 1832 Sydney newspapers carried circumstantial reports of a plan being discussed in London for a joint bank and whaling enterprise. Plans were for two separately capitalized companies (the bank was to have £500,000), but for operation in close association, and the scheme was attributed to Thomas Potter Macqueen, a wealthy and flamboyant colonist then in London. The ascription is plausible enough (though Macqueen may have had other associates in New South Wales). The association of whaling and banking strongly implies a colonial origin—bay whaling was flourishing in south-eastern Australia, and there is a backwoods flavour about the association. Macqueen certainly had a prominent part in these early negotiations, a part which he would not have been the one to play down; indeed the premature Sydney reports were almost certainly from him, as was the rash forecast that the bank would pay 6 per cent on deposits and the optimistic assurance that Thomas Joplin, the well-known banker and writer on banking, would be the first colonial general manager.

Macqueen's chief practical contribution, however, was to interest important people in London, perhaps through the Montefiore family, of whom one representative was in Sydney (with a partner, D. Furtado, in Hobart) and a brother, Jacob Montefiore, in London. Those whose interest led them to become the first provisional directors were, in addition to Macqueen and Montefiore, Hon. Henry Ellis, Oliver Farrer, John Wright, and Sir Andrew Green. They, after exploration and discussion, embraced the project with enthusiasm, reaching a definite decision to go ahead, according to their own account, in November 1832, although it was not until April 1833 that they were sure enough to commence keeping minutes of their meetings. Macqueen thereafter had little influence on the course of events, although respect was paid to his initiating rôle by giving him a seat on the provisional board until he returned to Sydney some months later. For unknown reasons, the London directors treated this as severing his contact with the project; they did not allot any shares to him nor even consider him as a local Sydney director. When in 1834 he suggested himself for such a post, he was unceremoniously brushed aside. The directors could not have known that they had the justification that, on return to Sydney, he had taken a leading part in promoting the Commercial Banking Company of Sydney, an action which he did not regard as inconsistent with a local directorship of the London bank. Perhaps they had come to know Macqueen.

The London promoters quickly discarded the whaling project and concentrated on the bank. Careful inquiries showed that shareholder support would be assured and that there was every hope of securing a Royal Charter, then the only practicable means to obtain limited liability. By April 1833, encouraged by sympathetic reception and helpful suggestions from Spring Rice at the Treasury and Poulett Thompson at the Board of Trade, they were prepared to go ahead with a precise scheme, covering not only the Australian colonies but the South African as well. The title selected was 'Royal Bank of Australasia and South Africa', and capital was set at

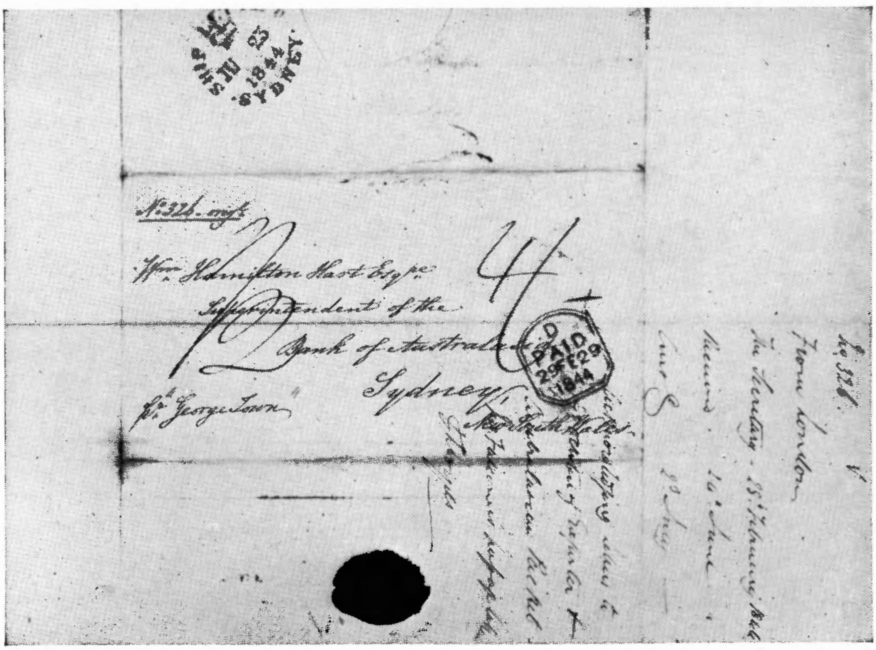


The premises of the Cornwall Bank on the corner of Cameron and Wellington Streets, Launceston (Tasmania) which became the first premises of the Bank of Australasia when it opened there on 1 January 1836. The building was demolished in 1927 to make way for a terrace of houses.



Croyden House, 59 George Street, Launceston, premises in which the Union Bank of Australia opened on 1 May 1838 when it took over the Tamar Bank.

Two letter covers which illustrate the delays of nineteenth century communication. The Hobart letter from Driscoll to McLaren in Sydney was lodged on 14 March and reached the General Post Office, Sydney, on 9 April 1840. The London letter, below, came by *Georgetown* and was lodged on 29 February, reaching the General Post Office, Sydney, on 23 June 1844.



£300,000 in £50 shares, of which 1,000 shares (one-sixth) were to be reserved for colonial subscription; at the Treasury suggestion capital was to be fully paid within two years, and directors might subsequently enlarge capital up to double the original amount. Liability of shareholders, it was proposed, should be limited to the amount of subscriptions.

A memorial seeking a charter in these terms was addressed to the Treasury on 18 May 1833. The signatories, who may rightly be regarded as the founders (several had only recently been drawn in on the invitation of the original group), were: Rt. Hon. Henry Ellis; Captain Sir Andrew Pellett Green; Edward Blount; Jacob Montefiore; Richard Norman; William Alexander Mackinnon; John Studholme Brownrigg; Oliver Farrer; Charles Barry Baldwin; John Wright; Thomas Potter Macqueen; Samuel Eustace Morgan; Matthew Boulton Rennie; and Walter Stuart Davidson. Ellis chaired all the early meetings of the Board ('Court' was adopted a few months later) but Blount was nominated 'as chairman' to represent them in negotiations with the Treasury, perhaps because he could address His Majesty's Principal Secretary of State for the Treasury as 'my dear Rice'. With every reason to expect an early issue of the Charter, the directors turned to completing their plans. Farrer & Co. were appointed solicitors—a connection which has endured to the present day; Wright & Co. were appointed bankers, and Horatio Montefiore stockbroker. The deed of settlement of the Provincial Bank of Ireland was taken as a model; note designs by Perkins & Bacon were approved (the royal arms in the centre flanked by vignettes of Cape Town and Sydney); it was decided that all staff should be employed under indentures for a term of years; Sydney was selected as the location of the main colonial office, its manager having a 'certain control' over others in Australia.

As the months went by without word of the Charter, it became clear that pressure of work in departments during the parliamentary session, which had been advanced as an excuse, was only an excuse. In October the directors learned the real reason: the Treasury (and other departments) were reviewing the whole question of banking in the colonies and the Charter must await determination of general questions of principle. There ensued for the directors a frustrating delay of more than a year until they were sure of their Charter. The Bank's history, however, was enriched by its having been the test case on which the Treasury worked; indeed the interest extends beyond colonial banking to the story of the development of British banking in general.

The Treasury had, in 1831-33, succeeded in persuading other departments that applications for bank charters should be regarded as especially its concern, but the other side of the compact was that it had to agree to consult other interested departments, notably the Board of Trade and, when a colony was concerned, the Colonial Office. It was to emerge that the Board of Trade had very definite views, more restrictive than those of the Treasury, and that, in relation to South Africa, the Colonial Office could successfully insist on its own peculiar policy.

The Treasury had reason, in 1833, for its desire to clarify general issues regarding colonial banking. During the second half of the 'twenties it had implemented a sterling-exchange standard for the colonies as a corollary of the definitive adoption by Britain of a gold standard. The mechanism adopted, sale by army commissariats in the various colonies of bills on the Treasury at fixed rates, had caused a good deal of difficulty. The use of colonial banks for government transactions was, in the late 'twenties and early 'thirties, a fruitful source of difficult problems: of securing the safety of public money, of avoiding preference to particular banks, and of ensuring that public funds in unwisely managed institutions did not provide the basis for rash lending. The passing of colonial Acts to facilitate bank operations presented, in their need for royal assent, the obligation to consider how far this measure of official recognition should dictate the imposition of minimum conditions. Eventually the discussion of a decade culminated in the Colonial Bank Regulations of 1840, and their revision of 1846. The major clauses in these had been embodied earlier in the Australasia Charter.

Nor was this all. The Treasury had had to develop views on policy in relation to banking within England. There had been the 1826 Act providing for joint-stock banks; the exchanges with the country bankers in 1828-33; the inquiry and controversy preceding the renewal of the Bank of England Charter in 1833. Not for another quarter-century was the Treasury to be free, even for a short time, of problems of monetary and banking policy. Fairly enough, the Treasury did not see colonial and British banking as separate problems. What is interesting is the relationship, not yet explored by historians of British financial policy, between Treasury deliberations on colonial banks and its attitude to domestic problems. It is not too much to say that the Treasury was able (at least when it could secure the concurrence of other departments) to implement, by administrative action in the colonies, policies which could only be later secured within Britain by slower parliamentary action through the select committees on joint-stock banks, on banks of issue, and on the Bank Act (of 1844). The Australasia was unlucky in that its request for a charter came early in the formative stages of Treasury policy, but in retrospect, it could count itself fortunate that, notwithstanding, it obtained that charter long before the Treasury had completed its explorations, even of colonial banking policy.

The Treasury certainly saw the Australasia Charter as one which set a precedent. An 1834 minute justified a number of the restrictions on which the Treasury was insisting:

> As this is the first application for a charter for a colonial banking company since the Treasury Minute of 9 April last laid down rules to be observed in cases of this description and since the recent discussions on the subject of banks, and as other applications similar to this will probably be made for charters in other colonies, the conditions now established will serve as a guide for the future.

Exchanges of view between the Treasury, Board of Trade and Colonial Office occupied some months, and not until 18 December 1833 was the Court notified that a charter, for twenty-one years, would be granted, but for Australia only, not South Africa, on the following conditions:

(i) The Bank was not to commence business until all capital was subscribed and at least half paid up; if this was not achieved within eighteen months the Charter would lapse.

(ii) Total debts of the Bank should never exceed the sum of three times the paid-up capital plus deposits.

(iii) Notes were to be payable, on demand, at the principal office in each colony as well as at the branch of issue.

(iv) If for any continuous period of six days, or for sixty days in all in any year, cash payments were suspended, the Charter would terminate.

(v) Personal liability of shareholders would be limited to double their subscriptions (that is twice that proposed by the Bank).

(vi) The Bank should not lend on paper, on which the name of a director or officer appeared, to a total exceeding one-third of total loans.

(vii) Land or similar property might not be taken as security, nor should the Bank deal in real estate or merchandise, except as might be necessary to dispose of property taken for unpaid debts. Its operations were to be confined to 'the legitimate operations of banking, namely, advances upon commercial paper or government securities, and general dealings in money, bills of exchange, or bullion'.

(viii) Dividends should be paid only out of realized profits.

(ix) Notes might be issued for £1, £2, £5 and higher, but not for fractions of a pound.

(x) Weekly statements of assets and liabilities under specified heads were to be sent from each colony to head office.

(xi) Half-yearly averages of these statements were to be published in each colony, and, aggregated, in London.

The directors were not satisfied with these conditions and sought modification of a number of them by further memorial and deputations. A plea for a longer period than twenty-one years was turned by pointing out that charters could be renewed. A request for the right to issue notes for 10s. and 30s. was refused, in line with recently adopted policy prohibiting fractional notes in England. Against the sixty-day limit for suspension of cash payments, the directors urged 120 days, arguing reasonably that the period should have regard to the distance and time of travel to the nearest source of coin, that is, South Africa. This was conceded (actually as 130 days) after an interdepartmental argument. The Board of Trade wanted to attach a condition that no notes should be issued during such a suspension; the Treasury took the view that this proviso might well operate to aggravate any crisis. A proposal that the Bank, as a right, should handle colonial government business was firmly rejected. In the light of the requirement about the payment of capital, the Treasury agreed that initial capital might be reduced from the £300,000 originally proposed, to £200,000, without affecting the right (with Treasury consent) to make later increases to a maximum of £600,000.

But other requests for variation were not so successful. The Bank asked that securities on real estate might be taken 'as collateral securities upon advances of money upon bills . . . but as collateral securities only'. Initially the Treasury was inclined to accept, but, on reflection, minuted: '. . . the great objection to this request would seem to be that it might induce their managers to proportion advances more with reference to the general value of the property than to the value of its annual produce which should be the general limit of advances to landholders'. The request was refused, and the comprehensive prohibition remained to complicate the Bank's operations.

The directors had been prepared for the refusal to include South Africa, and were aware of the motive: at the Cape were two government banks, a Lombard or Loan Bank inherited from the Dutch, and a Discount Bank, the government monopolising note issue. The Treasury had hinted that a proposition concerning these banks would be considered, and the Court offered to pay 2 per cent on all South African colonial government deposits if it were given a charter covering those colonies. This the Treasury found unattractive, since colonial balances were, or ought to be, generally small; nevertheless it thought it would be worthwhile to negotiate further. The Board of Trade, however, was hostile; 'it would be inexpedient to connect under the same establishment banks in colonies at a great distance from and having no natural connection with each other'. The Board thought a legally separate bank for South Africa might be acceptable. With this opposition the Colonial Office concurred, and the directors were so notified.

As they had already resolved that, if inclusion of South Africa were refused, they would be content with a charter for Australia only, the directors went ahead with organization, while, by formal exchange of letters, they accepted the Treasury's terms. They received in March 1834 an assurance of the issue of the Charter as agreed. But delay followed, and in December, one Phillipps of Cape Town urged upon them the desirability of extending to Cape Town; he was in London to present a petition from Cape residents that non-government banking be permitted. Having, as will appear presently, just scored a legal victory over the Attorney-General, the directors were emboldened to memorialise the Treasury again, seeking the inclusion of South Africa and, this time, Ceylon as well; they even added Mauritius and Singapore. But although both Treasury and Board of Trade were prepared to consider a separate bank for South Africa, the latter was adamant that one bank should not cover both Australia and South Africa.

In May 1835, having at last accepted the repeated refusal to extend the Charter to South Africa, the directors decided to adopt the official suggestion for a separate bank. A memorial seeking a charter for such a bank (initially it was to be the 'Royal Bank of South Africa', but the 'Royal' was soon dropped) went forward to the Treasury. The plan was that the directors of the Australasia should be directors of the separate bank, and shares in it should be offered to Australasia shareholders, thus ensuring substantial integration of activities and control while meeting the government insistence on legal separation. It was, however, legal divorce with *de facto* cohabitation; the directors met at the same time for both banks, and on one occasion (December 1835) the secretary recorded minutes of the Bank of South Africa in the Australasia minute book as well as in its own.

At first matters seemed to promise well, and the directors were so confident of eventually receiving a charter that they resolved to press ahead with organization on the basis of a deed of settlement modelled on that of the Australasia. Further discussions with Phillipps and an interview with Spring Rice to discuss buying out the government banks at the Cape added encouragement, and in December 1835 a prospectus was printed and circulated to Australasia shareholders; in January 1836 shares were allotted while the last minute-book entry in February relates to selection of local directors at Cape Town.

The sudden silence is to be explained by the directors learning that local moves at Cape Town seemed likely to change the whole situation. Glenelg, at the Colonial Office, had been stubbornly resisting Treasury support of the South Africa charter application; now, when it seemed possible that he might be forced to yield, there was news of projected legislation at Cape Town to authorize a Cape of Good Hope Bank. If this Act received royal assent, the Bank of South Africa would at least have a competitor, or perhaps preference to the local bank would lead to final exclusion of the London bank. All action had to be suspended until the situation was clear.

The Treasury's attitude, as conveyed to the Colonial Office, was unambiguous. They felt adequate banking facilities at the Cape were long overdue, and that the colonial legislation should be approved; but approval should not convey exclusive privilege to the local bank—the Bank of South Africa charter should also be granted. Glenelg was, however, immovable. Using every device of delay, and attaching exaggerated importance to the place of the Cape colonial government's banking profits of £6,000 per year in its finances, he managed to linger out the interdepartmental discussions until early 1837. Then he delivered an ultimatum to the Treasury: the Colonial Office would oppose any non-government banks in South Africa unless the Treasury undertook to provide an annual grant to the Cape government equal to its banking profits. Such action was unthinkable for it would have established the principle that any act of the British government, which could be represented as adversely affecting the revenue of any colonial government, would become the occasion for British subsidy to the colony concerned. Glenelg had won. Not until the 'sixties were British banks able to enter South Africa, and long before then, the Australasia's project had been abandoned.

Meanwhile the Charter for the Bank of Australasia, for the Australian colonies only, had barely survived a last-minute hitch. The detailed draft, as tediously worked out between the Bank's and the Treasury's solicitors, went to the Attorney-General, who pedantically and stubbornly insisted on a new legal doctrine that a charter under the great seal could not have a time limit. The Treasury, which was concerned primarily that note issue powers should not be given for longer than twenty-one years, was prepared to compromise with a perpetual charter, provided this note issue limit were incorporated. The Attorney-General would have none of this; in his view any time limit meant that incorporation must be under a recent Act (4 Wm IV, c. 94) by letters patent, not a charter. The directors, obviously weary of seemingly interminable delay, reconciled themselves to abandoning the Charter and to waiting the additional three months involved in the public notice required by that Act. At the last minute, however, new legal advice enabled them to overwhelm the Attorney-General with a broadside of opinions. The Charter was saved; in January 1835 the Treasury wrote 'that their Lordships had instructed their solicitors to prepare a charter of incorporation for the company, as originally promised, and with as little delay as possible'. The hard-won document was dated 21 May 1835. Thus, ironically, departmental obstruction gave the Bank, originally refused a charter for more than twenty-one years, one which had the unique distinction of being perpetual.

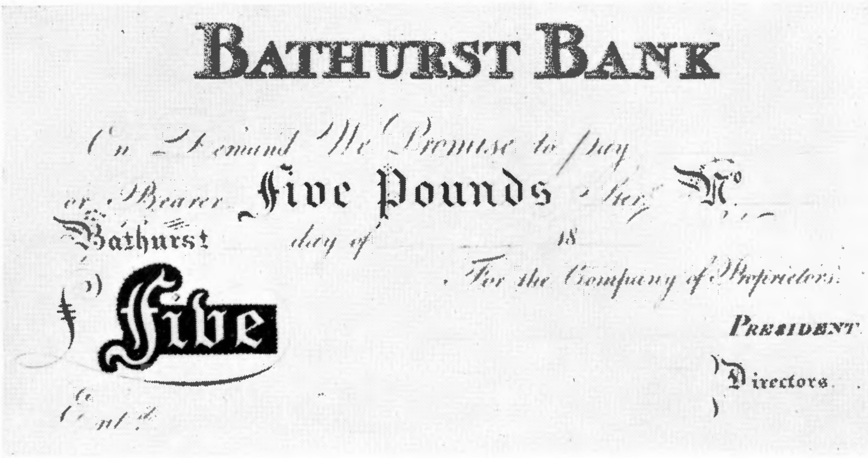
Meanwhile, since the decision of December 1833 that, if South Africa could not be included, a charter for Australia alone would be accepted, the directors had been proceeding with organization. A suggestion from W. H. Hamilton, London agent of the Derwent Bank, that it and also the Bank of Van Diemen's Land be offered absorption, was adopted in principle, but deferred in the hope of obtaining exclusive rights to colonial government business. In March 1834, following what was believed to be definitive agreement with the Treasury, the prospectus was finalized and printed for distribution. Applications were so heavy that, on allotment a month later, directors were allowed only one hundred shares each. Funds were invested in Exchequer bills until required. Various principles of staffing (including the title of Inspector for the chief officer at Sydney) were adopted, and Montefiore was commissioned to arrange for his brother at Sydney, J. B. Montefiore, and his brother's partner at Hobart, D. Furtado, to form local boards.

During July and August much time was consumed in correspondence and interviews with applicants for employment. The key post was that of Inspector (who was also to be Sydney manager) at a salary of £800 a year with house provided, and the choice finally fell on George Kinnear, recommended by William Paul of Edinburgh whose advice on various posts had been sought. Paul identified him somewhat dubiously as 'of the firm of Kinnears Smith & Co., bankers, who lately stopped payment in this city'. Kinnears Smith & Co. had been formed in 1831 by the merging of Thomas Kinnear & Sons, which began banking in 1748, and a younger firm, Donald Smith & Co. At its failure on 24 July 1834 outstanding liabilities were £320,000. George Kinnear, who was 'not much above thirty' and married, was described as of gentlemanly appearance and manners. The choice was to prove an excellent one, even if the defects of Kinnear's own qualities were to make his tenure relatively short.

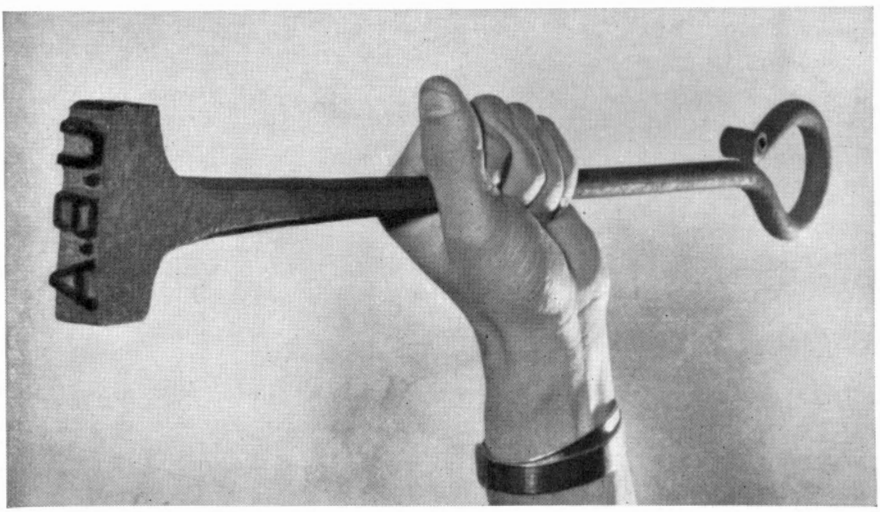
A second important appointment was that of Secretary. Until May 1835 the provisional secretary was Frederick Boucher, who had been partner in a general store in Newcastle, New South Wales, in 1827, and in November 1828 had experimented, on his own, by adding a small and unsuccessful Bank of Newcastle to the store's activities. From this, he turned in 1830 to trading in wine and spirits in Sydney and acting as 'commission agent', before returning to England where his version of his experience commended him to the directors. They must, however, have acquired reservations, because they kept his status provisional, and then, after he had two and a half years' service, gave the permanent post to G. R. Griffiths, destined soon to succeed Kinnear. With evident reluctance the directors gave Boucher the post of accountant in London, but were relieved when presently he resigned. Thereupon he caused them great embarrassment by his gross mismanagement of an otherwise respectable project, the British and Australian Bank, and by participation with his brother Charles in a fraudulent Agricultural Bank at Adelaide. In both enterprises he conveyed the impression that he was still secretary of the Australasia, and that it was associated with the projects. (Almost a century later, in 1936, the Bank was generously to contribute to the support of a lady in Melbourne 'said to be aged ninety-three, helpless and in needy circumstances, and the second and now only surviving daughter of Frederick Boucher, who was secretary to the committee responsible for the foundation of the corporation'; she died in July 1940.)

Kinnear's initial staff for the Sydney branch was set at an accountant (Charles Falconer, first selected for Hobart, was given the post)

The first Charter of the Bank of Australasia, 1834.



A note form of the Bathurst Bank. This impression was taken from the original plate which is now in the possession of C. C. Old, Esq., of Sydney.



A cattle-branding iron used to mark cattle mortgaged to the Union Bank following the Mortgages on Stock Act 1843. The practice of branding was more common in the latter part of the nineteenth century; an alternative form which has survived carries the Bank's name in full.

at £500 a year; a teller at £200; and a clerk at £150. The Hobart establishment was to be of the same strength. At this stage no other branches were provided for. But in February 1835 Launceston entered the picture. James Henty, in London to press his family's claim to land, proposed that the Australasia take over the Cornwall Bank, of which his brother Charles was manager. Perhaps his invitation was induced by learning that the Court had decided two months earlier to arrange for a Launceston branch. Agreement was rapidly reached that the Cornwall would wind up as soon as the Australasia was ready to commence business, but would retain full liability for all earlier business; the Cornwall directors would 'use their influence' to persuade customers to transfer to the Australasia; the Australasia would provide, at par, the shares necessary to qualify local directors and take over the Cornwall's lease of its premises; Charles Henty would be appointed manager of the branch, at £500 a year, a handsome increase in income. The agreement was subject to the Cornwall agreeing to be absorbed, but as the Henty family was in effective control of that bank, little difficulty was expected.

Requests to initiate banking at Perth and Adelaide were received more cautiously. At least four separate proposals for a Western Australian branch were made. In May 1834 a group of twenty-three English residents, describing themselves as having friends or relations in Western Australia, urged a branch; a letter to the same effect from George Leake of Perth was received in December; in August 1835 there was a proposal from Marshall MacDermott, on behalf of a Perth committee, which was shelved until Kinnear could report; in March 1836 the directors were importuned by William Tanner, who had been concerned in an earlier approach from Western Australia, but as he admitted that the only securities generally available were land or sheep, both excluded by the Charter, no action was taken. Discussions concerning the planned settlement in South Australia were initiated by Rowland Hill, as one of the South Australian Colonization Commissioners, and George Fife Angas of the South Australian Company in November 1835, but the Court was unwilling to commit itself to a colony which, as yet, existed only on paper.

At the beginning of 1835, with the Charter at last assured, the final decisions, required before Kinnear set out, were taken. Interest on deposits was to be paid only on deposits actually left for three months, but withdrawable on ten days' notice; no interest was to be paid on current account. In general, bills discounted were not to exceed three months; cash credits, that is overdrafts, were to be available. Local boards, with the concurrence of the Inspector, might vary discount rates. Inter-branch balances were to be recorded immediately in the 'London cash account' of the relevant branch. Notes were to be for £1, £2, £5, £10 and £50. The directors also, at last, allowed themselves fees; the rate was to be £1 per member per meeting, the whole to be tabled before the chairman, and divided amongst those present fifteen minutes after the meeting commenced.

To supply the quantities of coin required to be shipped, arrangements were made with the Mint for the supply of £50,000 worth; the plan was to ship this amount to New South Wales and a further £30,000 to Van Diemen's Land. It was determined that, over and above this initial stock of specie, branches might not, until further notice, draw on London in excess of their remittances for more than £80,000 in all. Well-established firms at Cape Town, Batavia, Singapore and Madras were invited to become agents of the Bank.

All was ready for a start to be made. By March 1835 the required proportion of capital was in hand and Kinnear was despatched, with his family and the other chosen staff, by the *Kinnear,* a vessel of 374 tons, which in addition to portion of the Bank's specie and equipment, carried a general cargo in which rum and ladies' clothing were an important part. The total passenger list was thirteen, but beyond recording that 'your officers behaved themselves on the voyage out', Kinnear gave no report on the trip. Hobart was reached on 23 October; by happy coincidence, the day before the directors had authorized publicity in London and (by circulars to banks) elsewhere in Britain, of their readiness to commence exchange business. Three years' patient determination had achieved its objective: the Bank of Australasia was in business.

CHAPTER 4

BUILDING THE FOUNDATIONS

KINNEAR's immediate task was to organize operational branches at Hobart, Launceston, and Sydney, and he was quickly made aware of special difficulties and resistances. The Governor of Van Diemen's Land, George Arthur, while he obeyed his explicit instructions to give safe custody for the time being to the Bank's specie, left Kinnear in no doubt that he found the Bank unwelcome. Complex motives went to the making of Arthur's attitude. As he put it a few months later in a despatch to the Colonial Office, in his view the first effect of the Bank had been 'to disturb existing relationships and to occasion considerable loss to H.M. Government'.

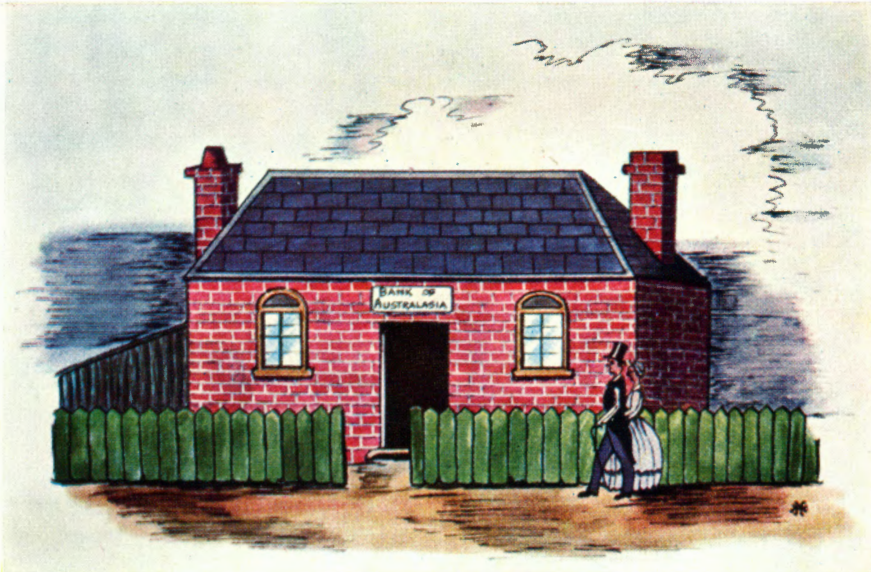
In Hobart the government banking business was divided between the Bank of Van Diemen's Land and the Derwent Bank. The former, five years older, owed its share merely to prior existence; the latter, dominated by public officials, including the Colonial Secretary, John Montagu, who was Arthur's nephew, was more completely the government's banker by virtue of unashamed preference. To both the Australasia presented the threat, not merely of competition, but of 'disturbing existing relationships'. Potter Macqueen had earlier spread the story that the Australasia was to have a monopoly of government business by British Treasury orders, and banks in both Hobart and Sydney had already protested to England; well before those protests had been received the Treasury had refused the privilege, but the main harm was done. Colonial banks and government officials alike were prepared to be hostile. All Kinnear sought was a share in government business, but this was persistently refused both by Arthur and his successor Franklin. (The Commercial Bank of Tasmania had suffered a similar exclusion for a longer period.)

Arthur had a further reason for hostility. The local Commissariat correctly foresaw that bills on the British Treasury, the sale of which, at a fixed premium of $1\frac{1}{2}$ per cent for British silver coin only, financed expenditure on convict establishments, would be threatened by the Australasia's bills on London. Van Diemen's Land had already displayed a curious version of Gresham's Law. Spanish dollars were legal tender at 4s. 4d., at which rate they were over-valued; bills on the Treasury (the major source of sterling to pay for imports) being available only for British silver, that coin mostly shuttled to and fro between the Commissariat and the Derwent Bank, which was given, deliberately, almost exclusive rights to purchase bills on the Treasury, which it resold at around 3 per cent profit. A consequent chronic coin shortage had led, in 1834, to local legislation legalising the circulation of South American dollars at the same rate as the Spanish, and in 1835, to similar treatment of Sicca rupees, deliberately over-valued at 2s.

The intrusion of the Australasia, with its large shipments of British coin and its ability to sell its own bills on London, threatened a variety of interests. For the government, the logical course was to stop selling Treasury bills at a fixed price, a policy which had ceased to be appropriate as private capital import (of which the Australasia was only one channel) increased in volume. Sale by tender to the highest bidder was the solution adopted in New South Wales, but in Van Diemen's Land this would have destroyed the Derwent's position as monopolistic middleman; in addition Arthur and his advisers seemed genuinely upset by the increase in Commissariat expenditure which would follow. For several years the impact of the Australasia on the Treasury bill market was to be a source of contention in Van Diemen's Land.

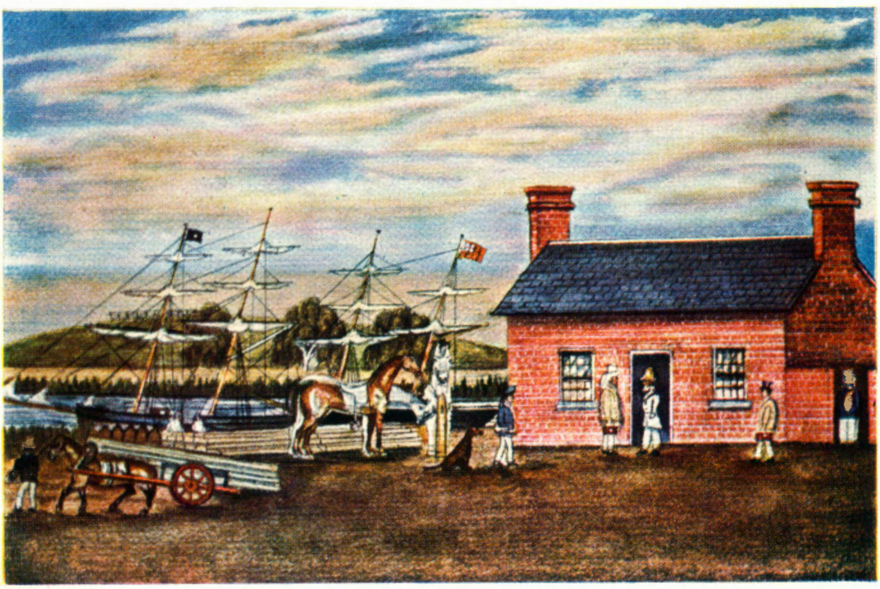
Arthur not only denied Kinnear a share in government business, but also refused to permit a government official to be a member of the local board in Hobart or Launceston, a stand in which he was supported by the British Treasury. Kinnear, however, did him injustice in attributing to malice his decision to require returns for publication from the other banks. To Kinnear, this return, much less informative than that required of the Australasia by its Charter, appeared to be meant to suggest that the local banks were of the same standing as his own; in fact the decision was made by the British Treasury as a condition to be observed by any bank receiving government money, and was, ironically, included in the papers enclosed with the despatch formally notifying the governor of the Australasia's Charter, a despatch which Kinnear himself carried.

Opposition was not limited to the government. In both Hobart and Sydney the existing banks could not be expected to welcome a competitor whose size was supposed to be represented by the newspaper-bestowed epithet 'Goliah'. Newspaper comment before, and for some time after, operations commenced was antagonistic, and must be interpreted in the light of the fact that these were small communities in which most major merchants were shareholders in one of the banks. A favourite line of attack was the Australasia's



Sketch by Horace K. Hall from contemporary sources

The premises of the Bank of Australasia on the north side of Little Collins Street, Melbourne, between Queen and Elizabeth Streets, in which the Bank opened on 28 August 1838. The Superintendent described the building: "Two front rooms not more than 11 feet x 9 feet each and two back rooms used as Manager's Residence are still smaller; Scullery and Kitchen at rear again".



Sketch by Liardet, State Library of Victoria

The Union Bank of Australia opened in this building on the north-west corner of Queen and Little Flinders Streets, Melbourne, on 15 October 1838, when it took over the Derwent Bank Agency.

limited liability. (All the existing local banks were unlimited partnerships.) Thus the Sydney *Herald* wrote in November 1834:

> This it is which makes our present banks and the new third bank [Commercial Banking Company of Sydney] so *respectable*. They are not founded on any kind of cheatery, as all *chartered* banks may be said to be. Why, we ask in the name of common sense and common justice, is this new *London* piece of banking chicanery to be enabled *by law* to put forth its notes and inveigle the people of this young struggling colony to the amount of tens of thousands of pounds, and then not be liable to pay those notes 20s. in the £? . . . It would be libellous in us to advise the people of this Colony not to take the notes of a bank whose proprietors are not compelled (on becoming insolvent) to pay 20s. in the £; and therefore we will not advise the colonists in such a matter. But we have a right to *forewarn* them that if they take the notes of such a bank, *at what risk they do it; and we warn them* accordingly.

There was much more in various newspapers, offset to some extent by occasional welcoming of the prospect of more capital, and, more frequently, a hope that the result of the Bank's coming would be a fall in interest rates. Ten per cent was the normal minimum rate on a safe short-term loan, from which rates ranged upwards to limits set by the needs of the borrower and the conscience of the lender. The weight of comment was half-hostile, half-fearful. All the local banks were prepared for new competition; all increased capital in readiness.

Another, not completely independent, source of hostility was the body of merchants. (In nineteenth century Australia a 'merchant' was one engaged in importing, and often handling exports as well; one engaged solely or primarily in domestic trade was a 'shopkeeper'.) In Hobart the shareholders in the Bank of Van Diemen's Land were almost wholly merchants; both there and in Sydney merchants found the Australasia a competitor in foreign exchange, for as export agents, they controlled the chief source of sterling bills outside the Commissariat. In Hobart merchant opposition was so strong that Furtado had been unable to form a local board, and this, Kinnear's first task, took him some time. Sydney merchants, he found a little later, held aloof from the Bank for the same reason.

Kinnear was so eager for a prompt start that he formally initiated the Hobart local board the day he landed, but, as the meeting consisted in fact of himself, Poynter, the manager who had travelled with him, and Furtado, it was a token beginning only. Premises in Murray Street opposite the then Government House were promptly obtained, but as the extent of opposition was made clear by unrewarding interviews with the governor and several refusals of invitations to join the board, Kinnear cautiously determined that opening should be delayed until the new year. He was reinforced in this view by the occurrence of a number of minor bankruptcies, which he attributed to the other banks restricting advances to increase liquidity, as they prepared to meet the competitor. Nevertheless within a week of arrival he had a second local director, John Boyes, and left this slender board to complete details of establishing the office while he proceeded overland to Launceston.

There his experience was happier. The attitude of the government mattered less; there was only one small competitor, the Tamar; and he knew in advance that the Cornwall would formally adopt the agreement made with James Henty in London. This was duly done on 10th November, on the understanding that the Cornwall would close on the last day of the year, and the Australasia branch open on 1 January 1836. The Cornwall directors were prepared to become local directors of the new bank, and indeed wanted to take up more shares than Kinnear had at his disposal.

Not all was plain sailing, and Kinnear had, in two incidents, warning of future sources of difficulty. The Launceston directors stood on their dignity and insisted on the same fees as those of Hobart; fees, fixed before the Cornwall proposal, had been based on assumptions about the relative scale of business in the two places which were clearly to be proved false by the immediate acquisition of a thriving business in Launceston. Kinnear admitted the justice of the claim, but the atmosphere may have warned him of the difficulties he was to experience in the relations between the Hobart and Launceston boards. He further learned that the Cornwall, in expectation of being taken over, had substantially extended its loans, and could only carry on for the remaining seven weeks with the aid of a £6,000 advance. Kinnear agreed without resistance; he was to find that all local boards were to prove hard to convince that the London capital of the Bank was not an inexhaustible source of loans, to be tapped by the easy process of selling bills on London.

Both boards secured the concurrence of the Inspector to terms of business which provided for 5 per cent interest on deposits at three months' notice; 10 per cent on cash credits; 8 per cent discount on bills up to three months; sale of bills on London at 1½ per cent premium, on Sydney at 2 per cent, and between the two Van Diemen's Land branches at par. Kinnear was not entirely happy about the 8 per cent discount rate (the other banks were charging 10) but yielded to the claim that competing banks were planning to reduce to 8; this appeared to be confirmed by the Tamar announcing such a rate before the Australasia, and by the other banks meeting the rate, but there was at least a suspicion that both sides had adopted the reduction, each in the expectation that the other would do so.

His initial tasks completed, Kinnear sailed on 20 November for Sydney where he must have been cheered to find that Montefiore had preparations well in hand. Rented premises were waiting in George Street just north of Jamison Street, a local board was already organized, and the branch was able to open for business on 14 December before either of the Van Diemen's Land branches. (Hobart commenced exchange, but not other business, on 18 December.) The governor's welcome was more cordial; he agreed to a government official being a local director, though this was later reversed on English instructions, and did not appear dismayed by the prospect of competition with the Commissariat in exchange operations, although the Commissary himself was, and suggested that the Australasia should buy all his bills. Terms of business included discounts on three months' bills at 10 per cent; 5 per cent on deposits at three months' notice; cash credits at 10 per cent. Bills on Hobart and Launceston were offered at par, and, because the Commissariat sold their bills at par, those on London were set at ½ per cent discount. These rates must be interpreted, in comparisons with Hobart and Launceston, in the light of the fact that only British coin was acceptable in New South Wales, whereas in Van Diemen's Land overvalued dollars were common currency. Two months later, at the beginning of February 1836, interest on the daily balance of current accounts at 4 per cent was offered, Kinnear explaining repeatedly to a protesting Court that he quickly found that, though no colonial bank publicly offered interest on current accounts, all were paying such when it was necessary to retain an account. Rather than pay to those who demanded it, and not to those who were unaware of the practice, he advertised his rate; similar advertisements by the colonial banks promptly appeared. Applications for colonial shares were gratifying: 792 applied for, 300 available.

Nevertheless all was not without difficulty. The local banks in Sydney were stronger and more vigorous than in Van Diemen's Land, and had recently been taught the virtues of competition by the 1834 establishment of the lusty and enterprising Commercial Banking Company of Sydney, which had introduced New South Wales banking to the general payment of interest on deposits, to cash credits, and to branch banking. Bills on London were not readily saleable, not only because of the Commissariat supply, but because, with the much larger export trade than in Van Diemen's Land, merchants were active and well-established competitors; the colonial banks were not in the market at all. Kinnear found that there was a readiness to seek the Bank's discounts, but not to make deposits or buy bills.

As 1836 opened Kinnear could feel satisfied with his initial work, and turn hopefully to the task of welding into an effective operating system the beginnings he had created. Central to the whole system of control which London had laid down was the 'London cash account' of each branch. To this was credited, in the branch books, all amounts which involved the payment of cash in London and the receipt of cash at the branch, such as remittances in coin or bullion sent from London, proceeds of the sale of shares in the colonies, drafts on London sold by branches to the public, and bills on the colonies bought by London Office and remitted to the branches for collection. Items in respect of which the branch paid out cash and London received it were debited to the London Cash Account in the branch books, such as bills on London bought by the branch for remittance to London, drafts drawn by London on the branch, and shipments of coin to London. In the branch cash account in the London books, debits and credits were reversed.

The balance at any time measured the extent to which a branch had drawn on London capital. To keep transactions within available resources London had therefore to place a limit on this balance for each branch, the total for all branches being dictated by the means at the disposal of the Court, and the share of each branch being intended to control its operations relative to those of other branches. No entry was made in the branch books of these limits which were merely a statement of the amounts beyond which the balance of the London Cash Account was not supposed to go.

This broad principle was clear but its early operation proved very difficult. For Hobart and Launceston only one joint limit existed as a prescribed figure, because in view of the concentration of government transactions in Hobart and the Charter obligation to cash Launceston notes there, separate 'capitals' appeared impracticable. This arrangement might have been workable if the Hobart branch had controlled that at Launceston; as it was each branch could, and did, draw on London funds with inadequate regard to the activities of the other, each having some reason for regarding the other as at fault. Inter-branch transfers were recorded by entries in London cash accounts, but as there could be a lapse of several days or even weeks in, for example, transactions between Sydney and Van Diemen's

Land, confusion could occur. Between London and the branches, communication was so slow and its period so unpredictable—four months was normal mail time—that, as Kinnear emphatically told the Court, unforeseeable excesses over the London limits were inevitable. London had itself contemplated such, planning to retain substantial funds to meet these fluctuations.

Nor did problems end there. The Sydney board was under the Inspector's eye and any disposition to lend too freely would be his personal responsibility. But Hobart and Launceston were their own masters on individual advance applications, and, particularly at Launceston, restraint proved difficult to enforce; at Hobart under Poynter's management, Kinnear was disposed to complain of excessive caution.

Kinnear himself had direct responsibility for London limits being exceeded. He was acutely alive to the fact that the Bank's ability to engage in exchange business on a large scale was its most potent competitive weapon, and attached more importance to being always ready to buy private bills and to sell Bank bills on London, than to formal compliance with London instructions. Those instructions, as he presently had reason to complain, were not always unambiguous or consistent. In July 1836 he wrote:

> For some time after our arrival I was frequently asked whether the Bank was ready to buy or to sell bills, to which I have always answered that we were at all times ready to grant bills to any one who chose to pay the money over the counter and that the Board would at all times purchase bills secured to their satisfaction at the fair rate of the day.
>
> In consequence of these answers people do not give themselves the trouble of searching through the merchants for bills as they used to do some time previous to the sailing of a ship, but bring the money to us when they want the bill, although by doing so they lose 1 or ½ per cent. But if we once stopped drawing people would lose all confidence in getting their remittance made at the time they want it and without trouble, and they would revert to their old practice of searching for private bills. All the undoubted paper which we now purchase would leave us, and we should not get the Bank's bills into circulation.

London read this to mean that he planned to continue buying and selling regardless of rates, which he indignantly denied. But the persistent tendency for sales of Bank bills to exceed purchases of private ones indicated that the rates he quoted were attractive to both sides; in any case, as he impressed on local boards, he was averse to frequent changes in selling rates. To London's reiterated protests, his retort was to urge an increase in capital, pointing out, fairly enough, that the rapid economic expansion in the colonies, far beyond what was expected when he was leaving London, presented opportunities that should not be missed.

A final source of London limits being exceeded was misunderstandings and delays in correspondence with London. Partly this was failure in effective letter-writing (as Kinnear pointed out, for instance, authorizing him to increase limits by 'the amount of profits at branches' was meaningless unless the date at which such profits were measured was stated); but a potent factor was the length of mail time, and the inevitable difficulty on both sides of always keeping in mind that the contents of a letter would normally not be influenced by any knowledge of events, or reading of correspondence, during the eight months preceding the receipt of that letter. As a matching of dates of writing with postmarks shows, both London and Kinnear replied promptly to despatches, but for each to visualize constantly the state of the other's knowledge more than eight months earlier, was not always easily or successfully achieved.

Thus in August 1835 the Court, acting on Kinnear's reports of activities in the first few months of operations, suspended specie shipments; Kinnear therefore felt free to increase his drafts on London; the Court, in ignorance of this, but in the light of Kinnear's later reports, foresaw a need for specie and shipped, in February 1836, the £20,000 that had been withheld; its unheralded arrival necessarily sent the colonial cash account with London well above its limit; while London was presently sending anguished protests at the amount of Kinnear's bills which reduced London cash to the point where the Bank only just averted a need to borrow in order to honour them. This particular confusion, it may be noted, was only understood on both sides by correspondence in 1837-38, more than two years after it originated. A dozen such misunderstandings occurred in the first three years which, it must be said, Kinnear was not unwilling to exploit when it enabled him to take advanatage of the mounting opportunities of the wool boom—while, it should also be said, keeping his business safe and solid. One cannot but admire the courage with which, fully aware of what he was doing, he kept persistently above the successively increased limits set by London. Equally must one admire the vigilance and judgment of the directors. They were meticulous in watching every detail: thus they disallowed a debit in Launceston of £5 for wood and candles, reminding Henty that his contract required him to supply these. They were emphatic in protests at excessive drafts, but at no time did they fetter Kinnear with other than the broadest instructions on policy. Repeatedly they expressed and explained a point of view, and commented, often critically, on Kinnear's, but invariably they left him discretion and turned to the task of meeting branch drafts. Having assessed their man, they backed him.

Their trust was justified by Kinnear's energy. By May 1836 he was back in Van Diemen's Land, over a week's sea trip by sail, to check on the spot the operation of the branches, and in particular to restore order into the foreign exchange dealings which had been disrupted by a unilateral change in rates by Hobart, out of line with those of Sydney and Launceston; the change had facilitated arbitrage at the expense of the Bank. He was somewhat disconcerted to find that the excuse was that Hobart had sent him, at his request, £8,000 in specie because of his heavy purchases of bills in Sydney, and then, finding their own cash deficient, they had sought to increase it by selling bills on London and Sydney at reduced rates; they were unwilling to restrict discounts. At Launceston he was better satisfied and endorsed a proposal, later however overruled by London, that the Bank buy land and build to replace the existing cramped premises which were also the manager's residence. Apart from the kitchen there were two ground-floor rooms, one the Hentys' living room, the other, twelve feet square, the bank; when the directors wished to meet, Mrs Henty must retire upstairs or leave home.

But Kinnear soon had a more worrying matter to handle. Van Diemen's Land's chronic currency difficulties had again come to a head with a persistent loss of British coin under-valued in relation to dollars, and the latest suggestion for evading the inevitable was to declare bills on the Treasury legal tender. For this purpose, a Currency Committee was appointed by the Legislative Council; its members and most of the witnesses comprised public officials and spokesmen of the colonial banks, and their attitude to the Australasia led them to attribute the whole loss of British coin to that Bank; the £8,000 remittance to Sydney was magnified into a large and continuous flow. Kinnear, who had been the instrument for the import of large sums of specie, could achieve little in the face of undisguised bias. The Committee would not hear him, permitting him only to supply written answers to written queries; the answers were omitted from the published evidence, extracts only being quoted at various points in the Report for the purpose of critical comment. The Report, after one general exoneration of the Australasia, proceeded to repeat the charge in various forms; Kinnear's demonstration that, at its legal tender rate, the dollar was 7½ per cent over-valued and inevitably displaced British coin, was ignored. He published his evidence, only to regret the action as it stirred up yet more hostile comment. But perhaps in the end he won. The criticism gradually died away in the face of the obvious impossibility of maintaining a charge of persistent export of coin against an institution which clearly was regularly importing it.

Back again in Sydney by late July Kinnear found his problems multiplying. Persistent staff shortages and inadequate salaries made the maintenance of efficiency difficult at all branches. From a distance he had to try to smooth out repeated minor conflicts between the Hobart and Launceston boards, conflicts which had their roots in the requirement of a single London cash account for both branches. These he tried to minimize by giving each branch a tentative limit of its own. The situations and policies of the two branches were, however, too divergent to be reconciled entirely. In Launceston Henty was eager for business and all the directors themselves were heavy borrowers; the problem was to impose restraint. In Hobart caution ruled. Kinnear believed a ratio of cash to liabilities (taking as cash, coin plus Treasury bills—there were no other liquid assets available) of one-quarter to one-fifth was quite adequate; Poynter in Hobart was dominated by his board who, too concerned with their liability to cash Launceston notes, insisted on one-third but were not easily convinced that the necessary corollary was that they should be more restrictive in discounting.

Next Kinnear found himself drawn into one of the lively banking issues of the day. The Governor, Gipps, bore no ill-will because of a brush between Kinnear and himself over bank returns. In accordance with British instructions Gipps had required all banks holding government deposits to supply, in June and December, returns for publication; Kinnear objected to the work of producing such returns when already the Bank had to supply, in April and October, more elaborate ones. Neither side would give way, and for the time it took to refer the matter to England, the Australasia had no government deposit; the Court instructed Kinnear to supply the returns required. At that stage, however, the government deposits were not great enough to be very important because of the operation of British instructions about deposits.

Formulated in 1826, primarily to check officials using government funds for private discounting and to avoid taking risks with small colonial banks, these instructions limited government deposits to immediate cash needs which had then been assessed at £5,000 in each local bank. By the time the Australasia appeared this amount had been increased to £10,000 and then to £25,000. But from 1831

Crown land had been sold, not granted, and the swelling sales of the pastoral boom meant that a great flow of coin went into the government vaults. By the end of 1836 this amounted to some three-fifths of total government funds and was growing steadily. Land sales so far exceeded expenditure requirements that it seemed plausible to suggest that the government would, in a short time, hold all the colony's coin. The colonial banks had a simple solution: the government should deposit all its surplus revenue with them. Apart from the obvious self-interest of this proposal, it appeared to involve the government in supplying the base for a great credit expansion. The Governor consulted Kinnear who suggested, in addition to public works expenditure, that the Commissariat should suspend drawing bills and be financed by the Treasury. This, although occasionally done when the bill market was unfavourable, implied settlement between the British and colonial treasuries, either by the government substituting a London for a Sydney cash balance, or the novel spectacle of a loan from a colonial to the Imperial government. In the end the solution was found partly, by design, in yielding to the pressure of the banks for deposits but, to a greater degree, by the use of land revenue to finance assisted immigration.

The scale of operations which had been achieved after a little more than a year is indicated by the half-yearly averages of weekly figures required by the Charter.

The greater size of the first Van Diemen's Land figures has to be read, not only in the light of their including two branches, but especially of that at Launceston having a flying start by virtue of taking over Cornwall business. The New South Wales business was all attained in four months; as might be expected, thereafter the New South Wales figures draw progressively further ahead. These data give no lead as to the scale of exchange business but all reports show that it was greater in New South Wales. Moreover, it will be noticed that Van Diemen's Land was drawing relatively more on capital and less on deposits than was New South Wales, offset to some extent by a much higher proportion of interest-free deposits. If the Van Diemen's Land figures could be divided to show Hobart separately, it would be clear that the lagging was there. Both Kinnear and the Court were disposed to attribute this to Poynter's unsuitability and inability to adapt himself to a style of banking unlike the English. Justified as their criticisms were, they made little allowance for the difficulties of the branch, especially the hostility of the

BANK OF AUSTRALASIA

Averages (£)

Half-year ending	Notes in circulation	Deposits Not bearing interest	Deposits Bearing interest	Total Deposits	Coin	Discounts etc.
April 1836						
New South Wales ..	6,756	24,500	10,107	34,607	25,257	60,486
Van Diemen's Land ..	8,740	38,562	3,641	42,203	32,571	76,884
October 1836						
New South Wales ..	11,847	21,990	45,521	67,511	50,005	117,266
Van Diemen's Land ..	13,335	39,724	11,014	50,738	43,483	115,235
April 1837						
New South Wales ..	14,352	649	76,533	77,182	35,192	164,504
Van Diemen's Land ..	15,643	41,603	14,638	56,241	30,486	141,123

government and the entrenched position of the colonial banks. Under other managers Hobart was slow to become profitable.

The directors in London were not dissatisfied, and at the annual meeting in June 1837, assessed the profits accrued to December 1836, after writing off part of preliminary expenses, at £14,728. This, of course, included profits made in London, particularly in exchange; the date of reckoning had to be so far behind, to allow for accounts to arrive from the colonies. A dividend, described as being for the first half of 1837, of 4 per cent (8 per cent per annum) absorbed only a little over half the profits, but the shareholders were so pleased that they did not complain of the absence of a balance sheet; no balance sheet was supplied to them until 1844, and then against the wishes of the directors. The shareholders had only recently taken up new shares by which the capital was increased to £400,000, and now had their appetites whetted by forecasts of the opening of new branches. Several of these were to be realized, although the directors knew they had already been forestalled in Adelaide.

South Australia, like Western Australia before it and New Zealand after, was in its earliest stages an example of company settlement, inspired, like New Zealand, in some degree by the 'systematic colonization' doctrines of Edward Gibbon Wakefield, although by the time of actual settlement more hardheaded notions had modified Wakefield's principles, and he had no part in the final moves. The Act of 1834 provided for a colony in which general authority was vested in officials appointed by the Colonial Office, but control of land was the responsibility of the Colonization Commissioners of South Australia. The latter were not appointed until May 1835, and found little demand for land; George Fife Angas (one of the commissioners and a leading spirit in the whole plan) therefore took the initiative in promoting the South Australian Company, to act, as it were, as middleman in disposing of land, which in due course involved it in chief responsibility for settling migrants, and in miscellaneous trading activities.

Angas (1789-1879) derived from his father shipping interests in London, where in 1832 he became interested in the earliest version of the South Australian project. He was at this time taking an active part in the foundation of the National Provincial Bank, as well as a great variety of charitable and missionary activities, and subsequently had a leading rôle in the creation of the Union Bank. In 1850 he resolved to join his son, J. H. Angas, in South Australia.

As plans for South Australian settlement matured the need for banking facilities became plain. Employees in the colony would need to be paid, and intending emigrants were seeking ways of remitting funds. Rowland Hill, as one of the commissioners, approached the Bank of Australasia in November 1835, but on reflection the directors declined to open a branch in the new colony, apparently because of their established reluctance to become involved in loans on the security of real estate—all that, at first, settlers would have to offer. Accordingly the Company found its own solutions. Small local payments at the outset were provided for by small notes of 6d., 1s., 2s., 5s., 10s. and £1, the so-called 'Kingscote notes'. Entrusted to the Surveyor, Colonel William Light, and the Resident Commissioner, J. H. Fisher, these notes proved unpopular with workmen because, in small amounts, they could only be disposed of at the Company's store at the first temporary settlement at Kingscote on Kangaroo Island, and the store was not always in a position to receive them. Once a bank was in operation it was possible to withdraw them, in the latter part of 1837.

The chief step by the Company, however, was to add a banking department to its own activities. An amendment to the prospectus added to the Company's objects: 'The establishment of a bank or banks in or connected with the new colony of South Australia, making loans on land or produce in the Colony, and the conducting of such banking operations as the directors may deem expedient.' The shareholders concurred, the Bank invited migrants to deposit funds in London in exchange for bills on the proposed bank in Adelaide, and the directors added a supplement to their first report, recording that they had 'shipped by the *Coromandel* of 662 tons the frame and materials of their Banking House, safety iron chests, furniture, books, and other necessary articles for this undertaking, with a supply of specie and bank notes under the care of the deputy manager and accountant of the Bank, a gentleman of respectability and of considerable practical experience in banking in this country. They have also made arrangements for the formation of a savings bank to benefit the working classes which will be connected with this establishment.'

The deputy manager and accountant was Edward Stephens, the most level-headed of three brothers who all participated in the first settlement. Samuel Stephens was the Company's first colonial manager, both quarrelsome and inefficient; John, who migrated in 1843, edited the *Adelaide Observer* and later *The Register,* distinguishing himself by the number of libel actions he had to defend. Nominally Edward Stephens was subordinate to David McLaren, who arrived a few weeks after him with the title of 'commercial and bank manager', and later superseded Samuel Stephens, but in practice the bank was Edward Stephens's affair.

In the supplement to the first report, the directors used the title 'Bank of South Australia', by which title the banking department of the Company was always known. When in 1842 the Bank was separated from the Company, the London directors took the title 'South Australian Banking Company' despite protests from its Adelaide office, which continued to use the name by which the bank was known to its customers; in London the new official name was a clearer indication of continuity with the banking department of the South Australian Company. In 1847 when a charter was received, it was in the name of South Australian Banking Company, and notes issued in Adelaide carried both names. (On the issue of a new charter in 1867, the directors bowed to the persistence of the shorter title, and 'Bank of South Australia' became its legal name.)

Meanwhile in London, the directors, having despatched Stephens with his equipment, proceeded to appoint agents (of the Company, not of the Bank separately) in Cape Town, St Helena, Sydney, Hobart, Launceston, Madras, Calcutta, Bombay, Canton, Mauritius and Colombo. On paper they had solved their problem with promptitude and competence. Whether reality would match the plan must depend on Stephens.

His first report was made in May 1837, three months after his arrival. The bank house materials remained near the beach on which they had been landed, for the cost of carriage six miles inland to the site of Adelaide was prohibitive.

> I was indeed most fortunate in having purchased at the Cape the canvas mentioned in the invoice of D. B. & C. To that circumstance may be attributed not only the safety of the most valuable and the most perishable part of the Company's property in my care but the shelter of myself, Mrs Stephens, and the servants, besides others for whom fellow feeling compelled me to find room occasionally.
>
> The tents sent out for the men could not be landed for a month after the ship arrived here being under the other cargo. The captain of the *Coromandel* made me on shipboard a tent, 27 feet long and 14 feet wide. It was used in the way I mention while we were at Glenelg [*i.e.* place of first landing], and now makes an excellent bank, 2 bedrooms (not large of course) and a sitting room. . . . I allowed the use of the tent for divine service on Sunday mornings to Rev. M. Howard and on Sunday evenings to a dissenting congregation, no such commodious erection being offered for that purpose.

Stephens had carried on some banking even while engaged in supervising the unloading of property on the beach, but for practical purposes the bank commenced in Adelaide in April, in the tent. Initially, deposit interest was 7 per cent for amounts above £50, and 5 per cent below; advances and discounts were at 10 per cent. Bills on London were bought at rates ranging from 10 per cent discount on private bills to 5 per cent on government bills. 'The hours for business I decided last week to be from 10 to 4, but I transact business almost at all times of the day and night. Presently I hope to make the colonists more regular in this matter.' His chief problem was an inadequate supply of specie, although he had augmented it by buying (for a bill on London) from the Bank of New South Wales in Sydney. He obtained the government account, and steadily replaced the Kingscote notes by those of the bank itself. By the middle of the year he could congratulate himself that earnings by way of commission alone covered the cost of his salary. (A junior clerk at 25s. per week was his only assistant.)

When the Australasia was completing its plans for Launceston opening, the local directors were insistent that the Cornwall-Tamar clearing agreement, by which balances below £5,000 were carried forward, should be renewed. Their concern apparently arose from a failure to realize that, whereas the Tamar had a stronger competitive position than the Cornwall, the position was now reversed; the Tamar initially took the same view and only agreed to the renewal with a show of reluctance. Kinnear thought the arrangement undesirable but 'had to agree for fear of raising local hostility'. As the months went by, however, the balance of clearings was fairly consistently against the Tamar, increasingly so as, towards the middle of 1836, bills discounted by the Australasia fell due. (Kinnear rightly judged that early lending could not be restricted to those who brought all their business to the Australasia; retirement of many bills therefore implied a drain on the Tamar.) The Launceston directors of the Australasia accordingly declined to renew the agreement when it expired in June, demanding daily settlement in gold.

The Tamar was not dismayed but set about improving, as it thought, its competitive position. It paid a dividend in July at the rate of 15 per cent per annum; plans for a building were pressed ahead; nominal capital was increased to £50,000 and the shares were made more attractive by reducing their face value to £10 although, in fact, it proved difficult to dispose of them. Discounts were offered more freely, and a curiously naïve step was taken which weakened the Tamar at the critical moment: English coin, the only money accepted by the Commissariat for bills on the Treasury, was always difficult to secure; since the Australasia insisted on gold (a demand to which the proper retort would have been that Spanish and South American dollars were legal tender), the Tamar invested £5,000 of this more readily available coin in private bills on England, planning to use the proceeds in importing sovereigns.

Inevitably, by September, the Tamar was in immediate difficulty, despite a last minute restriction of discounts, and it had to appeal to its rival, with a threat of an even more desperate appeal to public opinion. The adverse clearing balance amounted to £1,877, more than all the available coin in all Launceston, the Tamar declared. Restoration of the clearing agreement was demanded. If this were not granted, the directors proposed to close forthwith, meeting outstanding notes for which, they said, they held adequate coin. Other liabilities (that is mainly deposits) would require them to force payment in cash of all loans (most of which were legally due within the next two months) even though 'they are fully sensible of the infinite individual distress, the total stagnation of trade, the depreciation of land and stock in value, the interruption to the ordinary revenue of His Majesty's Government, and the enormous legal expenses the community are likely to be burthened with . . . the result to the agricultural and commercial community will be frightful, still as honest men the directors have no alternative but to act with firmness and justice'. If the Australasia refused, the Tamar would give the utmost publicity to all the circumstances.

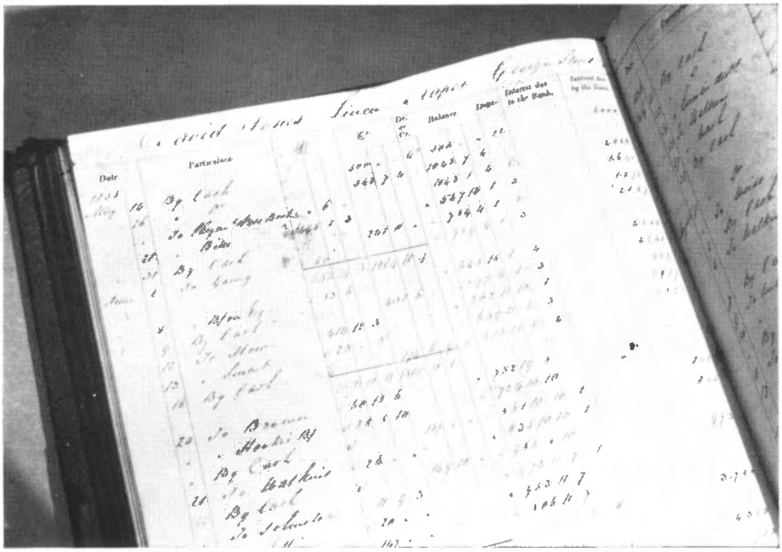
The Australasia did refuse the particular aid demanded, but offered, if the difficulty could be shown to arise from the Tamar 'having inadvertently extended its discounts beyond the limits of its capital', to rediscount £5,000 in bills held by the Tamar. To the latter this appeared only to be deferring the evil day, and the condition called for an admission which would have destroyed any chance of later putting its case to the public. A day-long exchange of messages ended at 9 p.m., and on 26 September the Tamar was closed except for the receipt of debts due, for which it accepted only specie or its own notes. A public meeting was called by the directors for 1 October, when it was proposed to explain the bank's position and thereafter redeem its notes.

The Australasia retorted by its board remaining in permanent session during business hours to aid all deserving borrowers, and by advertising the net balance of coin it had received from the Tamar since opening in January. (The smallness of the amount, £2,648, seemed convincing at the time, but concealed the fact that it was the net result of a heavy flow of specie from the Australasia, in its early months, and the current flow which was persistently against the Tamar.)

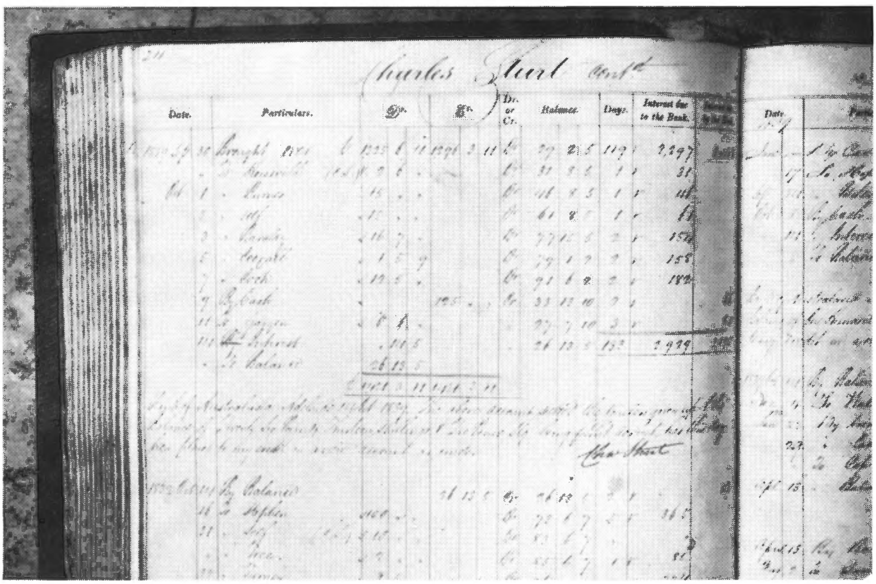
The Tamar quickly realized that, although it could find twelve shareholders to endorse publicly its action, in general its behaviour was badly received. Faced by a realization of their position, the directors almost immediately abandoned their stand and again sought the Australasia's aid, proposing of their own initiative that, in place of rediscounting bills, the Australasia should be secured by bills given by the directors themselves, a better security than the Australasia had originally asked. The public meeting, therefore, heard, instead of a spirited defence of the Tamar and an attack on the Australasia, the news that the latter had provided the means to enable the Tamar to reopen on 3 October. The Australasia had, in fact, gone beyond its original offer, now lending £5,000 for twelve months—more than enough time for the Tamar's import of gold to be received—and, as well, discounting three months' bills for £2,000 to cover the then outstanding clearing balance. The Australasia even held out the prospect that, if future aid were required, it would be made available if this could be done 'consistently with the ordinary rules of business'.

The episode, on the surface, ended in an exchange of courtesies and a basis for future co-operation. But the Tamar directors, though they put on a brave front, saw no hope of permanently holding out against a much larger institution with far greater resources and the capacity, both by its access to supplies of British coin and its ability to engage in foreign exchange dealings on a major scale, to draw customers to itself. The difficulties were underlined by the reply received from the Derwent Bank to an appeal for help, a reply which merely commented that the decision to close was 'taken with some precipitancy'.

Looking to the future, the directors decided that their best hope was for the Tamar to follow the example of the Cornwall Bank, to meet its rival by itself becoming a branch of a substantial English bank. If the fort could be held for a moderate period this seemed attainable, for word had come of an English project for 'The United Banking Company of Australia and Van Diemen's Land', a project which was to be realized as the Union Bank of Australia.



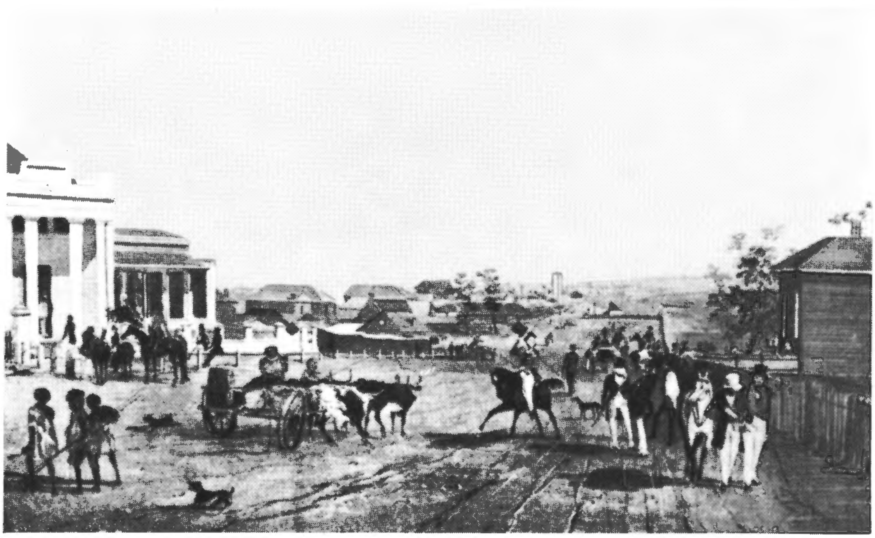
The ledger account of David Jones, Esq., Linen Draper, of George Street, Sydney, with the Bank of Australasia. The first date is 14 May 1838.



In February 1838 the explorer Charles Sturt was appointed Surveyor-General in South Australia. This is his account with the Bank of Australasia, Adelaide. The entry signed by Sturt below the first total reads: "Bank of Australasia Adelaide 14 Oct 1839. The above account settled the vouchers given up and the balance of Twenty pounds Thirteen Shillings & Five Pence Stg being found correct, has this day been placed to my credit in a new account as under", in effect the mutual acknowledgement of the correctness of the recoid which was then normal banking practice.

From a painting by Mary Hindmarsh in the South Australian State Archives

The Bank of South Australia, Adelaide, on North Terrace west of King William Street, looking south from the Parklands near the Torrens, 21 July 1838.



South Australian State Archives

North Terrace, Adelaide. looking west from King William Street; the building at left is the Bank of South Australia.

CHAPTER 5

THE UNION BANK OF AUSTRALIA

RECORDING the conception and birth of the Union Bank presents an intriguing problem in historical justice: what precisely were the rôles of Philip Oakden, director of the Tamar Bank at Launceston, and George Fife Angas, of the South Australian Company? By selecting documents one can support the traditional Tasmanian story that it was all due to Oakden; a different selection makes Angas the single-handed creator. Both sets of documents, on scrutiny, present some unplausible points; nor can one reduce the doubts by simply combining the accounts. From the day, 7 July 1837, that a resolution to create the Union Bank was taken at 19 Bishopsgate Street Within, the record is clear, but the explanation of how that decision came to be made must retain some elements of uncertainty.

This is a convenient point at which to dispose of the persistent Launceston legend that both the Australasia and the Union came into existence as a direct result of Launceston initiative. So hardy has been this legend, still tenaciously held by some Launceston residents, that it would be possible to write a lengthy documented history of the legend itself. The root document is a contribution by Henry Jennings to the *Launceston Examiner* in 1885, which was reprinted by the *Australasian Insurance and Banking Record* of September of the same year, and in this latter form was the basis for further spreading of the story.

All subsequent writers have the justification that Henry Jennings had participated in the Launceston branch of the Bank of Van Diemen's Land, and later in the Tamar Bank, and, in extreme old age in 1885, was recording personal recollections. It is unfortunate that these memories combine confusion with sufficient accuracy, as to names and as to the main events, to yield a story which is highly plausible but full of identifiable errors. In the present connection the essential passage is:

> Mr Charles Henty had been cashier and manager at the Old Cornwall Bank and he and his friends were mortified at the Cornwall Bank, which included as shareholders many of the leading men on the northern side, having to give up, and they determined to try and get up a

> fresh bank. Mr Charles Henty went home for this purpose and after a time succeeded in floating the Bank of Australasia, and came out with a large capital to start a business at Launceston. We saw at once that their large capital was most likely to swamp the Tamar Bank, and that we must therefore take measures also to get capital from home to prepare for any emergency that might happen.
>
> Mr Oakden was then in England and we knew how great his influence was, and determined therefore to suggest to him to raise another large company with equal capital to the Bank of Australasia, Mr Oakden lost no time in setting about this and in a very short time succeeded (in 1837) in raising a company to start the Union Bank of Australia.

There are a number of difficulties with this account of the origin of the Australasia. It was James, not Charles, Henty who went home to England (some later versions make this correction) and he went primarily to press the family claim to occupation of land at Portland Bay. There is no certain evidence that he had any banking projects also in mind, although London planning of the Australasia had then been in progress for two years, and he may have contemplated at the outset some approach on behalf of the Cornwall Bank. More plausible, however, is the view that he first became aware of the Australasia project after reaching London (the first record of any contact with the Australasia is nearly eight months after his arrival), and that the early negotiations for absorption were without the knowledge of the Cornwall.

Certainly no Henty could have had any significant share in the origin of the Australasia. James Henty had sailed from England for Western Australia in June 1829 and was not again in England until July 1834. The remainder of the family followed him from England in November 1831. Earliest recorded moves for what was to become the Bank of Australasia were in 1831, but the essential plan, substantially different from the 1831 combination of a bank and a whaling company, was adopted in November 1832; by the time James Henty reached England the Bank was assured of its Charter and was completing administrative details for the commencement of operations. Henty's negotiations with the London directors were in February 1835 and were clearly concerned solely with the proposition that the Australasia should take over the Cornwall, a proposal which he made on his personal responsibility, subject to later approval by the Cornwall.

Oakden's part in the foundation of the Union cannot be defined so simply. It was certainly a more important part, including some degree of initiative in the creation of the Union, and, in negotiating for the absorption of the Tamar, he was armed with explicit written authority. But there is no evidence that the Tamar directors had any initiating rôle, and all contemporary documents go to show that, beyond offering to be absorbed in the Union, their part was quite passive. When they invited absorption they were in serious difficulties, clearly unable to withstand for long the Australasia's greater competitive strength, and in no position to promote major British enterprises. Theirs was an appeal for rescue, not a counter-attack in strength. Oakden, however, was to have a more independent rôle.

In October 1836 the Tamar Bank, shaken by its conflict with the Bank of Australasia, gave Philip Oakden the following authority:

> We hereby fully empower you to act for us in negotiating an agreement for a connection between this bank and the individuals in Liverpool who have it in contemplation to establish a bank for the use of the Australian colonies, to be styled 'The United Banking Company of Australia and Van Diemen's Land', and to whom we have this day written on the subject.

This bank project had received no publicity in the colonies, and the Tamar's knowledge was presumably drawn from private correspondence, probably with Oakden himself, who had old business associations with Liverpool. Oakden, on arrival in England, found that the plan was languishing, and that interest was stronger in London than in Liverpool. Oakden's rôle in the events that immediately followed is obscure. One possible interpretation is that completion of plans had been deferred, awaiting his arrival. Another is that the original project was, from the outset, primarily a London one, and that Oakden's mission had to be modified on discovering that the Tamar's Liverpool correspondents were not in the centre of things. A third is that the original Liverpool project was virtually dead when he arrived, but on his arrival he was passed on to London capitalists who were sufficiently impressed with the possibilities to promote a new project. On Oakden's death the Bank described him in the Report for January 1852 as 'amongst the number of the original founders of the Bank, having visited England with the view of promoting its establishment . . .', while Henry Jennings, as has been seen, claimed that the Bank had been conceived by the Tamar directors and Oakden commissioned to promote it. But it is clear that Oakden's commission in October 1836 was the more modest one of negotiating absorption in an institution believed to be virtually in existence, and it is not plausible to imagine that a visiting colonial, whose previous European business experience had not been very successful, would have been accepted by prosperous London capitalists as the initiator of what was intended, from its foundation, to be a major bank.

Whatever the precise situation in which Oakden found himself or his relationship to the other founders, it is clear that he was accepted by the primary promoters (in London) of the final scheme, as the man to maintain contact with interested parties in Liverpool, and that his other chief contribution was in persuading Angas to participate. Angas recorded in his diary the discussion late in May 1837:

> We walked together for an hour or two on Southwark Bridge, and considered how far it was proper for me to add to my present engagements. . . . If, without injury to the other affairs I have in hand, I can lay the foundation of this projected Company on such principles and with such men as will glorify God and promote the weal of man, and at the same time tend to benefit South Australia, then indeed it might be my duty to do so.

The truth seems to be that Angas agreed to a basis of co-operation with the Union promoters. They wanted his name and influence to ensure the success of a plan already well-advanced; he was prepared to help in return for a guarantee that the new Bank would not enter South Australia. His reference above to tending 'to benefit South Australia' does not otherwise make sense. On 13 July 1837 he wrote:

> There were two grand objects I had to gain in getting up this great Company. First, the protection of the Bank of the South Australian Company from competition. Second, the appointment of such a body of directors as would select and appoint pious men to places of trust at home and abroad and carry on all their operations on the principles of justice, integrity, and morality. . . .

Again 'protection of the Bank of the South Australian Company from competition' does not make sense, unless it is presumed that a very definite plan for a bank, independently of Angas, was already in train and appeared to him certain to go ahead whatever he did. One does not protect an enterprise from competition by deliberately creating a competitor and then persuading it to agree not to compete; one does nothing or seeks to prevent others creating the competitor. Equally, the high moral purpose, declared in both the quoted statements of his motives, of ensuring the selection of directors of admirable character, is only intelligible if there was in any case to be a bank.

The fact that Angas took the chair at the meeting which resolved on the formation supports, rather than conflicts, with this view. He was a leading figure in the City and the rôle in which, it is suggested, the promoters had sought his aid would dictate his appearing as chairman; his reward is indicated by a resolution immediately following the decision to establish the Bank and the selection of provisional directors: 'That the Union Banking Company now formed shall not establish any bank or banks in South Australia without the consent of the Board of Directors of the South Australian Company'.

If, indeed, Angas had been the primary promoter, as his phrases about 'laying the foundations' and 'getting up this great company' seem to claim, his subsequent behaviour towards it was curious. He attended less than half the board meetings in the critical first half-year during which the Bank was being brought into existence, and thereafter attended rarely. He clearly knew very little in detail of what was going on. A diary entry of 13 July 1837 reads: 'The Union Bank of Australia is actually formed, the prospectus is printed, the directors appointed, the office taken, the clerks at work, and many shares actually applied for'. The 'clerks' at that date were represented by Mashfield Mason, the provisional secretary; not until a month later was he joined by 'a lad at five shillings per week for the general purposes of the Bank'. Premises were still being sought, and the prospectus, after discussion at a number of meetings, was not printed until the end of August. When, at the end of 1841, Angas severed his connection with the Bank because of his financial difficulties, he wrote in his diary: 'The Company was very dear to me from having been its founder, and having selected all the first directors and chief officers'. Yet it was, apparently, the interest which he sacrificed most readily. Selection of directors and chief officers is, of course, only formally registered by a vote in open meeting, but Angas's claim to have been responsible for the effective choice of all is not plausible.

If, by contrast, the present view of his part is accepted, it may have been a more limited one, but it was still very important. His influence and prestige were at their zenith in 1837 and his sponsorship was invaluable. It was more than public endorsement; he invested substantially in shares, holding initially 200, a number matched by only three others. Less publicly he could serve the Bank's interests by virtue of his associations with the government and with other financial institutions; he was, for example, asked to investigate the possibility of a royal charter, and to make confidential inquiries about a possible Colonial Inspector.

Words such as sponsor or patron would more aptly describe Angas's contribution than his own claim to be founder. The more modest work of Oakden, so far as it is recorded, can also be seen in truer perspective than some of the claims made for him after his death. Enlisting the support of Angas's name was invaluable, but Oakden was also a working director from the start. At the first recorded meeting on 6 July 1837, those present were: John James Cummins, John Gore, Charles E. Mangles, John Rundle, M.P., James Russell Todd, and Oakden. The following day was the formal foundation day, when it was resolved to establish the 'Union Bank of Australasia', provisional directors being Angas, Gore, Cummins, Todd, Oakden, Mangles and Charles Hindley; Oakden remained a director until he left to return to Launceston.

The name of the Bank was modified three days later (presumably to avoid confusion with the Bank of Australasia) and Oakden was despatched to the north with the names of two men from Manchester and two from Liverpool, who were to be offered directorships. Three of the four apparently declined, but one, Thomas Sands of Liverpool, accepted, to be joined at the end of August by Robert Gardner of Manchester and Christopher Rawson of Halifax. The evident anxiety of the London promoters to provide for Liverpool interests, and their use of Oakden as their negotiator, goes to confirm that the final plan derived from that which had already stimulated the Tamar, and that Oakden had already been in touch with them as instructed by his fellow Tamar directors.

A prospectus was prepared, dated 1 September 1837, but so far as England was concerned proved unnecessary, since all shares were taken up without the need for any publicity. Nominal capital was set at £500,000 (with power to increase to £1,000,000) in £25 shares. For the colonies 10,000 shares were initially reserved, because it was confidently expected that other banks besides the Tamar would be taken over; although this did not happen, the shares were readily disposed of, only 1,498 having to be returned to England unsold.

According to the prospectus and deed of settlement, the Bank was a joint-stock company with unlimited liability, and commenced operations in the colonies with that status; there, local Acts were promptly obtained to enable the Bank to sue and be sued in the name of a nominated public officer. This was a matter of some importance in view of the experience of the Australasia, which found it difficult to persuade colonial courts to accept certified copies of the Charter as evidence of incorporation. In Van Diemen's Land, for some time, the solution adopted was that on maturity date all bills receivable were transferred to the name of the Australasia's Hobart manager, so that if necessary he could sue in his own name, not that of the Bank. Even after appropriate copies of the Charter had been accepted by the courts, there was occasional difficulty about the form of powers of attorney for inspectors and managers.

The Union considered applying for a charter at the outset, but appeared to attach subordinate importance to it. After early tentative moves, the directors decided to await reports from Oakden, who had just left England. His reply has not survived, unless it is reflected in a minute of the Launceston board of December 1840, replying to a further inquiry from London: the Launceston directors opposed any application for a charter, arguing that a charter was no longer needed to give the Bank prestige, and that it would be a costly luxury; its conditions would be unduly restrictive, particularly in preventing or complicating loans on the security of land. The London directors returned to the question in 1842, possibly prompted by the conditions of economic depression, and on this occasion did formally apply for a charter.

The Colonial Office reacted by circularising governors of the colonies concerned, asking for their views. From Gipps in New South Wales came a vigorous argument against the grant, reflecting in part the view to which he had come, that English banks had contributed to the finance of speculative boom and its disastrous collapse. His arguments were that, except for the Australasia, the other five banks in New South Wales were on an equal footing with the Union, and a charter should in fairness be granted to each if given to one; the Union had traded successfully for four years without a charter, and to give it limited liability now would be inequitable to existing creditors; a charter was not necessary to encourage British investment in New South Wales, since the Union's capital was already invested, and New South Wales had, in any case, an excess of banks; the usual safeguards in a charter were inapplicable since publication of returns was already required by a local Act, and the prohibition on mortgage lending, normally included in a charter, was ineffective and, in fact, evaded by the Australasia. These arguments were adopted in the letter of refusal sent to the Union, although it may be noted that four years later the Bank of South Australia, to whom they would have applied with equal force, received a charter. The Union remained an unlimited company until 1880.

The name of the Bank derived from the view, adopted at the outset, that entry into each major settlement should be by absorption of an existing bank, rather than by establishing an entirely new enterprise. In the prospectus the objective was stressed, and the large allocation of shares for the colonies was dictated by it. The Tamar proposal ensured smooth entry into Launceston, while an approach in August 1837 by Stephen Adey, London agent of the Derwent, appeared to offer a similar opportunity in Hobart. Whether Adey was acting on his own initiative or with authority is unclear; the directors cautiously replied that Oakden, about to leave for Van Diemen's Land, would be fully empowered to consider a definite proposal. Within the Bank itself, absorption of the Derwent was assumed as very likely; reports of the suggestion reached Van Diemen's Land where newspaper comment implied that it was actually agreed upon. In the event nothing came of the Derwent scheme except that the Union took over its Melbourne branch, which was of no great consequence.

With these possibilities in mind the directors framed a set of principles to guide Oakden in negotiations with other banks. Two plans were contemplated: complete absorption or partnership. Where the first was acceptable, Oakden was to verify the accuracy of the balance sheet of the bank to be absorbed, and then assign to its shareholders fully-paid Union shares to the value of total assets; the Union would then take over all assets, assume all liabilities, and operate the business as its own branch. But, went on the instructions, 'should any respectable bank be desirous of increasing its capital and uniting itself with a head in London without merging altogether, this Bank will admit the principle'. But while this was described as partnership it was evident that the directors meant the Union to be unambiguously the senior partner. Oakden was to provide for the partner bank whatever additional capital seemed desirable, taking shares to that extent in the name of the Union; the partner was to take the Union name, and describe itself as a branch; its board would be reconstructed to give the Union representation; the Union inspector was to have the same powers of supervision as over an ordinary branch, and the partner bank was to pay a proportion of his salary; the partner was to replace its own notes by those of the Union; it was to transact all London business through the Union. Even the outward form of partnership almost disappeared in this arrangement; the only substance left was that presumably the Union board in London could not have given direct orders to the 'partner', although it could instruct its Inspector and those directors of the 'partner' who were its nominees. It is not surprising that not only the Derwent, but all other Hobart and Sydney banks, found both merger and 'partnership' unattractive. They were riding the crest of a boom and could reasonably expect better terms.

These developments, however, lay in the future and meanwhile preparations for commencing operations were pressed ahead. Securing a Colonial Inspector proved particularly difficult, and an appointment was made only four days before Oakden sailed. The choice was John Cunningham McLaren, then of Birmingham, with experience of banking in various institutions including the Provincial Bank of Ireland; he was to receive £600 for the first year, increased by two annual increments to £800, his passage out, and a 'suitable residence in the colonies'. Oakden was in Liverpool preparing to set out, with $25,000 (Mexican dollars) already sent ahead to Launceston, and £20,000 in British coin to accompany him; further shipments of £20,000 to Hobart in January 1838, and £15,000 to Launceston in April, were promised. He was directed to complete the Tamar absorption as quickly as possible. McLaren was unable to leave England until mid-1838, having to free himself from existing employment and settle, with London office, details of accounting and other procedures.

By March 1838 Oakden was in Launceston and the Tamar speedily accepted absorption on the Union's principles. The local bank ceased operations on the last day of April, reopening as a branch of the Union on 1 May with a reorganized board which included Oakden, but continuing Lewis Gilles, managing director of the Tamar, in the post of manager. (Locally he was given the title of managing director; his reluctance to accept the lesser status was presently to cause difficulty.) Terms of business were set at: 8 per cent discount on two months' bills; 5 per cent interest on daily balances.

Oakden did not initiate a Hobart branch. The colonial banks not being tempted to absorption or 'partnership', he awaited McLaren's arrival at the beginning of August. Then a branch was organized promptly, to open on 6 September, on the same terms of business as at Launceston, and with Cornelius Driscoll as manager. In Sydney some time was expended in seeking, according to instructions, merger with a local bank before facing 'the tedious and arduous work' of building a branch from scratch. It was well received; local residents took up 4,000 shares in two months, and the branch opened on 2 January 1839, charging 8 per cent discount on two months' bills and paying 4 per cent on daily balances. (By this date competition for deposits had virtually abolished any division between deposits payable on demand and those subject to notice.)

McLaren's instructions required him, once Launceston, Hobart, and Sydney were in operation, to consider other places, Port Phillip being especially mentioned; Adelaide was of course excluded. The Union's Launceston board opened, in October, an agency at Campbell Town to forestall a branch proposed by the Commercial Bank of Tasmania. This particular venture was not very happy; in 1841, despite its relatively small operations, the agent was found to have abstracted £3,500 for his own use. The Bank suffered no loss, but the agency was hastily closed.

Even as McLaren reached Launceston the Derwent invited negotiations for absorption, on the same day that the Launceston board decided to send their cashier, William Highett, to Melbourne, to explore the possibility of a branch. The surviving records of both Union and Derwent Banks contain no record of the negotiations, the only outcome of which was the Union taking over the Derwent's small Melbourne agency.

Official settlement of the Port Phillip District (modern Victoria) had been forced on an unwilling government by unauthorized settlement, primarily from Launceston. The earliest provision for banking was the creation, in February 1838, of an agency of the Derwent Bank with William Rucker, a storekeeper. Charles Swanston, the managing director of the Derwent, had an active part in the early settlement, but, as his previous Launceston agency had shown, he did not understand branch banking. Not only were discount rates very high, but deposits were paid, not in cash, but in drafts on the Derwent in Hobart or the Australasia in Sydney. Presently he had to face competition. The Commercial Banking Company of Sydney opened an agency for the issue of notes in June 1838; while, as will be seen, the Australasia was planning to open (as it did in August) a full branch. Swanston was quite happy to hand over his Melbourne business to the Union, which opened there in October 1838, with William Highett as manager. Within nine months, despite its inability to take over colonial banks, the Union was established in the chief towns of eastern Australia, was planning expansion, and, as will be seen, was about to initiate banking in New Zealand.

Chapter 6

YEARS OF CONSOLIDATION 1838-1841

BETWEEN the commencement of operations of the Bank of Australasia and the first signs of depression late in 1841, the boom built on pastoral expansion reached new and feverish heights. Yet it was during this period, in the face of rapid inflation and apparent opportunities for large and quick profit, and under the spur of strong competition, that the English banks succeeded in consolidating their positions, and, while not failing to make good profits, to build a secure business which withstood severe slump.

Between 1836 and 1841 recorded imports doubled; the excess of imports over exports more than trebled. Bank loans were multiplied by four. Land values rose rapidly, most conspicuously in the Port Phillip district. There, for example, the first sales of Crown land in the new town in June 1837 yielded an average of £35 15s. per allotment; many of these blocks were resold during 1839 and 1840 at prices which averaged £2,019—the cheapest was £864. Country land, sold by the government as recently as June 1840 at an average of £9 3s. 6d. per acre, realized £50 two months later. South Australia showed similar gambling in land values. Urban enterprise flourished as vigorously as pastoral, indicated by the growing number and range of advertisements in the newspapers, and by the formation of craft unions of skilled workers who obtained higher wages despite increases in assisted immigration. Projects for companies flourished—auction companies, insurance companies, a Floating Bridge Company with a scheme for bridging Sydney Harbour, a still-born railway company in Adelaide, shipping companies, banks, and, as well, a host of new ventures which, being confined to a few partners, did not describe themselves as companies. Behind all these was the further great expansion of squatting occupation of pastoral land, the driving force of the boom. Wool output more than doubled in these five years.

Both a part of the boom and part of the financial machinery which made it possible was a flurry of new banking institutions and other financial organizations. Briefly successful colonial banks were the Sydney Banking Company and, in Melbourne, the Port Phillip Bank, both formed in 1839; the Colonial Bank, commencing in

Hobart in 1840, and a small institution, Archers Gilles & Company, started by Lewis Gilles in Launceston the same year. Still-born were the Australian Agricultural Bank in Adelaide in 1839, the Agricultural Bank of Tasmania in Hobart in 1840, and the following year, the Australian Society for Deposits and Loans in Sydney and the Adelaide Banking and Trust Company. There were, during these years, abortive projects for local banks in various country centres—Goulburn, Maitland, Wollongong, Windsor, and Geelong—which were defeated by the opening of branches of established banks.

Nor was financial enterprise purely colonial, although not all British projects came to fruition. The British and Australian Bank, for instance, collapsed after a promising start because of gross mismanagement by Frederick Boucher, former provisional secretary of the Australasia. The Royal Bank of Australia, promoted by the colourful adventurer Benjamin Boyd, was diverted by him from banking to financing his varied enterprises. More successful were plans for mortgage companies. The British Colonial Bank and Loan Company, promoted in London in 1839, soon restricted itself to mortgage lending, appointing the Union Bank its banker in the colonies where it commenced operation in 1841. A similar institution, the Australian Trust Company, began business in the same year, to be followed a year later by the Scottish Australian Investment Company.

The existing colonial banks responded to the spur of competition by successive capital increases, but other avenues for investment were too profitable for banking expansion to go far on a base of colonial capital. A great scramble for deposits developed, in which all banks joined but in which the Australasia was the aggressive leader. By 1840 it was maintaining the lead in New South Wales by offering 4 per cent on the daily balances of current accounts, 5 per cent on deposits at ten days' notice, and 7 per cent for deposits at three months' notice. In Van Diemen's Land it offered 5 per cent on daily balances and 7 per cent on three months' deposits, with similar rates in South Australia. Such rates could be profitable while loan rates were much higher; they could be defended as necessary to compete for funds with other avenues of investment. In the process, the Australian banking system was converted permanently, from one relying for resources primarily on capital and note issue, to one in which deposits were the chief source of loanable funds.

What was surprising, in this feverish development, was that the chief officers in the colonies of the three English banks not only kept their heads, but were able, with limited powers, to restrain their branch managers and, still more, local boards made up of merchants who, in their own businesses, were deeply involved in the boom. Control from London, however wise and farseeing, was too remote from what was daily before bank officers, and too distant in time to check unwise lending and rash risk-taking. McLaren, Kinnear and Griffiths, and Stephens appear at their best in this light. Profits were not unnecessarily sacrificed, opportunities to occupy new territory were never missed when they were sound, and leadership in banking remained with the Anglos; the fiery test of acute crisis found all three banks solid and secure.

Kinnear, once he was satisfied that the Sydney, Hobart and Launceston branches were properly established, turned his attention to the smaller settlements, taking the view that as the colonies grew these would be profitable locations for branches. Of Perth, he remained to the end sceptical. More than once the Court, stimulated by a succession of pleas from interested parties, sought his advice. Kinnear never saw the Western Australian settlement which had only very occasional contact with the east and that mostly one way. Sailing ships outward bound sometimes called at Fremantle on their way to Van Diemen's Land or Sydney, but for the homeward voyage prevailing winds made the Cape Horn route preferable. London had more regular communication with Perth than did Sydney. Kinnear therefore had to rely on chance encounters with those who had been there, and from the conflicting reports of interested parties and disappointed settlers (among the latter the Hentys), he made out that the colony's prosperity was precarious, the only security land (ruled out by the Charter) and banking needs adequately provided by the local Bank of Western Australia. The directors accepted his advice.

Country towns in New South Wales appeared more promising, and Kinnear suggested experimental agencies at Parramatta and Windsor, close to Sydney, centres of very early settlement:

> Parramatta is a small village and as there are not a great many rich settlers in the neighbourhood I hardly think the business there would ever be able to support an establishment [*i.e.* a full branch]. Windsor, however, though insignificant in itself is surrounded by multitudes of rich settlers and in the neighbourhood of the small towns of Richmond and Liverpool, and I have no doubt a branch there upon a small scale would pay very well.

He had already been forestalled at Goulburn, where in 1836 local residents contemplated a small bank. Kinnear made a provisional arrangement with their spokesman under which they would have invested in Australasia shares in return for his opening a branch, but this proved unacceptable to the others who, instead, agreed to support an agency of the Commercial Banking Company of Sydney. That bank had already a branch at Maitland, while at Bathurst there was a local bank. The Launceston local board advised him against opening at Melbourne. It seemed that the most attractive points were already occupied and Kinnear was disinclined to take risks without explicit London authority.

When he finally received this, in early 1838, he was more confident of his assessment of prospects, and limited the possibilities to Bathurst, Maitland and Melbourne. He lost no time in visiting Bathurst, in May, to investigate and to discover if the local Bathurst Bank would accept amalgamation. That bank proved coy, and Kinnear determined to open a branch, hoping that this would induce the Bathurst Bank to declare itself. At the last moment there was a hitch; the manager and accountant selected were, instead, despatched post haste to Melbourne, and the Bathurst branch had to wait until October; the local bank after all declined to yield its territory.

Melbourne at this time was a small and very new settlement with an uncertain future. The Port Phillip District (that is modern Victoria) had been reserved from settlement but the government had been powerless to enforce this policy. The Hentys had 'squatted' at Portland, while in 1836 the activities of the Port Phillip Association of Tasmanian adventurers, who made what purported to be a treaty purchasing a vast tract of land from the natives, touched off a squatting rush, at first mainly from Van Diemen's Land. Unable to prevent this unauthorized pastoral occupation, the government put a good face on it, declared Melbourne a township, and appointed a Police Magistrate, Captain Lonsdale.

As has been seen, the first venture in banking, in 1838, was by Swanston, managing director of the Derwent Bank and business manager of the Port Phillip Association; an agency was established with William Rucker, a storekeeper. This model was copied by the Commercial Banking Company of Sydney, primarily for note issue, but proved unprofitable and was soon abandoned. Kinnear explored the possibility of doing likewise, but the proposed agent wanted the Bank to carry all risks of loss or theft, and as theft was the source of the Commercial Banking Company's loss, the project lapsed. Kinnear was prepared to await development of the settlement.

In June his attitude was abruptly reversed because of a request from the Governor, Gipps, to provide banking service. The assurance of the government business also implied attraction of the best private customers, and Kinnear characteristically acted promptly. D. C. McArthur and John Dunbar, on the point of setting out for Bathurst as manager and accountant for the new branch there, were despatched southward instead. David Charteris McArthur, destined to be one of the great figures of the Bank, was a son of a Captain Donald McArthur who had had distinguished Peninsular service. The son, born in England in 1810, had joined the Australasia staff in Sydney at its commencement in December 1835. As teller at Sydney, he had already evoked Kinnear's warm commendation for efficiency and accuracy; now, at 28, he was selected for a task demanding, in addition, qualities of initiative and resource, caution and judgment; Kinnear's skill in assessing staff was once again to be amply vindicated. The episode is one of many examples of the way the Bank was served by remarkable men in conditions which were the antithesis of the sedentary and comfortable life of an old-world banker. McArthur and Dunbar had prepared for what was, for both, an inviting promotion, but going to Bathurst meant proceeding to an established town with good and regular contact with Sydney, and at Sydney a watchful Inspector was available to guide and direct. Instead, at a month's notice, they set off by sea, in the cutter *Ranger* provided by the government, personally responsible for £3,000 in coin, though no doubt reassured by being given also two bulldogs and an armed guard. In Melbourne their task, in a crude and unstable settlement, was to initiate a bank, and be responsible for conducting the government business and building up a private clientele in a community where everyone was a willing borrower but fewer had sound security to offer. Their first premises were a small four-room cottage, providing two banking rooms each eleven feet by nine, and two smaller ones as living quarters. The grounds were cleared so that the dogs had an uninterrupted run around the premises at night; for weeks McArthur and Dunbar slept with the cash chest (the locks of which were defective) between their beds; by day they were busy far beyond normal hours in developing a solid and profitable business which merited Kinnear's approval—except for the inevitable complaint of excessive drawing on London cash account. It was characteristic of the men, as much as of the time, that neither McArthur nor Kinnear made other than incidental reference to the remarkable performance of a young man of 28; to them it was not remarkable but all in the day's work.

The branch opened on 28 August 1838, but soon had to face more serious competition than the unsatisfactory agency of the Derwent Bank. The Union took over that agency's business to initiate its own Melbourne branch in October, while in 1839 a local institution, the Port Phillip Bank, was promoted. Kinnear sought to discourage this by offering, unavailingly, local directorships to the main promoters; the new bank opened in January 1840. Nevertheless the Australasia was favourably situated. It had the government account, which it did not have to share with the Union until 1840; it was first in the field and able to offer better facilities in inland and oversea exchange than any local bank. Progress indeed was so good that by 1841 it was 'within a hundred drawing accounts of Sydney' and Kinnear's successor was suggesting Melbourne as a better headquarters than Sydney.

The branch at Adelaide had a different origin. By the beginning of 1838, the Court was induced, by the early favourable reports of the new colony, to regret its rejection of the South Australian Company's invitation. The existence of the Bank of South Australia appeared to offer no great competition, and the directors, wrongly, believed they could secure the government account. Kinnear was sent instructions to open a branch forthwith. Despite his expressed doubts, he prepared for the sea voyage, but had to alter his plans, to make a hurried visit to Hobart to take over the branch there during the illness of the manager. It was therefore not until October 1838 that he was able to carry out the Court's orders. Inspection on the spot only confirmed his doubts. Government financial resources were inadequate; there was no immediate prospect of profitable export; the colonists were spending their energies in urban land speculation, not in laying the foundations for productive enterprise; there would be political difficulties if the settlement continued under the dual control of Colonization Commissioners and the Colonial Office. Nevertheless he organized the branch, which opened on 14 January 1839 amid a chorus of newspaper welcome; the branch offered 4 per cent interest on current accounts, compared with no interest paid by the Bank of South Australia, and charged 8 per cent discount, compared with that Bank's 10 per cent. As manager he appointed R. F. Newland, his own clerk—he had no mature and experienced staff for such posts. Appointment of local directors was deferred:

> In a small community and where all institutions are in a primitive state, the absence of competition and of those checks on the influence of money which exist in old countries gives to the directors of banks too great a command over the other transactions of the place, and the

From a sketch by Colonel William Light in the South Australian National Gallery
Photograph: Max Farrell

In January 1837 among the tents erected on the beach at Glenelg, South Australia, because the survey of the site of Adelaide was not complete, was that for the Bank of South Australia. 27 feet long and 14 feet wide, it had been made on *Coromandel* during the voyage out. It served as an office and as residence for Edward Stephens the Cashier (manager), and he allowed divine service to be held there. Subsequently the tent was moved to North Terrace and encased in weatherboard; flooring was laid and on 4 April 1837 it became the first Adelaide premises of the Bank.

influence this gives is so easily turned to the advantage of the possessor in other respects that the temptation appears more than even people of good principle and character can always withstand.

Kinnear early found the dual post of Inspector and Sydney manager burdensome. In July 1836 he asked the Court to consider separating the two posts, but when this and a later request provoked no response, he ventured to separate the functions, making Charles Falconer acting Sydney manager and inviting the Court to approve. The directors responded sharply, reprimanding Kinnear and directing him to resume double duty. Kinnear complied, but sent home a dignified protest, pointing out the impossibility of one man performing both functions. The work of manager of the Sydney branch, the largest, alone kept him busy from 9 a.m. to 5 p.m. and often into the evenings. As Inspector he had to handle correspondence with the Court, with all the branches, with the local government: 'the whole of the business which passes through your establishment in London has previously to pass through my hands as Inspector, and every question which engages your attention has previously been submitted to me; besides which matters are matured and concluded before they reach you which renders the consideration of them much easier than it is when they are in actual operation'. Moreover, the Inspector had to make frequent tours of inspection, entailing long sea voyages. Kinnear could be excused for thinking that the Court, after two requests, should have realized that the two posts must be separated. In the face of the unambiguous refusal he resigned, declaring that the duties prescribed were beyond him.

It was unfortunate that he was so prompt, for long before his letter reached London, the directors had realized how unreasonable their direction had been; indeed, one suspects that their real purpose had been to discipline Kinnear for making the change without authority. At all events, in November 1837, they formally separated the two offices. But it was too late because Kinnear was, for other reasons, determined on resignation, although it is open to doubt whether these other grounds would have seemed so important if he had not been so heavily burdened.

Kinnear could feel aggrieved, with some justice. His contract provided for his salary to commence on arrival in Sydney, and the directors had kept him seven months in London, hard at work devising an accounting system and waiting for the Charter to be assured. For this time he received no pay, and for a long time the directors admitted no obligation. When finally after two years they made a payment, it was as an act of grace and at a rate less than his salary for the period; the payment was accompanied by a refusal to consider his case for an increase in salary because of the high and rising cost of living in the colonies. His representations for better salaries for the staff on the same grounds met criticism of the excessive salaries he was paying. He was held responsible for the activities of local boards although he had insufficient authority to control them. Thus in 1836-37, the Hobart branch persisted in holding the rate of discount down because the local directors believed this was good for trade; since the manager agreed to their resolution, Kinnear had no power to intervene. London criticized, but withheld from Kinnear the power to overrule a local board. London cash accounts were continually in excess, and the basic reason was the inability of the Inspector, without direct powers of intervention, to compel a local board to conform to the limits he prescribed. His correspondence with branches shows him doing his utmost to have the limits observed, while his spirited letters to London show him, loyal to his staff, accepting responsibility for excesses London would not give him adequate authority to control. The accounting confusions and misunderstandings in connection with London cash accounts have already been noted.

At times, the Court, which in general had the good sense and confidence to leave to Kinnear broad discretion on policy, intervened on matters which could clearly be judged only on the spot. Thus Kinnear, with his background in Scottish banking, attached great importance to building up deposits, arguing that expansion of resources from this source was more important than increasing capital or note issue; in determining rates of interest, absolute levels were unimportant, and what mattered was the margin between deposit and discount rates. In conformity with this view, and to meet competition which became intense in the later 'thirties as the pastoral boom rose still higher, he modified early in 1838 the period of notice required for withdrawals. Deposits fixed for definite periods were not welcome to customers, and at this time rates were 4 per cent on current accounts, 5 per cent subject to ten days' notice, and 7 per cent subject to three months' notice. Since the last were little sought, and other banks were negotiating higher rates, Kinnear abandoned three months' notice and paid 7 per cent on ten days' deposits. (Minimum discount rates were 10 per cent.) The Court peremptorily ordered reversion to the old terms; Kinnear's plea for reconsideration was dismissed, leaving him with the grievance that he was being put at a serious competitive disadvantage by a decision made in necessary ignorance of the local scene. Again, London sent out (at Bank expense) a young man with instructions that he be appointed accountant at £300 per annum, the salary appropriate for a large branch. Kinnear protested unavailingly that he was inexperienced, the salary far too high, and such an appointment unjust to existing staff. He obeyed his orders, but his departure spared him the irony of receiving a letter from London objecting to the appointment on the grounds of the young man's inexperience and the excessiveness of the salary. Issues of this kind were not handled any more smoothly by their being expressed with the unintentional bluntness that was inseparable from the secretary, G. R. Griffiths. Thus, at one stage, Kinnear regretted having lost the confidence of the Court and the Court wished to reassure him; what the secretary wrote was 'had we so regarded you we would have been under the painful necessity of requiring you to relinquish your appointment'.

It would be wrong, however, to see the Court as constantly critical of Kinnear or as seriously interfering with his management. They clearly had great respect for his ability and judgment and nearly always gave him great freedom, qualified only by an evident fear that he might commit them irretrievably. For their part, they were pioneers in a new type of banking and one which called for the evolution of a compromise between effective discharge, at a distance, of the duties of directors and the local discretion demanded by efficiency. But for two issues, the storm in a teacup over the division of Kinnear's duties would probably have evaporated; certainly, having already agreed to that division in ignorance of his resignation, the Court pressed him to remain. By the time he received that flattering request, however, worse damage was done.

The composition of local boards was always a difficult matter. In 1838, that at Sydney, with which Kinnear must have close association, disintegrated in personal conflicts. Trouble started when the Court appointed two inexperienced men, one because he was a partner of J. B. Montefiore who was returning to England. (An incidental sore point was that this firm had directors of the Bank in London, Sydney and Hobart, and the implication was that the Court intended this to be a continuing situation.) The other local directors refused to act with the two new men, and Kinnear held up their appointments. When the Court insisted, three directors resigned; a fourth was given to unbalanced personal abuse of Kinnear to the point where Kinnear had refused to meet him. Kinnear could see no alternative but to suspend the local board until London could arbitrate. The Court, indignant at this challenge to its authority, dismissed the rebels and (under Kinnear's successor) peace was restored. But to Kinnear and to the Court, the issue was critical and relations could not now be restored.

For a more personal reason, however, Kinnear had already insisted in uncompromising terms that his resignation was final. When he left London, he carried a letter from one, J. A. Smith, authorizing him to draw £3,000 to purchase land. Kinnear eventually drew a bill before he had selected any land; whether his intention was to make a turn of interest until he found suitable land, or he merely felt that he needed to have the money in hand before starting a search, is unclear. What mattered was that Smith dishonoured the bill, and complained to the Court. The kindest interpretation is that he had forgotten the letter, of which he had kept no copy, and which at first he disowned. The directors, who initially accepted Smith's charges, were eventually convinced of Kinnear's honesty and good faith, but obviously remained disturbed that their Inspector should be involved in a dishonoured bill which exposed him to charges of fraud, and by the time they were prepared to exonerate him, Kinnear's Scottish pride was too deeply wounded. He persisted in his resignation, declaring his intention of returning to London to confront Smith with documentary evidence.

But his loyalty to the institution was unshaken, and he remained until his successor, the London secretary, G. R. Griffiths, arrived in June 1839. In the interval, Kinnear had established branches at Melbourne, Bathurst and Adelaide, and continued to sacrifice his comfort and leisure to the expansion of business, as if it were his own and he not merely waiting for relief from a situation he found intolerable. His subsequent career is obscure. Whether he did in fact return to London is unknown, but in 1843 he was certainly in Sydney for, in the midst of the 'forties depression he contributed to the Sydney *Herald*, under the pseudonym 'Ghost of Cobbett', a series of articles highly critical of the local banking system. A chief point of attack was the view that private banks should not be allowed to issue notes. (It is perhaps worth mention that the firm of Kinnears Smith had not done so.) He makes another brief appearance in 1849, when he set up in Sydney as a kind of business consultant, evidently a forlorn enterprise.

Here was an unhappy sequel to a record of high endeavour and great achievement. To assess how well Kinnear had built the foundations, one must be reminded that here was a new style of banking, with capitalisation and ultimate control from London, and operation on the other side of the world through branches at a time when branch banking was in its infancy, branches which were separated by as much as a thousand miles of sea travel, located in new and rapidly growing colonies. In a period of wild boom, he built a solid and secure business, while not doing so by restricting himself to the merely conservative; rather in major respects he was the innovator and leader in a highly competitive system, teaching the colonials the virtues of branch banking, and the significance of deposits, and following boldly his clear and correct judgment that foreign exchange business provided a major competitive weapon. He had to deal with governors and government officials, with self-important local directors; organize, train, and control a staff amongst whom the conspicuous failures were those chosen by London and the outstanding successes the young men whom he had picked out himself. Only once, with a Sydney director, was he involved in a serious personal clash, and there he was the victim of a notoriously quarrelsome man. By any standards, Kinnear emerges as a great banker.

To succeed Kinnear, the directors chose G. R. Griffiths, then secretary in London, and after a tedious voyage of six months he took over control, in June 1839, for a brief and uneventful reign. He had only one small branch and two agencies to inaugurate. Kinnear had prepared the ground for a Maitland branch which would have been opened earlier if staff and stationery had been available. Maitland was a double town; West Maitland was the residential and shopping centre for farming carried on over river flats, subject to frequent flooding; the government had recently decided to make East Maitland, on low foothills above flood level, the administrative centre, and it was here the Australasia branch opened on 24 December 1839. The manager, William Clark, had just been offered the managership of the newly-formed Sydney Banking Company at double his Maitland salary, but honoured his contract to give five years' service. Griffiths seized the opportunity for another of several eloquent pleas to the Court to revise salaries to accord with the steep rise in living costs. Clark, during his three years' term, did well in difficult circumstances. He had only one local director, who presently made serious charges against the manager; these proved to mean no more than that Clark refused the director's unreasonable demands for discount of his own unsecured bills, and the problem was solved by the director's angry resignation, a characteristic illustration of the recurrent difficulty of working with local directors in small communities. To meet the competition of the Commercial Banking Company of Sydney, Clark was authorized to use cash credits extensively, although ordinarily this type of loan was kept within narrow limits because it was regarded as hard to control and harder to liquidate, and his management of the business was commended. Unhappily, his career was terminated by the discovery in 1843 of a large deficiency.

The two agencies were at Geelong and Portland, the latter with the Hentys and the former with Campbell and Woolley, Geelong storekeepers, and Griffiths saw them as forerunners of branches. In each case in 1841 the agents were given cash credits of £500, advanced in notes, as a means of putting these in circulation in the districts. Never of any importance, both agencies became inoperative with the depression year of 1843, and were not revived. The Union Bank, ever alert to the moves of its competitor, countered by appointing, in 1842, Dr. A. Thomson its Geelong agent on a similar basis, but this arrangement was soon converted to a small branch, complete with local directors.

Griffiths's most difficult single problem was the Hobart branch. Kinnear had, in 1838, finally accepted the fact that the original manager was unable to handle the task. (He would probably have acted earlier but Poynter was an original London selection.) Poynter had proved deficient in practical banking knowledge, was completely dominated by his local board, who were unable to reconcile their interests as merchants and their duties as directors, and had antagonised customers and the colonial government. He was removed to Bathurst, and still not succeeding, was finally dismissed. Unfortunately his Hobart successor was unable to retrieve the results of three years' weakness, and Griffiths found it impossible, from Sydney, to direct him. The Court became increasingly restive at the continuing poor returns, and in 1840 instructed Griffiths to remove his residence to Hobart and take personal charge until he re-established the branch on a proper footing; nothing came of this because of Griffiths's resignation.

Griffiths was an impulsive and warmhearted man whose weakness was an undisciplined vigour in the expression of views. Although, as secretary, he added to the Court's directives blunt criticism of Kinnear, he was generous and honest when, after arrival in the colonies, he saw how well Kinnear had built in the face of recurrent difficulty and a crushing load of work; he was as vigorous, and even tactless, as ever in telling the Court they owed Kinnear much and had 'treated him shabbily'. He was tireless in pressing the needs of the staff for higher pay in a country of rapidly rising prices; when the Court censured him for not dismissing a manager who suffered severe but temporary mental illness, he exploded, not in defence of himself, but in stinging comment on the heartlessness of the Court's view. These were qualities to evoke respect and, from the staff, liking, but to the Court, who had had three years' close contact with their secretary, it sounded like the first muttering of mutiny. Kinnear had had the courage of his convictions, and firmly, but politely, had pressed his views; he had, within the utmost limit of his explicit instructions, pursued the policies he knew to be right (and nearly always had been confirmed by events). Directors, who had found Kinnear's sturdy initiative unwelcome, were quicker to react against the sharp comments which flowed back from Griffiths. In July 1840 his salary was increased to £1,300; he replied with a brief word of thanks and an extended statement of the inadequacy of the amount, ending with an ultimatum that unless it was increased to £1,500 the directors must accept his resignation; the Court replied promptly accepting it. Griffiths, who had clearly not really meant more than a protest, was taken aback, but after the directors did not respond to an olive branch, and had rejected a request for employment in the London office, he made the best of it by joining, as soon as his successor arrived in August 1842, a new merchant partnership, Griffiths Gore & Company; almost immediately he became a member of the Sydney board of the Union.

The Bank did not show any effects of increased competition at the height of the boom. In one respect the Australasia gained some protection from the more direct forms of competition, for in London an agreement was reached with the Union to 'act in concert' in regard to rates of business, an agreement from which exchange rates were explicitly excluded. In the colonies this was implemented by periodical meetings between the two inspectors, and from this time forward, there was frequent making of agreements as to rates, unstable and often broken, but always renewed.

During Griffiths's term of office, but quite independently of him, the Court had at last reversed its attitude to opening in Western Australia, but for reasons indicated earlier, the whole arrangement was organized from London and the Inspector was neither given control nor expected to supervise the new branch.

Settlement in Western Australia began in 1829 as a government-sponsored company settlement, but the company soon vanished, the settlement becoming a Crown colony. The small population of the early years made do with various monetary expedients—the use of miscellaneous coins including foreign ones; private note issues; shortlived government note issues—but these were unsatisfactory and various banking projects were discussed, which came to a head in

1835 as a result of one of the government note issues evoking British prohibition of such.

The first reaction of colonists was to seek to interest the newly-formed Bank of Australasia. A committee for this purpose was appointed by a public meeting, the secretary being Marshall MacDermott who was to be associated with the Australasia in several capacities. After an army career which had included the 1812 war in America, MacDermott was one of the original settlers in Western Australia. His letter to the Australasia proposed that the branch should be allocated £50,000, of which £15,000 should be used to take over existing mortgages, £25,000 for importing sheep, and the rest 'for general purposes'. The Bank had already received a proposal from another settler, George Leake, and had discussed it with William Tanner, a returned migrant. Believing, correctly enough, that land was the only important form of security available in Western Australia, the Bank replied to MacDermott that it was not ready to enter the colony. A similar approach to the South Australian Company for a branch of the Bank of South Australia met the same fate, for a like reason.

Accordingly the colonists turned to self-help, and, with the support of the governor, issued in January 1837 the prospectus of the Bank of Western Australia, providing for a capital of £10,000 in £10 shares, one-quarter to be paid in April. The Bank was to issue £1 notes, buy and sell bills of exchange, accept deposits, and to lend by discounting bills at 12½ per cent per annum. Ambitiously, the sponsors foreshadowed an application for a royal charter 'so soon as the affairs of the company shall be in a position to require it'. The governor meanwhile secured the passage of a local Act which, in general terms, authorized banking companies of any number of partners with the right to sue and be sued in the name of a nominated public officer; limited liability was withheld but the power to issue notes without restriction was conferred.

With MacDermott as manager the Bank began business in June 1837, but on a very restricted scale. Shares sold slowly, and shareholders resisted calls of capital at the same time as they explained the maintenance of a discount rate of 12½ per cent as due to insufficient capital. The first year yielded a net profit of 14½ per cent on paid-up capital. Deposits were not readily forthcoming. At 5 per cent, the savings deposits proposal included in the prospectus yielded little, as did an offer in 1839 of 7½ per cent on three months' deposits. Reluctantly that year a first call of 12½ per cent was made, but later moves for still more capital were defeated. Shareholders had little spare money to invest and were equally unwilling to admit new investors by issuing additional shares.

The modest scale of business is illustrated by the averages for the fourth quarter of the years shown:

	Notes in circulation	Deposits	Cash and Treasury bills	Discounts
	£	£	£	£
1837	2,471	2,572	4,849	1,306
1838	2,758	3,622	3,338	5,106
1839	2,849	4,736	4,718	7,175
1840	4,556	7,954	4,156	13,252

Figures for the last quarter of 1840 reflect a sudden change of attitude induced by the threat of competition. Early in 1840 there were rumours in Perth that the Union Bank would open a branch; and in July the definite intention of the Australasia to do so was announced. The Western Australia hurriedly increased its capital by fifty per cent, extended the term of discountable bills to six months, and voted £300 to build an office; commission on accounts was abolished.

But the Australasia was determined to proceed. George Leake, it will be remembered, had made an individual approach in 1834 to the Australasia for a Perth branch. On that refusal, he wrote to Kinnear, in Sydney, who after some time retorted: 'I cannot see that Swan River possesses within itself the seeds of commercial prosperity and it wants the two elements upon which the past advancement and future prosperity of these colonies appear to me to be based, namely the cheap labour of the convict population and the large annual expenditure of public money consequent on their being penal establishments'. Mail times were so protracted that, by the time copies of Kinnear's correspondence with Leake reached London it was late 1837, and his unfavourable report had to be read alongside the successful flotation of a local bank. After a conference with the ex-governor, Stirling, the Australasia directors determined to make good their earlier mistake, if possible, by taking over the local institution.

The Australasia's public moves for amalgamation had a certain blunt frankness. The Bank announced, in July 1840, its intention to open, and then offered the Bank of Western Australia amalgamation. Coyly, the directors of the latter publicly professed to be awaiting a precise offer, whereupon the Australasia proceeded with arrangements to open. The local directors then hurriedly summoned a general meeting to consider a definite proposal, which, it appeared, had been received. So that shareholders would be in no doubt of the issue, the Australasia advertised, on the day of the meeting, that whatever the outcome, a branch would commence business ten days later. By a narrow margin, the Western Australia's shareholders voted for absorption. The terms for this were generous: reserves were to be distributed amongst shareholders, who were to be paid also the value of their shares plus £1 per share; in return they were to cease operations, transferring business, as far as possible, to the Australasia.

The local bank wound up its affairs promptly, except that repayment of the last small instalment of capital was delayed until 1846. According to promise, the Australasia opened on 3 May 1841, offering discounts at 10 per cent compared with the 12½ per cent of the old bank. Whereas that bank could not offer, except incidentally, foreign exchange facilities, the Australasia could, selling bills on London at 1½ per cent premium and buying private bills on England. MacDermott became manager of the branch, but only because John Lewis, the Commissary, who had been first appointed, died immediately after opening.

However, it was at once clear that the Australasia would not have the field without challenge. The defeated minority in the old bank promptly organized the 'Western Australian Bank', so promptly that it began business in June. It was an immediate success, and as will be seen, made the Australasia branch unprofitable; it survived until, in 1927, it was absorbed by the Bank of New South Wales.

The Australasia's expansion of business, on the scale and at the speed which has been described, demanded greater capital, each increase in which required Treasury approval in accordance with the Charter. Following the first increase of £200,000 in 1837, a further increase of the same amount in 1839 brought issued capital to £600,000, the maximum provided in the Charter. It became necessary, therefore, to seek what was to be the first of a series of supplementary charters, in this first of which the capital limit was raised to £1,200,000, and, in addition, New Zealand was explicitly recognized as within the Bank's area of operations. Immediately, another £300,000 in capital was issued, offered, like the previous additions, to existing shareholders who once again took the shares very willingly.

The shareholders indeed had good reason to be satisfied. Since the first dividend they had received half-yearly payments at a steady rate of 8 per cent per annum, plus, in October 1841, a bonus of £1 per share, equivalent to an additional 5 per cent. These were satisfactory, if conservative, dividends. The only accounts supplied to shareholders (unless they studied the half-yearly averages in Government Gazettes) showed only net profits and disclosed reserves; until the depression of the 'forties these showed consistently that dividends were substantially less than earnings, and that reserves were being accumulated. Thus by October 1841, the last period unaffected by depression, disclosed reserves had reached more than £92,000; in total to that date, net profits had exceeded £220,000, while dividends had absorbed only £143,000.

The specific mention of New Zealand in the supplementary charter was solely to clear up possible doubt. The original charter had been taken to include New Zealand, then treated as a dependency of New South Wales, but with active British settlement in progress, it became an independent colony in 1840. Since the Australasia had not yet opened any branch there, although the idea was being tentatively discussed, it could have been held that it no longer had power under the original charter to enter New Zealand. The supplementary charter merely declared that branches could be established there; in the event, many years were to elapse before the power was used.

The Union Bank, having established itself in turn in Launceston, Hobart, Sydney and Melbourne, and finding established colonial banks unresponsive to proposals for absorption, concentrated on building a firm foundation in these four centres. The boom was expanding so fast that there was room not only for the Union but for other banks as well, and the Union's growth was so rapid that by 1840 the capital was increased to £800,000, at a time when the Bank had paid only two dividends, a first in December 1839 of 14s. per share, followed by one of 18s. six months later. The shares being £5 paid, these dividends were at annual rates of 28 and 36 per cent; when they were followed by two half-yearly dividends each of 25s. per share, it is not surprising that shareholders not only subscribed the additional capital with alacrity, but were enthusiastic supporters of a further increase to £1,000,000 in 1841.

Such profits were the net result of very uneven fortunes. Exchange business was throughout very profitable, in part because the Union and the Australasia were able to maintain agreement as to rates, an agreement, it should be noted, which did not create a monopoly. If at any time bank rates diverged from market realities, there were a host of other avenues offered by merchants; but the two banks did have a significant margin of freedom, while they acted in concert, because their bills were more convenient, safer, and more readily negotiable than those of a merchant. The extent of British capital investment in Australia in the late 'thirties fed the stream of exchange profits. Following the lead of the Australasia, the Union made agency arrangements for the remittance of funds to Australia, whether for migrants or stay-at-home investors, with the National Bank of Scotland, National Provincial Bank of England, Bank of Liverpool, Devon & Cornwall Bank, and Bank of Ireland. Anyone within reach of an office of one of these banks could henceforth readily transfer funds. On the other side of the world, the rapid rise of wool exports meant a constant flow of exporters' bills to buy, to enlarge still further the available London funds. The other side of these transactions was the upward leap in Australian imports, predominantly from Britain, to pay for which merchants were buyers of bank bills on London. So far as other banks went, the Union had to share this business only with the Australasia.

Note issue, deposit and advance business, within the colonies, showed less even fortune. The New Zealand branches, as will appear later, were not at first profitable. Progress in Van Diemen's Land was greater than in New South Wales. Available figures are for each colony as a whole, not for individual branches, but the broad story they tell is clear. In New South Wales (that is Sydney and Melbourne branches) averages for the second half of 1840 were:

	Notes	Deposits	Coin	Advances
	£	£	£	£
Australasia	48,530	339,162	91,316	704,470
Union	39,382	188,901	51,227	470,072

The Australasia's lead might be explained solely by its earlier start, but figures for Van Diemen's Land suggest that more was involved. In this case figures for the two banks are for slightly different periods, both ending in October 1840, but the contrast is too marked to be explained away:

	Notes	Deposits	Coin	Advances
	£	£	£	£
Australasia	15,272	100,124	33,285	306,120
Union	26,592	122,086	50,204	333,313

In Van Diemen's Land the Australasia was, at least so far as concerned Hobart, still handicapped by the early hostility with which it had been greeted, still restricted by the excessive caution of its first Hobart manager and board. These factors had largely offset the advantage of an earlier start over the Union, which, in Launceston, began on level terms since it succeeded to the Tamar's business, and had a significant advantage in that its rival's branch was regarded as too completely under the control of the Henty family. (The manager, a director, and the solicitor were three Henty brothers.) In Hobart the Union was free of the handicaps of the Australasia. By contrast, in New South Wales the Union had a much later start, and had to contend with two new colonial competitors, the Sydney Banking Company and the Port Phillip Bank, which mattered less to the established Australasia, but, coming into being very soon after the Union started in Sydney, were very directly competitive with it. In Melbourne the Australasia had small advantage in point of time, but initially had the government business. The Union was forestalled by the Australasia in the two important New South Wales country centres, Bathurst and Maitland. Perhaps something should be allowed, too, in comparing fortunes in the two colonies, for the differing personalities of Kinnear and McLaren, and for the fact that the respective Sydney branches were necessarily under the Inspector's eye. Kinnear's initiative and persistence in seeking safe expansion was ineffective in securing growth in distant Hobart; McLaren's greater caution was equally of weak effect in controlling the two Van Diemen's Land branches.

Nevertheless, the Union's achievement by the end of 1840 was not unimpressive. In what was, effectively, two and a half years of operation, half that of the Australasia, it had attained a scale of business two-thirds as large. McLaren was ready to build on the foundation by moving into country districts, first by absorbing the local bank at Bathurst, and then with a small agency at Geelong.

Bathurst, 130 miles west of Sydney, owed its birth to Macquarie who had established there a centre of convict administration, and had connected it with Sydney by what was then the colony's longest major road. By the 'thirties, by virtue of its early establishment and its being the effective terminus of that road, it had become the centre of a pastoral district, the last town for hundreds of miles from which squatters pushed on with their flocks in search of unclaimed land; it was the advanced base of the invaders. Here was a promising place for banking enterprise. That enterprise in 1834 came from local residents, immediately following the founding of the Commercial Banking Company of Sydney.

In September 1834, despite heavy rain, a small group of enthusiasts met under the chairmanship of A. K. McKenzie, son of the then cashier of the Bank of Australia, who had been formerly with the Bank of New South Wales. A plan was adopted for a 'Bathurst Bank', with a capital of £10,000 in £100 shares, to issue notes (of £1 and £5), to discount bills, not exceeding three months and at rates not to exceed 10 per cent, to take deposits (including fixed deposits at 5 per cent, although in fact no interest was ever paid), and to make loans on the security of real estate. A particular advantage sought was more satisfactory transactions with Sydney. Locally, cheques on Sydney banks could only be cashed at a heavy discount, and the new bank would obviate this. Close financial connection with Sydney, however, must remain, for there was the destination of the district's wool and the source from which supplies for pastoralists were drawn. Accordingly it was planned that a Sydney bank should be appointed agent, and bills falling due might be paid off either in Bathurst or Sydney.

By the end of the month capital was fully subscribed, but, it seems, never more than half paid up. Directors were appointed and proceeded to secure premises, arrange for notes to be printed, appoint a cashier and arrange for the Bank of Australia to act as Sydney agent. Before opening, on 1 January 1835, 'nearly £1,000' had been received in deposits, mostly from shareholders.

As the business developed, the unorthodox proposal to lend on real estate was abandoned. Few pastoralists owned land, and the few mortgage loans made in the first two years, all subject to a maximum of £300 and a time limit of twelve months, were all on town land. They were overshadowed by discounts, and in 1837 were formally abandoned. When somewhat later an Act to enable the bank to sue and be sued was drafted, a clause to protect mortgage loans already made was included, and because of this the Act was disallowed in England, where such loans were still regarded as improper for a bank. In addition to discounts, the other chief business was receiving, in Bathurst, cheques on Sydney banks and 'orders' on Sydney agents of local residents, for collection. Note issue was never an important source of profit, being at its maximum a little over £4,000.

The size of the steady flow of cheques on Sydney banks soon caused the Bathurst directors to ask the Bank of Australia to lend on their behalf in Sydney, but this was unacceptable, since it clearly involved the Australia as agent, competing with itself in its own business. Instead, an arrangement was made with a Sydney merchant, Henry Gilbert Smith, to whom all surplus above a cash reserve of

£300, held in the Bank of Australia, was transferred. Smith contracted to pay the Bathurst Bank 10 per cent, receiving in return $\frac{3}{8}$ per cent commission and freedom to invest the funds on the best terms he could get. The size of these Sydney funds was increased by the Bank inviting deposits in Sydney, which it credited in Bathurst at par. The Bank of Australia, as receiving agent, was curiously acquiescent in this arrangement by which the Bathurst Bank was simultaneously doing business in Bathurst, and, by proxy, in Sydney.

Local coin needs were modest, and the general drift of coin to Sydney was offset by drawing at intervals on the Bank of Australia, usually in amounts of £50 to £200, and on the average less frequently than monthly. The risks of the long road were met by amusing camouflages; parcels of 'medicine' were sent to Dr. Busby, one of the directors; boxes containing coin had weight disguised with crumpled paper; and coins in sawdust were labelled as barrels of salt.

These were all the signs of a comfortable but limited business. The first four half-yearly dividends exceeded 30 per cent per annum, but the shareholders were unwilling to provide more capital. Calls were resisted, and though nominal capital was twice increased, until it stood at £30,000, it does not appear that the amount paid up ever exceeded £5,000. Shareholders were unmoved by the threat of competition from the Australasia. Kinnear surveyed the district in May 1838, and in September returned to organize a branch, and he offered absorption without arousing interest. When the Australasia's branch opened in November, no precautions were taken except to arrange for somewhat greater reserves in the Australia in Sydney.

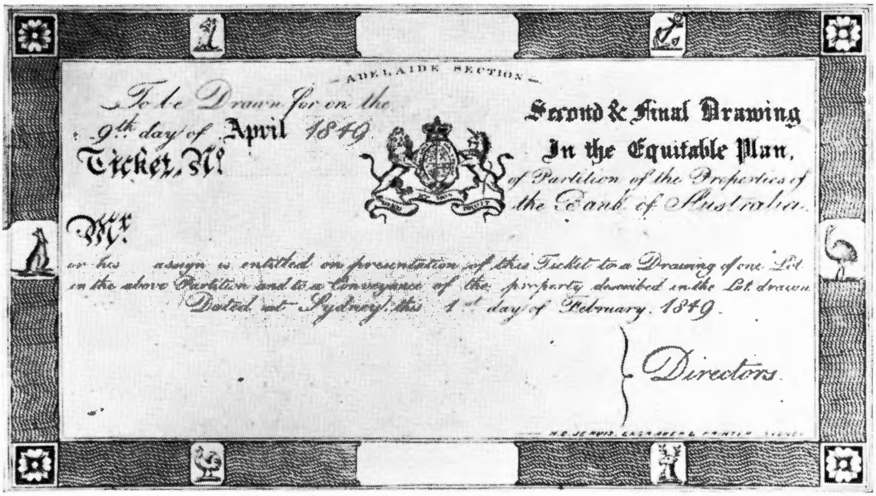
Yet the Bathurst Bank was extremely vulnerable. Local discounts were tied to the fortunes of wool, and already the failure of borrowers to meet commitments had been embarrassing. Loans in Sydney were dependent upon the ability of Smith to recall them, and by requiring him to pay 10 per cent, the bank ensured that his choice of borrowers would not be amongst the quickest payers. As the months went by, old loyalties in Bathurst weakened, especially when the maturing of loans released customers to transfer their business to a bank which could give better service in internal and oversea exchange, and which paid interest on deposits while the Bathurst did not. Yet self-confidence continued unabated. An offer of absorption by the Union Bank in August 1839 was summarily refused, the Bathurst's directors contenting themselves with arranging a cash credit with the Australia in Sydney, and making a call on capital—of 5 per cent. Yet there was a steady loss of deposits to the Australasia; in the thirty-three weeks from July 1839 to February 1840, clearing balances were against the Bathurst Bank in twenty-four.

In the latter month the Australasia declared war, insisting that in future it would require specie in settlement of weekly clearings instead of taking drafts on the Bank of Australia, and would present all Bathurst notes for cash instead of reissuing to its own customers. Even yet the Bathurst's directors were insensitive to the threat, and contented themselves with arranging 'small drafts of £50 or £100 in gold brought or sent up by private opportunities'. But within a month they were rudely awakened, and were seeking ready cash urgently. Smith, in Sydney, was instructed to collect every mature bill he held, and to rediscount all others, sending cash as quickly as possible—£1,000 at once. But these bills were not readily negotiable in emergency, and by August the bank was unable to meet its clearing balance and had to ask the Australasia for time to pay.

The cashier, S. Finley, was hurriedly sent to Sydney to seek a loan, and in their new-found desperation the directors authorized him, if necessary, to reopen with the Union Bank the suggestion of absorption. To him the directors wrote in terms that he could not have found encouraging:

> Since you left we have managed to get two days over without coming to a stop altogether. Both days there has been a rather sharp run for silver which has reduced our stock very much. £12 is all we have remaining which I think will carry us through tomorrow as we close early. For the three days next week till we can hear from you we must only make fair promises, trusting to your supply on Wednesday. Mr Liscombe went round to the several tradespeople and stated the true circumstances of the case, which has done a great deal of good. You will see by the accompanying copy of letter to Mr Street, the Bank of Australasia are not inclined to proceed to extremities. From the same you will likewise perceive how we now stand. Besides the notes mentioned, £482, they have a balance against us of £58, which is again allowed to stand over. I should say by Wednesday the balance altogether against us will be about £700, although it will not be imperatively necessary to provide for this by that time, you will see the necessity of sending some specie to pay casual notes, etc., presented, as our being ready to do so will go a great way in regaining the confidence of the public.

Finley secured a loan from the Union of £3,000 but had to agree provisionally that the Bathurst would accept absorption, which it did in a motion that indicates a desire to be free of dangers realized



A blank ticket for the second lottery in 1849 to realize properties belonging to the defunct Bank of Australia. The lottery was not held because of government intervention. (Reproduced from the original plate in the possession of C. C. Old, Esq., of Sydney.)

This piece of advertising, which at first glance would have looked remarkably like a genuine note, was actually cashed by a teller at the Australasia's Melbourne office on 13 October 1882.

A.N.Z. Bank Archives

William Hamilton Hart

Superintendent of the Bank of Australasia from 1842 to 1848.

South Australian State Archives

Edward Stephens

First Manager (the comparable contemporary title was Cashier) of the Bank of South Australia.

too late: 'that the business of the Bathurst Bank on its dissolution be handed over to the Union Bank on the best terms that can be made'. The transfer took place rapidly, since, in effect, the Union accepted all assets and all liabilities, except that deposits, now quite small, were repaid by drafts on the Bank of Australia. The Bathurst Bank closed so that on 1 October 1840 the Union could reopen the office as its own branch. No one had suffered any loss, and the terms offered by the Union indicated that the fatal weakness of the Bathurst Bank had been its illiquidity.

Meanwhile, simultaneously with the surrender of the Bathurst Bank, there was coming into existence in Launceston another small bank, destined soon to be also taken over by the Union, and the last such until, fifty years later, the Union absorbed the Bank of South Australia.

Lewis Gilles, as manager of the Union's Launceston branch, was restive at the restrictions inevitably imposed on the discretion which, as managing director of the Tamar, had been his. McLaren sought to pacify him, conceding, for instance, authority to approve overdrawing of current accounts, a right denied all other branches; the London board agreed to various other concessions. But Gilles continued to bridle at control, resenting, it seems, more his formal subordination than any specific restriction. London, conscious both of his merits and of his standing in Launceston, offered a higher salary or, alternatively, the same salary as part-time chairman of the local board with freedom to pursue private business. Oakden, commissioned from London to negotiate with Gilles, failed to persuade him, and Gilles left the Union in June 1840.

He promptly opened his own private bank, Lewis Gilles & Company, inviting deposits 'at the usual rate', offering discounts, and seeking agency business. He carried with him the funds of the Launceston Bank for Savings, a private trustee bank formed in 1835 (with the Hobart Savings Bank, established in 1845, it remained one of the two private trustee savings banks in Australia). Thus far the Savings Bank had not invested in its own name, preferring to deposit at interest, first in the Tamar then in the Union. Gilles secured the agency of the Derwent Bank, the Port Phillip Bank, an 1839 Melbourne formation, and the Colonial Bank, just established in Hobart. (Driscoll had left the Union's Hobart branch to be managing director of the Colonial.) In August 1840 Gilles was joined by William, Joseph and Edward Archer and James Cox, and the firm became Archers Gilles & Company.

Under that name a modest business was carried on for three years. But by the middle of 1842 the firm was, in conditions of depression, in considerable difficulty, and resorting to doubtful devices to keep afloat. For instance, bills were drawn on the Melbourne agents, the Port Phillip Bank, the proceeds being applied to the firm's own needs; bills for collection in Melbourne were sent secretly to the Union Bank to avoid the proceeds being offset by the Port Phillip Bank against the firm's indebtedness. The partners struggled on, but by the end of 1843 were compelled to appeal to the Union for aid.

For that aid, the Union required that Archers Gilles & Company should transfer all their banking business, including the Savings Bank account, to the Union, a transfer which became effective on 1 January 1844. In return the Union gave the partners a cash credit of £30,000 to enable them to meet their individual debts and to wind up other parts of the partnership business, an advance repayment of which was slow.

Commencing business in a new colony, the Bank of South Australia found itself obliged to depart from the contemporary conventions of sound banking. A high proportion of its advances in its first four or five years were secured by real estate; most settlers had little other security to offer. Only as trade developed was there a flow of trade bills to discount in the approved style of banking, and even then the habits of the early years carried over, especially as, unlike the Australasia, the Bank suffered no charter restrictions on such lending. Similarly, it was not normally regarded as good banking to allow current accounts to be overdrawn (the specially arranged cash credit was a different matter). Nevertheless the Bank found that, to keep good business, it had to acquiesce. The manager wrote to London in 1839:

> This we consider almost the most difficult and important of our opertions, to keep our advances well-proportioned to the legitimate wants and healthy operations of our customers. It is evident to us, however, that we cannot prosper or conduct even a good business without adopting this plan—at the same time that we endeavour to use the utmost caution in our accommodations.

Cash credits, the more formal overdraft, were used a little, but in the circumstances of the time, this was regarded as a type of advance to be given cautiously. Rarely did any of the banks in the colonies allow cash credits to exceed £500, and while legally they were repayable on demand, the usual practice was to profess to close the account annually. These conditions made cash credits attractive mainly to the small man, who expected that the annual balancing should be a formality followed by a renewal of the advance. In the other colonies cash credits tended to go mainly to sheep-farmers; in South Australia this experience was repeated.

Stephens was unwilling to extend his busines by opening branches, dilating at some length on the subject:

> I never was favourable to branches to an establishment, and I used to preach the same doctrine when I had the honour of the confidence of the directors of the Hull Bank. . . . I am of opinion that these colonies are a good deal touched with the mania for branches, not long ago so prevalent in England, and one of these days a time will come when they will be hard pressed.

This was, of course, an easy doctrine to maintain at a time when the scope for branches was exceedingly small, but it was maintained even after small townships began to develop. Equally, Stephens took a restrictive view of the Bank's relationships with its agents in India, the Cape, and elsewhere. These he saw as media for forwarding correspondence, exchanging information, and cashing drafts sent for collection; but he refused to entertain any suggestion that an agent should have the right to draw on the Bank, or the Bank on an agent, despite London's interest in several such proposals from agents.

Rather, Stephens saw his exchange business as that of buying government and private bills, and selling his own drawn on the London board. Sale of bank bills was, of course, a means of transferring bank funds from London for use in the colony, and initially it was necessary that such sales should exceed the slender remittances to London arising from purchase of bills in Adelaide. But the demands of borrowers in Adelaide were pressing; so, too, was the need of the 'commercial department' of the Company, and Stephens was soon being admonished from London for maintaining an embarrassing excess of drafts over remittances. Despite these warnings the drain on London funds continued, forcing calls on shares and an increase in capital. Stephens was given limits above which he was not to draw; then he was instructed to keep drafts equal with remittances; later to draw less than he remitted. But the drain continued, eliciting in 1841 yet another protest:

> I must again (though almost weary of the subject) reiterate the Board's orders and request that they be considered *most peremptory*. Immediately this despatch is received, the drafts and orders upon the Company in London, *for whatever purpose they may be, and whether to your customers or your agents, must be kept under the amount* of your

remittances here, and your discounts and loans and advances must be curtailed until you are put beyond risk of disregarding this order. . . . No more capital than is already in the Bank is to be employed, nor must one additional £1 be drawn from England without express authority.

For his apparent disregard of orders, Stephens had some excuse beyond his evident desire to take all good business offering. The Bank was one wing of the Company, and Stephens had to cover the debts incurred by the commercial department; when after 1842, accounts of the Bank were separated from those of the Company, it became clear that a large part of the excess drawings arose from this source.

Government finance was a major worry to the Bank. The South Australian Commissioners were supposed to provide funds for government beyond local revenue, but the amounts contemplated (initially £10,000, later £12,000 a year) fell far short of basic needs. Each governor in turn found no alternative but to draw bills (largely sold to the banks) in excess of the amounts authorized. The dishonour, in 1841, of those drawn by Gawler, and later those drawn by his successor Grey, affected the Bank in a number of ways. Stephens was, for some months, unaware that the governor's bills he sent home were not good remittances; he was, as banker to the government, involved in advances to it; when the dishonour of the bills became known, former buyers of government bills turned to the banks, and Stephens found a new pressure for bank bills.

Matters were not improved when Grey, fresh from England, sought for a while to implement his impossible instructions, which meant not merely closing down public works and retrenching staff, but inability to pay the ordinary costs of a minimum scale of government. South Australia, which at that time, was only lightly touched by the economic depression beginning in the eastern colonies, was plunged into a sharp financial crisis. While this eased the pressure on Stephens for new loans, it made impracticable the London notions of contracting advances until London funds were restored. The Australasia thus far operated only on a small scale in South Australia: at the beginning of 1841 its advances were less than a quarter of those of the South Australia; its note issue only one-fifth. Consequently, though it shared in the five-year contraction of business initiated by the 1841 crisis, it was less directly affected by the government's difficulties.

For the government escape was found, following a Parliamentary inquiry in 1841, in making South Australia a Crown colony, with unified control and clear-cut financial relationships, in place of the ambiguous dual rôles of the Colonization Commissioners and the Colonial Office. For the Bank of South Australia, the experience provided the additional pressure needed to separate Bank and Company.

The South Australian Company, it will be remembered, had not entered banking very willingly, and experience served to underline how difficult it was to run a bank as part of the main enterprise. Very early it became clear that settlers resented a bank, which borrowed from them by deposits and note issue, financing the Company in commercial activities which competed with their own; there was some reason for their belief that the Bank was unwilling to finance individual customers whose business was competitive with that of the 'commercial department'. One burst of criticism along these lines in Adelaide newspapers in August-September 1838 spoke of the Bank's 'pawn-broking and bill-shaving exploits . . . its conversion into a mere sordid money-screwing concern', but through the abuse, emerged the fact that the Bank would not advance to customers who bid against the commercial department in cattle-dealing. Perhaps this was fair enough, but once the Australasia had opened a branch, in January 1839, it was clear that the Bank of South Australia would be severely handicapped by continued association with a company engaged in extensive land, cattle, and other dealing.

Apart from problems of relations with the public, the association created internal difficulties. From the beginning it was intended that the accounts of the Company and the Bank should be kept separate, but as the Bank financed the Company and held its account, confusion occurred frequently. A quarrel in the 'forties between the colonial government and the Bank, which resulted in the Bank being excluded from government business for several years, had its origin in one such confusion. The governor (Robe, successor to Grey) believed he had discovered that the Bank held £9,000 of colonial government money throughout the 1841 crisis, but did not disclose the fact, planning to offset it against Gawler's dishonoured bills; according to the Bank, the money belonged to the Colonization Commissioners, not the colonial government, and was held by the Company, not the bank; but the accounts were not by any means unambiguous on both these points. A distinct but related difficulty was the problem of controlling banking operations, which were inevitably conditioned in high degree by the commercial activities of the Company; the extent to which the Bank's excess drawings on

London had their origin in transactions of the commercial department has already been noted.

The Bank, started originally as a makeshift, had proved successful and profitable, but clearly it was unlikely to continue so while it was bound up with the Company. The public must be expected to prefer, increasingly, the Australasia which was free of such an entanglement; while the South Australia must expect to find repeated occasions when business, desirable on banking grounds, would have to be rejected because it involved conflicts with the Company's commercial interests. Whether separation had been considered earlier or not is unclear; it certainly became an immediate issue in late 1840, when preliminary approaches to the government for a charter for the Company were met with firm insistence that no charter could be considered for the joint enterprise. Against the background of experience, the idea of division was readily accepted, on the assumption that, after division, Company and Bank could each secure a charter.

The plan for separation, as circulated in March 1841, involved initially dividing the capital of the Company in half, shareholders having the option of converting half their company shares into shares of the separate bank, although they were allowed only a fortnight to reject the conversion. Initially the same directors became responsible for both companies; a plan for creating some differences, and bringing in some directors experienced in banking, included asking the Union board to nominate three directors in addition to the three already on both Union and South Australia boards, but this appears to have been refused. A bone of contention between London and Adelaide was the name of the new institution. London adopted 'South Australian Banking Company' while Adelaide protested that the Bank, which thus far had not had a separate legal existence, was always known as 'Bank of South Australia'. The directors were unmoved, but saw no difficulty in the Adelaide office continuing to operate under the old well-known name.

Separation became effective on 25 February 1841, although the protracted task, of separating in Adelaide the accounts of the Company and the Bank, was prolonged by London's inability to write before March 1842 giving a precise date, and that a year old, for disentangling accounts. The exact date was dictated by that of a formal application for a charter, for the Company, which might have been endangered by continued association with the Bank beyond that date. This, and a move for a charter for the Bank, were both deferred on the grounds that, until the government had received and acted on the report of the 1841 committee on the future of South Australia, decisions about chartered companies would be inappropriate; in the event the Bank had to wait until 1847.

With separation, the board was able to make a further step, the appointment of local directors. This was still, at that time, regarded as an essential safeguard, and shareholders had urged the need at general meetings. But while Company and Bank were combined, a local board would have been acutely embarrassing. Its members would have secured special knowledge of the non-banking affairs of the Company, especially its dealings in land and cattle, and few business men in Adelaide then were not themselves at times engaged in speculation in these commodities. That a local director must acquire special knowledge of the affairs of other business men, with whom he competed or had dealings, was inevitable, but the extent of such knowledge, when it extended to the whole Company operations, was too great to allow. But now these objections were removed, and it was possible to meet the views of shareholders and of customers who pointed to the local boards of the Australasia and the Union, especially to that of the Australasia's Adelaide branch.

The directors adopted the rules of the Union Bank in regard to local boards, rules which made it clear that the chief purposes of a local board were scrutiny of applications for advances on the basis of business knowledge, and general advice to the manager; the local board could in no respect override the manager. The three members of the local board were required to hold twenty shares (then £22 10s. paid) and a total of £180 a year for fees was provided—payable only if the director was present within five minutes after the start of a meeting. Since meetings were required every week, directors were clearly not motivated by the direct return for their services; normally such local directors were influenced by the prestige gained, opportunities for special information, and above all the assumption that their own borrowing needs would be looked upon with a kindly eye. In the event the local board commenced with only two members: James Frew and George Morphett. When they took their seats on 20 September 1842, the Bank of South Australia completed its transformation from an appendage of the Company to an independent bank, conforming to the normal organization of its period.

CHAPTER 7

THE SLUMP OF THE 'FORTIES

TOWARDS the end of 1840 signs were not wanting that the great boom was over. With a speed as striking as that of the expansion of the 'thirties, severe depression spread throughout New South Wales (that is including Victoria and Queensland); in Tasmania, where expansion had been less, the slump was less rapid, while South Australia, though little touched by the eastern depression, suffered its own public finance crisis. Depression was at its worst during 1843; thereafter slow recovery continued until almost the end of the decade.

The first major sign of difficulty was a crop of insolvencies amongst flour millers late in 1840; this might have been explained solely by a collapse of the very high wheat and flour prices created by a severe two-year drought, but it was soon apparent that more far-reaching trouble was in store. A general sharp fall in import prices, the result of excessive speculative shipments from Britain, produced a liquidity crisis in the last months of 1840 and early 1841. Sales by auction of a wide range of goods were recorded because they were subject to duty; those of 1840 were two and a half times those of 1839, and those of 1841 nearly as great. Almost overnight a general readiness to extend credit was replaced by an equally general insistence upon cash payment and repayment of debt.

The pressure produced, in New South Wales, not only extensive insolvency but legislation to give relief to debtors. Between the passing of the Act in 1842 and mid-1849, there were 1,923 formal insolvencies in New South Wales—more than 600 in 1842 alone; on 1,198 estates there was no dividend, while a further 650 paid dividends averaging 2s. 3¼d. in the £. The majority of the failures were town dwellers, and especially merchants and shopkeepers, although many squatters also failed.

Following this liquidity crisis, came the collapse of the land boom. Sales of Crown land were £324,072 in 1840, only £92,637 in 1841, and a mere £9,174 by 1844. Land revenue was earmarked to pay bounties on immigrants' passages, and the result was the virtual cessation of assisted migration, a matter of moment to a society which had relied on this source for its expanding labour needs. The government was forced to deplete bank deposits to meet outstanding immigration commitments, and in addition to float a loan of £50,000 in 1842, the first public debt in Australia.

Bank loans, after a sharp drop in 1841, appeared to recover during 1842, but the recovery represented only the inescapable need to support customers in distress. In the next two years the collapse was precipitous. In New South Wales loans were halved in those two years, and reduced almost as much in Tasmania; in this, as in other respects, South Australia escaped more lightly. Mortgage lending, on the other hand, expanded rapidly, mainly because a number of insurance companies transferred to this type of loan from bill discounting, and also because the onset of slump coincided with the beginning of business by the mortgage companies formed in England in 1839-40.

A number of the banks could not stand the strain. In Tasmania the Derwent Bank was crippled, although it limped along until 1849; the two small banks, the Colonial Bank and Archers Gilles & Co., were forced to close. On the mainland the Bank of Australia, Sydney Bank and Port Phillip Bank all failed early in 1843, while the surviving banks all suffered severe contraction. The Australasia and the Union suffered with the rest, but in lesser degree: a tribute both to their greater strength and to the greater confidence which London-based institutions inspired in a time of stress.

The basic source of the slump is to be found in the wool industry, a fact to which the lightness of the depression in South and Western Australia may be attributed, since they were far less dependent on wool than eastern Australia. Substantially what happened to the wool industry was that, as a result of the great boom of the 'thirties, opportunities of profitable expansion appeared to be exhausted; after a decade in which the industry's profits and technique of expansion had been reckoned in terms of geographical spread, further growth appeared to offer little prospect of profit. The best land, at least as judged by the knowledge and prejudices of the time, seemed to be all occupied. Prices were drifting downwards and costs rising, and their convergence made further geographical expansion temporarily unprofitable. Output, however, after a sharp fall in 1841, recovered, and continued to rise, very rapidly after 1844. While total income from wool therefore continued to increase, despite the moderate fall in price, other forms of income were curtailed. The meat market was unimportant; the chief market for live sheep had been in supplying the basic breeding stock for new sheep stations, and this demand disappeared as expansion halted. Against the sustained wool receipts, had to be set rising costs and labour shortage—cessation of transportation of convicts in 1840 (in New South Wales) was followed by suspension of assisted migration.

Thus far the flow of British capital appeared to have had no causal effect. The British crisis of 1839 was not reflected in any reduction of capital available to the Australian colonies. The Australasia and the Union were able to increase capital in 1839-41; new mortgage companies for Australia were successfully floated in this period. Recorded trade figures show 1840 as the peak year of capital inflow, with a net surplus of imports of £1,600,000, and 1841 little behind with £1,500,000. But as the news of the sharp fall in the Australian prices of imports in 1840-41 and of other difficulties reached England, investors took fright. The import surplus of 1842 was a mere £388,000, barely a quarter of that of the previous year. Trade figures are not the whole story, but the magnitude of the sudden change is indicative of the abruptness with which the flood of British capital was shut off, and in that fact lies the explanation of the dire distress of the worst year, 1843.

Recovery, in the end, owed little to positive policy. Generally, dominant interests accepted the doctrine that 'the natural course of events' must be endured. Agitations for protection to agriculture, for revival of assisted migration, for public loans to provide debt relief, all came to nothing. The one persistent theme was reduction of interest rates, if necessary by legislation, attempts at which, however, failed in both New South Wales and Tasmania, although in the former only because royal assent was refused in England.

Less because of the threat of such action than because it was the profitable thing to do, the banks did reduce rates. In successive steps, both deposit and advance rates were cut, until by 1844 the only deposit interest available in any Australian colony was from the savings banks, and, to a very limited extent, the trading banks in South Australia; by 1846, 6 per cent had replaced the 10 per cent of the 'thirties as the normal rate on good short-term bills. The margin between deposit and advance rates, it will be noticed, had been widened; on their reduced scale of business the banks had improved gross profit rates.

One other measure, the invention of the lien on wool and mortgage on sheep and cattle, though of small immediate importance, was the only permanent change in the nature of bank lending produced by the slump. Liens on growing crops were known elsewhere (for example, on sugar in the West Indies) but the scheme devised in New South Wales in 1843 was radical in providing for loans secured by a mobile asset far from the lender's supervision. Legislation prescribed that a lien on growing wool or a mortgage on stock might be registered, and thus acquire legal preference against subsequent or unregistered liens. To the squatters this was important, since their main material asset was their sheep; normally they occupied, but did not own, land and their licensed tenure was too brief to be attractive as security, while their equipment was too small in value to serve as the basis of a loan. From New South Wales the device was copied in other colonies—first in South Australia in 1847—and, despite resistance from England, continued as a permanent new part of the financial system. Initially, however, its quantitative importance was slight. A large number of liens and mortgages was registered immediately, but these represented largely the adoption of the new security to cover old loans. The banks in general held aloof from the new type of loan, preferring that it should be taken up by merchants whom, in turn, the banks financed by more conventional methods.

When, by the end of the 'forties, the debris of depression had been cleared away, it was apparent that the banking system had been little modified in its basic essentials. The number of banks was less and, if Boyd's Royal Bank which had not engaged in ordinary banking is excepted, all the failures were 'colonial' banks. Those which survived, however, were still serious competitors of the three English banks, which had increased in credit by their evident strength, but had to endure an excessive share of public hostility for the foreclosures and refusals of loans which were common to all the banks. The Australian suspicion of 'absentee' financial institutions, thus far of minor importance, stemmed mainly from this period. So, too, did the slogan of a national bank to monopolise note issue, a doctrine thereafter never for long absent from Australian politics, until it was realized in the creation of the Commonwealth Bank.

Banking methods were changed but little. Apart from the liens on wool, advances against exports, already familiar, were more readily accepted as proper bank business. The Commissariat had ceased to be a serious competitor in foreign exchange, but the English banks had now to face competition from the colonials, especially the Bank of New South Wales and the Commercial Banking Company of Sydney, which entered this field in the late 'forties, as yet on a small scale, but a sign of things to come.

The Australasia was especially handicapped in meeting the impact of the slump, and it says much for the efficiency and devotion of senior staff, and especially of William Hamilton Hart, that by the end of the 'forties, the Bank had maintained and extended its position better than any of its competitors. Hart, whose previous banking experience had been with Binny & Company of Madras, was selected to succeed Griffiths, and the occasion was taken to replace the title of Inspector by 'Superintendent', which was thereafter used continuously for the Bank's general manager until 1949. Hart arrived after recession was already apparent, and in a strange country, with new banking habits and ways of doing business, had to face all the problems of depression; to direct a staff of whom many had limited experience of banking, and that in prosperity (the extreme difficulty of securing managers of quality was one he felt keenly); to determine which of many customers in difficulty, none of whom he had had time to know, should be supported and which allowed to fail; to guide himself and the Bank through the clamorous politics of scattered colonies in which banks and banking had suddenly become objects of virulent criticism. The quality of the man is measured by the fact that he never sought to excuse himself on these grounds; his despatches record these difficulties, but as difficulties to be analysed and overcome, and to this he bent himself from the outset.

One act of his almost immediately increased his difficulties. The Bank of Australia was tottering and, partly to protect the Australasia's direct interest and partly to avert a crash which he feared would create acute crisis for all the banks, Hart lent very substantial aid. The attempt failed, but although in the following years every aspect of the transaction was to be scrutinised publicly, not even Hart's enemies condemned the essential decision to try to forestall disaster. To the Australasia failure did very nearly mean disaster, for presently the Bank of Australia repudiated obligation for the loan and this was only recovered after several years of litigation. This episode is examined fully below; what must be borne in mind is that, from 1843 onwards, Hart had to direct the Bank's operations through an acute general slump, handicapped by the locking up in this one loan of one-third of the Bank's assets in New South Wales, and in the shadow of fear of what might follow if the loan should prove definitely irrecoverable. Even as that uncertainty was lifted by a Privy Council decision, London intensified his difficulties by sending him as 'adviser' one of the directors, perhaps the least suitable man they could have chosen. The trouble created by Nathan Atherton's mission is recounted later.

Hart, on arrival in August 1842, found immediate problems. At a time when directing the Bank's operations required efficient control of branches, Hart had to persuade London to agree that all London correspondence with branch managers should pass through him so that he would be aware of its substance. Managers frequently disregarded instructions; but London was jealous of its own rights of direct control. Thus the Hobart manager, after a record of challenging Hart's instructions, in 1844 went so far as directly to refuse to obey them. Hart removed him from office, but felt obliged by London's attitude to offer him the post of accountant at Sydney at the same salary. Not until 1845 could Hart persuade London to modify instructions under which local directors had a right of access to all branch correspondence, a right which they freely exercised. Hart pointed out that customers resented local directors, often their business competitors, having access to confidential information, while managers, bound to make full disclosure, tended to surrender responsibility for decision to the local board.

London directors were conscious of the problems of recruiting staff for colonial service. Apart from occasionally sending an officer or two from England, they decided, in 1842, to establish a pension fund which had first been urged by Kinnear. Only the broad plan was decided, namely the allocation of an annual sum of £1,000 to bear 'colonial interest'; since fifteen years' service was to be required before an officer acquired any rights, the directors deferred details. As it happened, details were not required, for as the full measure of depression losses emerged, the Court abolished the fund in 1847. One other measure to make bank service more attractive was secured by Hart in 1844: payment of salaries monthly instead of quarterly. A year earlier he had obtained Court approval for a definite scale of salaries in place of the individual bargains appropriate for a small new bank. As approved in April 1843, the scale included: clerks, commencing salary £130, increasing to £230 in the seventh year of service; tellers, £200 to £500 according to the class of branch; accountants, £400 to £600; branch managers £450 to £1,000, again according to branch. Since seniority was declared to be the general rule for promotion, advance up these latter scales depended mainly on length of service. Unhappily one of the depression economies was to suspend, from January 1845, all automatic increments, and from October of that year, to impose reductions. These burdens were naturally hardest on the junior staff, but there were no staff losses as a result; the fear of unemployment ensured not only retention of staff but greater efficiency, and Hart was able to weed out some of the least efficient as the scale of business contracted. Nevertheless, at no time during his term was Hart happy with the general quality of the Bank's staff.

Another minor economy may be noted. Primarily to reduce its rent, the Bank moved its London office in 1845 from 2 Moorgate to 8 Austin Friars. Critical shareholders found the new premises unattractive and claimed that the obscure address lost business.

One move Hart made found no favour with the Court: Douglas Charteris McArthur, Melbourne manager, he made acting Assistant Superintendent in August 1843, and despatched him to reorganize the Hobart office. London did not like the creation of an office they had not approved, and found fault with McArthur, whose inexperience had led to some early losses when Melbourne branch opened in 1838. But the directors saw Hart's need, and sent him John James Falconer as Assistant Superintendent. Falconer (whether he was related to Charles Falconer, the Sydney manager, is obscure) had been employed by Forbes, Forbes & Co. of Bombay, and arrived in Sydney in July 1844.

Another difficulty in meeting depression was to have long-term consequences. The Charter forbade loans on the security of real estate, but permitted the taking of land in settlement of debt. In the colonies the restriction was interpreted very narrowly, it being deemed that land could only be foreclosed in outright settlement of a debt, and must then be sold promptly, and that liens on sheep and cattle were not open to the Bank. What depression required was that land foreclosed might be held for more favourable sale at a later date. To take and sell land was to force a customer in difficulties into bankruptcy (and, particularly in New South Wales, the 1843 Insolvency Act operated to the disadvantage of creditors). Often the Bank's interests required no more than the taking of additional security over the customer's land; too often the colonial interpretation prevented this, and the Bank had to watch some of its best customers transfer their business to a bank which could accept land as security. The same disadvantage existed with new business. The Union, in particular, took up much business secured by direct mortgages.

Major relief was derived when a more flexible interpretation was received from Sir Frederick Pollock, British Attorney-General, which allowed that the Bank might take security over land or stock to secure a doubtful debt; such security for a new loan was still excluded. However in 1846, J. J. Falconer, then in Adelaide, devised a development, held to be within the Charter, called the secured account, the essence of which was taking as security for *new* loans a lien on sheep (and cattle), to be discharged by selling to the Bank bills drawn against the wool when shipped. (This seems to be the origin of the long-continued Australasia classification of advances as: overdrafts; cash credits; and secured accounts.) The scheme had obvious merits, including associated profits on foreign exchange, and was adopted generally in the Bank's business. It was soon followed by a wide extension of the principle: the making of loans, secured by the borrower creating a trust, not in the name of the Bank, over real estate which could not then be sold or mortgaged except to pay the debt. By the late 'forties these techniques had effectively removed the Charter handicaps. But they came too late to help the Bank in the first panic of 1842-43, and to these fetters can be attributed the Bank's inability to protect its interests at that time, and the extent to which it later found itself holding large amounts of foreclosed property which took years to sell.

One decision of policy by the Court was to close all small branches which were not profitable. In some cases this proved easy: at Geelong, a branch urged by Griffiths near the end of his term, had been deferred in favour of an agency in 1842 with the firm of Campbell & Woolley, whose bankruptcy in 1843 ended the arrangement; a similar one with the Hentys at Portland, was not implemented until 1845 when cautious expansion was being contemplated. At Bathurst the branch had never been very profitable, and after the Union entered the field by taking over the Bathurst Bank in 1840, was less so, a major factor being inability to take mortgages as security; in Maitland incompetent management was the prime source of loss, and in November 1843, the Court directed the closing of both. The Bathurst branch was closed within a few months (the Australasia did not return until 1887), but Maitland proved more troublesome. A high proportion of loans were in cash credits which were difficult to recover, and the district did supply a great deal of exchange business. Eventually Hart concluded that it would cost less to keep the office open than to close it, and exchange business justified deferring action; in the event the branch remained.

The branch opened in Perth was even more troublesome. In such a small community—population was only 2,760 in 1841 and less than double five years later—there was not room for two banks and local loyalties were with the Western Australian Bank. The scale of business is indicated by an entry in the local board minutes in October 1844:

> Mr Curtis's party having captured another whale [bay whaling was active at this time] and another £40 having been applied for, the Board sanctioned Mr Curtis's account being further overdrawn to that extent, on his depositing with Messrs Samson on account of the Bank four tons of oil and three cwt of bone, in addition to former deposits, until the period of shipment.

The branch was also difficult to supervise, and although the Court were not then aware of it, MacDermott as manager was already displaying the ebullience in lending and laxity in control which were to prove troublesome in Adelaide later. The essential fact was that the branch, after five years' trial, was unprofitable and was closed in 1846 (not to reopen until 1894). MacDermott, who was regarded as an efficient and enterprising officer, was transferred to restore efficiency in Adelaide; settlement of the Perth affairs was left in the hands of agents and took a number of years.

More serious measures of reform than in Adelaide were believed to be needed in Hobart and Launceston. Neither branch had shown the expansion expected in the boom, and this was justifiably attributed, by successive superintendents, to the interference of local boards and, in the case of Hobart, unsatisfactory management. Hart sent, in turn, McArthur, J. J. Falconer, and himself, as depression losses disclosed that business had been not only small but a source of excessive loss. The two branches were Hart's chief example in pressing for and obtaining greater authority over local boards and branch managers, but the immediate problem was to get the current business on a proper basis by insisting upon more adequate security and more rapid repayment, as well as terminating unsatisfactory accounts. At Launceston the situation was exceptionally difficult, not least because of local hostility to the Henty family's relationship to the Bank; Charles was manager, James a director, and William the Bank's solicitor. It does not appear that local accusations had any basis in fact, but their truth was irrelevant. Charles, as manager, had always been impatient of control—rightly or not, he seems to have believed that he had been promised as much independence as he had had as managing director of the Cornwall Bank, and the tenderness with which he had been treated since that time suggests that this was the case. This situation was relieved when, in 1846, bankruptcy made James Henty ineligible as a local director and Charles resigned his post. Unhappily, these events were dictated by misfortune striking the extensive family business interests in both Launceston and Portland, misfortune which cost the Bank heavy losses.

Photograph: Horace K. Hall

George Fife Angas

1789 - 1879

The original, by an unknown artist, hangs in the Melbourne Boardroom of Australia and New Zealand Bank Limited.

By this time, however, economic recovery though slow was steady, and optimism and cautious expansion by the Bank were qualified only by the great uncertainty about recovery of the Bank of Australia debt. New branches in small towns were considered. Moreton Bay (Brisbane) was urged upon Hart by local residents, and the Court gave him authority to use his own judgment, which dictated not opening. At Portland and Geelong, however, prospects were now much more assured, based as they were on both towns being export points for the thriving wool industry. Geelong branch was opened in July 1846 but Portland had to be content with an agency with Henty & Co., which the Court would not allow to continue. Portland, like Moreton Bay, had to wait until 1853 for its Australasia branch, although an agency with Rutledge & Co. was established at Belfast (now Port Fairy) eastward along the coast.

More important than these tentative steps towards new branches was the freedom given by the Privy Council judgment on the Bank of Australia debt. The Bank had, in the years of recovery, displayed a willingness to move into new types of business—advances against wool were followed by those against copper ore from South Australia, by liens on sheep, and, as has been seen, by skill in devising forms of security and procedures which escaped the earlier handicaps of the Charter. With the Privy Council judgment, the last scars of depression faded away. Hart, to whose skill in adversity the Bank's very survival might well be attributed, could have felt deep satisfaction with his seven years' achievement, when he sailed for England with his family by the *Julindur* in June 1849. But his departure was in sadness, not in triumph, for it followed dismissal.

The Bank of Australia was forced to admit difficulty in December 1842, when Hart rescued that bank from clearing default by rediscounting a substantial amount of good bills, exacting in return an undertaking that the Australia would withdraw from ordinary banking, restricting itself to mortgage banking. To London, he supported his action by claiming, with justice, that open failure of the Australia would have had disastrous effects on confidence, while the conditional advance would enable the Australasia to succeed to the best of the Australia's commercial business. There were further such advances in February, the total amounting to £80,885, and Hart insisted, as a condition of additional help, that he be given access to the Australia's books.

The situation of that bank, when reluctantly disclosed, was a sorry one. Its notes in circulation were only £17,909 and deposits

£90,891, two-thirds repayable on demand; cash (gold) was down to £4,860. The bank held £145,000 in bills, many of them doubtful, but in addition it was involved to an amount, admitted to be £143,497, in the bankrupt merchant firm of Hughes & Hosking.

It was the Hughes & Hosking situation which decided Hart's policy. The Australasia itself held large amounts of the bills of this firm, and in addition, £34,000 of such bills were among those re-discounted for the Australia. Hart pressed McLaren of the Union to make, very unwillingly, an advance of £60,000 specifically to pay off notes and deposits of the Australia, while himself agreeing to increase the Australasia's advance to a total of £150,000, i.e. including the £80,000 already advanced. The conditions were severe: the Australia was to wind up, conducting all receipts and payments through the Australasia; the Australia was to take over full control of Hughes & Hosking assets and accept responsibility for the firm's debts to the Australasia, and to conduct all receipts and payments relating to Hughes & Hosking through that Bank. The Australia, hard-pressed, agreed.

Had the agreement been implemented, Hart would have had reason to congratulate himself. But it went wrong immediately. The Sydney manager, in Hart's temporary absence, paid the Australia the gross amount of £150,000, instead of the additional amount of about £70,000 agreed upon. Worse still, the Australia, when it became aware of the full extent of Hughes & Hosking debts, and the tangled state of that firm's business, disowned all responsibility for the firm's liabilities.

The Australia was itself deeply involved with the firm. A shareholders' committee in September 1843 ascertained that the bank held unpaid bills of Hughes & Hosking for £126,363, and of J. T. Hughes £55,498; these two accounts and five others accounted for £357,277 out of total assets of £467,726 face value. However, the general public had suffered little; £6,000 would be enough to pay off remaining notes and deposits; and to cover these and some other small sums, the Australasia and the Union advanced jointly £10,000, an advance given priority in repayment. All the Sydney banks agreed to refrain from suing the Australia for one year from October 1843.

Apparently all that remained to do was the tedious process of realizing assets, repaying the banks who were now the only creditors, and winding up. Apparently, too, the Australia was intent on honouring these debts, for three successive calls each of £5 were made on shares. But as the months went by, and the full extent of their burdens became clear, the Australia shareholders became desperate.

The directors in August 1844, reported that a loss of £197,585 was expected on Hughes & Hosking debts (now reckoned to be £232,739, nearly double the amount admitted eleven months earlier); losses on other business were estimated at £130,000; while debts to the other banks had to be added to these figures.

An ingenious scheme was devised by the Australia board to raise cash, namely a lottery in which the prizes should be properties foreclosed for debt, the argument in justification being that ordinary sales in time of deep economic depression could realize only bargain prices. Tickets were to be sold at £20 each, with one prize for every one of 4,000 tickets. The governor, Gipps, was prepared to pocket his scruples in the interests of clearing away the mess, and when the Legislative Council passed an enabling Act, he reserved the royal assent reluctantly. It was certain that assent would be refused in England and the scheme was, for the time being, dropped.

Meanwhile, between the Australasia and the Australia, matters had taken a new turn, for in August 1843, a minority meeting of Australia shareholders had resolved 'that the loan negotiated between the Bank of Australasia and the former directors of this Bank and Messrs Hughes & Hosking is not binding on the proprietors of this Bank; and the directors are hereby instructed to defend any action the Bank of Australasia may bring for recovery of the same'. It was a small meeting and many shareholders not present were alarmed at this defiance; accordingly, Hart held his hand until the lottery plan failed, believing that wisdom would overcome valour. When the lottery had to be dropped, the Australia offered a compromise which, on paper, would have met the whole debt, but Hart was not prepared to negotiate without public admission, by a consent judgment, of the validity of the Australasia's claims.

Neither side would yield on this point, and the Australasia therefore sued in the Supreme Court in Sydney, the action lasting ten days during March-April 1845. The only point at issue was whether the Australia directors had power to raise a loan from the Australasia. Although the judge repeatedly ruled that the directors had no such power, a sturdy jury persisted in the commonsense view that, since the bank had the benefit of the money, it should pay; after a total of seventeen hours' retirement it refused to agree, and was discharged. A new trial before the full court occupied twenty days in July-August, with like result, the jury's verdict being that the Australia owed £175,704 (including interest at 8 per cent), but the judges, by majority, holding that the Australia directors were not authorized to borrow on behalf of the bank. A verdict of this form permitted appeal to the Privy Council, whose decision, in February 1848, was entirely in favour of the Australasia, for the original debt, interest, and all legal costs.

Without further ado, the Australia shareholders turned to meeting their obligations as best they could. Shareholders resident in England were left to make individual bargains with the Australasia Court; by August 1850 nearly £59,000 had been paid in this way, the Court in most cases accepting any offer which appeared to be an honest effort to meet liability. Clearly, however, the major part must come from colonial shareholders.

In Sydney the lottery plan was revived. This time no enabling Act was sought, the governor discreetly looking the other way. Shareholders received tickets with a nominal value of £4 with a right to sell, and with prizes again in the form of real estate. Many tickets were sold to the public, and the drawing occupied three days in January 1849. The *Sydney Morning Herald* wrote:

> Who can ever forget the rows upon rows of anxious purchasers of tickets, male and female, daily and all day long crowded in the pit and boxes of the City Theatre? Who can ever forget the eager looks, the patient and sustained listening to the announcements of the numbers of the tickets as drawn, the uncompromising suppression of an occasional child—for even crying infants in arms were carried by their amiable mothers to the lottery—the hard breathing, and the excitement amongst the shoes, whenever something considered a prize was drawn, the almost audible groans of the old woman as a FitzRoy fell to her . . .

A second lottery was planned for April, but had to be abandoned when W. C. Wentworth announced a similar plan for disposing of some of his own property, and forced the governor to pronounce that such lotteries were illegal.

A compromise was therefore reached between the two banks. It was calculated that, in addition to amounts already paid, colonial shareholders were liable for a further £88,000 and this they agreed to pay, in five quarterly instalments. Properties intended for the lottery were auctioned and, with an extension of time, the debt was at long last wiped out in July 1851.

In the end, therefore, the Australasia lost nothing directly by the loan. But, for a full seven years, the locking up of a large part of its funds in a very doubtful debt had hampered its adjustment to depression, and the uncertainty surrounding the financial position of Australia shareholders (over two hundred of them, and amongst the wealthiest members of the community), had been a serious restraint on the revival of confidence. Yet, could Hart wisely have followed any other course in each phase of the episode? The most effective answer is, perhaps, that his directors never reproached him.

One minor sidelight on the episode may be recorded. The register of prizes, won in the lottery which was conducted, is now held by a Sydney solicitor, and is occasionally invoked, even in the second half of the twentieth century, in searching the title of land not yet brought under the Torrens system; the evidence of the register is that many prizes were so little regarded that winners did not bother to take possession.

As the tale of disasters mounted, the Australasia shareholders in London reversed their previous placid acceptance of the good dividends of the years of prosperity; at general meetings there were angry murmurings and demands for explanations and for reform. In 1844, for the first time and then only because of shareholders' pressure, a summary balance sheet was included in the annual report; demands for more informative statements recurred for several years. Not until December 1847, was other than a verbal report given at half-yearly meetings; even then accounts were restricted to the annual meeting. Proposals for the appointment of auditors were stiffly resisted by the directors, and when at last, at a stormy meeting in December 1849, a motion for amending the deed of settlement, to provide for auditors, was carried against the directors, the chairman, Oliver Farrer, announced that he would no longer act as chairman. (Annual rotation of the chairmanship was the practice; Farrer was again in the post a year later.)

The directors' resistance was not because they had anything to hide, but partly because of a sensitive dignity which resented criticism, and partly because of a genuine, if exaggerated, belief that any unnecessary disclosure of information promoted ill-directed criticism. They were, during these years, especially quick to oppose any pressure from shareholders, because the consequences were still unfolding of their having been forced to receive on the Court, and then to appoint as special representative in the colonies, Nathan Atherton, spokesman for shareholder complaint and criticism when that first burst about their ears.

Of Atherton's background not a great deal is known. He was a London solicitor, and his brother-in-law was the Brown who was a local director in Sydney; another member of the Brown family was Atherton's son-in-law. Brown was highly critical of Hart, and from Brown and his associates, Atherton received gloomy accounts and desperate forecasts. His fears were sharpened because he had, at the height of the boom, bought 225 shares at a premium of £7 each —a total outlay of nearly £4,000 and, according to his own account, his whole fortune. Dissatisfied with the replies to a succession of letters to the Court in 1845 (his letters were based on tenuous information and the replies evasive), he became the recognized spokesman for dissident shareholders, who elected him to the Court in 1846 with an implied commission to investigate and reform, which was evidently to his liking.

There was pressure from shareholders that someone from London should investigate on the spot, and the fact that the directors thought so too, placed them in a difficult position as to a choice of emissary. During twelve years they had not had a report in person from a senior colonial officer; they had parted with two inspectors and the third had been remarkably unlucky; news from the colonies for three and a half years had been of one long succession of disasters and loss; they were dissatisfied with the record of several major branches, especially of Hobart and Adelaide. Despatch of a special representative to survey the situation was obviously indicated, but whom to send? It was impossible to pass over Atherton—the critical among shareholders would have had only one explanation for that—the more so as he was now a participant in directors' meetings. The other members of the Court were perhaps not unwilling to free themselves of his violent criticism, and if they visualised his likely manner of dealing with colonial staff, they probably reflected that no great harm could come from a general stirring up; certainly whatever fault was genuinely to be found would not escape Atherton.

Atherton's personality ensured a vigorous impact on the colonies. The London manager of the Union wrote to McLaren as Atherton was leaving London: 'this gentleman is a lawyer, a sharp and clever man, but I should think quite ignorant of commercial affairs'. McLaren later wrote: 'This gentleman has by his rudeness, ungentlemanly manners, and very improper way in which he has spoken of people's affairs, raised up a great feeling of bitterness against himself throughout the whole community'. The Australasia directors themselves, when the inevitable conflicts in the colonies were at their height, commented publicly: 'those who know Mr Atherton will acknowledge that his manner is not at all times the most conciliatory and subdued'. The unfortunate Hart, who as Atherton's chief target was remarkably long-suffering, wrote a balanced judgment which is in accord with the whole record of the episode:

> I freely concede that Mr Atherton has the welfare of the Corporation at heart, that he is acute and clever as a man of business, and that his judgment, when uninfluenced by prejudice or the representations of others in whom he has unfortunately placed his confidence, is sound and clear. But Mr Atherton is of a desponding and suspicious temperament; he is soured and discontented with the position of the Bank, in which he has embarked so large a proportion of his private fortune; he is hasty in temper; he arrives at conclusions (often erroneous) based upon strong opinions formed without sufficient consideration and advocates extreme and violent measures without any knowledge of details or any regard for the effect which those measures may have on a business the success of which must obviously depend entirely on public opinion. He is moreover rough and regardless of the feelings of others in his manners and bearing, and has in many instances given great offence to the customers and officers of the Bank, when I am persuaded it was far from his intention to do so.

This then was the Court's emissary, removable only by the Court, and authorized to investigate every aspect of colonial business and especially to report on the efficiency of all staff. The Court, at the time of his appointment, directed that all real estate that had fallen into the possession of the Bank was to be sold as soon as possible, all property taken under mortgages or liens on sheep and cattle was to be sold, and discounts were to be substantially reduced. Fortunately the directors showed their good sense by insisting that this was a policy for Hart, not Atherton, to carry out, and that Atherton's function, apart from investigation, was advice to Hart and advice only. Had Atherton had any executive power, or authority to require Hart to adhere rigidly to this policy of restriction, the Bank could hardly have survived.

Atherton reached Sydney by the *John Fleming* on 26 July 1847 and immediately showed how he himself interpreted his rôle. Hart was in Tasmania overhauling the Hobart and Launceston branches. Atherton, on the day of his arrival, attended the local board, and by appeal to 'the letter and spirit of the instructions given to me', induced the local directors to terminate an arrangement made by Hart with the Royal Bank. That institution was drawing upon its English capital by selling bills, and had proposed to sell them to the Australasia; because of the size of the transaction and the fact that the Royal Bank was engaged not in banking but trade, Hart had made a special trip from Hobart to satisfy himself that it was safe. One reason for accepting the Royal Bank proposal was that otherwise its bills would be sold to the public in competition with those of the Australasia. Within a few hours of first reaching the colony, Atherton felt sufficiently informed to disregard both this reason and Hart's own part in the negotiations. Two days after his arrival he was reporting authoritatively on the Sydney accounts (including directions he had given for some to be closed) and professed to know enough of sheep stations, foreclosed by the Bank in the New England district, to be able to approve the choice of a new manager for them. Before the week was out, aided only by correspondence and accounts in the Sydney office (and no doubt conversations), he felt justified in sending to London severe criticism of the efficiency and judgment of MacDermott, the Adelaide manager, and to MacDermott, forthright instructions for restriction of loans, specifying a number of large accounts which included those most profitable to the Bank. (His judgment of MacDermott was accurate enough, but not on the evidence before him; when later he visited Adelaide he reversed his opinion and reported in glowing terms.) Until Hart arrived back from Hobart in mid-October, Atherton busied himself in this manner, and in writing detailed reports on foreclosed properties held by the Bank, properties which he had not seen.

Hart gave no overt sign of resentment but loyally arranged for Atherton to inspect the various branches—Maitland, Melbourne, Launceston, Hobart, Adelaide—and the more important estates which the Bank found itself holding. Atherton found fault in most places; Melbourne and Adelaide branches were the only ones to receive moderate praise. His poor judgment of people was illustrated by his reversal of his original harsh judgment of MacDermott in Adelaide, and high praise of the man supervising properties in the New England district; MacDermott's lack of control of Adelaide business was already creating difficulty, while the property supervisor was soon found to have been systematically defrauding the Bank. More serious was the great divergence between Atherton and Hart on valuation of Australasia securities and the position of borrowing customers. Atherton's assessments were invariably gloomy, because, as Hart correctly stated, he was obsessed by the belief that the Australasia had no hope of continuing, and speedy realization of what could be saved from the wreck offered the only prospect of avoiding greater losses. Hart, too, was disposed to think that winding-up was the course of wisdom, but took the more realistic view that, in place of panic foreclosures, there must be a long process of nursing assets for ultimate disposal.

The directors in London sharply told both that winding-up would not be considered and that two streams of conflicting reports concerning the same customers and the same securities were of no use to the Court. Atherton and Hart were instructed to reconcile their divergent estimates on the spot, and send agreed reports to London. But even by the time these instructions were written, the colonial situation had gone far beyond the point at which joint action by Hart and Atherton could be contemplated.

Hart at first accepted Atherton as the Court's representative who could aid him in his burdensome task, and clearly, in the early months, Atherton's persistence persuaded him to take more pessimistic views on the prospects of borrowers and to be more stringent in pressing for reduction of loans. He planned to maintain his own temporary residence in Hobart while he concentrated on restoring efficiency to the southern branches; to Atherton, he planned to give immediate supervision of mainland branches. But Atherton followed his natural inclinations and concentrated on the foreclosed New England properties. Difficulties with these (including Atherton's secretiveness about them) and the frequency of clashes between Atherton and Sydney staff induced Hart to abandon the plan, and to move his headquarters back to Sydney in March 1848. Thereafter tension increased rapidly.

Atherton, dissatisfied with the energy which Hart applied to realizing assets, commenced to issue direct orders to branch managers, without even prior consultation with Hart, and in June 1848 the inevitable explosion came. It was impossible for Hart to tolerate his own deposition by Atherton, and, reminding managers of London's directions that Atherton was without executive authority and was required to communicate with managers through the superintendent, Hart instructed managers in June to disregard all Atherton's orders. They were further ordered to withhold all accounts and documents from Atherton. Atherton made a spirited attempt to override these orders, but was defeated by the loyalty of a staff who were resentful of his scathing and often unjust criticism. He appealed to London, meanwhile losing no opportunity to attack Hart; the Union inspector wrote a revealing report of Atherton's becoming the butt of Sydney residents who gathered at the dining table at Petty's Hotel, where he lived, to provoke him into violent tirades, in the course of which he did much damage to the Bank by airing the affairs of customers in difficulties.

London reacted promptly and, for once, unjustly. Hart was dismissed immediately his action was known, in December. Contributory reasons were the Court's belief that Hart was not severe enough in forcing repayments (evidence of the effect of Atherton's steady flow of criticism) and his approval of a large loan to the

Woodstock Mills Estate, the property of his deceased father of which his brother was administrator. But the primary reason was undue tenderness over Hart's apparent arrogation of Court authority in 'suspending' Atherton. What else he could have done is not apparent; apart from the impossibility of abandoning all his own authority to Atherton, he could not have contemplated the destruction of the Bank's business, which would have been the result of allowing Atherton to run the Bank during the months necessary to obtain directions from London. These directions, in any case, would probably have merely appealed again to the terms of Atherton's original authority.

To succeed Hart (who returned to England), the Court appointed J. J. Falconer, directing him to give Atherton full access to all documents, to confer with Atherton and consider Atherton's advice, but to act finally on his own judgment and responsibility. He was enjoined to exercise forbearance with Atherton's 'warmth of temper', for which Atherton was sharply censured; both were left in no doubt that executive power was with Falconer.

Hopes for peace were soon rudely disappointed. Atherton, who undoubtedly assumed that the post of superintendent should have been given to him, and resented London's censure, wrote a bitter criticism of Falconer's competence. Having despatched this to London, he sent a copy to Falconer, on the principle that there should be complete frankness; he seemed genuinely surprised that, as a result, Falconer thereafter conducted his relations with Atherton with dignified formality. Falconer's task was made easier than Hart's because it was at least now clear to the senior staff and to Atherton that the Court would not give Atherton executive authority, even if it expected that his abusive method of giving 'advice' should be accepted tamely. Dissensions continued, notably in a violent clash between Atherton and Charles Falconer, the Sydney manager. (Charles Falconer resigned a few months later, on grounds of ill-health, and proceeded to London. He reappeared in 1852 as Colonial Inspector of the London Chartered Bank of Australia.)

Nevertheless much of the fire had gone out of Atherton. Hart had been dismissed but Atherton could not regard that as a victory; J. J. Falconer followed Hart's policy closely, and found Atherton's advice no more convincing, while the directors in London showed no more inclination to translate that advice into instructions to the Superintendent. Moreover the conditions in which the Australasia operated had changed. The Bank of Australia debt was now clear of legal doubt, and was being steadily paid. That, and the general improvement in economic activity, dissipated any public belief that the Australasia would wind up. The same improvement eased the necessity to press debtors for repayments, while it made repayment easier and the value of securities better; the Hart-Falconer policy of moderation and nursing appeared to be vindicated, and Atherton's campaign for ruthless realization, to be discredited. In 1850 it must have appeared to Atherton that his mission had largely failed, and that, denied all hope of becoming superintendent, his rôle of writing reports, which neither Falconer nor the Court adopted, was a frustrating one. He sought termination of his appointment, but the directors, not altogether convincingly, urged their need of the information and advice which his reports provided. He remained, an increasingly lonely and ineffectual figure, until he finally retired in May 1852 (after a last quarrel with Falconer) and returned to England. There he slipped out of the story; it does not appear that he made any final report, in writing or in person, to the London office, which recorded no notice of his return.

By that time the Bank was enjoying the fruits of the gold boom, and could, without distress, periodically write off losses of the 'forties as they were finally ascertained. Some of the directors might have reflected that the position of the Bank when Atherton resigned was the final and effective vindication of Hart. He had become superintendent as the general depression became acute, and almost immediately, found himself hamstrung by having a very large part of the Bank's resources frozen in the Australia loan. Thereafter his task of piloting the Bank through the worst of the crisis and the painful years of recovery was conducted in an atmosphere of public belief that the Australia loan was lost and the Australasia itself doomed. The Atherton mission may have, in some respects, helped him. At least, inefficiency in any section of the business was sure to be exposed, while Hart's policy—itself stiffened by Atherton's constant pressure—must have seemed to debtors preferable to what might otherwise befall if Atherton replaced Hart; better, it must have seemed, to meet Hart's moderate demands, if failure to do so would be followed by the ruthless execution urged by Atherton. But to Hart's eyes, what would have been more conspicuous was the way Atherton convinced the public that the Bank would wind up, his offence to good customers, the worry and turmoil he spread among the staff, and the strain on Hart himself of handling his major task while under constant attack from the man sent to aid him. The position of the Bank in April 1849, when Hart handed over to Falconer, makes less justifiable the peremptory way in which the

Court dismissed the man who had brought the institution, despite great handicaps, through the most dangerous period of its existence.

Examination of the comparative figures of the different banks suggests the nature of Hart's achievement. In New South Wales, where its progress relative to other banks appeared least favourable, the quarterly returns show the following:

New South Wales
Quarterly Averages (£)

	Bank of Australasia	Union Bank of Australia	Bank of New South Wales	Commercial Banking Co. of Sydney
Notes:				
March 1842 ..	52,034	27,259	27,015	52,482
March 1849 ..	79,561	90,369	34,519	31,226
Deposits:				
March 1842 ..	245,530	167,549	220,977	189,510
March 1849 ..	354,782	412,070	225,767	152,735
Loans:				
March 1842 ..	621,440	446,572	373,945	400,846
March 1849 ..	779,241	467,159	225,794	152,567
Cash:				
March 1842 ..	123,935	138,026	84,008	82,862
March 1849 ..	146,775	245,611	157,565	90,958

Only the Union had a more favourable position, and even this statement must be qualified. In depression, safety of deposits and acceptability of notes were more than normally important, and it is in these items (and the high cash reserve required by them) that the Union forged ahead. In short, the public favoured the one oversea bank against the other in difficulties. The two surviving colonial banks fared less well than the Australasia, despite its handicaps, and three colonial banks had failed outright. In Tasmania, even the Union showed no similar gain on the Australasia; while in South Australia, the Australasia showed signs of overtaking the early lead of its only competitor, the Bank of South Australia. Compared with his rivals, Hart had weathered the storm remarkably well; under another superintendent, the crippling effect of the Australia loan and the impact of Atherton might well have combined to bring disaster.

The Union Bank was more fortunate in depression than the Australasia. A major reason for this was, of course, that it was not involved in the Bank of Australia crash, and consequently had greater freedom to adapt itself to changing conditions. This situation was the result of McLaren's cautious conservatism, for, unlike Hart, he felt no obligation to assist, in the interests of the banks as a whole, in avoiding the collapse of the Australia, and shrank from the risks that participation would entail. When he did give aid, initially to the extent of £10,000 only, it was subject to preference in repayment. Similarly, when the lesser problem of the Derwent Bank's difficulties presented itself, McLaren at first sought to manoeuvre the Australasia into shouldering the whole load, and only reluctantly agreed to a modest share, even though the advance was quite safe and carried the solid advantage that, in return, the Derwent was to withdraw from note issue and deposit business.

McLaren's caution yielded other advantages. In the years of boom he had been satisfied with limited expansion, preferring to concentrate on safety, and in particular, on business arising directly from wool. (The Portland branch in 1846 was intended explicitly to tap wool business at a port from which substantial quantities were being shipped.) In depression this policy reaped its reward. While the Union had to write off some losses, the amounts were modest compared with those of the other banks, and though profits fell, and dividends were reduced, the Bank at no time had to pass a dividend. Ten per cent was maintained until 1844, when the rate was reduced to six per cent, and thereafter continued unchanged for the next four years.

Loans, concentrated among solid borrowers closely dependent on wool, were more readily repaid, as the pastoral industry continued in subdued prosperity. Confronted by a choice between colonial banks in varying degrees of difficulty, the Australasia handicapped by the Australia debt, and the Union pursuing its solid if unadventurous course, the general public clearly preferred the Union as a place of deposit and as a note issuer. The quarterly returns therefore show, after the early stages of depression, a high level of note issue and deposits, and an unprofitably large holding of cash.

At this stage, around 1845, a braver, more self-confident man than McLaren might have seized the opportunities which no one of his competitors was in a position to take. Slow but steady economic revival, high public repute for safety, large free resources, and no aggressive competitor—these were conditions in which vision and enterprise might have enlarged the Union's business rapidly. But McLaren had the defect of his qualities; the same caution and limited imagination which had saved the Bank from the worst of depression continued to operate. It should be added that the London

Board was of one mind with McLaren and repeatedly enjoined caution. Idle resources accumulated, both in the colonies and in London, to reach embarrassing levels.

The Board, somewhat hesitantly, allowed McLaren to develop advances against wool and other export shipments. This was a relatively new type of business for the banks; for twenty years most advances had come directly from merchants, the ancestors of the later pastoral companies, who financed themselves from the banks. Now, in common with other banks, the Union moved into direct finance of exports. One immediate result was that, since these advances were repaid in London, cash accumulations in the colonies were transferred to the London office. London, to McLaren's distress, at first responded by shipping coin to Sydney (£30,000 in March 1845 for instance), believing that he could buy bills on London. While exchange business, through these years, was a mainstay for the Union, it could not monopolise the market. The Australasia was still a serious competitor; the Commercial of Sydney and the Bank of New South Wales at this time first moved into exchange business; and the larger merchants were actively engaged in it. McLaren persuaded London to suspend such shipments.

The Board would not accept his proposal for a modest amount of mortgage lending, which several of the colonial banks were tentatively adopting. Cash continued to accumulate in London; as early as September 1843, idle resources for which no useful outlet could be found were estimated at £200,000. By 1844 a substantial repayment of capital was proposed, but proved impracticable because legally the consent of each individual shareholder was required. McLaren was instructed to buy in the colonies any Union shares offering in the market, ostensibly as a reserve against bad debts, but in fact as an indirect way of repaying capital.

Despite the Board's reluctance to accept English rates of interest, which were lower than those of the colonies even in depression, these were better than nothing, and by 1845 the Union was regularly investing substantial funds by way of advances to London bill brokers. (Sharebrokers, however, were not entertained.) For a period the range of English lending was extended, including, in the next year or two, a number of substantial loans to companies engaged in railway construction, invariably, however, with insistence on short terms. (Six months appears to be the longest period agreed to.) Nevertheless it was a reluctant policy, and the Board looked forward to reverting to what it regarded as its proper and more profitable field: operation in the colonies.

It was, indeed, from London and not from McLaren, that initiative was forthcoming, for while the Board urged caution, they were also more alive to the opportunity the times offered for establishing the basis for future expansion.

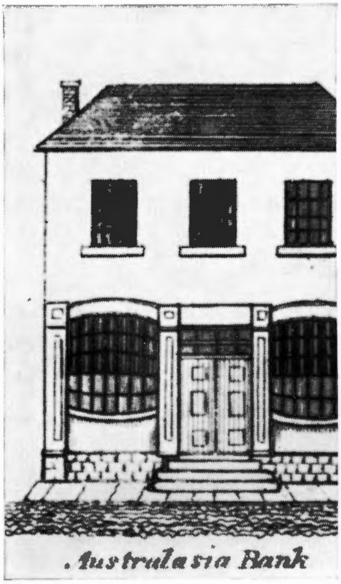
One minor line was in securing permanent premises. In Hobart, when the Derwent Bank withdrew from active banking, the Union was able in 1846 to buy its premises, including equipment, for £3,000—McLaren reported cheerfully that they were better than those of the Australasia which had cost more than £6,000 to build. In Bathurst new premises were built to replace the old Commissariat store tenancy. Head office, in Sydney, was transferred in June 1847 to new premises 'as handsome and commodious as I have ever seen, not excepting even those in your city'. (This was on the site of the present Pitt and Hunter Streets branch of A.N.Z. Bank.)

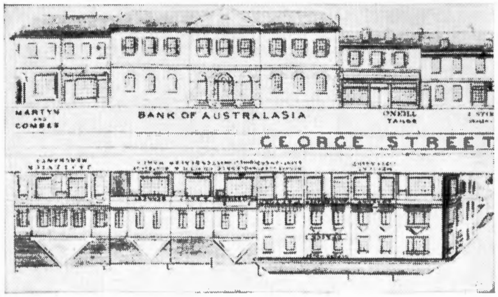
More important was the development of new branches, less for their immediate profit than for the purpose of forestalling competitors in future expansion. McLaren, after his advance into Bathurst in 1840 and the small Geelong branch in 1842, saw no attractions in branches. To London he wrote in 1844: 'I would by no means advocate the extending of our branches into the inland towns of the colony. A branch at a seaport with a fine country around it will insure a profitable business in exchange operations alone, but in an inland town you must almost entirely depend upon your circulation and deposits, both of which in a colony like this must be trifling.' London commended his caution, but insisted upon the advantage of being first in a developing locality, specifically proposing Portland.

Portland had begun some ten years earlier as an unauthorized settlement by the Henty family, for bay whaling and sheepgrowing. By this time its chief importance was the latter, and it had become a significant minor port for shipment of wool direct to England. McLaren, thus prompted, opened a branch in June 1846, but his natural caution prevailed in initially refusing to allow the branch to discount local bills. Portland illustrated very clearly the problems of opening branches in small scattered towns in a pioneer community. The population was small, and mostly either indebted to, or otherwise dependent on, the Henty family, who were both the Bank's landlords and chief, if somewhat troublesome, customers. Local directors were hard to find; business was highly seasonal, depending primarily on the wool clip; communication, even with Melbourne, was highly irregular and uncertain. The manager's first problem was to choose an office, in the knowledge that the town was changing in rapid but unpredictable directions. Profits were expected mainly from note issue, exchange, and advances against wool shipments, an activity which assumed good judgment about markets of which prompt reports were unobtainable. Nevertheless, as happened so often with early Australian banking, the occasion found the man in Charles Robertson, first Portland manager, who spent himself in pursuit of the Bank's interests in conditions of considerable material discomfort, and difficult relations with the Hentys. Characteristic of the man was an episode in 1848. In a prosecution concerning a forged Union bank note, Robertson was required as a witness in Geelong. Travel by ship he rejected, as too expensive to the Bank and requiring too long an absence from the office. Buying a horse, he rode there and back—420 miles in eleven days—over rugged unsettled country occupied by potentially hostile aboriginals; his chief concern was that McLaren should realize that his absence was dictated by Bank business.

More important than Portland was the Bank's long-delayed entry into South Australia. London was interested as early as 1846 because of the copper boom there, but action was delayed for some time by the diplomatic problems created by the 1837 agreement with the Bank of South Australia. That agreement, explicit as it was, was so one-sided that it could not reasonably be held to bind the Union for all time. When in late 1848 it became clear that the Union would certainly open in Adelaide, the Bank of South Australia invited negotiations for amalgamation of the two banks. Unhappily, the total destruction of all London records of the Bank of South Australia has left some obscurity about this episode. What seems to be clear is that a number of substantial shareholders, fearful of Union competition, took the initiative; the directors on the other hand objected, and exploited the argument that amalgamation would necessitate surrender of the Bank of South Australia charter, exposing shareholders, as members of the Union Bank, to full legal responsibility as partners in an unlimited enterprise. The Union, which felt morally free to open in Adelaide, would not go beyond an offer of the same terms as were offered the Tamar in 1837, and negotiations were abandoned. The Bank of South Australia gracefully 'gave consent' to a Union branch opening in Adelaide, in January 1850. Other branches, for example at Brisbane, were considered but not adopted.

Adelaide opening coincided with McLaren's resignation; he went into business in Sydney, and was succeeded by William Fletcher. This was the Fletcher who had been a director of the Tamar at the





Above
The George Street premises of the Bank of Australasia as they appeared in Joseph Fowles's *Sydney in 1848*. The Bank had bought land from Sir John Jamison on 20 November 1839.

At left
A house in George Street, north of Jamison Street, in which the Bank of Australasia began business at Sydney on 14 December 1835. (Reproduced from *Maclehose's Picture of Sydney and Strangers' Guide in New South Wales for 1839.)*

New South Wales Government Printer

The Bank of Australasia 1892. The Bank acquired the land on the north corner of George and Jamison Streets in 1856 and proceeded to erect this building.

A.N.Z. Bank Archives

A decision that notes of the Bank of South Australia should bear the name South Australian Banking Company was vigorously contested by the local officers of the Bank because the former was the name by which it was universally known in the colony. Because of the name adopted in the Charter the Directors insisted on a stamp being made and sent to Adelaide to be used on notes of the Company as shown here.

An example of an Adelaide ingot, now in the National Gallery of South Australia, and an Adelaide sovereign in the possession of Australia and New Zealand Bank, Melbourne.

time of its absorption, and then a local Union director. When Gilles resigned, Fletcher abandoned his own business to become Launceston manager, and then in 1845, manager at Melbourne.

In South Australia the depression was relatively mild; the crisis in public finance did not long outlast the taking over of the colony by the Crown. Nevertheless the Bank of South Australia had to face difficult circumstances when it began its existence in 1842 as a separate entity distinct from the South Australian Company. At the time of separation, the Company offered the Bank a choice of terms: it could pay for goodwill, based on an estimate that the Company's net profit from banking had been £10,000 a year; or it could take over all assets at book value. Since the probable loss on bad and doubtful debts was set at £9,000, the Bank preferred the latter. Depression, however, falsified these calculations, and the London directors regretted their choice. The earliest news of depression induced the directors to abandon a dividend policy inherited from the Company. Since colonial profits were always six months ahead of accounts received in London, the Company's optimistic policy had been to pay dividends on the assumption that profits during these six months would be at the known rate of the preceding six months. The Bank suspended dividend for 1844 as the easiest means of reform; in future, dividends would be six months behind accounts. This was a well-informed move, for realized losses were such that no dividend was paid for 1845 either; however, in 1846 it was possible to pay 4 per cent, compared with 6 per cent in the first year of separate operation.

In Adelaide there were also accounting difficulties, arising from the separation, which involved the Bank in disputes with the local government. Details are unimportant, but the central point was that the governor claimed the Bank held certain government funds, which the Bank claimed were a debt of the Company; certain unpaid governors' bills of exchange held by the Bank were not recognized by the governor as an offsetting claim. The exact position was confused, but the governor was certainly unreasonable and unjust, when he retaliated by removing the government's current account to the Bank of Australasia. (It was returned a few years later.)

However, for Stephens in Adelaide the situation was, despite its depression difficulties and separation annoyances, promising, mainly because he had only one competitor, the Bank of Australasia, and that bank was unable to be aggressive while its funds were so deeply committed in the Bank of Australia. Depression reduced note issue by two-thirds, deposits by nearly 40 per cent, and advances by a third, yet even the lowest figures were far ahead of the Australasia branch, which had failed to achieve any extensive business, even at the height of the boom. Stephens was, moreover, able to reduce costs very substantially by eliminating all interest on current accounts, which were three-quarters of total deposits, and in 1841 were receiving 4 per cent on the daily balance; on fixed deposits, rates had ranged from 5 to 7 per cent and were reduced to a range of $1\frac{1}{2}$ to 3 per cent.

The economic situation of the colony was transformed early in 1844, while the eastern colonies were still in severe depression, by confirmation of the existence of rich copper deposits in an area fifty to a hundred miles north of Adelaide. Lead was also found, but not in similar richness, and there were reports, which came to nothing, of gold. There ensued a scramble for likely, and unlikely, areas of land, and extensive speculation. Behind this flurry there were solid and profitable mines, the most important being Burra Burra (Kooringa) and Kapunda. Both banks were pressed for loans to finance developmental work, but by March the South Australia had determined to restrict its loans to advances against shipment of ore, an example followed by the Australasia. Experience confirmed the policy, although under pressure, advances were later to extend to ore at grass as well as shipped. Stephens, at considerable personal discomfort, travelled extensively through the mining areas to inform himself of localities in which copper was (and those in which it was not) being found.

The mining boom soon produced a general boom, and before long South Australia enjoyed a steady inflow of migrants and British capital, and a high volume of land sales. For reasons that are obscure, the governor, late in 1845, responded to this situation by requiring payment for land purchases in coin, which he proposed to retain in the Treasury, instead of depositing in the two banks. Stephens and J. J. Falconer, for the banks, failed to move him on the central point, but did persuade him to accept bank notes at land sales, to avoid any implication that the government regarded them as unsafe; but the acceptance was conditional upon the banks immediately redeeming the notes for coin. Whatever the governor's motives, for several years the banks suffered no ill-effects; indeed, the withdrawal of cash from the market had the useful effect of moderating the boom. Sufficient coin was released by government expenditure, when added to that resulting from capital inflow which did not go to purchase land, for the banks to be able to expand business rapidly. A good deal of the government's coin surplus was transferred to commissariats in Tasmania and New Zealand, for British government expenditure there. By the late 'forties, however, the government was finding its hoard embarrassingly large, while the banks were in need of cash, and the policy was abandoned.

The expansion in banking business, brought by the boom, is indicated by a few figures. Between 1845 and 1851 (before the discovery of gold) the Bank of South Australia's note issue was almost quadrupled, its deposits multiplied by three, its advances more than doubled. These results were achieved in the face of the first serious competition the Bank had experienced. Marshall MacDermott had become the Australasia's Adelaide manager when the Perth branch closed. The successful termination of the suit against the Bank of Australia removed the restraints on MacDermott's natural inclination to lend freely, and the Australasia's South Australian business expanded very rapidly. Over the same 1845-51 period, its note issue was multiplied by six, its deposits by more than three, and advances by six. Something must be allowed for its having started from relatively low levels, but the main factor was the expansive policy of MacDermott. He brought new difficulties for Stephens, for not only was his competition aggressive, but the South Australia constantly complained of the carefree manner in which he broke agreements concerning rates of exchange. By 1849-50 Falconer was being disturbed by evidence of laxness in MacDermott's control of the office, and both he and London were demanding more restraint in loans. But MacDermott was incorrigible, and before long he and the Bank were parted, primarily because he continued to be too free in lending.

Before then, however, Stephens had a new competitor. Following the collapse of the proposal for transfer of the Bank of South Australia business to the Union, the latter bank determined to open in Adelaide. The new branch began business in 1850, marking the definitive end of the South Australia's dominant position in the colony it had served from the outset.

The South Australia, however, was now a chartered bank, for, despite the objections of Stephens, the directors had persisted with their plans, and after long delay (mostly due to the Bank's unavailing desire to avoid restriction on freedom to lend on land), the charter was issued in September 1847. A modest call on capital was necessary to comply with the conditions of the charter.

There were now three banks in Adelaide, and cut-throat competition was forestalled by the negotiation of a formal agreement.

Stephens, however, refused to yield on a number of points in which he believed the convenience of the public was concerned. He had, some years earlier, eliminated all special bank holidays, substituting a fortnight's annual leave for the staff. He closed at 3 p.m. on Saturday (the Union wanted 1 p.m.) and he refused to charge for cheque books or to set a minimum size for the amount of cheques. The interests of the staff were not much considered in these decisions; they were, for instance, required to take their holidays in two separate periods of a week, and at times convenient to the Bank. But employment in the Bank was sought after, and perhaps not too much should be read into the rules (adopted in 1842) governing the conduct of staff, the earliest rules, or at least earliest ones surviving, for any Australian bank:

1st. The Teller to be responsible for all deficiencies in his cash, from whatever cause arising, except in a manner beyond his control.
2nd. The officers to sign a declaration of secrecy.
3rd. No newspapers to be allowed in the banking office during the hours of business. The paper of the day to lie on the counter, and the duplicate for London to be handed in to the manager.
4th. The officers to be at the bank as nearly at 9 o'clock as possible and not to leave until all the book transactions are posted up.
5th. No clerk to absent himself during the day, from the bank, for any period of time, upon any purpose whatever, without the consent of the manager.
6th. No perquisites or rewards of any kind to be received, under any circumstances, from the customers of the Bank.
7th. No officer to trade in any way whatever on his own account, or be in partnership with any person who does so.

CHAPTER 8

GOLDEN DECADE

IN May 1851 it became known that payable gold had been discovered near Bathurst, New South Wales, and, within a few weeks, at various other points on the western slopes of the mountains from Armidale to Albury. From July, however, these finds were overshadowed by richer ones in Victoria at Clunes, Anderson's Creek, Ballarat, and in December, by the vast riches of Bendigo. Almost overnight, gold had become the Australian colonies' richest industry, and remained so for a decade and a half.

Figures of the amount of gold produced can only be estimates, but the best of these, by T. A. Coghlan, are:—

	£ millions
1851	1·32
1852	19·43
1853	13·99
1854	9·43
1855	12·36
1856	14·65
1857	11·66
1858	11·21
1859	10·38
1860	10·09
1861	9·68
	124·20

Victoria produced no less than £110,000,000 of this total. For New South Wales gold was very important, and for ten years equalled the production of wool, but for Victoria gold was the dominant industry until well into the 'sixties.

It was a decade of extraordinarily rapid economic growth and of great social and political change. At its end the total population of the Australian colonies stood at 1,168,000, almost three times the figure of ten years earlier. Diggers, who had moved restlessly from rush to rush, settled down in the cities, or in the permanent new inland towns left behind as the tide of mining receded. Wool continued to be of major importance, and despite earlier labour troubles, survived the stresses of the decade, and even gained by being forced to adopt new techniques and by the great improvements in internal and oversea transport. Roads appeared where none had been before, and the first railway building began; while from overseas came new shipping services, including early steam vessels, and the opening of the 'overland route' to Europe (that is, a land stage from Suez to Alexandria linking two sea voyages).

Before the discoveries, the Australian Colonies Government Act of 1850 had empowered the colonies to draft constitutions for themselves; the drafting was done in the turmoil created by gold, and came to include (except for Western Australia) most of the planks of the English Chartists' programme. Queensland was separated from New South Wales in 1859, the last of the future States to acquire a separate government. These new forms of government had to cope in later years with issues which had their origin in the gold decade: the great need for roads, railways, water supply and other public utilities for a suddenly increased and rapidly expanding population, a problem which was met by persistent borrowing in London; demands for land reform, as much a challenge to the political oligarchy of the squatters as a demand for access to land for small farming by the new settlers; in Victoria especially, the issue of protection for nascent manufacturing industry; the social and political demands of a new population, which had been attracted to the colonies by the lure of gold, and remained to enjoy the sharp permanent increases in real wages and working conditions and protection by trade union development.

For the banks, it was not only a time of great expansion, but one dominated by a few major strands of immediate importance to banking: the vast outward flow of gold, trading in which represented at once an opportunity for substantial profits and a necessity dictated by the need to replenish London funds; a flow of imports, which together with gold export, made the combination of gold and foreign exchange dealing the overwhelmingly important part of banking; a geographical spread, primarily by new branches, of the banking network; a new and profitable, if often troublesome, form of business in the placing of colonial government loans in London; and in domestic investment an emphasis on the building demanded by the large accession of population.

New banks appeared to share in the new business. The newly-formed Oriental Banking Corporation extended its operations to the Australian field, followed closely by the English Scottish and Australian Bank and by the London Chartered Bank of Australia.

All three of these had London headquarters and were a direct challenge to the foreign-exchange primacy of the Australasia and the Union. But more important in the long run, was the succession of new 'colonial' banks. The Bank of Victoria, Bank of Tasmania, and the Australian Joint Stock Bank all began business in 1853. As it happened, their commencement was followed, in 1854, by a sharp commercial crisis, mainly created by an import glut which followed the flood of goods optimistically shipped from London, but accentuated by the marked fall over 1853-54 in gold production. Yet in 1856 came the Colonial Bank of Australasia, and in 1858 the National Bank of Australasia. Between the establishment of these last two there had been a second commercial crisis of similar origin, but this time, reinforced by crisis in England. In the next fifteen years there were to be twelve more 'colonial' banks, but no further London enterprise.

To some extent, indeed, rôles were reversed. In the late 'forties both the Bank of New South Wales and the Commercial Banking Company of Sydney had established London connections. Now they, and the new colonial banks, established London offices of their own. Gold dealing and foreign exchange *were* banking, or at least the major part of it, in the 'fifties, and direct London connection was essential; it is significant, however, that now colonial investment resources were adequate to provide their own banking institutions on an international scale. From this time on, the Australasia and the Union and, within its limited field, the South Australia, had to share their international rôle, not only with new London-controlled banks, but also with lusty colonial competitors, the combined total of whose business and resources overshadowed theirs.

One other monetary development should be noted, the minting in Sydney from 1855 of sovereigns and half-sovereigns. This was from a branch of the Royal Mint, agreed to with unexpected readiness by the British government, who, however, would have chosen Melbourne if, when the first decision was taken, the greater riches of Victoria had been known. Grudgingly accepted in the next few years by other colonies, Sydney gold coins became legal tender throughout the Empire from 1863. The existence of the Sydney Mint stabilized the local price of gold, and thereby brought exchange rate fluctuations within narrow limits. Rates had fluctuated considerably, sterling reaching 12 per cent discount at the end of 1852.

It was in the gold decade that 'London funds' acquired their great importance, exceeding that of cash ratios, in controlling the lending policies of Australian banks. Strictly, the control was total cash, including London funds; exchange rate variations appeared to bankers as the instrument by which they shifted funds from London to the colonies or *vice versa.* With exchange movements narrowly limited by the backhanded adoption of a gold standard implied by the Sydney Mint, this mechanism could only operate in restricted degree. London funds, however, remained the branch of cash which was highly variable, and with confined exchange rates, changes in London funds became the primary indicator to the banks of the need to modify lending policy. Analysis of the statistics of movements of London funds and of the volume of bank lending shows the close relationship; the domestic records of banks confirm the closeness with which, from the 'fifties of last century until the 'thirties of this (and perhaps even to the present day), bankers watched London funds for the signal to expand or contract lending. The relationship was closer and more direct in the nineteenth century, when bank lending was in higher degree concentrated in the finance of external trade and of the chief export industry, wool. (And in the 'fifties, as again in the 'nineties, in gold-dealing.) These were both the sources of changes in London funds and also directly responsive to changes in lending policy.

Fletcher of the Union, as early as December 1851, commented on the changed attitude to cash reserves which the gold discoveries had precipitated, and urged that previously held ideas of the need in Australian conditions for a high proportionate reserve, should be abandoned. A temporary agreement, in January 1852, for mutual aid by the Sydney banks contemplated one-fifth of notes plus deposits as an adequate reserve, by contrast with the one-third which had for long been regarded as an optimum. Fletcher wrote:

> There are few places in the world where practically specie is so little required in banking transactions as in the Australian colonies. It forms no part of the circulating medium. Its export, except by the banks themselves, is unknown. The nature of a large part of the population renders it unsafe to keep large sums in private hands.

But almost as he wrote, the 'large part of the population' of convict origin was being swamped by a great rush of free migrants, and as the full tale of riches unfolded and prices and incomes were inflated, large shipments of coin were to be needed. It remained true, however, that emphasis on reserves as a guide to lending had shifted permanently from local cash to London funds, for all banks and not the Anglos alone. For them the 'London cash account' had been, at least in the intention of directors, the regulator of credit policy from the outset, and the first recorded use of the expression

'London funds' is by the board of the Bank of South Australia in 1840. Now all banks had consciously to regulate domestic credit policy, having regard to London funds fluctuations.

The violence of the first expansion, immediately following the discovery of gold, can be seen from figures for the Melbourne office of the Union, contrasting October 1851 (gold in Victoria was first discovered in July) and October 1852:

	1851	1852
	£	£
Coin	75,961	622,344
Bullion	—	286,680
Local bills	185,175	321,375
All advances	223,578	394,941
Note issue	31,937	452,539
Deposits	192,102	843,571
Government deposits	53,855	228,559
Total liabilities	280,888	1,538,741

The scale and rapidity of expansion were matched by other branches in Victoria, and by the branches of other banks. Such figures summarise vividly the magnitude of the problems of expansion and control which Fletcher for the Union and Falconer for the Australasia had to plan in conditions of acute difficulty.

The Australasia's total note issue in all colonies stood at £150,000 in mid-1851; two years later it was well over £1,000,000; the Union had a similar increase. The Australasia's deposits grew from around £700,000 to over £4,000,000 two years later, with the Union close behind. Advances were more than doubled for both banks, the Union in this respect being ahead. For both banks the subsequent years of the decade saw a decline from these peaks, but at the lowest, to levels far above those of the pre-gold period.

In the case of note issue, a special factor operated for all banks, namely the growing use in ordinary transactions of the gold coin of the Sydney mint. But this was only part of the story; there were many more banks in the field, and their competition was the main factor in restraining growth of deposits and advances. Nevertheless the total business of the Union and the Australasia had increased by 1861 to three times its pre-gold level of ten years earlier, and the two banks had maintained their roughly comparable size. The Union had a slight advantage in note issue, and a modest but definite one in deposits, and was well ahead of the Australasia in the scale of advances.

Size brought its own problems, but they had to be met and solved in conditions of intense competition. That competition was most acute and most important in New South Wales and Victoria. In the older colony, at the end of the 'forties, the two English banks had to face only the New South Wales and the Commercial of Sydney, both still recovering from the wounds of depression. By 1861 there were eight banks operating in New South Wales from Sydney headquarters, five of them English banks. But it was the colonial banks which had the lion's share of the business. By the tests of note issue, deposits and advances, the New South Wales was in first place; with its reorganization in 1850, it had abandoned its staid conservative operation from a single office and entered on one of its periods of aggressive expansion. Behind it, with a business about two-thirds as large, came the Commercial of Sydney, with the new Australian Joint Stock Bank closely following. The pushing methods of the Oriental Bank had put it in fourth place. The Australasia and the Union, with similar scales of business, were unambiguously ahead only of the London Chartered.

In Victoria before the discovery of gold, the Australasia and the Union had the business to themselves. By 1861, when there were nine competing banks, the Australasia was still in first place, but it had to share the position with the Bank of Victoria, while the Union had to divide third place with the Bank of New South Wales. The gold decade had permanently changed the position of the Australasia and the Union; thenceforward they must gain and retain business in sustained and active competition with a large number of rivals. Moreover, the most serious and effective of these were not the new English banks, but colonial ones, who enjoyed the preference of colonial governments and business men. Governments could be persuaded, by favourable terms, to use English banks (the Union, for instance, secured the government account of the new colony of Queensland created in 1859), but unless the terms were favourable, a colonial bank was preferred. Ordinary citizens followed the lead of business firms in preferring to use the notes of colonial banks and to make deposits with them. The English banks no longer had the advantage of being the primary dealers in foreign exchange. The Australasia and the Union, at their foundation, had found the colonial banks conservative and unenterprising, not over-keen for deposits, and reluctant to establish branches, regarding competition as something to be avoided. The 'Anglos' had demonstrated the virtues of branch banking, had taught the colonials the art of banking on the basis of deposit resources, and the vital connection between foreign exchange and domestic business. The lessons had been learned too well, and with the explosive expansion of the 'fifties, the Australasia and the Union had to contend with competitors who were primarily colonial, who could meet them on their own ground and on equal terms, competitors who were, perhaps, at times, crude in their methods, but whose efficiency could not be denied.

Even as these new conditions were created in the 'fifties, the resilience and adaptability of the Union and the Australasia were apparent in that they adjusted themselves to the new problems, both of size and of serious competition, in the new economy that gold brought into being.

It was inevitable that the banks should become extensively engaged in gold-dealing. At the outset, individuals dealing in raw gold replenished their resources by seeking bank advances, secured against shipment of gold to London for sale. But soon the banks themselves entered directly into the market, buying on their own account, and for this purpose, establishing agencies on the gold-fields. The change was, in the first instance, dictated by the greater profit of direct dealing, but it was not long before the buying of gold for shipment to London became the essential balancing factor in greatly expanded foreign exchange transactions, as the demand for sterling to pay for vastly increased imports made itself felt.

In the early months both the Australasia and the Union concentrated on advances to customers dealing in gold, and such transactions were often on a large scale. Thus, in January 1852, the London office of the Union made a contract with the Australian Gold Amalgamation Company to advance up to £10,000 a month at Bathurst against the deposit of gold, at a maximum rate of 65s. an ounce; commission of 2½ per cent, in addition to interest, was charged. The London office of the Australasia, which had at first incautiously accepted some proposals to buy gold on commission for London customers, was, before the end of 1851, authorizing its colonial branches to buy gold outright. Falconer was not, however, sure of the wisdom of the policy, and used the right sparingly. Competition of other buyers had forced the price in Sydney up to 66s. an ounce, while in Melbourne it was only 61s.; and there were problems of assay. Since sterling bills could be bought at 8 to 10 per cent discount, it seemed safer to confine business to advancing against gold, leaving private dealers to take the price risks, particularly as many good customers were so engaged and resented the Bank intruding as a competitor. A proposal from Fletcher, of the Union, for joint withdrawal from advancing against gold and entry into buying, was rejected.

For both banks the rapid increase in note issue and in deposits —which gold purchases would expand directly—dictated caution, especially as during 1851 and early 1852, coin to meet demand obligations was scarce. But specie was flowing from London, both through the banks and otherwise, and the colonial demand for drafts on London continued to rise. The Bank of New South Wales took the plunge, not only buying gold but employing buying agents (at threepence an ounce commission) on the field, and the other banks perforce entered the market on their own account, in a large way, by contrast with the cautious purchases of early 1852. A year later Falconer was writing to McArthur, Melbourne manager, approving 'extensive purchases of gold even at 75s. an ounce of standard fineness so that you may be in a position to equalise your exchanges with London by remittances commensurate with the increased demand for drafts; and we must be satisfied if we can place funds in London at par or even at such rate as will leave the ordinary margin'. It is not possible to compute what effective rate of exchange was involved in such a gold price, since precise information of costs of shipment, insurance, interest, etc. for the same dates are unavailable. But clearly it implied a gross cost to the banks in excess of the English mint price, that is, sterling was at a substantial premium, as would be expected.

For some two years, the two banks bought their gold in Sydney, and to a much greater extent in Melbourne, using professional dealers working on commission. In Melbourne and Geelong the Australasia employed Messrs Khull & Patterson on terms which gave it exclusive rights to the gold they bought. At times, the banks came to agreements to minimise competition, as in February 1853, when the Melbourne banks agreed that one should buy on behalf of all each week in turn. The risks of gold-dealing on the fields were considerable. Officers, operating singly, must be trusted not only to be honest—almost invariably they were—but to protect the bank's property in difficult circumstances; agents must be advanced notes for itinerant purchasing; the gold must be assessed in conditions where assay was impossible; it must travel by road, under the police escort provided by the government. The full development of bushranging and of frequent "stick-ups" of isolated bank branches belong to a slightly later period; robbery, when it did happen, was little impeded by the padlocked iron boxes in which gold-dust was packed for transport. Still the pressure for gold as a source of sterling to balance exchange accounts continued, and progressively the banks appointed agents to operate on the fields and themselves opened small agencies.

In this movement, the Union stood aloof; Alexander McDonald, now Inspector, took the view that it was not proper banking, and involved too much risk of robbery and of embezzlement by agents or officers remote from supervision. The London Board concurred, although they had second thoughts, and by 1855 were calling for further advice. McDonald made a tour of the fields, and reported adversely, claiming that the banks which had opened gold-fields agencies regretted it. Costs were high, and embarrassment was caused by the rapid presentation in Melbourne of notes issued at the fields in buying gold. He was no doubt influenced by the fact that, interpreting his tour as a preliminary to opening Union agencies, the banks operating on the Victorian fields offered jointly to re-sell gold to the Union at cost, an agreement which, in July 1856, was giving the Union a right to take over one-fifth of all gold bought by each of the other banks with gold-fields agencies.

The Australasia, after employing brokers on the fields who were given advances in notes, broke the ice by sending bank officers (attached to the Geelong branch) to Creswick, Avoca and Maryborough. Each of these establishments was handled by a single officer, a point which caused some concern, and the scattered diggings were covered by continuing to employ brokers, armed with notes, to travel around on buying expeditions. From these beginnings grew a system of small gold-fields branches and agencies, some of which were transient, but others proved to be the nuclei of permanent posts.

'Without these branches at the gold-fields,' wrote Falconer in 1855, 'it is quite apparent that we could not have conducted our exchange business, vide precedent [*sic*] of the advantage derived from increased deposits and circulation of notes, and other banks are now pushing the same business, and purchasing gold without the intervention of brokers. Unless we adopted the same course we should be placed at a disadvantage, and we are thus also compelled to do so, but I am not at all apprehensive of any greater risk being thus incurred; indeed on the contrary, considering the experience which many of our officers now have in that department, and that we were always obliged to supply the brokers with funds in anticipation, I am inclined to think that it will be safer to purchase direct.'

In pursuance of this policy, branches had been opened at Ballarat and Castlemaine in 1854 and Sandhurst (Bendigo) in 1855, while 'temporary' agencies were opened in various other fields, sometimes proving to be the beginnings of a permanent branch; at times a modified version of the old brokerage arrangements was combined with the branches. Thus, at Sandhurst in 1856, there was a separate gold office run for the Bank by a specially employed broker who received £250 a year plus a halfpenny an ounce on gold purchased.

Despite Falconer's optimism, there were difficulties. Gold from the different fields varied in fineness, and assay was not practicable, pricing depending on the shrewd judgment of the bank officer or broker. Sellers countered by mixing gold dust from different fields. Officers living under primitive conditions became slack in keeping adequate books. As a corrective, Michael Elliott, Ballarat manager, was appointed to be also inspector of gold-fields branches with instructions to restore efficiency. In the later 'fifties an increasing proportion of gold came from quartz-mining, which increased the difficulty of detecting adulteration. Accordingly equipment for smelting was set up in the backyard of the Melbourne office in 1857, followed by similar steps at Ballarat and Sandhurst; samples of smelted gold from these latter places were sent to Melbourne for assay before purchases were final.

Meanwhile the board of the Union regretted their endorsement of McDonald's advice against gold-fields branches, since it was proving difficult to obtain sufficient gold for exchange purposes, and the other banks were not carrying out the agreement to resell gold. Under pressure from London (accompanied by somewhat severe criticism of McDonald who had recently resigned), branches were opened in quick succession between 1857 and 1858 at Ballarat, Sandhurst, Ararat and Maryborough, with agencies at Smythesdale and Pleasant Creek—so quickly, indeed, that the directors were soon calling a halt.

The Union's reversal of policy was in fact too late. The urgent exchange need for gold was passing, and other banks were firmly entrenched on the best fields. Gold-mining was changing its nature; from shallow alluvial workings, it was becoming an industry of deep leads and quartz-mining, calling for more capital expenditure and leading to concentration of selling at fewer points; and total output was falling. By 1859-60 both the Australasia and the Union were curtailing gold-fields business, and the Union was lamenting their 'disastrous' decision to open on the fields.

Both London boards pressed for economies. A Union sub-committee in February 1860, surveying branch accounts and reports, complained that gold purchases were conducted without adequate supervision, and gold-fields branches were too costly and too risky. In all, they required forty officers, and buildings had cost nearly £20,000. Deposits at such branches totalled £170,000, and note issue, probably, about £150,000. Advances were about £60,000, mostly by way of irregularly overdrawn accounts. The remedy was to close wherever possible, although the intense banking competition meant that this must be done cautiously. Australasia directors took a similar view. Meanwhile McArthur for that Bank, and John McMullen, who had become Inspector of the Union, had been on a joint inspection tour of the fields and had made a number of agreements for mutual closing; for instance, from September 1860, the Australasia closed at Maryborough and Tarnagulla (Sandy Creek), while the Union closed at Back Creek. By March of the following year the Australasia had closed, in addition, at Ararat, Ballarat Flat, Amherst, Heathcote and Indigo. More adequate supervision had been achieved by stationing two officers at each agency, and placing agencies under the control of nearby branches; Creswick and Smythesdale were attached to Ballarat; Back Creek and Dunolly to Castlemaine; Yackandandah and Chiltern to Beechworth.

The Union followed a similar policy, reducing its gold-fields establishments from five branches and seven agencies to four branches and five agencies. No loss of deposits followed, although gold-fields note issue fell by half—less, it would seem, from the closing of offices than from the decline in small-scale gold production. Advances at gold-fields branches rose by nearly half, to the puzzlement of the London Board. The reason, however, was not far to seek. Gold-fields business was changing from being primarily one of purchasing gold, with other activities arising out of that, to more conventional business. Mining was now, to a substantial extent, a company activity, and a Victorian Act of 1858 enabled such companies to give preferable liens and mortgages over plant and equipment, which led to a new sort of bank lending. More important, as alluvial mining declined, it became apparent that permanent townships remained, with economic bases independent of gold. The main gold centres, at which one or both of the Banks remained, were yielding ordinary banking business: Ballarat, Bendigo, Castlemaine, Maryborough, Beechworth, and the smaller places where agencies were retained.

By 1861, contraction of gold-fields branches was over, because more normal business had developed.

Not all new branches were directly associated with gold-mining. In 1853 in Victoria, the Australasia opened small branches at Portland (where the Union was already entrenched) and Port Fairy, followed in 1855 by Warrnambool. All three places were small ports and commercial centres for pastoral areas, as well as being close enough to the gold areas to receive some stimulus from that source. In conformity with the same policy of tapping inland business by occupying the ports through which it flowed, a move was made to Newcastle (New South Wales) in 1854, although it was at first regarded as an appendage of Maitland, the same manager serving both branches until 1858. Meanwhile the Union opened in Goulburn (New South Wales) and at Port Adelaide in 1853; both the Australasia's Superintendent and the South Australia's manager thought the latter a blunder since the Port was too close to the city; nevertheless Falconer yielded to the pressure of Tomkinson, his Adelaide manager, to the extent of buying a small site for a possible future Australasia branch there.

Meanwhile, both banks were looking northward to the pastoral areas of the Moreton Bay district (modern Queensland). Initially a convict out-station, the district had been opened to free settlement in 1842, and had progressed modestly, to the point where, in the late 'forties, residents commenced to agitate for local banking service in place of dependence on Sydney, 600 miles away. Schemes for a local bank, and approaches to the Union and the Australasia for a branch alike having failed, the Bank of New South Wales was persuaded to open in 1851, at Brisbane, then a modest settlement of about 2,500 people, but the port for the district. The Union followed in June 1853. Whereas the Australasia had remained unmoved by the Bank of New South Wales's action, it responded promptly to the initiative of the Bank which it regarded as still its main rival. Shrewdly, however, Falconer elected not to become a third competitor in Brisbane, but to open at Ipswich, sixty miles up river. Superficially, Ipswich, with about 1,000 population, was the lesser place, but it was the key to the rich pastoral district of the Darling Downs and in fact tapped the better business. The Bank of New South Wales had burned its fingers in pioneering pastoral lending in the district, and the Australasia was able to take advantage of the lessons learned, as well as of the temporary locking up of its rival's resources. A standard lending pattern soon emerged: £100

From a painting by George Rowell in the Bendigo Art Gallery
Photograph: Horace K. Hall

Pall Mall, Bendigo, Victoria, 1857.

The Bank of Australasia is in the centre to the right of the tallest tree.

loan per 1,000 sheep, secured by a lien on the wool; £1 per head of cattle, secured by stock mortgage. Within three years, as the Union inspector ruefully reported, the Australasia had the best business of the three banks in the district and was impregnable in Ipswich. Queensland having been erected as a separate colony in 1859, the Australasia was required to open in Brisbane because its charter prescribed an office at the seat of government in each colony in which the Bank operated; but deliberately, only a small branch was established.

On two other occasions during the decade, the Australasia matched a rival's move. Following the Union, it opened a branch at Goulburn (New South Wales) a few months later in 1854. In part, it was of the character of a gold-fields branch, since Goulburn was a booming market for gold from nearby areas as well as a pastoral settlement; difficulty in securing premises was solved, pending building, by renting four rooms in the Commercial Hotel. Five years later, in Kooringa (South Australia), the National Bank of Australasia threatened the Australasia's long-established copper business, and a branch was hastily opened as a defensive measure. Meanwhile the Union had opened in 1858, both at Gawler to the north of Adelaide, and at Orange (New South Wales), and was looking further afield to Western Australia.

Early in 1860, with the warm blessing of the London Board, officers were despatched to Perth to open a branch. Prospects, however, appeared poor. The officers reported that the finance of most exports—wool was the chief, followed by sandalwood and a small amount of jarrah timber—was monopolised by three or four merchants, who also provided deposit and advance facilities. (The description is that of the distinctively Australian 'pastoral company', examples of which were taking shape all over Australia by this time.) The Western Australian Bank had little share in pastoral finance or exchange business; if the Union opened, its only field would be liberal finance of new industrial developments. The whole project was dropped promptly; in 1863 the decision was reaffirmed.

The Bank of South Australia had no occasion to open gold-fields branches, and Stephens continued to be opposed to branches on principle. The first departure came in 1856, Stephens having been replaced by George Tinline. Despite its poor start, the Union agency at the Port was now doing well, and drawing specie from the Bank of South Australia because all customs receipts passed through the agency. Accordingly, Tinline opened a South Australia branch there in 1857, but it was to be some time before business paid expenses. The following year, a petition from local residents and news of the Union's plans to open there, led to a second branch at Gawler. (George Fife Angas, resident nearby, went to some trouble to ensure that his should be the first account in the books of the branch.) The reversal in the South Australia's policy regarding branches was fully confirmed by the evident intention of the National Bank of Australasia to invade South Australia from its Melbourne headquarters. Tinline planned to protect business at Robe (Guichen Bay) in the south-east; the National responded so quickly that their staff, to open a competing branch, sailed from Adelaide five days after Tinline's announcement. Opening of both the Australasia and the National at Kooringa left little scope for a third bank there, but the South Australia's copper interests on Yorke Peninsula were defended by opening in 1861 at Wallaroo and Kadina. Under Tinline, the South Australia was ready to do branch banking whenever competition required it.

With the great increase in population and in the number of new centres, the banks for the first time had to become, extensively, owners of premises. On the gold-fields, buying or building were often the only practicable ways of securing premises which would offer security and some moderate permanence. Even in Sydney and Melbourne, and in established country towns, accommodation was so scarce that renting was often the least satisfactory solution. Accordingly investments in premises rose rapidly. The Australasia's balance sheet for October 1850 showed total real estate of £28,910; that for 1860, £160,225. The Union's figure rose in the same period to £104,435. In both cases the main concentration was in Victoria for that was where the new business and new branches grew most rapidly. Both London boards were highly critical of the amount spent on premises, especially in gold areas, the occupation of which was likely to be short, although they conceded the need to buy or build. Thus the Sydney premises of the Australasia cost £6,784 to build, three-quarters as much as head office in London. The land for this Sydney building, on the corner of George and Jamison Streets, adjoining the original office, was the occasion for some confusion: Falconer, in Sydney, bought it from the owner's agent, while the London Board bought it from the owner at a higher price; agreement was finally reached on the lower, Sydney, price.

In London, the Australasia finally acquired a permanent head office to replace the obscure and unsatisfactory rented office in Austin Friars which annually evoked criticism from shareholders. Negotiations during November 1852, for a site in Old Broad Street, fell through, but in August of the following year, the Bank was the successful tenderer for a building lease of a site on the corner of Threadneedle Street and Finch Lane, a stone's throw from the Bank of England; the ground landlord was St. Thomas's Hospital and the rent £1,300 a year. Four months later a contract was awarded to Lucas Brothers to build, for £8,983, premises initially too large for the Bank's own needs, to which the Bank moved on 4 June 1855, and which were its headquarters for the rest of its separate career.

As the number of competing banks multiplied and gold production fell, competition increasingly took the form of seeking deposits. From 1844, except for savings banks and, to a limited extent, the Bank of South Australia, interest on deposits had not been offered anywhere in the Australian colonies. In the first flush of gold-created prosperity, deposits were almost embarrassingly easy to obtain. The Oriental Bank in 1854 rashly sought to break into Sydney business by offering interest on deposits; however, only one other, the new Australian Joint Stock Bank, was tempted to follow this lead, and neither had much success in attracting business; the Oriental abandoned interest. The Australasia and the Union, however, recognized that here was a constant threat, but, in the event, it did not develop until 1857.

There were other difficulties. McDonald replied to London criticism of the Union's departures from normal practice:

> . . . it would be quite impracticable in the present times to obtain references from a large number of our depositors, who are comprised of persons from all parts of the habitable globe, who have become evidently possessed of wealth, but have neither local habitation nor a name. There are a great many possessed of large sums who cannot even write their names.
>
> Such accounts we invariably decline, as more dangerous still, but even these are taken in by some of the banks. We however use every precaution by making each person write down his address, with any other particulars whereby he may be identified, and we endeavour to prevail upon the depositor to come to the Bank in person when he requires to operate.

With such depositors it was surprising, as new and untried banks appeared, that there was only one instance of a 'run' on a bank, and, irrationally, this was on the Melbourne office of the Union early in 1858; its origin was obscure, Blackwood, the Melbourne manager, attributing it to malicious rumours encouraged by some of the new competitors, and after a few days, it collapsed in the face of the obvious ability of the Bank to meet all demands.

By 1857 there were seven new banks in operation, and the National Bank of Australasia was being promoted; the 1857 commercial crisis had imposed strain on several of them, particularly in the cash drain involved in exchange transactions; and gold-dealing business was falling away. The break came in July 1857, in Sydney, when the Commercial of Sydney offered, not only fixed deposit, but current account interest; it was immediately matched by the Bank of New South Wales and by the Union, and all banks were forced to follow, although the Australasia was able to persuade the Union to limit the offer to accounts whose monthly minimum was above £100. Within a few days the Oriental in Melbourne offered 2 per cent on minimum monthly current account balances, followed by the English, Scottish and Australian Bank and the Australian Joint Stock. For several months the Australasia was able to hold the fort there by persuading the Union, the Bank of New South Wales, the Victoria and the London Chartered to join it in refusing to follow, but by December this stand had collapsed under the loss of deposits. The Australian Joint Stock precipitated a similar situation in Brisbane.

In alarm, the Australasia, in March 1858, convened a conference in London of all the Australian banks represented there. Two, the English, Scottish and Australian, and the London Chartered, withdrew, while the remainder agreed to 'discourage' deposit interest in New South Wales and Victoria, and those operating in South Australia and Tasmania agreed to abolition there. But it was too late; events in the colonies had raced beyond London control. A temporary abolition agreement reached in New South Wales covered only current account interest, fixed deposit rates of 5½ and 6 per cent, maintained by the Oriental, forcing a general retention of 5 per cent; moves for an abolition agreement in Victoria, pressed by the Australasia, could not even secure elimination of current account interest. The National, entering South Australia that year, broke the united front there, while the Australasia and the Union were ruefully contemplating the probable need to adopt deposit interest in Tasmania.

Over the next two or three years the two banks, both in the colonies and in London, sought to eliminate or limit deposit interest, but with little success. The Australasia was the prime mover, and in 1860 it seemed that rates would at least be reduced by separate agreements in each colony, supplemented by a London agreement.

But while there was some temporary success in eliminating current account interest, the refusal of the Oriental to participate meant that aggressive competition for deposits continued. By 1863 McMullen was writing to the Union's London Board urging that the Bank retaliate by seeking British deposits for use in the colonies. Competition for deposits, moderated, but not much limited, by impermanent agreements, was to characterize the next thirty years.

Within a few weeks of the discovery of gold, all the banks were feeling an acute need of coin, to meet which the Australasia and the Union were relatively well placed. Raw gold was, except in the special conditions of South Australia in 1852, a very imperfect alternative for notes and coin, while expansion of note issue itself demanded coin reserve. Rapidly increasing population, and all the accompanying phenomena of the gold boom—higher prices, higher incomes, multiplication of commercial enterprises—demanded both more notes and more coin in large quantities. The public could satisfy its immediate needs from the banks, but for the banks there was no source of replenishment, still less of expansion, nearer than England. By late 1851 the London offices of the Australasia and the Union were responding to urgent requests for coin. The first Australasia shipment was in November, and within seven months, more than £500,000 had been shipped, and the Union's consignments were of comparable size. Shipments were directed to all colonies, since both Tasmanian and South Australian branches had been depleted by the urgent needs, first of Sydney and then of Melbourne. The South Australia, caught unawares, was saved by the 'Bullion Act', which is discussed below, but during 1852 was calling for, and receiving, substantial shipments—more than £100,000 in the middle months of the year. Silver coin was scarce in England and neither the Bank of England nor the Mint could supply it; copper was even scarcer, and inability to obtain it led to extensive issues of 'tradesmen's tokens' in the colonies. The Bank of England informed the Treasury that, in less than three years, shipments of gold coin to Australian colonies, in which the Bank had been directly or indirectly involved, totalled £6,000,000, and this amount covered only large instalments through a few banks and major merchants. The Sydney Mint, when in operation, made further shipments of gold coin unnecessary, but did nothing to ease the persistent scarcity of token coin.

Paralleling the need for coin, and in part, occasion for it, was the great need for notes, for business in general, and especially for buying gold on the fields. The magnitude of note issue increase has already been outlined, and brought problems of its own. Facilities for note-printing in the colonies were not of London standard, and London boards continued to supply note forms. In December 1852 the Australasia directors reported that 'our engravers are working night and day to complete your orders for note forms'. This practice brought the Union ill-luck in June 1853. A case of notes, of a nominal value of £112,000, was shipped by the *Stratheden* to Melbourne, where the first news of the shipment was a letter carried by the same vessel. Before this was delivered the Bank had reason to make inquiries, because new unsigned notes were presented for payment. The whole case had been stolen, an easy task in the chaotic state of Melbourne wharves. Within a fortnight £80,000 had been recovered, and six persons arrested, but the remaining notes proved elusive (a few turned up six months later in Hobart, by way of a Melbourne gambling den) and it was determined to withdraw all Union notes for replacement by locally printed forms, meanwhile using Australasia notes. In the end all but forty-four £50 forms were recovered, by February 1854, but the Union's issue had suffered a bad shock from even a limited circulation of genuine forms with forged signatures.

In Adelaide problems of specie supply and note issue took a curious turn, with even more curious results. The gold, which brought feverish prosperity to New South Wales and Victoria, meant, in the short run, acute difficulty for South Australia. Particularly in the closing weeks of 1851, men deserted employment to try their luck at the diggings; contemporary evidence makes plausible the conclusion that as many as three-quarters of the able-bodied males left the colony. In itself this was sufficiently serious to appear disastrous in an economy which was already far from buoyant, but to it were added purely monetary difficulties. For the banks—the Australasia, the Union and the South Australia—the general situation, in any event, dictated caution in lending, but in addition, they were subjected to a large and increasing drain of cash. Australasia and Union branches were called on to make emergency shipments of coin to meet the more urgent needs of Sydney and Melbourne; all three had to meet withdrawals of deposits by migrating labour, a burden which hit especially the South Australia, while a further drain arose from the enthusiasm with which Adelaide capitalists transferred funds to Melbourne for speculative gold-buying. Between the middle of December and the end of January, the three banks lost 40 per cent of their combined cash, with no prospect of the drain slackening. All three were forced to restrict credit severely, and both Australasia and Union officers were speculating whether the South Australia would be driven to suspend payment. Its local minutes at this period speak repeatedly of 'panic', 'prostration of trade', 'want of confidence', 'alarming state of colonial credit'.

Alarm was even more acute among customers of the banks, and during December and early January various emergency measures were canvassed. A central idea, probably borrowed from local mint schemes in New South Wales, was a government assay office to refine gold into certified ingots, circulation of which should be promoted by acceptance in payments to government, by declaring them legal tender, or otherwise. Competing ideas were for the banks to abandon notes payable on demand for post-dated ones, or for notes payable in London. The South Australian Governor, while publicly professing unwillingness to act, was busy in seeking advice, especially from the bank managers. Tinline, of the South Australia, was keen on any measure which promised to avert the threat to his bank; McDonald, of the Union, was reluctant to support any interference with the currency; MacDermott, for the Australasia, supported an ingot circulation, but originated an alternative that government-certified ingots be the reserve behind bank note issues which should be declared legal tender.

Government policy settled for an ingot circulation, but hastily abandoned it for MacDermott's variation when technical difficulties in minting appeared insuperable. With remarkable speed, on 26 January 1852, a special session of the Legislative Council was held, which received and replied to a Governor's address, carried the 'Bullion Act' through all stages, and received assent to it, all in the space of two hours. By this Act, a government assay office was to refine all gold offered into certified ingots, which the banks were required to accept in deposit or to buy, at the fixed price of 71s. a standard ounce; such ingots might be paid out by the banks at this rate; notes issued in exchange for ingots were declared to be legal tender for twelve months, by which time it was believed specie would be available from England.

Since at this time the Adelaide price of raw gold was around 60s. an ounce, a little below the Melbourne price, the clear effect of this legislation was devaluation of South Australian currency, and to this the main effect of its operation, apart from restoration of confidence, was due. Yet so far as intentions went, this was not among them. Contemporary public opinion accepted the prescribed price of gold (less the 1 per cent charge by the assay office), as designed to attract back, with their gold, South Australians who had gone to Victorian fields; the relationship between the ingots and bank notes and the conferring of legal tender status on these, were seen as necessary to provide a local medium of exchange and to restore liquidity to the banks. Only Torrens, the South Australian Colonial Treasurer, and Falconer, in Sydney, saw the devaluation issue, and even for them it was somewhat dimly grasped as an unwarranted revaluation of contractual obligations.

All three bank managers, and their local directors, supported the scheme, although Tinline was most persistent and prominent in public as well as privately. The business community came to regard the plan, or at least its adoption, as primarily his work, and a year later gave him a public dinner and a commemorative silver plate. The reactions of the banks to the operation of the Act, however, were to be diverse.

No time was lost in implementing the Act. The assay office opened for receipt of gold on 10 February, although it was for some weeks to be slow in producing ingots. A government escort was organized to carry gold from the Mount Alexander field in Victoria, to encourage South Australians there to despatch gold (and in due course to return themselves). Long before the first escort returned and the first ingots were issued in March, one vital need in the situation had been met. Public alarm had been replaced by confidence (Falconer unkindly said this was the only effect of the Act) and the banks were relieved of all concern about reserves, although the South Australia had reached such a dangerous position that its anxiety continued for some weeks.

Naturally enough that bank embraced the Act with enthusiasm, increasing its note issue, during March-April, by 50 per cent. It lost very little more coin, but came to hold bullion to two-thirds the value of its note issue. The Union, under directions from London, was more cautious, so that while its note issue rose proportionately more (it was, after all, newly established in Adelaide), it almost doubled its coin holdings, relying much less on ingots. By contrast, the Australasia, by a chain of unfortunate events, refused to co-operate at all, and found itself losing business and popularity.

Falconer believed the Act, by requiring issue of notes redeemable in ingots, conflicted with the Charter which demanded redemption in specie, an opinion in which he was confirmed by the Bank's legal advisers in Sydney, Melbourne, Adelaide and Hobart, as well as the Attorneys-General of both New South Wales and Victoria. His view was, therefore, that the Bank should co-operate fully, except in regard to note issue.

Unfortunately, this decision of policy coincided with the replacement of MacDermott by Samuel Tomkinson as Adelaide manager, the change becoming effective early in March. Falconer had passed on to Tomkinson a number of reasoned objections to the Act. Apart from the Charter question, he believed it involved loss of profit to the Bank; would promote inflation; was unjust to holders of deposits and notes dating from before the Bullion Act, since their right to receive specie was abrogated; and must lead the banks to issue notes in a volume which could not be redeemed in specie when the Act expired after one year. Tomkinson was therefore instructed:

> To enter a protest with the local government in such a form as our lawyers may determine against the Act, both as regards its general scope and interference with our Charter. To receive ingots in payment of debts and obligations, but to refuse to issue our notes in exchange for ingots, whether to our customers or others, though we must receive from them in deposits on current account, both ingots and bullion notes. To demand a settlement of the weekly balances with other banks in specie, but in case of their refusal, to receive ingots under a formal legal protest and then pay them in like manner. From this it follows that all payments across the counter must be in stamped ingots, except for our notes which must be paid in specie in all cases whether across the counter or in settlement with the other banks; in fact that we must pay off our present circulation, and issue no more notes while the present act is in force.

Some £26,000 in coin was shipped to Adelaide from Melbourne and Hobart to enable this policy of paying off notes to be implemented.

Tomkinson, however, was inexperienced, and did not readily distinguish between the formal public steps he was directed to take and the reasons behind them. He may have been influenced by Nathan Atherton, the irascible special representative of the London Board, who also wrote advice and instructions in which the Act was described as 'makeshift', 'arbitrary' and 'monstrous'. Worst of all, neither Tomkinson nor his superiors knew how deeply MacDermott had been involved in the negotiations which issued in the Bullion Act, and which justified a general belief in Adelaide that the Australasia was committed to support it. Tomkinson, instead of the formal protest based on the Charter obligations, delivered a memorial to the governor which failed to make the legal point clear, but did attack the Act root and branch; unhappily he also roundly declared that the Act was passed with 'extreme precipitation', which prevented the Bank knowing what was proposed or being given an opportunity to discuss it. Not unnaturally he received a stiff reply pointing out that MacDermott, as manager of the Bank in Adelaide, had been fully consulted and had actively pressed for legislation; that the issue of bank notes in exchange for ingots was the specific proposal of MacDermott; that the members of the local board of the Bank, as members of the Legislative Council, had supported the Act; that apart from one incidental sentence about the Charter, MacDermott had repeatedly agreed that the Australasia could participate in the scheme as finally adopted.

The Falconer policy, therefore, had to be implemented in a hostile atmosphere, government, the other banks, and the public resenting the Bank's attitude. That policy itself not only dictated a sharp reduction in note issue, but implied consequential contraction of business generally. With the Bank of South Australia riding the tide of popularity, this result, as will be seen, was to be accentuated by the unpopularity of the Australasia. Another result was conflict between it and the other two banks over clearing balances, in which morally the Australasia was in the right, though it was reluctantly forced to accept ingots in clearing settlements. For a time, all direct relations between the Bank of Australasia and the Bank of South Australia ceased, essential communications and transactions being handled through the neutral diplomacy of the Union Bank. There is at least some suggestion that an additional factor in this quarrel was that, for some weeks after the Act was passed, the Bank of South Australia was in a difficult cash position, and had sounded the Australasia about possible aid. Self-interest required the South Australia to husband coin and pay in notes (or bullion when that finally flowed from the assay office), even when such payments were not reasonable. The faults were not all on one side. Nor was it reasonable to object, as the Union did, to the Australasia making, on its own account, small shipments of gold to Adelaide for conversion into ingots; given the refusal to issue notes against ingots, this was the simplest way of obtaining a modest reserve of these for other payment needs.

According to programme, the Australasia reduced note issue from £24,000 in January to £5,000 in July. In the same period the South Australia increased its issue from £46,000 to £159,000, the Union from £14,000 to £67,000. All three banks suffered a drop in advances, as prosperity developed, but whereas the South Australia doubled and the Union trebled its deposits, those of the Australasia increased by not much over 60 per cent. Superficially, good fortune had accompanied support of the Bullion Act. But in reality it was at this stage that the Union and the South Australia took fright at the implications of their own policies.

The Bullion Act attracted gold not only by its relatively high price but because the technical services of the assay office created an efficient market for gold en route to England. But Tinline and McDonald both became alarmed as the flow increased, since in January 1853 they would be bound to redeem in specie notes issued against ingots. They secured an assurance from the governor that, if necessary, the date would be extended, and the Australasia, under the pressure of competition, took the occasion for withdrawing its refusal to issue notes against ingots.

Meanwhile, however, the original project for a local coinage was revived, and, a die-engraver being now available, plans were completed for minting the 'Adelaide sovereign', which the governor assumed would make unnecessary any extension of time for bank resumption of convertibility. However, while minting commenced in September, less than 25,000 were struck, not because of the prompt opposition in England where invasion of the royal prerogative was unwelcome, but because local conditions destroyed the conditions of success. The 'sovereign' had a better gold content than those of the Royal Mint, which by late 1852 were available in plenty. The local issue was based on a price of 71s. a standard ounce, but almost as soon as minting began the market price, which had been rising in New South Wales and Victoria, went higher in Adelaide, so that the assay office could not buy gold. The 'sovereign' scheme thus died almost before it was born, although this was of little practical relevance since the banks were already equipped, by shipments from London, to meet notes and other claims in specie, which they did from October 1852. The assay office was closed in February 1853, but presently reopened, with its expenses guaranteed by the banks for a year, solely for assay and refining. For two more years the South Australia alone supported the office for this purpose.

Contemporary opinion traced large results to this monetary adventure. It certainly at its beginning restored badly shaken confidence. But it did little to attract labour back to South Australia and labour continued to be scarce for over a year. It brought prosperity but not for the reasons accepted by the business community. Not the inflow of gold for sale to the banks as ingots, but the profitable markets in Victoria, created by the gold-fields and promoted by devaluation, were the prime source of a business boom. To this was added a large flow of gold, not to the banks, and not even through the assay office, but intended for export; a flow attracted by the good market created by the Act, which ensured speculative gold-buyers against having to accept a lower price than 71s. and offered technical refining services which facilitated sale. Valued at 71s. an ounce, the assay office processed into ingots £1,120,000 by September 1852, but only £819,000 of this was held by banks, and of that only £317,000 was received in exchange for notes. An unknown but large amount of gold passed through Adelaide without going through either assay office or banks. These two factors: devaluation-promoted exports and profits on gold-dealing, were the chief factors in the prosperity which followed the Act, and even they, of course, would have developed in lesser degree without the Act.

For the banks the important consequences, apart from their share in the general prosperity, were twofold. Immediately the Act averted crisis, and McDonald of the Union was probably right in claiming that it saved the South Australia from stoppage, a stoppage that would have been disastrous since that bank held half the colony's banking business. Secondly, the episode seriously altered the relative strengths of the banks. The Australasia fell well behind the other two, while the Union, though still behind the South Australia, was apparently rapidly overhauling it.

The 'fifties introduced systematic borrowing in London by colonial governments, and thereby new elements in banking. Colonial government borrowing was not new, not even oversea borrowing (the first example was New South Wales in 1842). But in the 'fifties the need for capital expenditure on roads, railways, water supply, and public works of all kinds, was so large and urgent that no other financial source would serve; local resources were not readily to be obtained in competition with the pressing demands for private construction, especially of housing, to meet the needs of the great increase in population. London was the obvious source, and colonial governments, for the first time free of the leading strings of the Colonial Office, took with alacrity to loan finance for public works. Troubles were to follow, earliest in Victoria. There as early as 1852 public finance had become chaotic under the overwhelming pressure of the first impact of gold. Thus the Public Works Department, in 1852, could spend only £130,000, labour being almost unobtainable; in the following two years £3,000,000 was spent; the Police and Penal Department showed an even greater proportionate increase. To bring order into accounts, and to relate expenditure to income, the governor appointed a special committee, which included D. C. McArthur, and also W. H. Hart. Hart had returned to Australia in 1853, reorganizing a local business in difficulties under the new name of Bright Brothers & Company, which, in 1881, became Gibbs Bright & Company. (As a partner in the firm, Hart's son, Frederic, in 1872 was one of the promoters of the Queensland National Bank.)

Financial reform, however, did not touch the inescapable need to borrow for public works. Victoria's first oversea borrowing had already occurred in the same year. A financial adventurer, Gabrielli, arrived in the colony and persuaded the city corporations of Melbourne and Geelong, and the government, of his ability to raise handsome sums in London. He claimed Rothschild affiliations, which were never established, and it could be said for him that, while he made handsome profits, he also raised the loans. Of £500,000 for Melbourne and £200,000 for Geelong, at 6 per cent, to be issued to Gabrielli at a price of 95, the Australasia took half in each case; interest was payable yearly in London or Melbourne at the option of the holder, and the loan was guaranteed by the Victorian government, with repayment in annual instalments commencing in 1855, again payable in London or Melbourne. Within a few weeks the stock was at 4 per cent premium in Melbourne, and Falconer could congratulate himself on a fine stroke of business. He had secured a profitable investment, backed by government guarantee, and the London-Melbourne option was ideal for a bank with London funds problems.

The other halves of the two loans were to be disposed of in London, and the Union agreed to act as agent for this purpose for the Melbourne loan, its only reward being to get the corporation's account, a doubtful and certainly troublesome benefit. Nevertheless the procedure followed for this half of the Melbourne loan was to set the stereotyped pattern for London borrowing for all colonial governments for the next forty years. In London the loan was advertised for tenders, and most of it was disposed of at prices above par. Gabrielli's gamble had succeeded. In future, however, such transactions were normally managed through banks from the outset, the standard practice being to issue £100 bonds at a specified rate of interest, and call for competitive tenders; the agent bank was consulted about rate of interest, minimum issue price, and time of placing, although in later decades when insatiable borrowing, with colonial governments competing against each other in the London market, made issues below par normal, that advice was often disregarded. It was to become commonplace for a colonial government to set a minimum price of 90 or even lower; times could occur when a desperate government would instruct its banker to accept any price whatever.

Agency, of the type the Union had undertaken, could be troublesome in another way. Esurient colonial governments were apt to be intolerant of delay in transfer of funds from London, and a bank which had placed a colonial loan could not be sure of freedom to transfer at times which suited its exchange position; indeed a government could be expected to press for the opposite. For this reason the banks in following decades were disposed to prefer handling of loans by syndicates of banks, rather than by a single bank, especially as the amount and frequency of loans grew; the practice, moreover, was in some degree a reply to shrewd colonial treasurers who sought to play one bank against another.

The Australasia's response to the Gabrielli loans was also a foretaste of the future. From this time on, holdings of colonial government securities were to be a normal part of bank investments in Australia. Until the 'fifties banking in Australia had had to place especial emphasis on holdings of cash in the form of coin. There was no lender of last resort to fill the rôle of the Bank of England; normal investments in discounts of bills, mortgages, cash credits, were illiquid—even 'self-liquidating' trade bills commonly had to be renewed in whole or in part. The system had lacked an asset intermediate in profit and liquidity between cash and advances to the public, and this gap was filled by the colonial government securities which were plentiful henceforward.

London was slow to realize the position, and in 1856 Falconer had good reason to complain of contradictory instructions. London directors welcomed the contribution to London funds from bond agency, and the facility in transferring funds between London and the Colonies in the form of securities, the holder of which could claim payment in either place. But they were disturbed by the size of holdings of bonds issued by colonial governments whose financial wisdom there was reason to question, and on the whole the emphasis of instructions was on keeping holdings low. Falconer protested in August 1856:

> Many members of both houses of the legislature, in and out of office, are personally interested in local banking establishments and . . . [seek for] these institutions a preference in the disposal of public accounts.

And again the following month in response to orders to invest in no further government loans:

> . . . this prohibition . . . will assist local and other rival institutions in their endeavours to obtain a share of the business which this Bank has hitherto enjoyed, and may endanger the good understanding which at present subsists with the government of Victoria. At all events, the line of policy indicated by the Court must seriously affect our future profits, already encroached on by active opposition.

However, the Australasia Court persisted; so, too, did the Union Board, and both banks consistently held only modest amounts of government securities, which continued to be regarded as profitable to handle but risky to hold.

Rapid expansion brought to the Union, Australasia and South Australia alike, problems of the adequacy of capital, of effective control, and of staffing.

The South Australia during the 'fifties suffered from discontinuity in management. Stephens, whose health was troublesome, took long leave in England from January 1851, leaving temporary control to George Tinline who had been accountant for eleven years. (He initially had that office with the Australasia branch in Adelaide.) Stephens was away for over two years, and soon after his return, took offence at the Board's strictures on his management; he resigned as from January 1855, and was succeeded by Tinline. Three years later, however, Tinline was out of favour: a series of advances 'opposed to the Court's principles of business and at variance with their strongly-expressed instructions' was exposed when a fraudulent customer's business collapsed, inflicting heavy losses on the Bank. The Board brusquely summoned Tinline to London and, dissatisfied with his explanations (or rather with the prospects of covering the losses), replaced him from February 1859 by J. C. Dixon, former Adelaide secretary of the Bank, and acting manager during Tinline's absence.

The South Australia in 1851 disposed of a small number of unissued shares, as a necessary step before obtaining Treasury approval, under its Charter, for an increase in capital from £200,000 to £300,000. This came very opportunely for the Bank's position in Adelaide, where note issue under the Bullion Act was approaching the limit set by the Charter (that is the amount of paid-up capital); conversely news of the Bank's expansion under the operation of that Act produced a buoyant market for the new shares in London. A further increase to £400,000 occurred in 1857.

The Union's colonial control likewise experienced vicissitudes. In 1853 Fletcher 'having, from enhancement of value in his private landed property, acquired an ample competency', resigned to return to England. In his stead the Board appointed Alexander McDonald, who had commenced his Bank service as manager at Nelson (New Zealand) in 1841, and was at this time manager at Sydney. He served only two and a half years, resigning to enter private business in Sydney.

J. J. Cummins, one of the original promoters of the Bank, thereupon persuaded the Board to reorganize colonial control, with two co-equal inspectors each presiding over a 'district'. The Northern District comprised New South Wales and New Zealand, the Southern, Victoria, Tasmania and South Australia. Each inspector was to be independent of the other, and responsible directly to London; yet they were expected to arrive at agreement as to allocation of resources between the two districts, and to ensure proper staff promotion by transfer between the districts. McDonald, when notified, reasonably commented that a single inspector with two assistants would have been better. Nevertheless, the Board proceeded to appoint, as inspector for the Southern District, James Blackwood, then Melbourne manager; for the Northern, they selected John McMullen, who had had twenty years' service with the National Bank of Ireland, and was at the time that bank's inspector in Ireland.

The new system took effect when McMullen reached his Sydney headquarters in 1857. Direct evidence of how it worked is scanty, but there are clear implications that London found itself troubled by divergent advice and policies, and by suggestions that the staff felt promotion was prejudiced. Fortunately, before serious difficulty could emerge, Blackwood followed McDonald into private business (as a partner in Dalgety's) and the Board was able to retrieve its error at the end of 1859. McMullen was appointed to a single office, renamed Inspector and General Manager; from this time on 'general manager' became the normal description and 'inspector' (in its original sense) fell into disuse. A further major decision (which became effective in 1860) was that McMullen's headquarters should be at Melbourne, which thereafter was the location of the general manager's office until the merger in 1951. McDonald's earlier suggestion was adopted by deciding to have two assistant inspectors; one, to reside in New Zealand, was regarded as more important than the other, attached to McMullen in Melbourne. For New Zealand the Board chose J. C. Raymond, then Geelong manager. No other colonial officer found favour with the Board, which recruited for

State Library of Victoria

Castlemaine, Victoria, 1855, from a drawing by S. T. Gill. The Bank of Australasia is the two-storey building above the wheels of the bullock dray, and, unchanged, it is now occupied by Australia and New Zealand Bank.

State Library of Victoria

Forest Creek, Mount Alexander, 1852 (the goldfields adjoining Castlemaine) from a painting by S. T. Gill.

R. G. Adamson, Esq., Portland

Julia Street, Portland, Victoria, possibly 1860. The Bank of Australasia is at the extreme right on the corner of Percy Street, and was occupied in 1857.

Henry Worland, Esq., Warrnambool

Timor Street, Warrnambool, Victoria, in the 'eighties, looking west from Liebig Street. The Bank of Australasia's two-storey building is at the far end of the street on the right. 'The walk-over' crossings were important for pedestrians negotiating deep gutters. The ghost-like figure of the dog represents an intruder who left before the photographer's time exposure was complete.

the Melbourne post John Simpson, the secretary of the London office of the Bank of New South Wales. In addition, George Cowie was despatched to join McMullen's staff, ostensibly because of his expert knowledge of the accounting system of the London office; presently, in 1861, he made a third assistant inspector for a few months before Raymond took over management of the Sydney office. (The title of 'inspector' was not adopted for these offices until 1890, two years after 'General Manager', simply, became official usage.) From 1860, for the rest of the separate life of the Union, the principle of a single chief executive for Australia and New Zealand was retained, although the chief deputy in New Zealand naturally acquired, over time, greater delegated authority.

The Union also found that its expanding exchange business required new oversea links. An agreement, made in 1850 with the projected Oriental Bank for mutual agency arrangements, was not of this character but represented some shrewd diplomacy by Union directors. Hints of a plan for the Union to open in India produced an offer from the Oriental to remain out of Australia and to use the Union as its agent there; the Union, which had no real intention of operating in India, agreed to abandon its non-existent plans. This arrangement collapsed, however, when in 1852 the Oriental found the attractions of Australian gold too strong and entered Sydney and Melbourne. The Union transferred its Indian agency to the Bank of India, Australia and China. It had already established American connections in 1852 by an agency agreement with the Bank of British North America which included the services of all that bank's United States agents. In 1857 Blythe & Greene became the Bank's Mauritius agents, while in England itself Bolitho Sons & Company of Penzance were appointed agents of the Union in Cornwall, with authority to issue letters of credit on Australian branches.

In 1852 the Union increased its capital by reversing the process of 1847-48, when it bought up its own shares in the market because of legal objection to its then proposal to repay unwanted capital. In all it had purchased 4,551 fully-paid shares at £24 (that is a discount of £1 per share) and 824 third series shares (paid only to £2 10s.). All these were now disposed of, the fully-paid shares at the handsome price of £42, the Bank making a profit of £78,768, which was carried to reserve. That reserve was simultaneously brought to the £200,000 required by the deed of settlement, by a special allocation of £27,541 from current profits. No need for further capital was felt until 1858 when the third series shares were required to be

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fully paid up, and this increased paid-up capital from £820,000 to £1,000,000. The same year, consideration was given to converting the Bank from its partnership status to registration under the recent Companies Act, but for unstated reasons no action was taken.

The Australasia considered and abandoned capital increase in the course of negotiations for extension of the Charter. Since the note issue power in the Charter was limited to twenty-one years, the directors planned, in good time, an application for renewal. The Superintendent was asked early in 1852 for his advice as to desirable modifications. Falconer naturally stressed two defects. First and most important was the prohibition of loans on real estate. This had been evaded by taking 'conveyance of real property in trust for sale' and by 'judgment securities' which gave sweeping security over all a borrower's property. Neither was entirely satisfactory: the first was clumsy and involved undue expense, the latter was naturally unwelcome to borrowers. The second difficulty arose from the disposition of colonial courts to question the legal effect of the Charter. Falconer, indeed, thought the Bank would be better off without it.

> . . . though the removal of these restrictions would render the Charter far less objectionable, I by no means consider a charter desirable, nor do I believe any advantages derived from it are sufficient to compensate for the withdrawal of common law rights. Indeed the only privilege granted by the Charter which is not possessed by every joint stock company is the limited responsibility of shareholders and with such a large capital this advantage is merely nominal.
>
> On the contrary I believe that the interests of the Bank have suffered more from the Charter than from any other cause, and that it has been an incubus on all its transactions from the beginning.

In London the point about real estate needed no emphasis, but the directors did not bother to reply on the desirability of the Charter. Limited liability for companies in general was not to be available for another ten years, and the Charter was still regarded as valuable. But Falconer's criticisms are worthy of note; in the latter part of the nineteenth century the Charter did not seem an unmixed blessing to the Bank, and would have been abandoned had the process of registering under the 1862 Companies Act not presented too many difficulties.

Accordingly application was made for a supplementary charter. The Treasury, which had just successfully reasserted its right to handle bank charters to the exclusion of other government departments, and had repelled protests by the Union and the Oriental against the recent chartering of the English, Scottish and Australian

Bank and the London Chartered Bank, was receptive. Note issue powers were readily extended for another twenty-one years, that is to 1878, and power was conferred to take mortgages on real estate to secure loans. The Bank sought an increase in authorized capital from £1,200,000 to £2,000,000, but withdrew this when the Treasury warned that, in view of the changed political status of the Australian colonies, this might lead to a ministerial decision to consult colonial governments. The Bank readily agreed to a clarification of the limit on total liabilities: non-deposit liabilities were now not to exceed double the total of capital, guarantee fund, specie, bullion, and government securities; note issue was not to exceed three times the amount of coin and bullion held in the colonies. The supplementary Charter was duly issued in December 1856.

Transfer of the Australasia's colonial headquarters to Melbourne had been recommended in 1857 by Falconer, because Victoria had become the most important single colony for the Bank's business, and Melbourne was, in relation to business in other colonies, more centrally located than Sydney. Decision on the change, however, was not made until December 1860 when Falconer was about to return from a visit to London, and then the transfer was postponed because McArthur was to be absent in England; the date settled upon was after McArthur's return, although Falconer operated from Melbourne during that period. Since McArthur had been acting Superintendent during Falconer's absence, in practice the transfer of headquarters had already occurred in 1860.

The general rise in prices and incomes and the shortage of labour which followed the discovery of gold, brought the Union and the Australasia serious staffing problems. Not many officers appear to have deserted the service for adventure at the diggings, but clerical workers were as scarce as any and the banks, at a time when they wanted more staff for branch expansion, had to face stiff competition from all forms of commercial enterprise. That competition was felt at all levels; the Union, for example, was to lose four Inspectors in quick succession, one because lucky speculation enabled him to retire, and three others who preferred to enter business in Australia for themselves. The first impact of gold was met by a series of *ad hoc* salary increases, and by attempts to recruit staff in England, where directors were slow to realize how difficult was the staffing task of their chief executives. Thus in March 1852 the Australasia wrote to Falconer:

> The directors would deeply lament that any general desire were manifested by the officers on the colonial establishment to avail themselves of existing circumstances with the view of forcing on the Bank an increased scale of salaries, nor can they bring themselves to believe that such a course will be attempted, entertaining, as they do, too high an opinion of their good sense and honourable principles. But should such an ill-judged measure be resorted to, they are determined, whatever may be the consequences, to resist it to the uttermost; and they fully empower you, in such an event, to adopt the promptest and most energetic steps for checking and effectually suppressing any such unseemly proceedings.

These were unrealistic views. Officers facing rapid price inflation could not be expected to find 'honourable principles' adequate compensation, nor could chief executives hold young men recruited in England to the letter of their contracts. Thus Fletcher of the Union, illustrating the salary increases he was forced to make both as a matter of equity and expediency, cited a young clerk sent from England under contract to serve five years at £100 a year, who in July 1852, after nine months' service, had to be paid £225 to put him in the same position as fellow officers and to make it reasonable to refuse his resignation. For both banks salaries rose haphazardly, being usually determined in fact by local boards, until 1853-54, when it was possible to introduce some order. In 1853, for instance, the Australasia approved a general 25 per cent increase over salaries then in operation. To assess the extent to which bank salaries in general rose is not, however, practicable. Increases were proportionately greatest at junior levels, while rapid advancement for promising staff was an effective form of increase. By 1857 the main upsurge was over, and the Australasia, for instance, could initiate action for progressive reduction of the 1853 increase from 25 to 15 per cent and abolish the special allowances which had been given to officers at gold-fields branches. The Union followed a similar policy, and both banks in 1860 sought further salary economies, then less by outright reductions than by eliminating surplus, and especially inefficient, staff. McMullen, in particular, signalled his assumption of general managership of the Union by a general clean-up among the staff, of whom he wrote in terms of scathing criticism. Managers were dismissed or down-graded right and left with explanations of which the following phrases are a selection: gross incompetence; incompetence, slothfulness and private speculation; private speculation and lack of attention to work; incompetence and slothfulness; bungling; conservative and lacks drive; and so on. It is perhaps

MURDER

AND

ROBBERY.

£300 REWARD

THE ABOVE REWARD will be given to any person (whether an accomplice or not) who shall give such information as shall lead to the conviction of the person who fired the shot which caused the DEATH of

THOMAS ULICK BURKE, Esq.

Late Agent of the Bank of Australasia, at Smythesdale, on his return from the Break o'Day Company's Claim, Rokewood, to Smythesdale, on Friday Evening, the 10th May, instant.

£100 REWARD

The last above-mentioned Reward will be given to any Person or Persons, who shall give such Information as shall lead to the conviction of each and every Accomplice in the above Murder.

J. J. FALCONER,

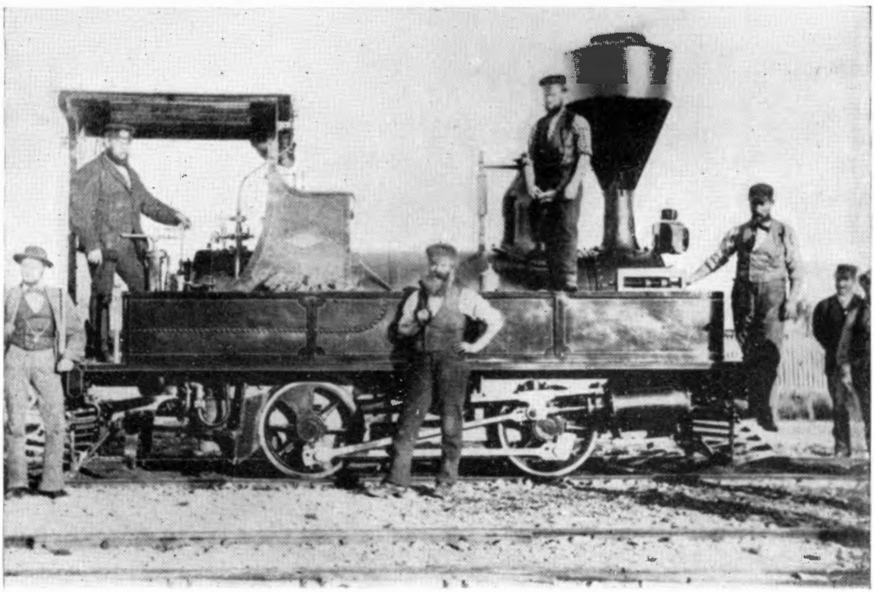
Ballarat, May 13th, 1867. SUPERINTENDENT OF THE BANK OF AUSTRALASIA.

W. L. Mullen, Printer and Stationer, Lydiard Street, (next Craig's Royal Hotel), Ballarat.

A.N.Z. Bank Archives

Hocken Library, Dunedin

Lyttelton, 10 January 1851, from a sketch by William Fox, Principal Agent for the New Zealand Company. Three days later the Union Bank of Australia commenced business in the small weatherboard storehouse inside the fence right centre. Two years later it moved to the large gabled house in the centre, formerly the residence of the Canterbury Association's Agent, J. R. Godley.



A railway tunnel through the hills between Christchurch and Lyttelton was the first major public work by the Canterbury Provincial Government and was partly financed by the Union Bank. This locomotive was used in 1863 on the branch line from Ferrymead (the supply base on the Christchurch side) to the tunnel workings.

unnecessary to add that McMullen, whose long reign began thus, was feared and even hated, though his ruthless efficiency was respected.

Bank officers had much to complain of in their conditions of work. Those sent to small gold-fields branches found themselves camping in tents or shanties, expected to work at any hour when successful diggers wanted to sell gold, held responsible, even when stationed alone, for the safety of the banks' notes and gold. Even in major branches conditions were bad. Falconer thus described overcrowding in the Melbourne office, far too small for the sudden rush of business:

> Hardly a day passes without some forgery, fraud, or robbery being committed in the Bank, for which facilities are afforded by the crowded state of the office, so that respectable people are actually deterred from transacting their business on some occasions.
>
> One man coolly seized 100 sovereigns weighed out for another and escaped, though we afterwards, with the assistance of the police, recovered the money; and the position of the ledgerkeepers renders the proper examination of cheques or identification of the parties almost impossible. Under these circumstances the manager, accountant and tellers have declared that they cannot be responsible for the consequences. Two or three of the junior officers have been obliged to leave the service in bad health caused by the confined space in which they work, with the thermometer sometimes standing at 110 degrees.

At Brisbane the Union manager, repelled by the town's only water supply, 'an open unprotected pond to which animals of all sorts have free access', sought permission to buy tanks for the Bank, and on being refused, paid for them himself. In Adelaide the Bank of South Australia, in 1857, finally replaced the twenty-year-old pump which served a well, the only source of water for all bank purposes; four years later it was proud of being connected to the town water supply which enabled the pump and leather fire-buckets to be dispensed with. It was not until 1856 that this Bank had any other source of artificial light—required during the day—except common candles.

Bank officers had no security of tenure and no pensions. The Union Board, for instance, retorted to McDonald's 1856 suggestion for such a scheme to cover at least widows and children of officers who died, by advising that staff should make their own insurance arrangements. However, by 1861 the directors were prepared to inaugurate the modest benefits of a Guarantee and Provident Fund.

Yet for salaries which only kept pace with inflation, insecure tenure, and bad working conditions, the staffs generally gave loyal service. Dishonesty was recorded in very few cases, and there were many instances of officers working beyond the line of duty. A trivial example will make the point: in 1856 the Bank of South Australia received a case containing forty quart-bottles of ink, of which eleven were broken; observing that the zinc lining had held most of the spilt ink, the staff voluntarily stayed back to scoop it up and strain it, proudly reporting to London that they had saved half the loss. It is pleasing to record that executives set themselves similar standards. When Tinline was summoned to London in 1858, he left his family occupying the manager's quarters; his deputy, unable to transfer the most confidential records there, trudged home each night laden with all the current confidential documents. Falconer and McArthur travelled by sea to open the Portland branch in 1853; the ship's captain, who had undertaken to call for them on his return from Adelaide, at the last moment demanded a surcharge of £150; whereupon the two officers bought horses and rode the arduous and rugged 250 miles across country to Melbourne.

CHAPTER 9

THE FIRST BANK IN NEW ZEALAND

DURING the latter half of the eighteen thirties, plans for systematic settlement of New Zealand moved rapidly towards a climax. There was already substantial white settlement of a fairly permanent sort. Mission stations had multiplied, mainly in the North Island on or near the coast; sealers had given way to bay whalers, with more lasting bases; the Maori had come to want white products (tobacco, sugar, fire-arms) and there was a significant amount of primitive trading between the two races. Although there were Americans among the whalers, the white population was mainly British, derived from New South Wales, the governor of which spasmodically exercised a shadowy influence over white settlers in the islands which could perhaps be regarded as lying within the ambiguous eastern limit of the penal colony.

By the eighteen thirties, however, no one—least of all the Colonial Office—took that debating point seriously, and proposals for systematic colonization had to accept the need to induce Britain to assume sovereignty. Edward Gibbon Wakefield and his associates were the prime movers in the agitation and planning for a company-settlement, in which they were at the end aided by the evident intention of the French to enter the race. From the New Zealand Association of 1837 grew the New Zealand Company of 1838, designed as a colonizing company, broadly on the same lines as the South Australian Company. Spurred on by rumours from France it hastily organized its first expedition, even before the government decided in 1839 to yield and seek possession of New Zealand as a Crown colony.

As part of the Company's hurried preparations, inquiries were made of both the Australasia and the Union Banks about the possibility of either of them opening a branch in the new settlement. The Australasia's response was equivocal. To the Company it replied formally that its Charter limited its operation to 155 degrees east longitude, and New Zealand lay further east. But privately the view taken by the Court was that New Zealand was still officially a 'dependency' of New South Wales (which *was* within the geographical limits) and that therefore the Bank could open in New Zealand. The

Court, even as it gave its discouraging reply to the Company, resolved to have a New Zealand branch, and made a number of consequential decisions. Apparently the directors were interested in the prospect of new business, but wary of entanglement with an untried colonizing company whose relations with the Colonial Office were then somewhat difficult. Certainly, for several more years, the Court acted on the assumption that extension of operations to New Zealand was imminent.

The Union was less inhibited, and during August 1839 negotiations between Bank and Company arrived at a firm agreement. For its part the Company undertook to conduct all its banking business through the Union, to nominate three migrants, acceptable to the Bank, to act as local directors (each had to buy twenty Bank shares) and to carry free to the new settlement three Bank officers, and necessary equipment—including a two-ton safe (which is still in Wellington in good order). The Union undertook to open a branch at the Company's settlement, to issue notes, and to ship specie for local use; deposits would be received, and paid either in notes or (at 2 per cent discount) in drafts on London or Australian branches. Other types of banking business must clearly await the event. Thus banking began in New Zealand simultaneously with the first organized settlement.

Almost as soon as the Company had despatched its advance guard, the government sent Captain Hobson, the first governor. One of his primary tasks was to negotiate with native chiefs the 'Treaty of Waitangi' under which a number of North Island chiefs purported to cede sovereignty of that island, in return for guarantees of protection and security of land tenure. Within a year Hobson had determined on Auckland as the seat of government, although the Company's first settlers had been taken to Port Nicholson (modern Wellington) where they arrived in January 1840 a week ahead of Hobson. There, after a brief trial at Britannia (now Petone) at the mouth of the Hutt River, a move was made to the less exposed anchorage offered by the site of present-day Wellington. The Bank's manager, Smith, was so careful of the transfer of the two-ton safe that he rode to shore sitting atop the safe on a raft; to the Maoris he was, thereafter, 'Jacky Box Smith'.

Several other settlements followed promptly, organized either directly by the Company, or through subsidiary associations. Wanganui was settled in late 1840; New Plymouth in January 1841; Nelson, the first in the South Island, in February 1842; the first shipload of settlers reached Auckland in the latter year. These settlements, however, were small and their financial needs slender; the Union saw little reason for additional branches. It was not until 1848 that Auckland appeared worth a branch, although most of this delay may have been caused by the promotion at Kororareka of a local bank, the New Zealand Banking Company. This was first established in 1840 at the Bay of Islands, a centre for early unofficial settlement, with Alexander Kennedy, former accountant for the Union at Sydney, as manager; but in 1841 it moved to Auckland, where it enjoyed a measure of government patronage. However, this local bank failed to develop a profitable business (its Kororareka office was destroyed in a Maori rising) and ceased operations in 1845. (Kennedy later became Auckland manager for the Union, and in 1861 again left that bank, this time to become Inspector of the newly-formed Bank of New Zealand.) The only Union branch, besides Wellington, opened before Auckland was at Nelson in 1842, and that only because of the request of the New Zealand Company which pleaded the need for facilities in the South Island. The manager chosen was Alexander McDonald, later to be an Inspector of the Union; he was, when appointed to Nelson, manager of the Commercial Bank of England branch at Chester.

The main reason for reluctance to open new branches was not actual or potential competition, but the lack of business. The early stages of settlement necessarily took time, the more so as the processes of transfer of land from Maori to Company and from Company to settler proved complex and protracted. Local production for some years was to provide little for export, and until land titles were clear and exports developed, business was necessarily mostly exchange, with some holding of deposits and modest note issue. Growing tension with the Maori, often over land, but involving more complex conflicts, was soon to flare up into intermittent clashes, which involved little loss of life but which slowed down extension of settlement.

Averages for the years 1841-42 illustrate the small scale of business:

Averages (£)

		Note Issue	Deposits	Coin	Advances
1841	March	4,415	7,811	2,213	8,814
	June	4,848	8,173	1,851	10,093
	September	5,825	9,381	3,214	14,929
	December	8,910	14,729	3,577	21,469
1842	March	10,107	18,228	4,741	24,716
	June	10,357	13,738	5,533	28,663

A major part of the advances was to the New Zealand Company, which was making heavy weather of settling migrants, and was in difficulties with the Colonial Office; in 1844 the Bank was deeply concerned over delay by the Company in settling its debts. Reports reaching London on prospects in the colony were so depressing that McLaren was instructed in 1843 to go and examine the situation himself. His verdict was highly unfavourable, and he held out little prospect of a turn for the better; he advised in a 'very urgent manner' that no new branches be opened (London accordingly abandoned an 1843 plan for an Auckland branch) and recommended that, if any other bank opened, the Union should withdraw.

The directors were reluctant to quit the field yet, but within a few months sent McLaren authority to abandon all New Zealand branches. He went so far as to instruct New Zealand managers to modify activities in preparation for withdrawal, but before any further action was taken some gleams of hope appeared. The New Zealand Company was able to pay its debts to the Bank, and the first steps for a new arrangement between Company and Colonial Office were taken. The Bank's branches were kept open, although, as the directors reported, 'rather as small exchange agencies than as branch banks', and for several years yet no worthwhile profit was made.

A second source of optimism was the prospect that the chaos in colonial government finance would be cleared up. Hard-pressed New Zealand governors had used bills on the British Treasury to supply the place of missing revenue, and some of these had been dishonoured. Authority given in 1843 to replace these by local 'debentures' opened the way for local government note issue. In desperate straits for funds, Governor Fitzroy not only issued 'debentures' for £1, 10s., 5s. and 2s. to make government payments, but declared them legal tender. Even though, especially when the legal tender provision was disallowed in England, these notes were subject to discount, they were directly competitive with Union Bank notes, and the Bank could feel relief when in 1845 Fitzroy was recalled, and action taken to pay off the government issue.

Nevertheless the Union's New Zealand business continued to be disappointing. Depression in Australia reinforced poor prospects in New Zealand, and both deposits and advances suffered a sharp contraction in the second half of that year. Some reduction in expenses was possible by eliminating deposit interest in late 1844, but acceptable advance business showed no signs of recovering until near the end of 1846. The only figures of business for this period are those which can be extracted for 1842-47 from surviving balance books, and these indicate that by the end of 1847, while deposits were up substantially, advance business was not back to the levels of early 1842.

	End of	£ Deposits	£ Advances
1842	July	11,421	35,046
	September	11,056	38,031
	December	11,558	47,292
1843	March	12,587	43,080
	June	9,284	41,389
	September	8,256	35,415
	December	7,113	31,281
1844	March	7,701	27,093
	June	9,210	27,413
	September	10,723	27,421
	December	8,475	25,100
1845	March	9,412	25,069
	June	10,554	21,368
	September	12,262	23,282
	December	9,690	20,126
1846	March	11,135	18,805
	June	12,644	19,847
	September	17,103	21,656
	December	20,028	21,339
1847	March	22,178	23,601
	June	22,852	24,192
	September	20,052	25,819
	December	18,640	27,893

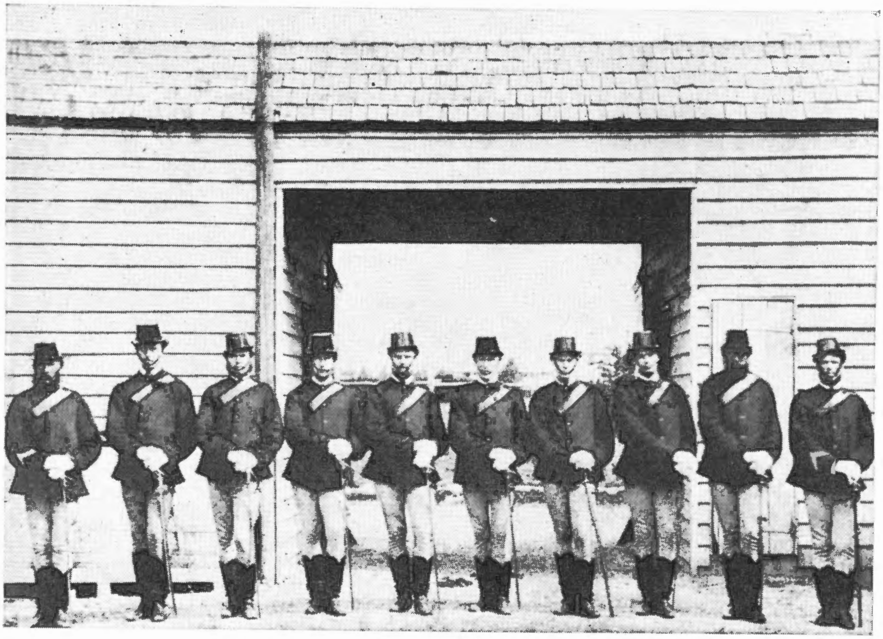
In all these circumstances, it was not surprising that the Australasia held off. Following its 1839 refusal to make an arrangement with the New Zealand Company, the Court authorized Griffiths to open a branch immediately if, being nearer to the new settlement, he thought it desirable. He, however, was cautious and would suggest no more than the possibility of a branch at the Bay of Islands, perhaps by 1841. By the time he reported, the full separation of New Zealand from New South Wales was known to be imminent, and the directors, in securing the supplementary charter of 1841 (the main purpose of which was to authorize additional capital), took care to have included a declaration that New Zealand was within the Bank's area of operations. No action followed, however, until 1843 when the Auckland firm of Brown & Campbell besought Hart, in Sydney, to open—apparently with the idea of taking over the business of the New Zealand Banking Company, of which the Australasia was Sydney agent. Hart excused himself, on the grounds of the acute depression in the Australian colonies; unprompted, in London, the Court was taking a parallel decision. An occasion presented itself in 1844, when Charles Falconer visited New Zealand, to obtain a first-hand report; Falconer was keen to open, but Hart thought it premature. With severe depression in Australia, the difficulties created by the Bank of Australia case, the poor success of the Union's venture, and the uncertain prospects of the new colony, this was clearly a sensible judgment. The Australasia abandoned for almost twenty years all thought of opening in New Zealand.

Despite the preparations for closing, the Union confined its retrenchment to Nelson, which was abandoned in 1848. But even before that a new branch had been opened in Auckland, implying an intention to remain in New Zealand after all, and that in the face of knowledge of the intention of the government to monopolise note issue for itself. The Auckland branch began operations in January 1848, one of its main activities being in foreign exchange. In this it had as competitors both the various missionary societies, who drew bills on their headquarters in London, and the Commissariat. The British government retained direct responsibility for native affairs and for detachments of troops stationed at various points, and for these purposes the Commissariat drew substantially on Sydney. For the Union the competition was important, and repeated efforts were made in the early years, with varying success, to remove both missions and Commissariat from the market by offering agreements to buy all their bills. The main branch for New Zealand remained at Wellington.

The Auckland branch was barely open when the Union was making preparations to re-enter the South Island. Promoted by E. G. Wakefield, the Canterbury Association planned a settlement based on Port Lyttelton. In 1850, when plans were fully advanced, the Union in London agreed to a request to open an agency in the new settlement, and although the opening was dogged by staff difficulties (the first agent became insane before arrival and the substitute resigned, one of the local directors died, and the junior clerk was drowned—all within a year), it began business early in 1851. Fletcher was in New Zealand at the time and reported generally in terms of qualified optimism on future prospects for the colony. The New Zealand Company had just been wound up, and plans for a

V. C. Browne, Esq., Christchurch

Lyttelton, New Zealand, at which an agency of the Union Bank of Australia was opened in 1851 at the time of the first settlement. On the other side of the hills at the right is Christchurch at which the Union opened in 1856, when it had become clear that Christchurch would be the main settlement. Beyond are the Canterbury Plains and, on the horizon, the snow-clad summits of the New Zealand Alps. Contrast this with the scene in 1851 in the preceding plate.



New Zealand West Coast Gold Escort 1865. This escort, together with an armoured waggon, was provided by the Canterbury Provincial Government in the hope that the gold from the Westland goldfields would be banked in Christchurch and bring profit to the town. Nearly all the gold, however, left Westland by sea, either *via* Nelson or Wellington or direct to Australia. The first trip of the escort was made in March 1865 *via* the Hurunui River Gorge, the second in December 1865, the escort going *via* Arthur's Pass.

Alexander Turnbull Library

Charleston, New Zealand, 1871, corner Prince's Street and Rotten Row. This was a west coast goldmining town. Next to the Union Bank was the City Hotel, then Fair and McCoy's 'Manchester House', then Cardigan's Hotel.

permanent constitution as a Crown colony were taking shape. In Fletcher's view, given time, the colonists would succeed in bringing land under cultivation or under sheep, although he did not foresee that the Lyttelton settlement was entry into the Canterbury plains, which within five years were to carry a quarter of a million sheep. Typical of his report were his comments on Lyttelton:

> The Canterbury settlement presents such a confusion of names that I will explain them. The port which is its harbour has hitherto been known as Port Cooper. It is now to be called Port Victoria. The town on this harbour is called Lyttelton. The Capital is called Christchurch. It is situated about eight miles inland on a well-watered island but bounded on the west by the range of mountains defined on the maps. The hills surrounding the harbour rise so immediately from the water that there is not space sufficient left for a town of say 8,000 inhabitants. Lyttelton will therefore be perforce a mere Port town occupying the same position to Christchurch as Port Adelaide does to Adelaide. In the latter case, however, the road is over a plain, in the former it has to rise about 1200 feet above the level of the sea.
>
> If the Canterbury settlement was about to be Colonised by the squatters of Australia I would have no hesitation in pronouncing with certainty on its rapid rise into importance as a Colony. But its founders the association have adopted a theory which is opposed to squatting interests. The publications of the society in speaking so disparagingly of riches lead one to suppose that poverty and morality are inseparable. The immigrants too that have arrived are totally ignorant of the value of sheep farming as a business. Their idea is to live and thrive on a 50 acre farm. In fact, both the association and its people have much to learn and unlearn before the resources of this part of the Colony will be fully developed. Mr Godley the agent at Canterbury of the association is a man of intelligence and observation. He seems quite alive to the importance of encouraging sheep farming in the District. Of the ultimate success of the settlement I have no doubt however much the peculiar views entertained by its founders may for a while impede its progress. I would not therefore recommend the withdrawal of our Agency at Lyttelton although it may be that it will not pay its expenses for the first two years by its own local operations.

London took an even more cheerful view of Canterbury, contemplating, momentarily, that its Wellington establishment might be removed there. But this was based on the obviously false assumption that Wellington would collapse when the New Zealand Company ended, and no more was heard of the idea. Christchurch, however, was to be New Zealand headquarters later.

Lyttelton's early business was almost wholly in exchange. The agent was not permitted to discount any local bills, and the only significant advances allowed were those against exports, which had an obvious exchange connection. The new settlement, and the branch, were barely in existence when gold was discovered in Australia; this led to some re-emigration and temporarily suspended import of sheep from Australia. But the check was very temporary, and as the prospects of the new pastoral development were more accurately appraised, the Inspector from 1853 permitted local discounting, although cash credits were flatly forbidden—because, he said, such advances to Australian pastoralists had proved bad business. The following year the agency was converted into a branch, and as evidence of confidence in the South Island's future, Nelson branch was re-opened.

The main promise the Bank saw, however, was in sheep-farming on the Canterbury plains, and soon the Inspector had to recognize that the confined area of Lyttelton, and the steep hills between it and the plains, dictated that Christchurch must soon outstrip it. Christchurch residents objected vigorously to having to climb over the hills to do banking, and the Lyttelton agent repeatedly stressed the need to forestall possible competition. In the end, rumours of the proposed entry into New Zealand of the Oriental Bank precipitated the opening in 1856 of a Union agency, supervised from Lyttelton until it became an independent branch in 1858.

The same well-founded rumours led to two further branches. The first colonists had arrived in Otago in 1848, but the early development of the settlement was slow, and the Union was reluctant to open. But after four years of struggling, the settlement began to grow rapidly, reaching a population of 3,800 by 1856, when the Union determined on a Dunedin branch to forestall the Oriental. Similarly, in 1858, an agency was opened at Napier (Hawke's Bay) and so flourished that, after only nine months, it was converted to a full branch. There was soon to be real competition from several other banks; the Union's reaction demonstrated how completely its doubts, only a few years earlier, of the wisdom of New Zealand business, had been dissipated.

The Union Bank had already survived special competition which had involved loss of its right of note issue. In 1847 the Colonial Office urged upon the New Zealand government that it should set up a Colonial Bank of Issue to monopolise note issue. Inspired by the Bank Act of 1844 this plan was welcome to Governor Grey, who was critical of the Union Bank, and who speedily secured local legislation to create the new bank. It was provided that the Union might continue to issue notes up to a limit set as the average of its circulation in the two years prior to July 1847, although this right might be terminated on twelve months' notice. The Colonial Bank of Issue was to issue notes, in return for coin only, which would be legal tender and also convertible on demand; the Bank was to hold a 25 per cent reserve, and all other funds were to be invested.

Some time elapsed before action was taken to establish the bank. The ordinance required Royal assent, and note forms had to be obtained from England, so that the bank did not open until June 1850. It could be said, therefore, that the Union had long notice; but it was also true that by then it had additional branches and its note issue had expanded. Representations by the Union to the Colonial Office had produced only advice to the New Zealand governor to raise the Bank of Issue's reserve ratio to one-third. Accordingly from 1850 the Union had to adjust itself to the new situation. Since the branch at Auckland, where the Bank of Issue was located (with a branch at Wellington), was relatively new, it was determined to withdraw all Auckland notes and maintain the permitted issue at other branches. Colonial Bank notes were freely accepted but not paid out, and all notes on hand at the close of business each day were presented for conversion. (The governor retorted by refusing Union notes in revenue payments.) Suspicion on the part of the public, readiness of the Union to pay gold, and the already extensive use of Union cheques for business payments, kept the Colonial Bank's issue small. It was no more than £887 in November 1851 although the following month it was nearly £4,000. The government accordingly removed the Union's competition by legislating to end all Union note issue from October 1852.

Thus protected, the Colonial issue grew to over £40,000 by early 1856. But the scheme was subject to increasing criticism. The reserve (raised to one-third) was held in coin; the surplus funds were all invested, at low rates, in British Consols. To the accusation that the note issue was held rigidly to an artificial level unrelated to the colony's needs, could be added the charge that it 'took money out of the country'. The modest return on English investments did not cover expenses, and by 1856 the local government was ready to yield to business pressure. An Act of that year provided for prompt winding up of the Colonial Bank and authorized resumption of the Union's issue. The Union, indeed, had the satisfaction of being employed by the government to withdraw the Colonial notes (the

Bank of Issue itself having closed in October). The government provided £15,000 in coin, and delivered £25,000 in debentures, to be sold progressively by the Union in Sydney. Some months were to pass before the Colonial issue was effectively ended, but for practical purposes, the Union had regained full note issue rights from 1857.

By that time, however, the Union knew it would have to face more serious competition. In April 1856 rumours of opening by the Oriental Bank were confirmed by the appearance in New Zealand of an officer, Stuart, to examine the field. It was because of a belief that Stuart had reported in favour of opening first in the Otago district that the Union established its Dunedin branch, but in fact the Oriental, properly, concentrated on Auckland and Wellington. In London the Union Board correctly foresaw that the Oriental would try to break into New Zealand business by offering interest on deposits, and urged the Inspector to avert this if possible. However, in beginning at Auckland in August 1857, the Oriental undercut the Union in exchange rates and offered fixed deposit interest, leaving the Union no alternative but to follow suit. The Union declined to compete in another type of business: unable to secure discount business of a normal type, the Oriental took twelve-months bills secured by mortgages, 'a system', wrote Kennedy from Auckland, 'unwise, unsafe, and in direct violation of every sound principle of banking'. Nevertheless, from August 1858 the Union was forced by loss of deposits to match the Oriental in paying current account interest.

The Union Board was alarmed by the evidence of 'reckless competition' and forebade all interest on current accounts, irrespective of what the Oriental might do. McMullen was directed to keep a close eye on New Zealand managers to ensure that they were not led into danger by the stress of competition, and from the Board's fears came the decision to appoint an assistant inspector specially responsible for supervising New Zealand branches.

The Oriental did not have matters all its own way. Deeply involved in Australia, it looked to New Zealand rather as a source of funds and of exchange profits, and its board was reluctant to spread too widely in ordinary banking in New Zealand. McMullen, having taken his rival's measure, was ready to fight back after he had failed to negotiate an agreement for the abolition of deposit interest.

> That they shall not get the exchange and deposit business without discounting freely I am determined, and I will rigidly adhere to the

> rule of affording banking facilities only to those who deal exclusively with us. It is therefore obviously to their interest to make the most of what business they do succeed in obtaining, and I cannot but think that a proper representation of the matter at headquarters would have the desired effect [i.e. agreement on deposit interest]. New Zealand cannot be compared to Australia; it is not in fact an open exchange market in which they can operate as they do here [Melbourne], and I can oblige them to do general banking business or none at all. It is therefore better for them to work *with* us.

The Oriental responded to the extent of an agreement on deposit interest (in November 1860), abolishing interest on current accounts and reducing the fixed deposit rate to 1 per cent. But already, after taking stock of the position, that bank had apparently decided to make a fight for it. Branches were opened in Dunedin and Invercargill, and one planned for Christchurch, and in appearance at least, the bank seemed to be taking up McMullen's challenge and preparing for unrestrained competition in all branches of banking and throughout the whole of New Zealand. It was, had McMullen known it, a bold front to cover and facilitate negotiations for the Oriental's complete withdrawal from New Zealand, a withdrawal which, however, did not mean the end of competition.

Early in 1861 the Union learned that the Oriental was abandoning the fight, and had offered its New Zealand business to the Australasia. These negotiations fell through, but the Bank of New South Wales agreed to purchase the Oriental's business, and, with great despatch, was ready to take over Oriental branches by June. McMullen, who had visited New Zealand the previous year, was taken by surprise, but promptly wrote to Raymond, the assistant inspector, in terms which have a wider interest, since they summarize the policy which had come to characterize the Union's operations generally.

> Your general policy should be as follows. There can be no doubt whatever that as a pastoral country New Zealand for its extent is the best in the Southern Hemisphere and the rapidity with which every available acre has been taken up for runs, as well as the immense number of sheep imported and still being imported from Australia, indicate that its wool producing power will be speedily availed of to the utmost while the large quantity of land purchased by settlers shows an intention to remain and gives New Zealand a character of permanence in its colonization which does not pertain to any other of our Australian Colonies. Its agriculture owing to its great distance from any important produce market and the raising of cattle for the same reason will on the other hand be limited to the requirements of its own population, or nearly so.

It therefore appears more desirable to invest our Capital in the legitimate development of the natural resources of the Country than in any other way, and a reasonable amount of accommodation to good Squatters need not be denied; money should not be advanced for the purchase of land or stations to remain a dead lock up, but pending the clip and secured thereon advances may be made when the parties are known to be safe and respectable. It will, however, be always preferable to make these advances through the Merchants who can, in cases where you deem it necessary to be thus protected, deposit with us the security obtained by them from the Squatters.

I do not for a moment intend that you should encourage this business without a limit—much must depend on your banking resources, and a great deal on the class of paper offered, but I do not desire, as in a late letter you seemed to imply, to restrict your operations in New Zealand to the amount of resources derived from that country if you find safe and profitable investment for a share of the Bank's capital—indeed I look to New Zealand as a quarter where henceforth a considerable portion of it may be very advantageously employed, and without wishing in any way to sanction, much less to encourage, a riskful business, if, in the course of time, you find that you can safely and legitimately invest even as much as £250,000, I will arrange to let you have it, but you must keep me fully and early advised of your requirements.

As to your dealings with the Commercial classes, I need add little to my previous communications. I would again, however, impress upon you the absolute necessity of insisting at all points, that no one shall have a discount account in our Books who does any business whatever with the Bank of New South Wales. Of course people who don't want to borrow will place money in one or both Banks as they please, but any borrowing customers you retain must do their business exclusively with the Union Bank—with parties of good character you will be liberal, where safe, but let no amount of competition induce you unduly to risk the Bank's money.

Scarcely had the Union digested news of the Bank of New South Wales's venture than it learned of the promotion of the Bank of New Zealand. This began operations in October 1861, and was to prove a particularly aggressive competitor, the more so as local support enabled it promptly to deprive the Union of government business. McMullen, who had not been much impressed by the Bank of New South Wales's move, was seriously concerned, and addressed a special circular letter to all New Zealand branches:

The advent of the new Bank of New Zealand will enable you to get rid of undesirable accounts, and thus enable you to meet more liberally the requirements of good customers, all of whom *must* confine their transactions exclusively to this Bank, according to present instructions. But your more particular attention will be required to prevent the New Bank from raising its Capital at our expense. It would be going too far to desire you to cease discounting for parties who take shares therein, nor do I wish in this or any other way to exhibit a hostile attitude towards them, but it is right to preclude the possibility of our money being taken to pay for their Stock and I have therefore to caution you against discounting a single Bill for any party, no matter who he or she may be, the proceeds of which you may have reason to suspect will be so applied. The New institution is entitled to whatever support independent parties throughout the Country may please to bestow upon it, but it is not entitled to any assistance, directly or indirectly, through us, and I confidently rely on your careful observance both of the letter and Spirit of these instructions.

The list of competitors was not yet ended; the Australasia was about to extend to New Zealand. Although the Court rejected the Oriental Bank offer, it appears to have stimulated their interest in New Zealand, and for a time, early in 1861, they entertained hopes of entering the field by linking up with a proposed bank in Auckland. Reading between the lines—for the records on this point are very sketchy—it may be surmised that the 'new bank' was an early version of the plan for the Bank of New Zealand, and that agreement with its aggressive promoters proved impossible. Certainly, a few months later, an agreement was concluded for the Union to act as the Australasia's agent in New Zealand, but by the end of 1862 the Australasia Court had determined on opening its own branches. Treasury consent for an increase in capital by £300,000—to £1,200,000—was obtained (lack of capital was the reason given for deferring the question in 1861) and Falconer was instructed to send McArthur to inaugurate New Zealand branches. McMullen of the Union was unimpressed: 'I foresee no very serious effects to us, nor very profitable results to them; tardiness has before now marred their prudence'. Prudent the Australasia certainly was. Falconer sent McArthur, but only to investigate, not to open branches. The Court itself, from London, was perturbed at the statistical evidence of the high level of bank loans in New Zealand and reports of the unrestrained competition that prevailed; it was insistent in its instructions that business should be cautiously developed, especially as there were London plans, following discovery of gold in Otago in 1861, for a Bank of Otago and a New Zealand Banking Corporation.

McArthur, however, speedily completed his mission, including securing premises at Auckland, Christchurch and Dunedin, together with a piece of land in Nelson. The die was cast and organization for opening went ahead. Some delay occurred because a proclamation was sought under the New Zealand Bank Paper Currency Act of 1856. This was thought necessary because a printing error in copies of the Australasia's Charter sent to New Zealand (105 degrees East for 155 degrees East) could have been held to exclude note issue in New Zealand, despite the supplementary charter of 1841; at least there was a debating point which made it inexpedient to rely solely on the clause in the Act giving full legal effect in New Zealand to bank charters. The first clause of the Act, however, empowered the governor, by proclamation, to permit any chartered bank to issue notes in New Zealand. The ready-made solution was neat, but entailed delay, so that it was not until January 1864 that the Australasia opened in Auckland, followed by Dunedin in February.

The years immediately preceding the discovery of gold in New Zealand in 1861 were, despite the Oriental's competition, a period of rapid Union growth. An Act of 1858 provided, for the first time, for publication of quarterly bank returns, and the first of these, for the March quarter of 1857, indicates how much the Bank's New Zealand business had grown since the 1842 figures quoted earlier. But the expansion of the next four years is equally noteworthy:

	Note Issue	Deposits	Coin	Advances
	£	£	£	£
March 1857	33,406	321,769	95,266	264,495
March 1861	105,595	619,352	149,291	641,208

The lower ratio of coin to notes-plus-deposits is partly explained by the fact that in 1857 all deposits were free of interest, while in 1861 half bore interest—the result of Oriental competition—and were accordingly not subject to payment on demand. Increase in note issue is exaggerated by the fact that in 1857 withdrawal of Colonial notes was incomplete, but even so, a quarter later, when most Colonial notes were paid, the Union issue was only half that of 1861. The really striking increase is in advances, an increase mainly due, directly or indirectly, to the pastoral exploitation of the South Island, especially on the Canterbury plains; Oriental competition may have liberalized Union lending, but that was a secondary factor, more than offset by the Oriental's own loans. To put the point another way: when the 1852 Constitution was adopted its elaborate structure was devised for a non-Maori population of 26,000; in 1861 the number was 109,000.

Union bank lending in New Zealand presented no great novelty, as compared with experience in Australia. Discount of trade bills; advances against exports secured by shipping documents; cash credits, commonly secured by mortgages, were normal business. Cash credits were, as in Australia, granted sparingly since they were regarded as difficult to control. Securities were adapted to the occasion. Thus the contractors for constructing Custom House Street in Auckland in 1859 obtained advances by giving a mortgage, and, as well, authority to the Bank to receive all progress payments made by the government. A firm of merchants secured a cash credit by offering a mortgage over real estate, a bill of sale over a large stock of wheat, and an insurance policy.

The lien on wool was introduced from Australia, but the principle was extended to cover whale oil and bone. By the Wool and Oil Securities Act of 1858 the sheep farmer or the whaler could give a preferable lien over his future output. There was implicit in this type of advance a dilemma which was to be difficult for many years to come. As in Australia, the leading merchants had come to perform many banking functions for their customers, holding deposits, making advances, honouring 'orders', and even issuing notes. (Dalgety's, for example, issued £1 notes in New Zealand in 1861.) From some points of view the Union found it preferable to provide the advances to the merchant which enabled him to carry the pastoralist, since the risk and the need for supervision were reduced, and at times managers were counselled to 'interpose a merchant'. But larger profits were offered by direct dealings with pastoralists, and there was a risk in providing some banking services for a farmer, while leaving the merchant in effective control; on the other hand the merchants themselves were major customers of the Bank, and attempts to eliminate them as financial middlemen could not be pressed too aggressively.

Branch managers repeatedly drew attention to the dependence of pastoralists on merchants, and the consequent restriction on bank business. The Napier manager, a few weeks after opening in 1858, wrote:

> I have no doubt that in the course of a year or two our principal business here will be advances against wool shipments hypothecated to the Bank. At the present season the settlers are pledged to their merchants in Wellington from whom they got liberal advances. Since the establishment of the branch here they are inclined to patronise the storekeeper and merchants here and get their advances through the Bank.

When the Oriental Bank appeared, the Union, it will be recalled, protected its position by refusing any business from a customer who did not do all his banking through the Union, but it was not possible to take this strong line against the well-established merchants, and a watchful eye had to be kept on the methods by which branch managers secured new customers. One of the mistakes of the Bank of New Zealand at its beginning was a too aggressive attempt to replace the merchants in finance of pastoralists. For the Union, the dilemma was to continue for many years, especially in Nelson and in Canterbury Province. (Some of its own directors were partners in London offices of merchants financing Canterbury sheep farmers.)

The period of the Oriental's invasion coincided with a development, for the Union, of government banking business. At the outset in 1840, the governmental structure set up was that of a typical Crown colony: a Governor, Executive Council, and a Legislative Council (in which the South Island was not represented until 1844), with headquarters at Auckland. Various moves for a measure of local representation and for responsible government produced a new constitution which became operative in 1854. The colony was divided into six 'provinces', Auckland, New Plymouth and Wellington in the North Island, and Nelson, Canterbury and Otago in the South. Each province had an elected Superintendent and Provincial Council, with responsibility for most local matters, including public works. For the colony as a whole there was a General Assembly, meeting at Auckland. In the early years government banking business arrangements remain obscure, but their extent was modest. The new and somewhat elaborate structure reflected a larger population with more extensive community needs, and in particular a growing need for roads, railways, and other construction.

Provincial Councils especially were to find it difficult to live within their incomes. The Union had at first hoped to confine its dealings to the central government, but this proved impossible. Provincial Councils served small communities and goodwill demanded that reasonable needs be met, especially once the Oriental entered the colony. One of the last acts of Grey as governor was in 1853 to commit the General Assembly, before it had come into existence, to use the Union for its banking needs. For its part the Union agreed to abandon its practice of daily presentation of Colonial Bank notes, and to transfer government funds between branches without charge; in return it became the government's banker. Soon it had to face a situation which became commonplace with the Provincial Councils: a request for temporary advances in anticipation of revenue, initially in 1855 £20,000, thereafter a recurrent event. The provincial pattern was again anticipated by the £500,000 loan which Henry Sewell, on behalf of the New Zealand government, negotiated in London late in 1857, the major part being required to discharge New Zealand Company debt and public debentures. The loan was guaranteed by the British government, and the Union was appointed to place bonds in the London market and transmit available proceeds to Auckland. All went well, except for the unfortunate fact that Kennedy in Auckland was not notified of the arrangement until March 1858, although an anxious New Zealand government, better informed, had been calling for funds since early February.

Similar arrangements followed for the provinces. Thus Canterbury secured short-term advances in 1859, and two years later negotiated an agreement by which the Union handled the bonds issued to finance the Lyttelton-Canterbury railway. Such arrangements were regarded with caution—normally the Inspector's assent was necessary—and London kept a watchful eye. 'Public accounts, although sometimes profitable, are often matter of annoyance, and not seldom a snare' was a repeated London view. Nevertheless, the loss of central and provincial government accounts to the Bank of New Zealand, after its creation in 1861, was greeted with some resentment, a feeling that years of generous treatment by the Bank merited some less summary dismissal.

Rapid development of business in new towns in a new colony meant that, in general, branch premises must be built, not rented. The Board, accepting the inevitable, readily acquiesced in purchase of sites, and less readily, in the expenditure necessary to build on them; the Australasia, when it finally entered New Zealand, was to comment with some emphasis on the expenditure the Union had incurred in building. Unfortunately there is no record of how much this was; the only figures for New Zealand premises are those of the quarterly returns, and these imply such conservative valuations (at most no more than a third of the cost of buildings only a few years old) that they are irrelevant. The Union Board itself found its New Zealand building problem 'perplexing'. That buildings must be provided was accepted, but the high costs were thought to be inflated by local managers having too much freedom to plan buildings. The Board decided to experiment with a 'model' building, choosing Dunedin as the site:

> We are still of opinion that if one building be erected at Dunedin as probably the place where it is most needed, and that the plan and

specifications are carefully gone into and approved of by you, and that you authorise tenders to be addressed to the Manager and submitted to the Inspector for sanction as to the cost, we may arrive at a model Bank, which if found in all respects suitable, may enable the Board to authorise you to proceed towards the erection of others, and probably of supplying portions of materials, furniture, &c., either from England, from tradesmen at other places, or in some degree from other Branches closed. This of course involves our sanction of one building where most required at present, but not more, until we see how this scheme works out. I must say I think £6,000 a very heavy expenditure for buildings in such recently established places; the acquisition of good building lots where still wanted, in eligible positions, and sufficiently large for future increase cannot I think be prudently delayed.

Reference has already been made to the creation of the office of Assistant Inspector for New Zealand. While this was part of the general reorganization of the Union Bank's system of control, dictated by rapid growth in Australia more than in New Zealand, it reflected awareness of special New Zealand problems. For the Inspector himself to visit New Zealand was desirable, but it entailed undue absence from the main business in Australia (in unfavourable weather the crossing of the Tasman Sea could take three weeks) and did not provide the constant supervision that the Board felt necessary, especially after the Oriental's invasion. The reversion to the policy of a single Inspector, McMullen, in 1859, was made the occasion for appointing an Assistant Inspector, to reside in Wellington, not then the political capital, but, being centrally located, the best base for inspection and supervision. For this post the choice fell on John Raymond who had been Wellington manager and was currently manager at Geelong. (He proved unfitted for more senior and responsible duties, at least according to McMullen's ruthless standards for supervision.) As an indication of the importance the Board attached to the post his salary was £1,400 a year, the other Assistant Inspector's being only £800.

The choice of Raymond illustrated the policy generally followed in appointing senior staff for early New Zealand branches: choosing those who had done well in Australia. Dictated as it was by need for care in staffing distant branches, the policy meant that early New Zealand branches were inaugurated and developed by some of the Union's best staff, several of whom later were to be general managers, and to this can be attributed much of the solid success achieved after twenty years in which the Bank had literally grown with the colony.

For junior staff, after the very earliest period, the obvious solution was local recruitment, and the constant complaint of managers was the inadequacy in number and the difficulty of persuading the Bank to pay salaries adequate to attract and keep really efficient staff. Typical is a letter of 1860 from the Christchurch manager:

> In concluding my record I think it well to draw your attention to the salaries paid to our Juniors here and in Lyttelton, which are far below what are paid by the Government, Merchants and Storekeepers and hence I find a very difficult matter to secure efficient hands, and when engaged in keeping them at the salaries now paid; I am aware that the salaries here are on a par with Wellington and possibly with the other New Zealand Branches, but you will, I am sure, have heard from various sources that the expenses of living in Canterbury are far beyond those of any other settlement; this may be supposed to fall equally heavily on all the staff, but it is obvious that the dearness of the common necessities of life falls with the greatest weight on those whose limited incomes afford no scope for retrenchment in other ways to meet the enhanced cost of what is absolutely indispensable:—I may mention that Mr Wakefield who recently left the Lyttelton Branch and Mr Spencer whose retirement from this Branch is reported in my letter of even date herewith, have both obtained situations at salaries commencing at £150 per annum, and guarantees that an increase to the extent of £200 per annum will be given at the end of 12 months:—I have already alluded on two occasions to the insufficiency of Mr Brandon's salary for the support of his family and I am sure you will see without any further remark of mine, how the facts I have stated affect him:—I have now only one other clerk Mr Joynte, with whom I am extremely satisfied, and who will at any time a vacancy occurs be quite competent to fill the post of Ledger Keeper, or Teller, he is in fact a clerk I cannot easily replace, and I would therefore ask your sanction to make such an addition to his salary as you think is warranted under the circumstances I have stated and that may prevent the risk of his seeking employment elsewhere at a more remunerative rate; I would further ask that the amount of £100 per annum which seems to be the maximum rate hitherto paid to clerks on entering may be increased so as to afford the chance of securing and keeping really good hands; it may appear to you that I have written somewhat strongly on this point but I am convinced it will be to the permanent interest of the establishment to follow with my recommendations in this instance for without regarding the great inconvenience to the remaining portion of the staff, by these constant retirements and changes, our customers are dissatisfied and annoyed by not receiving their passbooks regularly and our inability frequently to afford the attention necessary, and customary at Banking Institutions all over the world . . .

The writer, Joseph Palmer, later chief officer for New Zealand, did not stress one other major factor in securing good staff. These were pioneering communities, and bank officers could expect no more comforts and refinements in their work than they could enjoy in their private lives. The first agent at Lyttelton had, with his own hands, to line the inside of his office and bedroom with calico to keep out the dust that poured in on windy days. In the Maori 'wars' at the beginning of the 'sixties, the Auckland manager spoke of 'the frequent absence of some of our staff, who are compelled to attend drills, parades, etc., of the militia and volunteer forces'. Able young men who found zest in living a frontier life were apt to prefer more colourful and freer ways than those of clerking.

CHAPTER 10

EARLY YEARS OF THE LONG BOOM—1860-1875

THE thirty years, from 1860 to 1890, in Australia were a period of prolonged and rapid economic growth, unbroken by any major recession. There were minor setbacks. In 1866-67 there was mild recession, associated with the Overend–Gurney crisis in England, and the short-lived financial crisis in Queensland; there was a mild downturn in 1871, and others in 1878-79 and 1885-86. On each occasion unemployment was a misleadingly prominent feature of recession, since immigration was high over the whole period and total population increase rapid. But these *were* minor recessions, and the truer picture is of a long boom, a great period of economic growth not significantly interrupted until the end of the 'eighties.

A convenient measure of growth as a whole is national income. The estimates of gross national product by N. G. Butlin show:

	£m	£m (at 1900 prices)
1861	65.42	52.76
1870	86.15	81.43
1880	146.95	142.95
1890	215.55	201.64

Total output in real terms was multiplied by four in thirty years; or to put it another way, there was cumulative expansion at the rate of 5 per cent per year over the whole period. This was massive growth.

In the process of growth, the relative importance of different sectors changed. The pastoral industry, though it grew substantially, expanded less rapidly than total output. Its most rapid rate of growth, relatively, was in the years covered by the present chapter. Manufacturing, building construction, railways and other public utilities were, except in the early years, the most rapidly growing sectors.

The sustained level of investment to feed this expansion came both from within the Australian economy and from England. During the 'sixties net capital imports were negligible, but domestic investment was running at about ten per cent of national income; for the next twenty years capital inflow was at high and rising levels, financing more than half of total investment which amounted to 20 per cent of national income. Capital import was on both public and private account (colonial governments were voracious borrowers throughout the period), but most of it flowed through the banks, and its first impact is reflected in the sharp upward spurt of the figures of banks with London offices in the first years of the 'seventies. Much of it also came through mortgage companies with London offices or London affiliations. Public investment went heavily into railways, especially after the 'sixties, and into roads and water supply. The chief form of private investment was residential construction, with pastoral investment (in fencing, water conservation, etc.) as the other chief outlet.

The years of the long boom were exceedingly fertile in bank flotations, when it is remembered that the already established Australian pattern was branch banking on the English model, not American-type unit banking. Most of this enterprise was purely colonial. The first phase of the gold period had seen the Oriental Banking Corporation in 1851, and the English, Scottish and Australian Bank, and the London Chartered in 1852, with only one colonial bank, the Bank of Victoria in 1852. Thereafter English financial enterprise was directed to mortgage companies, not banks. In the years 1853 to 1888, no less than twenty-eight banks began operations, all of them colonial in origin; in those thirty-six years, the longest period without a new bank was five years.

Not only was this enterprise colonial; its source was predominantly Melbourne which promoted fourteen of these banks, compared with four from Sydney. The remaining ten were spread in a significant way: three from each of Brisbane and Adelaide, one each from Hobart, Launceston, Ballarat and Rockhampton. They represented the unsatisfied fringe areas where, even in high boom with easy credit conditions, the previously existing banks were not prepared to lower their standards of security so far as to meet all borrowers. Some of these banks in smaller centres pursued relatively cautious policies although, basking in the popularity due to local enterprise, they were expected to be more generous than banks with headquarters in London, Melbourne or Sydney; but most of them achieved immediately large business which, since it was done at prevailing rates of interest, is only explicable by assuming that they applied very charitable standards of creditworthiness, an assumption borne out by other plentiful evidence.

It is not surprising that the average life of banks formed in the long boom was not great. Of the twenty-eight banks formed during

1853-88, three failed outright before the 'nineties and eight more were taken over by other banks, normally as the only alternative to failure in the formal sense. Of the other seventeen, five failed finally in the 'nineties and seven others suspended payment and reconstructed at that time. Only six of the twenty-eight reached the end of the century without temporary or final failure, and several of these never recovered from the wounds they received in 1893. By contrast, of the eight trading banks operating in Australia in 1850, five—among them the Union and the Australasia—survived all storms; one, the Bank of Van Diemen's Land, failed before the 'nineties, one, the Bank of South Australia, was forced to accept absorption in 1892, and one reconstructed after 1893. To press the contrast closely in the case of any particular bank may be inaccurate, but the broad distinction is clear: many of the post-1850 banks were managed on optimistic policies, governed by an avid search for business without excessive concern for security, and could only survive while the boom lasted. Their good fortune, and that of their shareholders and depositors, was that the boom proved long. A number of Australian bankers of the second half of the nineteenth century lived out their careers in senior executive posts with high reputation for financial acumen, which rested on nothing more than facility in the easiest activity for a banker—refraining from saying no.

The period of the present chapter covers the opening phase of the long Australian boom up to the first impact of the revival of large-scale British investment in the early 'seventies. During this period new banks in the Australian colonies were:

1863	City Bank of Sydney
1863	Bank of Queensland
1864	Land Mortgage Bank of Victoria
1865	Bank of Adelaide
1865	Ballarat Banking Company
1866	Melbourne Banking Company
1866	Commercial Bank of Australia Limited (Melbourne)
1869	Mercantile Bank of Sydney
1872	Queensland National Bank Limited
1872	Provincial & Suburban Bank Limited (Melbourne)
1873	City of Melbourne Bank Limited
1873	Australian & European Bank Limited (Melbourne)

For the Australasia and the Union, the problems which the period posed were those of adjustment to fierce competition from lusty colonial competitors as well as other British banks; of maintaining and extending business, less by geographical expansion of branches than by growth at existing points; of learning new techniques of managing London funds, the ultimate regulator of credit policy when gold shipments declined, including, among other things, experimentation with British deposits as a cushion for fluctuations; of replanning control systems to fit the larger scale of business and the rapid transformation of speed of communication.

New Zealand, during these years to the mid-'seventies, presented many of the same developments as Australia. There were, however, two major differences. Primary production retained, and even increased, its dominant role in local production. More dramatically, in May 1861, Gabriel Read discovered gold at Gabriel's Gully in the Clutha River region of the South Island, touching off a succession of rushes to fields in that area, and, a couple of years later, on the west coast on the Grey River and around Hokitika. For ten years after 1861 gold exports were normally over £2,000,000 a year, over half the value of all exports. For the banks this meant, as in Australia in the previous decade, that gold-buying and export were major activities, while for the economy it reinforced booming expansion.

But in other ways the Australian picture, as it affected the banks, was reproduced in the other colony on a smaller scale. There were the same problems of government finance, and especially the desire of central and provincial governments to borrow in London; the capital needs of residential construction to house a rapidly growing population; difficulties of credit policy, especially in relation to pastoral borrowers, in the face of intense competition; and the difficulties and frustrations of adjustment to an enlarged group of competing banks.

New Zealand, like Australia, experienced a series of new banks. Following the 1861 flotation of the Bank of New Zealand, the next year saw the abortive New Zealand Banking Corporation, a Dunedin creation which was abandoned when the right of note issue was refused. The same year saw the Commercial Bank of New Zealand, which had little more success; promoted in London, it began New Zealand operations in 1864, but two years later was in liquidation. More successful was the Bank of Otago of 1863, the year the Australasia decided to enter New Zealand. This bank had a London head office, but was promoted in Dunedin and, until it was absorbed by the National Bank of New Zealand, had a wholly New Zealand business. The year 1864 saw the Bank of Auckland, a local project which collapsed after two years, and after a brief re-opening, finally closed in 1867. The National Bank of New Zealand was formed in London in 1872, and commenced business in New Zealand in the following year, taking over the Bank of Otago in 1874. Finally, in 1874, Dunedin was again the scene of a bank flotation, the Colonial Bank of New Zealand, with wholly colonial capital.

These various projects were designed to serve a small community, whose population in 1864 was only 172,000. Even though population reached 300,000 a decade later, these absolute numbers were small for the number of banks offering their services. Moreover, outside a handful of major towns, which were also seaports, population was scattered, and the number of centres which would support even a branch of one bank was limited. The main field of banking activity outside the main ports was, apart from gold-dealing, the pastoral industry in which the banks were competing with a number of pastoral and mortgage companies. The Union, the Bank of New South Wales, and the Bank of New Zealand were already well established, with branches at all the best points, even when the Australasia chose to enter.

Study of the available banking statistics for the years 1860-75 yields an apparent paradox. These years were the first half of a thirty-year long secular boom, and were characterised by intense competition among a growing number of banks. Examination of the quarterly returns for individual colonies yields the impression that the Australasia and the Union were almost everywhere losing ground in a relative sense; total figures for all colonies suggest that they were holding their places among the leaders. The clue to understanding their development during these years is that both impressions are correct—as far as they go.

In Queensland, figures at five-year intervals illustrate the trends of the detailed figures. (See overleaf.)

The story shown by these figures is plain enough. In note issue, deposits and advances, the Australasia had declined from leadership which, in 1860, the Union appeared to be challenging, to become last of a field of six; the Union had been rescued from a similar position by a late spurt in the last years of the period. Leadership had apparently passed to the Bank of New South Wales, hotly pursued by a purely local bank, not four years old, the Queensland National, which was profiting from the ill-will suffered by those banks operating during the crisis of 1866.

Queensland
December Quarter (£)

Note Issue	1860	1865	1870	1875
Australian Joint Stock Bank	12,465	49,930	53,387	85,326
Bank of Australasia	9,711	22,439	6,039	10,115
Bank of New South Wales .	13,436	40,135	50,332	107,439
Bank of Queensland	—	30,636	—	—
Commercial Banking Company of Sydney	—	15,269	18,949	21,593
Queensland National Bank	—	—	—	71,972
Union Bank of Australia ..	7,153	23,206	18,214	53,236
Deposits				
Australian Joint Stock Bank	56,710	148,744	202,436	451,285
Bank of Australasia	67,323	86,242	80,456	172,278
Bank of New South Wales	52,537	199,044	342,814	771,454
Bank of Queensland	—	113,417	—	—
Commercial Banking Company of Sydney	—	56,148	125,002	235,551
Queensland National Bank	—	—	—	528,982
Union Bank of Australia ..	110,347	167,317	172,848	546,350
Advances				
Australian Joint Stock Bank	69,237	425,776	260,663	591,426
Bank of Australasia	223,808	271,699	344,641	369,368
Bank of New South Wales	75,943	434,769	317,459	761,789
Bank of Queensland	—	383,148	—	—
Commercial Banking Company of Sydney	—	103,355	150,576	375,477
Queensland National Bank	—	—	—	703,981
Union Bank of Australia ..	121,872	384,462	233,431	649,605

The Overend–Gurney crisis of 1866 in London had mild repercussions in Australia, overshadowed by local crisis in Queensland, which it intensified. The new colony of Queensland, since its creation in 1859, had been launched on a developmental policy financed by borrowing which looked like a caricature of the similar, but more restrained, programmes of other colonies. The Union Bank held the government account and acted as agent for the placing of loans in London. Voluminous correspondence shows the Bank persistently protesting against the works finance of the government: plans for works (railways, roads, bridges, etc.) were made on the assumption that proceeds from a future loan would be forthcoming,

When the early New Zealand settlement at the mouth of the Hutt River (Petone) was moved after a short period to present-day Wellington, John Smith, manager of the Union Bank, sat on the safe as it was taken across the harbour, and was thereafter known as 'Jacky Box' Smith. This 1957 oil painting by Leonard Mitchell is in the Manners Street, Wellington, branch of Australia and New Zealand Bank.

Photograph: Horace K. Hall

The mural by Len Annois, member of R.W.S., in the Ballarat East branch, Victoria. of Australia and New Zealand Bank. The mural shows the goldmining period in symbolic figures set in pieces of granite and quartz. The female figure represents Fortune with a gold crystal looking towards a larger gold crystal in which are buildings representing the mining era and to the right the modern city. Above flies the Eureka Stockade Flag—the Southern Cross on a blue field. Behind the granite and quartz shapes are the Keilor Plain, Bacchus Marsh hills and Warrenheip. Mount Buninyong is under the Eureka Flag.'

even while a current loan was hanging fire or saleable only at a heavy discount. Long before crisis developed, the Bank was seeking ways of withdrawing from the business. Unknown to the Union, the Queensland government was impatient of the strictures on its policy, and offered the whole of its business to the Australasia; Falconer, after a careful scrutiny, firmly refused. He was influenced by recent unhappy experience of government accounts in Victoria, where a political crisis (for reasons not here relevant) led to a period in which the government sought to spend money without legislative authority, and to dragoon the five banks sharing the government account into honouring cheques in defiance of the local Audit Act. The government (incorrectly) selected Falconer as the initiator of joint resistance and showered him with abuse.

In early 1866 the position in Queensland was that a loan of £1,000,000, handled in London by the Union, had failed, and that Bank had made substantial advances against the dubious security of unsold bonds. Undeterred, the government planned a new loan of over £1,000,000, for its position was desperate. Large works were in progress, employing large numbers of migrants attracted to the colony by exuberant government propaganda. Since the Union held a large amount of unsold bonds and at last refused further advances, a new bank agent for the loan was sought and found, in Agra & Masterman's Bank. (This bank was employing the Sydney and Melbourne branches of the Oriental Bank to raise deposits for its business in India, and was not unwilling to try to break further into Australian business.) The Union, on the strength of this arrangement, agreed to advance £100,000 in Brisbane for current expenses, repayable from the new loan.

However, disaster struck almost immediately. The Overend–Gurney crisis burst in July, and amongst the casualties were Peto, Brassey & Betts, the most important construction contractors in Queensland, and Agra & Masterman's Bank. The Union, inevitably, but with unfortunate results in adverse publicity, treated its arrangement to advance £100,000 as cancelled.

The Queensland government sought the aid of the banks collectively, but they were insistent on drastic cuts in the extravagant public works, and increases in taxation; the government turned to other plans for emergency borrowing, by Treasury bills and inconvertible legal tender notes. These plans precipitated a political crisis and a change of government, in the course of which the Union incurred much unmerited abuse because a local director was an active opposition member, popularly credited with dictating Union policy to embarrass the government. In the event, the new government adopted the policy of Treasury bills, disposed of by public sale or used to settle major debts; and also the note issue plan, although the notes were now convertible into gold, and a large circulation was not achieved—average issue over three years was £31,000.

In the midst of all these troubles, the young local Bank of Queensland failed (it had been formed as recently as 1863), carrying with it a number of mortgage companies. For a time more serious financial troubles seemed imminent.

Once the crisis burst, the problems facing the banks in relation to the government were as serious as those of the government. In the short run only borrowing could meet the government's needs; no bank could, with any confidence, involve itself more deeply in the mess. It was perhaps inescapable that the banks in collective action should take a highly restrictive line, but their individual responses were more generous. The Australasia, for example, stayed its hand in a claim on the government for £76,000, due before the crisis broke, and subsequently accepted from Peto, Brassey & Betts payment of £51,000 in Treasury bills. Arrangements for settling this latter debt being dishonoured by the government, Falconer agreed to hold the bills until maturity and not to sell them. (The government was nervous of effects on its own sales.) McMullen, for his part, over a period, provided advances for wages on public works at the rate of £10,000 a week, and arranged the sale in Sydney of £150,000 of Treasury bills. In London the Union assisted in the disposal of the unsold portion of the 1864 loan, and of the loan which Agra & Masterman's Bank had been intended to handle; it was typical of the London attitude to colonial loans of the time that, despite the crisis in England and the events in Queensland, the first was readily disposed of at a price of 85, and, with some delay, the latter was placed at intervals at prices which reached 94 by April 1867. Queensland's crisis was virtually over.

This last loan was, incidentally, the occasion for intervention by the Committee of the London Stock Exchange in the methods of placing colonial loans. Practice had been to treat the government's minimum price as a close secret, revealed, only after the closing of tenders, by ceremonial opening of a sealed envelope. The Stock Exchange secured, as a condition of listing, advance publication of the minimum.

McMullen, for his part, had had enough. Though he drew London's attention later to the fact that, in the end, the Union incurred no losses on government business in Queensland, a year later he was manoeuvring to relinquish the account. 'I hate government accounts, and do not believe they are ever in the long run any real benefit to banks.'

The Queensland crisis diverted Australian public attention from the more widespread but milder impact of the Overend–Gurney crisis. That had coincided with the opening of wool sales in London, and it was some time before colonial fears of a wool slump were proved false; in various other ways repercussions of the crisis were transmitted to the colonies, but there, except in Queensland, they were cushioned by substantial increases in bank advances. Those of the Australasia during the critical three months (partly antedating the break in London) illustrate what happened.

Bank of Australasia—Advances—1866

	£'000 (middle of month)			
	May	June	July	August
Sydney	408	468	476	494
Melbourne	1,253	1,353	1,438	1,498
Brisbane	317	317	347	360
Adelaide	435	456	471	474
Elsewhere (largely New Zealand)	1,261	1,292	1,350	1,305
	3,674	3,886	4,082	4,131

August was the peak month of pressure, and by January, advances had fallen steadily and were almost back to the levels of the previous May.

South Australian banking figures seem to repeat the broad Queensland pattern of the relative decline of British banks, although there it was the Union which, in 1875, tailed a field of six. Again a colonial bank from another colony, the National Bank, from Victoria, had the largest figures, but was being challenged strongly by a local ten-year-old, the Bank of Adelaide. The Australasia was not much ahead of the Union, and even that relative position was qualified by the Union's rate of growth being faster. The special problems of the Bank of South Australia are discussed later.

Similar data for Tasmania again appear to conform to a pattern. There, the only competitors of the British banks were three with business confined to the island, and one of these, the Commercial

South Australia

Note Issue	1860 (£)	1865 (£)	1870 (£)	1875 (£)
Bank of Adelaide	—	—	24,463	58,965
Bank of Australasia	44,327	45,798	25,061	32,520
Bank of South Australia	85,780	103,732	52,150	93,898
English, Scottish & Australian Bank	—	30,063	26,906	65,316
National Bank of Australasia	88,105	142,379	73,291	151,690
Union Bank of Australia	20,110	18,540	10,050	16,944
Deposits				
Bank of Adelaide	—	—	155,958	478,132
Bank of Australasia	165,869	248,100	141,262	219,408
Bank of South Australia	273,139	388,320	291,403	541,523
English, Scottish & Australian Bank	—	95,888	119,017	480,616
National Bank of Australasia	153,021	552,459	373,546	856,471
Union Bank of Australia	97,671	283,385	115,492	186,397
Advances				
Bank of Adelaide	—	—	396,396	1,007,376
Bank of Australasia	249,702	380,466	226,347	370,828
Bank of South Australia	548,402	793,925	779,406	807,782
English, Scottish & Australian Bank	—	224,628	400,803	744,338
National Bank of Australasia	235,626	744,792	675,450	1,062,914
Union Bank of Australia	187,877	281,114	303,043	324,140

Note: Figures are for the latest period in each year which is not always the same for all banks. Close comparisons are therefore not justified.

Bank of Tasmania, was by 1875 clearly in first place. The Union and the Australasia had both suffered severe decline in advances, the Australasia to a mere twelve per cent of what they had been in 1860, when they had been comparable with those of the rest of the banks. On the other hand, both had, in the early 'seventies, secured substantial increase in deposits after suffering outright decline.

The Australasia's position in Tasmania caused much concern. The Union, alert to an opportunity, offered in 1864 to take over the

Tasmania

	(£)			
Note Issue	1860	1865	1870	1875
Bank of Australasia	22,576	15,652	13,709	12,002
Bank of Tasmania	10,444	5,915	4,659	4,555
Bank of Van Diemen's Land	36,118	22,363	18,215	26,628
Commercial Bank of Tasmania	26,615	17,967	22,352	37,866
Union Bank of Australia ..	30,486	22,570	22,194	24,185
Deposits				
Bank of Australasia	142,685	113,722	104,164	234,931
Bank of Tasmania	61,181	34,566	33,878	41,093
Bank of Van Diemen's Land	163,398	129,970	149,146	244,495
Commercial Bank of Tasmania	299,432	197,640	222,313	414,407
Union Bank of Australia ..	190,292	152,221	161,269	342,659
Advances				
Bank of Australasia	290,704	91,351	63,801	34,395
Bank of Tasmania	115,363	87,846	82,106	92,059
Bank of Van Diemen's Land	329,395	325,355	352,351	391,270
Commercial Bank of Tasmania	347,488	358,423	391,009	514,967
Union Bank of Australia ..	321,686	181,220	200,590	212,524

Note: Figures are for the latest period in each year which is not always the same for all banks. Close comparisons are therefore not justified.

Australasia's business there, and Falconer advised the Court to accept the offer, arguing 'that the resources of the Colony do not hold out the prospects of advancement, that the business there is always attended with more than the usual risk, and that the capital invested there could be more advantageously and safely employed in Victoria'. The directors, however, were unwilling, pointing out that in 1863 the Hobart branch profits had been nearly 11 per cent on capital employed, and those of Launceston almost 12 per cent, and that 'a permanent relinquishment of territory is prima facie an admission of weakness, and an act only to be adopted on the clearest ground of necessity'.

Falconer, in concert with McMullen, accordingly determined to reintroduce interest on deposits in Tasmania (2 per cent for three months, 4 per cent for twelve), less to attract business away from the local banks, than to hold deposits which were being lodged with other people in Melbourne. Matters, however, showed little improvement, and in 1869 the Court proposed to close the Hobart branch; McArthur, ever quick to score a debating point on London, pointed out that, since the Charter required a branch at the seat of government, closing Hobart would mean withdrawal from Tasmania, in reversal of the Court's 1864 decision; the matter was dropped.

Under criticism of continued decline in Tasmania, McArthur determined on a new policy in 1874: to start a rate war with the local banks which had consistently declined to join in any agreements. From 3 to 5 per cent was offered on deposits, while the discount rate for three-months bills was cut to 5 per cent, and the secured overdraft rate to 7 per cent, with a freedom to managers to concede one-half per cent to detach an account from a colonial bank. The Union, also in difficulty in Tasmania, agreed to participate, the agreement providing that neither bank would accept a customer from the other. McArthur wrote to Tasmanian managers:

> The local banks in Tasmania having on all occasions persistently declined to join in fixing terms of business, or to act in concert with us in any way, and having moreover always rendered themselves as antagonistic to us as possible, are not to be informed of our new terms of business.

When presently the local banks asked for an agreement on rates they were rebuffed, and the policy of aggressive competition was reaffirmed the following year. In explaining his policy to London, McArthur wrote:

> The effect of these rates cannot be serious upon so limited a business as ours, while the profits of the colonial institutions will suffer considerably by it, they having promptly followed suit, and although this action on their part may for a time avert the loss of accounts, it is more than probable that the inroads that will be made in their profits will lead to their winding up, or will impel them to again adopt higher rates, and thus, in either case a portion of their business will be transferred to this Bank.

These results were not immediately apparent (though the Bank of Van Diemen's Land did fail in 1891) and McArthur was presently excusing himself. Though he still forecast collapse of the local banks, he made much of their holding all the good commercial accounts, the hostility of Tasmanians to non-Tasmanian banks, the risky nature of available business, and local depression. Revival of

New South Wales

December Quarter (£)

Note Issue	1860	1865	1870	1875
Australian Joint Stock Bank	165,552	129,382	121,233	192,015
Bank of Australasia	77,150	36,083	32,918	51,303
Bank of New South Wales	297,785	217,955	240,907	368,411
City Bank	—	30,764	27,076	51,608
Commercial Banking Company of Sydney	178,362	181,151	185,161	345,868
English, Scottish & Australian Bank	28,877	23,413	24,169	27,878
London Chartered Bank ..	15,247	6,986	5,742	7,513
Mercantile Bank of Sydney	—	—	—	6,565
Oriental Bank	120,724	74,972	44,046	46,737
Union Bank of Australia ..	66,153	28,369	14,115	16,512
Deposits				
Australian Joint Stock Bank	657,616	757,164	707,506	1,579,856
Bank of Australasia	522,796	461,647	376,943	727,089
Bank of New South Wales	1,485,310	1,577,267	1,866,800	4,887,624
City Bank	—	269,191	368,872	732,460
Commercial Banking Company of Sydney	907,492	1,400,655	1,637,024	3,338,346
English, Scottish & Australian Bank	301,377	330,804	235,353	334,704
London Chartered Bank ..	77,184	65,979	157,956	228,399
Mercantile Bank of Sydney	—	—	—	494,732
Oriental Bank	662,054	639,303	491,719	775,334
Union Bank of Australia ..	550,181	325,088	265,826	552,348
Advances				
Australian Joint Stock Bank	829,411	1,120,971	967,745	1,614,331
Bank of Australasia	437,840	599,424	440,428	721,380
Bank of New South Wales	1,526,823	1,267,674	2,055,295	3,177,936
City Bank	—	508,894	601,284	863,565
Commercial Banking Company of Sydney	1,172,293	1,618,388	1,920,536	3,633,791
English, Scottish & Australian Bank	626,163	581,506	402,634	433,396
London Chartered Bank ..	206,811	224,266	339,392	276,419
Mercantile Bank of Sydney	—	—	—	634,097
Oriental Bank	563,108	809,590	789,052	835,322
Union Bank of Australia .	418,251	369,288	297,750	293,477

fortune in Tasmania was yet to come, except that McArthur did secure increased deposits available for use elsewhere; the Union's increase in deposits was much smaller.

Superficially the position of the Australasia and the Union in relation to colonial banks was little better in New South Wales. The Union, by 1875, had the third lowest note issue of the ten banks operating, and while it could claim seventh place in deposits, their absolute amount was virtually unchanged after fifteen years of boom; advances had fallen sharply at a time when its chief colonial competitors had doubled or trebled theirs, and its newest competitor, the Mercantile Bank of Sydney, had attained a figure for advances more than double that of the Union, in five years' trading.

The note issue figures, however, point to a development even more noticeable in Victoria. To a substantial degree the use of cheques was replacing the use of notes, and this, taken along with the successive introduction of note issue taxes by colonial governments, made note issue progressively less important. (The taxes were normally at two per cent per annum, and were intended as an administratively convenient alternative to stamp duty.) The Australasia and the Union both recognised that note issue no longer yielded much profit, and that the chief significance of maintaining an issue was that it was a dignified form of advertisement. The Australasia consequently allowed branches only a modest supply

Victoria

December Quarter (£)

Note Issue	1860	1865	1870	1875
Australian & European Bank	—	—	—	12,204
Bank of Australasia	332,627	228,012	194,598	157,485
Bank of Victoria	362,225	275,744	266,688	296,682
Bank of New South Wales .	260,284	183,393	144,432	168,797
City of Melbourne Bank ..	—	—	—	1,311
Colonial Bank	117,040	105,471	85,748	92,852
Commercial Bank of Australia	—	—	59,960	106,207
English, Scottish & Australian Bank	48,809	46,339	39,568	63,253
London Chartered Bank ..	167,631	112,713	125,121	140,416
National Bank of Australasia	95,786	119,854	130,902	160,147
Oriental Bank	231,617	95,851	74,072	85,625
Union Bank of Australia ..	218,255	151,809	91,704	97,634

Deposits	1860	1865	1870	1875
Australian & European Bank	—	—	—	25,190
Bank of Australasia	1,426,652	1,426,578	1,697,894	1,750,655
Bank of Victoria	1,237,878	1,737,085	2,178,006	2,983,605
Bank of New South Wales .	1,012,499	1,160,754	1,519,673	1,484,190
City of Melbourne Bank ..	—	—	—	75,023
Colonial Bank	826,664	878,929	951,931	1,011,446
Commercial Bank of Australia	—	—	324,581	835,197
English, Scottish & Australian Bank	295,627	329,799	297,747	629,582
London Chartered Bank ..	541,354	632,544	1,051,440	1,254,675
National Bank of Australasia	193,680	497,998	896,379	1,322,096
Oriental Bank	730,835	618,196	573,493	854,761
Union Bank of Australia ..	960,540	1,133,513	1,407,883	1,508,550
Advances				
Australian & European Bank				
Bank of Australasia	1,574,863	2,001,540	2,050,940	2,221,103
Bank of Victoria	1,612,700	2,114,323	2,501,322	3,148,281
Bank of New South Wales .	1,285,318	1,559,264	1,331,216	1,892,642
City of Melbourne Bank ..	—	—	—	140,735
Colonial Bank	964,357	1,315,240	1,284,271	1,347,937
Commercial Bank of Australia	—	—	469,032	1,073,190
English, Scottish & Australian Bank	319,654	584,108	490,890	892,508
London Chartered Bank ..	891,565	1,421,334	1,714,090	1,833,993
National Bank of Australasia	286,278	972,306	1,119,155	1,820,745
Oriental Bank	981,186	676,258	950,955	1,374,450
Union Bank of Australia .	1,301,929	1,439,516	1,563,037	2,037,195

of unused note forms and, from 1871, centralised control and recording of note issue in a 'note issue department' in Melbourne.

Only in Victoria was the general impression of a decline of British banks qualified. There the Australasia still held, in 1875, second place in both deposits and advances, and the Union third. But this is a qualification of the general impression. The largest deposits and advances were held by a colonial bank, the Bank of Victoria, which was far ahead. The most rapid rates of increase over the whole of the period were shown by another Victorian

New Zealand

December Quarter (£)

Note Issue	1860	1865	1870	1875
Bank of Auckland	—	9,114	—	—
Bank of Australasia	—	19,611	36,332	47,609
Bank of New South Wales .	—	154,173	105,040	93,875
Bank of New Zealand ..	—	346,758	274,448	439,570
Bank of Otago	—	25,127	34,039	—
Colonial Bank of New Zealand	—	—	—	43,297
Commercial Bank of New Zealand	—	7,855	—	—
National Bank of New Zealand	—	—	—	120,912
Oriental Bank Corporation	22,205	—	—	—
Union Bank of Australia ..	99,161	161,301	97,755	126,065
Deposits				
Bank of Auckland	—	30,056	—	—
Bank of Australasia	—	70,238	251,761	264,899
Bank of New South Wales .	—	603,127	611,099	573,058
Bank of New Zealand ..	—	1,128,159	1,230,307	3,517,391
Bank of Otago	—	107,448	117,241	—
Colonial Bank of New Zealand	—	—	—	248,486
Commercial Bank of New Zealand	—	43,652	—	—
National Bank of New Zealand	—	—	—	629,934
Oriental Bank Corporation	98,624	—	—	—
Union Bank of Australia .	552,766	731,873	719,690	974,638
Advances				
Bank of Auckland	—	78,848	—	—
Bank of Australasia	—	302,669	361,580	743,374
Bank of New South Wales	—	801,228	744,701	1,232,520
Bank of New Zealand . ..	—	1,687,521	2,354,947	4,416,515
Bank of Otago	—	404,315	378,548	—
Colonial Bank of New Zealand	—	—	—	495,878
Commercial Bank of New Zealand	—	99,798	—	—
National Bank of New Zealand	—	—	—	1,240,781
Oriental Bank Corporation	156,593	—	—	—
Union Bank of Australia .	631,212	875,670	890,685	1,315,759

institution, the National Bank, while strong challenges were coming from three other colonial banks.

Neither bank could feel happy about its New Zealand position. In 1860 the Union had had as its solitary competitor the Oriental Bank, far behind it in all forms of business. By 1875 it had to share the field with five other banks. One of these, the Bank of New Zealand, was far ahead, while two others, the New South Wales and the National Bank of New Zealand, were challenging the Union in its uneasy second place. For the Australasia the outlook was even more bleak. After twelve years' operation, its business was still on a small scale, and that scale was ahead only of that of the very new Colonial Bank of New Zealand, which, it seemed, must in a year or two thrust the Australasia to the bottom of the list, with a small share of all New Zealand business.

The separate impressions of the position in each colony were accurate enough, taken separately, but they were not the whole picture. A major point to be remembered is that no other banks were operating, as were the Australasia and the Union, over the whole field except Western Australia. The Bank of Victoria, Colonial Bank and Commercial Bank of Australia were confined to Victoria; the National to Victoria, South Australia and Western Australia. The Bank of New South Wales was not in Tasmania, Western Australia or South Australia; the Australian Joint Stock Bank was in New South Wales and Queensland. In all, there were twenty-three note-issuing banks operating in Australia and six in New Zealand in 1875, and of these, only the Bank of New South Wales and Bank of New Zealand had larger total business than the Australasia and the Union, and only the Commercial Banking Company of Sydney approached them; over the remainder of the great boom until the 'nineties, they were to retain their prominent places near the head of the lists.

Queensland, Tasmania and New Zealand were sore spots for the Australasia, as South Australia was for the Union, but global figures of deposits and advances indicate solid, if undramatic, progress through the period covered by this chapter, and, as well, the sustained equality between the two banks.

There was, however, more to the matter of competitive position than size; quality was important. As the number of competing banks grew, the bases on which customers exercised their preferences became important. Rates for deposits or advances were only to a limited extent a competitive weapon, being commonly, if not invariably or completely, fixed by agreement between the banks. To

Balance Sheet Figures

	Deposits £	Advances £
Bank of Australasia		
1860	2,301,212	2,986,774
1865	2,618,163	4,204,150
1870	2,953,179	4,370,209
1875	3,614,440	5,494,146
Union Bank of Australia		
1860	2,566,490	4,857,919
1865	3,155,830	4,813,165
1870	3,351,036	4,710,296
1875	4,505,257	6,174,206

attempt any summary account of agreements within this period is impossible. They were usually on a colony basis, were varied frequently and, in the fifteen years in question, their number was very large. They were often broken, clandestinely as well as openly, but were more often observed; in any case competition was fierce and any serious divergence in rates could not survive for long, even without agreements.

Directors in London generally preferred agreements, less, it appeared, as a restriction on competition than because they provided a simple automatic check on branch managers, to whom London was reluctant to accord discretion in rates. McMullen and McArthur, however, chafed under agreement restrictions, believing that with a free hand they could compete more effectively. There were special times, such as the general breakdown of agreements which occurred in 1872 and again in 1874, when the opportunity for an aggressive rate war yielded advantages to both banks. But it is doubtful if more than local and temporary advantage could have been gained by formal freedom. It was not the agreements but active competition which kept rates uniform.

One agreement, not concerned with rates, is worthy of mention: the establishment of the Melbourne Clearing House in 1867, on the initiative of McMullen. Practice had been to make settlements every Tuesday morning, clerks posting in cabs around the banks, carrying, said McMullen, up to £40,000 in gold at a time. McMullen's scheme, adopted unanimously, was for deposit of gold (in three safes distributed amongst separate banks) in agreed proportions, with settlement achieved by vouchers which formally transferred ownership of the gold.

Since rate competition and agreements both operated to minimise differences in deposit and advance rates, customers were influenced in their choice of a bank more by other factors: the standards of security demanded; the convenience of location of a particular branch; the general reputation of a bank; as well as more local matters such as a manager's personality. One marked preference was clearly attested. Colonial nationalism was a major factor in choice. Australasia and Union officers repeatedly referred to the colonial preference for colonial banks, references which might be written off as excuses if they were not supported by the quality of press and political comment, and more solidly, by the marked preferences shown by colonial governments in the allocation of business, and the cold figures of the bank returns. Colony by colony the figures show the same picture, of British banks losing business to colonial.

Yet throughout the period, the dividends of the Australasia and the Union compared favourably with those of their colonial rivals, pointing to the fact that whereas, with some exceptions, colonial banks concentrated on business in one colony or at most two, the Australasia and the Union were concentrating in another way, on good business in all the colonies. In the long boom deposits were to be had by banks prepared to open branches in small towns without assessing costs closely. The Australasia and the Union were, as appears later, very cautious in opening new branches. So too, advances could be expanded rapidly by a bank not too restrictive as to security or length of loan. Basically conservative, the Union and the Australasia were content to see much business taken up by their newer colonial competitors, business they did not want. The special problems of pastoral finance and control of lending as evolved by the two banks are discussed presently. No generalisation would be true of every colonial bank in the period, but it is true that many of them built up large business in deposits and advances, and did so rapidly, by being not merely brash but rash. They were, during the long boom from 1860 to 1890, living dangerously, and were very lucky that no major shock developed before the 'nineties; it is not too much to say that the bank disasters of 1893 could have occurred at any time after 1870.

One other major change in the conditions under which the Australasia and the Union operated should be specially mentioned. In March 1865, William Purdy, the London manager of the Bank of South Australia, wrote:

> The public were startled on 24th inst. by a telegram from Galle of the February mail, which will not be due in London until 12th prox. There has thus been news within one month from the Antipodes, and seeing that the telegram has been nine days in reaching England, there is reasonable ground for assuming that Australia will be brought within a yet shorter period of time. I have no great wish to see the telegraph wires used in banking matters except for intelligence of high and pressing import, for it is fertile in spreading bad news, but the opportunity is thus open if an indispensable necessity should at any time arise.

Purdy showed little prescience, for the cable which aroused his deprecatory comments was part of one of the most far-reaching changes in Australian (and other) commercial conditions of the time: the complete transformation of communications within the space of a few years.

Until the late 'fifties, communication within Australia was by coach or coastal steamer, or a combination of these; overseas mails went by sailing ship or (after 1852) an occasional sail-assisted steamer. The 'fifties had seen one major improvement, the 'overland route' between England and Australia, and the 'Brindisi letter' which it made possible (at a surcharge). A Brindisi letter went across Europe to Brindisi, by packet boat to Alexandria, overland to Suez and thence by sea, a saving of several weeks on what was still a long trip.

For Australia, and British banks operating in Australia, 1858 saw the beginning of an extraordinarily rapid change in these leisurely arrangements. That year, Sydney, Melbourne and Adelaide were all linked by electric telegraph; Brisbane was added in 1861; a cable across Bass Strait brought in Launceston and Hobart in 1869, although Perth had to wait until 1877.

Meanwhile Brindisi letters faced competition. A boat service from Wellington to Panama, with a road link across the isthmus, could at times reach England quicker than the 'overland route'. But it functioned only between 1866 and 1868 because 1869 saw the birth of the faster San Francisco letter, with direct sailings from Sydney and a rail link across the United States. Already, however, the message on which Purdy commented pointed to even faster communication. London was, by 1865, linked to Ceylon by cable, and in the years that followed, that cable was extended, first to Java, and then in 1872 to Darwin, where it joined the just-completed Darwin–Adelaide telegraph. The short space of fifteen years had transformed communication from coach and sailing ship to direct cable to England (and thence to other countries) and, within

Australia, telegraph between all capitals except Perth, and including many country towns. A few more years were to see a cable link from Sydney to New Zealand in 1876, and the telegraph to Perth in 1877.

The full effects on the operations of the British banks of these dramatic changes were long in unfolding. But their implications can be briefly illustrated. In 1866 when Agra & Masterman's Bank failed in London, it was urgently necessary for the Union to inform its manager in Brisbane, where the failed bank had acquired the government loan account. The best that could be done was to cable the Bank's agent in Galle (Ceylon) to have letters despatched by any ships leaving for Adelaide, Melbourne or Brisbane, directing the recipient to inform the Brisbane manager and the general manager of the failure. Twenty years later when the Oriental Bank was tottering, advance warning could be sent by a coded cable: 'recommend extreme caution Oriental Bank'. Until the 'seventies, as noted elsewhere in this chapter, the Australasia and the Union had to carry senior staff to provide for the risk of death or incapacity which could not be known in England for months. By contrast, when in May 1887, Parkes, then Superintendent of the Australasia, was fatally injured in a train smash when returning home one evening, London was notified, the Court held an emergency meeting, a successor was chosen and installed in authority by cable, all within twenty-four hours.

At a more routine level, the opening of the direct cable was the signal for offering bills of exchange payable on demand (since cabled advice could long precede arrival of the drafts). Indeed the Union completed all arrangements for such business in August 1872, two months before the cable was open. On the other hand there was greater reluctance to accept telegraphic transfer. Thus the Australasia Court in 1875 directed their New Zealand Inspector:

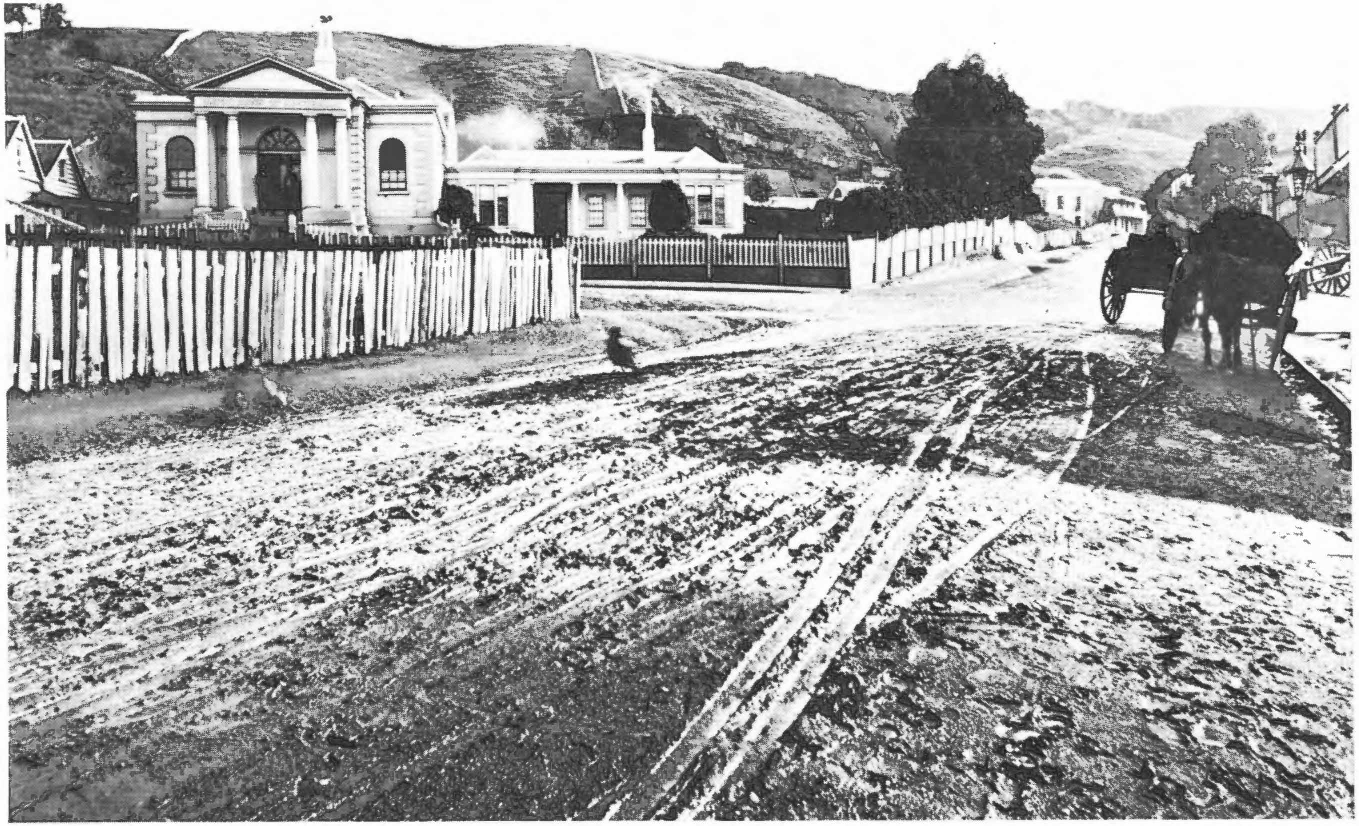
> It is essential that you should take [payment by cable] into early consideration and lay down if practicable some general rules for observance at the branches. You will see on reflection how desirable it is that the cable should not be employed for commercial payments; if this mode of payment was generally adopted by merchants and traders the Bank would lose the benefit of the time employed in the transmission of the draft, and the usance, and would be compelled to keep all its capital in London to meet payments. The only mode of preventing this, as we cannot refuse to make payments when required, is to place such a charge as will deter our customers from availing themselves generally of the facility. The necessity for this has been fully recognised in Victoria, and the rate for transmitting money by

> cable has been fixed there by agreement at $3\frac{1}{2}$ per cent. This is not too much, but it will be satisfactory if you can make a similar charge.

The Union, as well as joining in the agreed charge, treated cable transfer as a privilege available only to good customers. But familiarity, and competition, in time did their work; however unwelcome cable transfers were at the outset, they were soon accepted as routine. Other changes were the development of direct exchange with North America, where the Union and the Australasia were appointing more agents, although most exchange business with the United States was still mediated by bills on London. Another by-product of improved communication was the adoption of circular letters of credit, introduced by the Union in 1873.

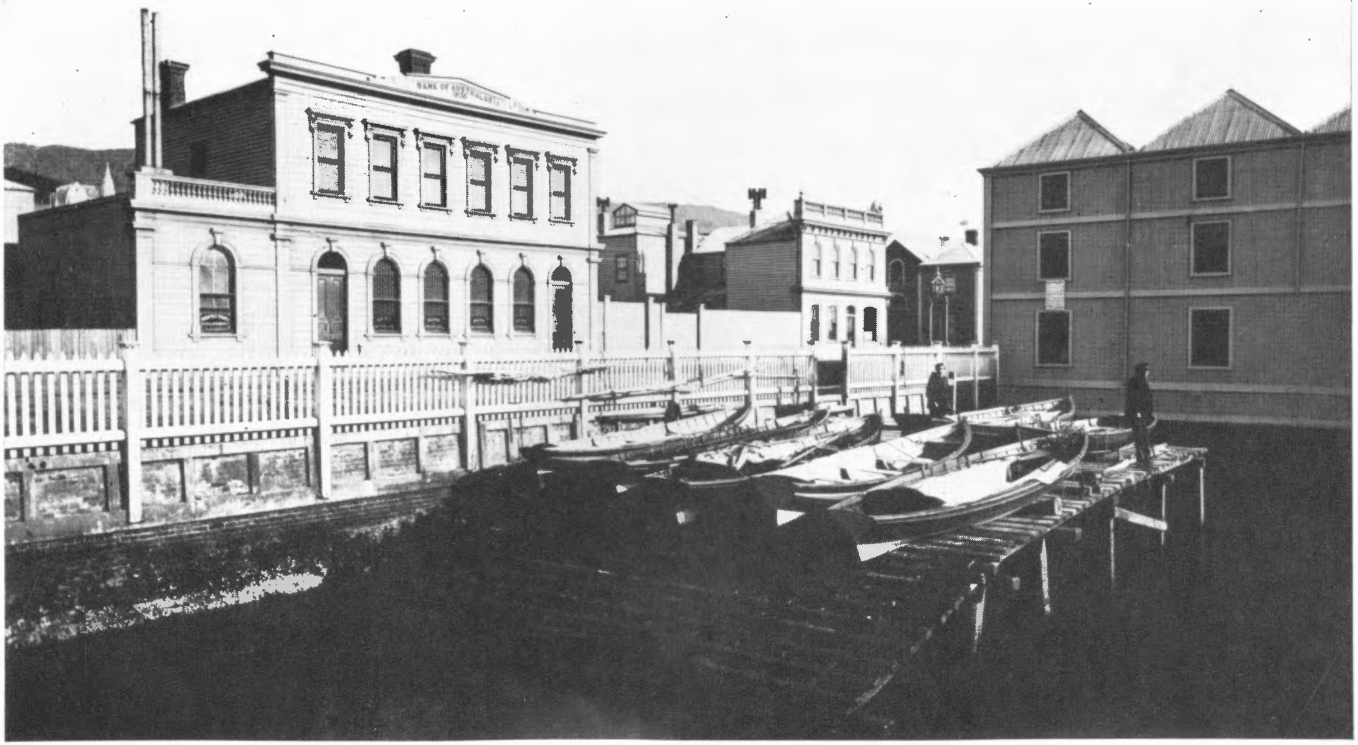
All three banks, the Union, the Australasia, and the South Australia, made changes in capital, in organisation and in control, in adapting themselves to the new conditions. All three increased capital in 1862-63, primarily as a cheaper way of expanding resources than paying colonial rates for deposits. The South Australia in 1862 secured Treasury consent under its Charter for an increase of £100,000 to £500,000 and the Australasia the following year obtained a like approval for an increase from £900,000 to £1,200,000. In both cases shares were offered first to existing shareholders, and readily taken up; since, under the Charter, they could only be issued at par, the Australasia Court wryly described the process as 'watering' capital. The Union, having no charter restrictions, was able to demand a handsome premium when it raised fresh capital in 1863. Nominal capital was raised by £250,000 to £1,250,000, and the £25 shares issued were offered at a premium of £20, the proceeds of which were to be distributed over various reserves. Most shareholders were glad to pay the premium, the open market bidding even higher for the shares not so taken.

The South Australia presently had to return to the Treasury because its Charter was approaching expiry. The Treasury was acquiescent when the formal application for renewal was sought, except that it ruled that nothing could be included inconsistent with the Companies Act of 1862, and that the colonial government must be consulted. The Bank was also reminded that, under the original charter, the consent of every shareholder was required, a condition which it needed several tedious months of correspondence to meet. South Australian government comment, sought in deference to the changed status of Australian colonies since the original charter, was largely irrelevant, and the new charter was issued with effect in



Alexander Turnbull Library

The Union Bank of Australia at the corner of Willis and Manners Streets, Wellington, New Zealand, 1871. This area is now the heart of the city's shopping centre.



Alexander Turnbull Library

Waterman's Steps, Customs House Quay, Wellington, 1874, and the offices of the Bank of Australasia. The notice on the building at right sets out the watermen's charges for ferrying passengers or freight.

1868. Besides continuing the corporation for a further twenty-one years, the new charter removed several restrictions: future charter applications needed only a four-fifths majority; local directors need not hold shares and so on. The other important change was that the directors bowed to the determination of the public who refused to use the clumsy title South Australian Banking Company, and reverted, now legally and formally, to the old title of Bank of South Australia.

When the British Limited Liability Act of 1862 extended the principle of limited liability, the Union considered changing its status from that of partnership to limited company, in part because at successive bank meetings since the earlier Act of 1858, some shareholders had urged this course. The Board was, however, cautious; limited liability, especially for a bank, was not yet generally well-regarded. The Treasury now took the view that registration under the 1862 Act was generally available, and was refusing all new royal charters for colonial banks, in deference to the touchiness of colonial legislatures. It seemed that the Union would need protection in the colonies as well as in England, but legal opinion, both in England and in Melbourne, was that the only incorporation with limited liability open to the Bank was in England. After the 1866 crisis the Board was advising its general manager: 'Beware of advances to limited liability companies. They cannot be depended upon in the event of suspension to discharge their liabilities by means of calls with anything like the despatch due to creditors. A greatly diminishing trust in limited liability companies is general.' The question of the Bank's own liability was allowed to rest, but revived in 1868. London business and legal opinion was divided as to how far a bank domiciled in England could acquire limited liability for colonial debts (or a colonial bank for English commitments). A lawsuit, involving the Bank, with all the attendant difficulties for an unincorporated body with many partners, a little over a year later, precipitated decision. The Board accepted advice that registering as a limited company under British legislation would not protect it in the colonies, but would invalidate the local acts which, in each colony, enabled it to act legally in the name of a public officer. The Bank sought and obtained in 1871 an English act giving it, without limitation of liability, power to take legal proceedings in Britain in the names of nominated officers; the Bank was to remain a partnership for another decade.

In the early eighteen seventies, both the Union and the South Australia sought to improve their colonial public relations by promoting colonial shareholding. The Union had not sought colonial shareholders for thirty years, and the only colonial share registers were at Sydney, Hobart and Launceston. There was a clear case for registers at Melbourne, Adelaide, Brisbane and Christchurch, and these were established in 1872 with a right for holders to transfer between colonial registers. The occasion was taken to permit transfers from the London register (but not to it) until 'colonial shares' should be one-quarter of the total. McMullen urged a right of re-transfer to London, without success, and pointed out that colonial investors would be discouraged by the unlimited liability; he secured an arrangement by which Bank branches could receive funds with which the Bank's brokers in London would buy shares for colonial residents.

The Bank of South Australia, when increasing capital in 1874 to £600,000, determined to have an Adelaide register to which one-quarter of shares might be transferred. Shareholders would not entertain a proposal that shares might be offered to English residents not yet shareholders, but were less restrictive in regard to colonial investors—presumably assuming that they would not be able to exercise any serious control at annual meetings.

In 1866, in their then mood of seeking business by adjusting themselves to customers, the Board of the Bank of South Australia seized an opportunity to secure a better site for its Adelaide headquarters in King William Street. The purchase for £10,000 was partly offset by the vendor taking the property owned by the Bank in Hindley Street for £4,000. Building, however, was deferred; 1866 was not a year for large capital expenditure and the Bank carried on business in North Terrace. Not until 1875 was a contract let for the King William Street building (for £33,276), but two years later the North Terrace premises were sold for £18,000, and the Bank moved in June 1878 to what the local board described as 'a handsome building superior for beauty and convenience to any edifice of a similar character in the southern hemisphere.'

With no such competitive purpose, in 1868 the Union made a change of London address. The existing lease being near its end, the Bank took the occasion to move nearer the centre of London banking. The Bank of Hindustan was in liquidation and its lease of 1 Bank Buildings, property of the Bank of England and opposite that institution, was bought by the Union which moved to its new quarters in April 1868. The move was the occasion for a change which suggests something of the life of a bank clerk of the period. Because the new premises were unsuitable for the purpose, the practice of the Bank providing lunch, which the clerks took in turn, was abandoned in favour of what had become general London banking practice: clerks were allowed to leave the Bank for half-an-hour for lunch.

Eight years later, the Australasia, having acquired the site on the corner of Collins and Queen Streets Melbourne which is now the chief Melbourne office of A.N.Z., was able to move into the 'handsome structure of white freestone' which, though enlarged, remains substantially the same today. But the rear doors have different locks. McArthur reported, with obvious self-satisfaction, in January 1876:

> Some difficulty was experienced in obtaining possession of the building in consequence of the obstructions of the contractor who desired to retain it in his own hands until a settlement of certain charges for extras which had been challenged by the architects had been adjusted. As however it was of manifest importance to us to be in possession as soon as possible, acting under competent advice, I effected an entrance by means of having the locks of one of the back doors picked.

Was the 'competent advice' as to his legal position, or the discovery of a reliable burglar?

More important for all three banks than impressive premises were changes in the organisation of senior executive posts in the colonies. In 1862 the Australasia Court, noting that branches were not inspected as frequently or as thoroughly as it would wish, created the office of 'General Inspector of Branches' to which they appointed D. C. McArthur, Melbourne manager and assistant superintendent. (The latter office was abolished.) This arrangement followed a visit by McArthur to London, and appears to have been urged by him; it involved him in frequent visits to all the main branches, and appears on the whole to have worked well, although his brief and cryptic reports, when read in the light of later events and London comment, suggest that McArthur was too good-natured and tolerant—perhaps too anxious to be liked—to be the instrument of an efficiency drive.

The Court in London continued to be dissatisfied with the progress of the Bank in the mid-'sixties, especially the poor results in New Zealand and Queensland and continued stagnation in Tasmania. They determined on two steps: to call Falconer to London for personal discussions, and to appoint as 'chief inspector' what the modern world would call an efficiency expert. These decisions were taken in July-August 1867, but within a few days, the Court received notice of Falconer's resignation because of ill-health. Accordingly plans were revised. McArthur was appointed

Superintendent, and Falconer was urged to come to London for conferences. The respect the Court had for Falconer is measured by the fact that, although his letter of resignation resentfully commented on Court criticisms of his management, these were brushed aside; in London he was elected to the Court, and until his death in 1877 was treated as a special adviser.

The 'efficiency expert' was already appointed, and proceeded to Melbourne promptly. He was E. S. Parkes, then aged 33, who had been employed in the London and Westminster Bank, and had been selected to rescue the Alliance Bank of London from difficulties. H. G. Turner, reminiscing in 1900, recalled Parkes' impact on the Melbourne office where Turner was then employed:

> He was a very able man of sound conservative views and great force of character. He was somewhat intolerant of what he considered our easy-going Colonial usages, and there was at the outset necessarily some friction in getting his views carried out.

The *Insurance and Banking Record,* in an obituary, wrote:

> Mr. Parkes was a strict disciplinarian, and has sometimes been regarded as acting harshly towards subordinates but, with him, duty to the Bank came first, and he always acted on that.

Friction there was, but it did not go deep. McArthur had occasion to complain that Parkes, on inspections, gave such precise instructions to managers as to leave them no discretion—or responsibility. But there was also an improvement in efficiency, and when the term of Parkes' appointment (five years) expired, the Court offered, and he accepted, a renewal for a like period. He was therefore available when increasing Court dissatisfaction with McArthur's management led in 1876 to the decision to retire him.

McArthur was clearly showing the signs of his age; he was then 66 and his retirement must have come soon in any case. The Court had been disappointed in his defeatist attitude to New Zealand, and on several occasions, with some reason, had overruled him on major decisions. They complained of his tenderness towards managers who did not conform to Bank policy. Thus Adelaide branch caused much concern in the late 'sixties and early 'seventies, mainly because the manager assessed borrowers on his admittedly wide personal knowledge, but with less regard to formal security. McArthur himself, as inspector of branches, had addressed gentle reproofs, but even as superintendent, had done no more. In 1871 Parkes had inspected the branch, in the course of which, as the London secretary noted, he allowed 'no consideration to interfere with the

Hocken Library

Rattray Street, Dunedin, New Zealand, 1862. A composite photograph by F. A. Coxhead taken from near Dowling Street. The Union Bank of Australia, High Street, is the two-storey building facing the vacant land behind the Crown Hotel. As a result of the new gold diggings ships were numerous and the jetty had been lengthened to accommodate them.

V. C. Browne, Esq., Dunedin

The Octagon, Dunedin. The area of the preceding photograph by Coxhead in 1862 is at top left. Princes Street is the thoroughfare running from the centre of the Octagon towards this area, Rattray Street being the third cross street along it. The Princes Street offices of Australia and New Zealand Bank are a two-storey building near the top of the picture, and another branch on the corner of Stuart Street (formerly the Union Bank's branch) is the three-storey building in the Octagon to the left of the monument.

performance of his duties', but since McArthur would not support him, little improvement resulted. McArthur was told of his responsibilities by the Court in no uncertain terms:

> The whole regulation of the colonial department of the Bank in which I include the rules of business and the selection of officers, primarily rests with the Superintendent and the directors feel it indispensable that he should clearly recognise and accept this responsibility. Their duty ought to be almost confined to criticism, and they do not allow themselves to doubt that so long as it is conveyed to you in terms which are consistent with due respect for your experience and long services, you will welcome it as a material assistance to you in the discharge of your duties. They deem it to be of the highest importance that you should, as far as possible, make interference on their part unnecessary. At times it has been unavoidable, but it has never been exercised in favour of relaxing rules in opposition to the advice of their Superintendent.

But, from the point of view of the Court, matters did not improve. In 1873 they were writing to point out to McArthur that he was accepting and forwarding to London, without comment or action, reports from managers which showed clearly that they were acting so as to be able to present good branch figures at the expense of the Bank's total profit. During the following months in 1873-74 he was sending to London casual reports on possible new branches, with little specific information, and asking London to decide whether to open. He was told sharply that the decision was with him. He was becoming increasingly irascible and intolerant of London criticism, and apt to couch a disagreement over policy in aggressive terms. London appreciated his services at their proper worth: he had been with the Bank from the outset and had served it well. But the time had come for a change, and the Court, knowing their masterful superintendent, acted forthrightly. McArthur was informed firmly that he retired on the 16th October 1876 and would be replaced by Parkes—unless he chose to go earlier. To soften the blow, he was invited to visit London at the Bank's expense, and subsequently he was appointed to the Melbourne local board. In his last years (he died in November 1887 and thus outlived Parkes) as superintendent and local director, he obviously enjoyed playing the role of grand old man of Australian banking and *bon viveur*. Despite his weakness in the most senior post, his had been a distinguished record and, to younger men in Melbourne in the 'seventies, he embodied the romantic glamour of the Bank's pioneering days. He had been one of the first staff when Sydney branch commenced, and had inaugurated the Bank's Victorian business; he had been chosen repeatedly as the man to send to trouble spots—to Tasmania, to Adelaide, to New Zealand. Despite these recurrent absences, Melbourne had been his headquarters for nearly forty years, and he had been closely associated with the life of the village which had become the financial centre of Australia. He was one of the foundation trustees of the Melbourne Botanic Gardens, helped to promote the Mechanics' Institute, assisted in forming the first Road Board, and was several times chairman of the Heidelberg Roads Trust; he was first chairman of the board of Austin Hospital, and had played in the first cricket match contested in Melbourne. As a pioneer branch manager, as an assistant superintendent, and a general inspector of branches, he had a fine record; it was his misfortune that he succeeded to the Superintendent's chair too late in life.

As the Union's New Zealand business grew McMullen felt the need for branches to be supervised by someone closer than Melbourne, and submitted to the Board a proposal for creating the post of Chief Officer in New Zealand. This officer, he believed, should be located in Christchurch, not Wellington, since although Wellington was the capital city, the Bank's main business was in the south and especially in the Canterbury plains. The Board accepted this view, and also approved McMullen's choice for the post of Joseph Palmer, then Christchurch manager. Palmer had already agreed with McMullen on the terms of appointment, making only one hesitant condition: he wanted two bedrooms 'however small' added to the residential part of the bank building to accommodate his 'large family growing up'; the appointment became effective in mid-1872.

The Australasia's New Zealand experience in the 'sixties had been less happy than the Union's. In 1870 a critical shareholders' meeting in London was told frankly by the chairman:

> We went there [New Zealand] but found unfortunately that the ground was occupied. We were just a little too late, and instead of making large profits which we should have done, if we had been there earlier, a considerable portion of our losses have been made in New Zealand and in Queensland.

Falconer sent McArthur, in his role of general inspector of branches, to New Zealand in 1865, but matters did not improve, and Falconer and the Court complained especially of excessive and rash lending by managers who paid insufficient regard to building up deposits. The Court accordingly directed McArthur to return to New Zealand and take full charge of all branches there for one year. McArthur, with some justice, protested; his duties took him all over the Australian colonies, and now he was being sent, for the third time in four years, to New Zealand. Nevertheless, early in 1867, he went, and established headquarters in Christchurch, taking that branch into his own direct control to recover overdue loans and obtain adequate security for others. Other branches received less attention, and McArthur had not completed his mission when he was notified that he would succeed Falconer as Superintendent.

To succeed McArthur in his temporary role in charge of New Zealand branches, Falconer sent Michael Hannaford. He had had ten years' service in London office when, in 1862, he was sent out to join Falconer's personal staff. At this time, 1867, he was destined to succeed McArthur as general inspector of branches, and had just received the rank of Assistant Inspector, with instructions to relieve the Auckland manager for a year. Now his duties were temporarily enlarged to include supervision of all New Zealand branches as well, and a general charge to explore new approaches to expansion of business.

Two years later this temporary role was replaced by a permanent post of Assistant Inspector, New Zealand. For the first time the Australasia's New Zealand section had a permanent formal head. But it did not yet have a clearly defined headquarters. Hannaford maintained his personal residence in Auckland during the nine months he held the appointment. He had been deeply involved in personal business ventures in Auckland, and responded to McArthur's objections by resigning. To replace him, McArthur sent E. H. Palmer, who established his headquarters at Wellington, which thereafter became the Bank's chief New Zealand office.

Other devices were tried to help the position. Despite the general disfavour into which local boards had fallen, McArthur, fresh from his own New Zealand experience, in 1868 successfully urged local boards at Wellington, Auckland and Nelson, to provide local knowledge, and to influence customers in favour of the Bank. At the same time he withdrew from all banking agreements in New Zealand, so that managers might be 'unfettered in respect to rates and terms of business'.

The restrictions of agreements had been a sore point with New Zealand managers. The Court was cautious in opening new branches, was insistent on security and firm limits on advances; while managers were bound to conform to standard advance and deposit rates, they felt they had no competitive pull, especially as the Bank of New Zealand was freely opening branches in small towns, and not all banks were observing agreed rates.

The breach of agreements was shortlived, and McArthur's prediction that managers would respond by excessive lending was partly realised. But he believed that the Bank's position in New Zealand required freedom of action on rates. In 1874 agreements collapsed again, mainly because the Bank of New Zealand set up an office in Melbourne (in 1873) and did not observe agreed rates there. McArthur had been writing to Palmer, now New Zealand Inspector, in terms such as these:

> The course which I must now request you to pursue, is to reduce all such advances as are either in excess, or do not contain some advantages beyond the mere interest accruing from them, with a view, in the first place, of bringing the general cash account within its allotment, and if you can, in accomplishing this, release capital which will enable you to take up [good] business . . . so much the better.

Now he wrote promptly:

> The opportunity has now presented itself for marking out a course for ourselves independently altogether of other institutions, and strenuous exertions must be used for placing this Bank on a footing with what its standing entitles it to, and one that will bear comparison with the other institutions in this field; and as a means to this end you will be pleased to consider yourself quite unfettered as to your future action.
>
> In regulating your terms of business it will be necessary for you to regard profit as a secondary consideration, as the Bank must be prepared to make some sacrifice in order to attain a proper position, and therefore your chief exertion must be directed to the acquisition of a deposit connection.
>
> You must, consequently, for the present be satisfied with a margin of one per cent between the maximum rate allowed on deposits and the minimum rate charged on advances.

He was soon somewhat disturbed to find that, in pursuit of these instructions, Palmer was paying 7 per cent for fixed deposits when the general rate was 6 per cent. Moreover freedom of action was shortlived, agreements being restored after a few months. McArthur's sweeping dismissal of profits had probably sprung from resentment of the summary rejection of his advice to the Court to close the Bank's New Zealand business. In a series of cables in August–September 1874, he urged that the Bank should sell its New Zealand business to the new Colonial Bank of New Zealand. In a letter he explained his views at length: the Court would not allocate sufficient capital to New Zealand, and would not raise London deposits specially for the purpose; there were too many banks in the colony, and local patriotism favoured the colonial ones; New Zealand's apparent prosperity was based on reckless public borrowing, and 'a great collapse' was inevitable. E. W. Morrah, Ballarat manager, whom he had sent to New Zealand for a special report, was independently of the same mind.

The Court, however, had other views. Resolving that they 'were determined not to withdraw', they decided that a more forceful and aggressive personality was required to direct New Zealand operations, and, shrewdly if a little unkindly, chose the man who had supported closing—Morrah.

During the first half of the 'sixties the Bank of South Australia seemed to be holding its own, despite the competition of the Australasia, the Union and the National, and the disinclination of the Australasia and the Union to open new branches in the colony seemed to justify the South Australia's confidence in itself. Balance sheet figures suggested solid steady advance.

	Note Issue	Deposits	Advances
	£	£	£
1861	94,386	255,102	858,639
1862	89,446	263,377	738,168
1863	76,691	287,225	840,546
1864	105,700	464,206	1,050,170
1865	104,459	582,183	1,682,505

The Board in London shared the self-satisfaction of the local board in Adelaide, and of the colonial manager, J. C. Dixon. A few new branches were opened, but with reluctance. Their opening was the occasion for a change in colonial organisation. Dixon, as manager primarily of the main branch at Adelaide, was also responsible for all colonial business. In 1863 his two functions were separated, he taking the title of colonial inspector and a separate Adelaide manager being appointed.

But unpleasant surprises were in store. Balance sheet figures were soon showing sharp decline, although the Bank was able to maintain a 10 per cent dividend (except for 8 per cent in the English crisis year of 1866).

Two main factors explain the changed situation. First was new competition, and second the excessively conservative policy pursued during the critical years 1863-5, which meant a permanent loss of

	Note Issue	Deposits	Advances
	£	£	£
1866	72,773	874,048	1,353,730
1867	67,854	506,443	997,496
1868	62,856	853,185	1,158,382
1869	58,922	641,907	1,163,223
1870	57,556	765,656	1,266,649

business and an uphill fight over later years to regain the Bank's former position.

In 1864 the English, Scottish and Australian Bank entered South Australia in active search for new business. Dixon's chief reaction was rather contemptuous criticism of the methods and standing of his new rival—which was soon taking good business away from him. More serious was the establishment in 1865 of the Bank of Adelaide, which was greeted enthusiastically by local residents. Dixon wasted time deploring the lack of loyalty of old customers who took shares and transferred their accounts, and in forecasting that the whole thing would be a flash in the pan, which the deserters would regret.

But Dixon was not wholly to blame. His London directors bound him down with directives which, if he had obeyed them fully, would have made him helpless. He was told in 1864 to avoid small loans (which apparently meant anything under £1,000):

> You have too many small borrowers on your books which must give much trouble and divert your mind from better business. They are unworthy of this Bank's consideration. There are many officials, professional men and country residents, who should never be encouraged in borrowing habits.

The same year, he was told more than once to confine his advances to the export field:

> The Court are more anxious than ever to keep the business of the Bank to the exports of the Colony, to avoid those local losses which seem ever to attend the internal trade, and to make all borrowing accounts yield adequate exchange.

He was censured for lending by overdraft (the form developed by the new competitors, which he was forced to match) and instructed that the good old method of discount of bills should predominate. It is perhaps worth noting that, in the middle of these strictures, the Bank became London agents of the Western Australian Bank with the comment to Dixon: 'They are a slow and antiquated race of bankers and when an enlargement of operations does arise out of the progress of the Colony they will have much to learn'.

Dixon had already learned much, and the criticisms indicate that he learned earlier than the Board. Some of his mistakes may be excused, for through this difficult period he suffered serious chronic illness and had to endure several 'frightful' surgical operations. Certainly some of his errors of judgment were inconsistent with his previous record, as when he antagonised the Colonial government by resisting unnecessarily and unsuccessfully, an Act of 1863, which did nothing more revolutionary than require all banks to provide for publication the kind of statistics which the Australasia and the South Australia already supplied under their charters.

In London the directors soon drew the obvious moral, and sent a series of new directives, such as one of 1866. (They may be given credit for not blaming Dixon for their own shortsightedness.)

> The Court have determined to meet the competition of other banks so far as rates are concerned and especially to enter upon a defensive policy for those deposits which either government or general public can make with the bank.
>
> This it is considered has not been resolved upon a day too early, for there have been large withdrawals of money such as the Savings Bank balances, and terms made elsewhere for the Government deposits in the colony, which have tended to doubtful results in every sense.
>
> It is evident that in not following other banks in these movements there was a retrograde policy at work of a most injurious character; the prestige of being the largest and most influential institution was passing away; the opportunity of conducting the exchanges with a high hand was diminishing, and there was an ever decreasing strength so far as loose capital was operating, with, of course, a proportionately increasing dependence on the Bank's capital.

At times, however, London relapsed into its old narrow views. Dixon, who was repeatedly urged to meet competition in rates, authorised to open competitive branches, and roundly told that the Bank must forget its old ways, must have been startled to be told in 1867:

> There is to be a close adherence to exchange business which is to be the test whether the customer is entitled to an overdraft or not. Of late there has been too great a departure from this rule, or when regarded, the customer has had credit far in excess of any equivalent exchanges he can supply to the Bank.

Nevertheless, on the whole, the Board supported Dixon in a new readiness to compete, although they had to suffer a series of shocks such as losing the London business of the South Australian government in 1869 (they had lost the Savings Bank account in 1865), and finding that in Adelaide they could keep only a share of government business there by paying high deposit rates.

Dixon was ageing and his health worsening. In 1869 he retired (and died a few months later); as his successor the Bank chose F. G. Smith, Melbourne manager of the Australasia. To Smith fell the task, during the next three years, of building up the Bank's business, including a more aggressive opening of new branches. But business and goodwill once lost were not easily regained, the more so as, during Smith's period of office, terms of business were narrowly circumscribed by agreements in which the Bank participated fully. Progress, in absolute terms, there was, but it was slow; in relative terms it was clear that the Bank's old pre-eminence was permanently lost.

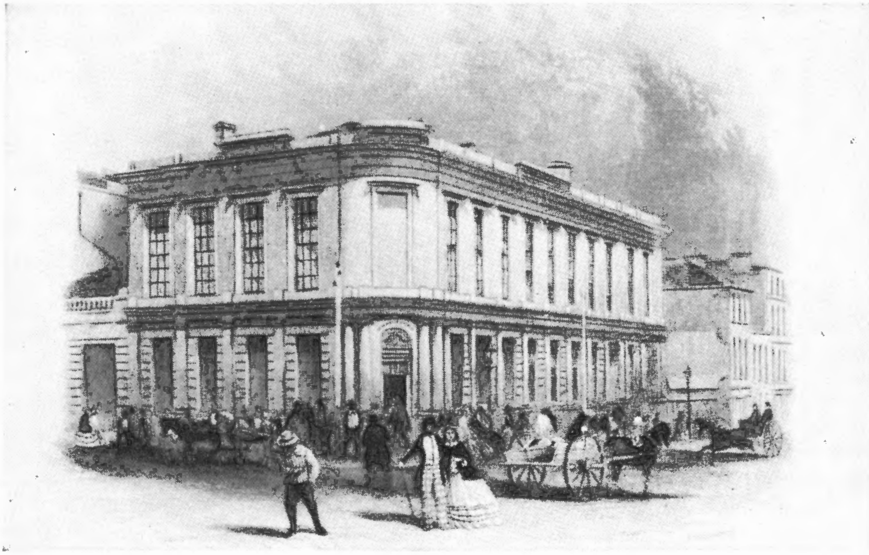
	Note Issue	Deposits	Advances
	£	£	£
1871	59,961	851,871	1,245,890
1872	73,027	916,759	1,446,196
1873	83,728	875,280	1,363,859
1874	91,008	928,597	1,414,341
1875	91,401	924,693	1,380,159

The figures extend beyond Smith's term of office, for in 1872 he resigned to become general manager of the National Bank of Australasia.

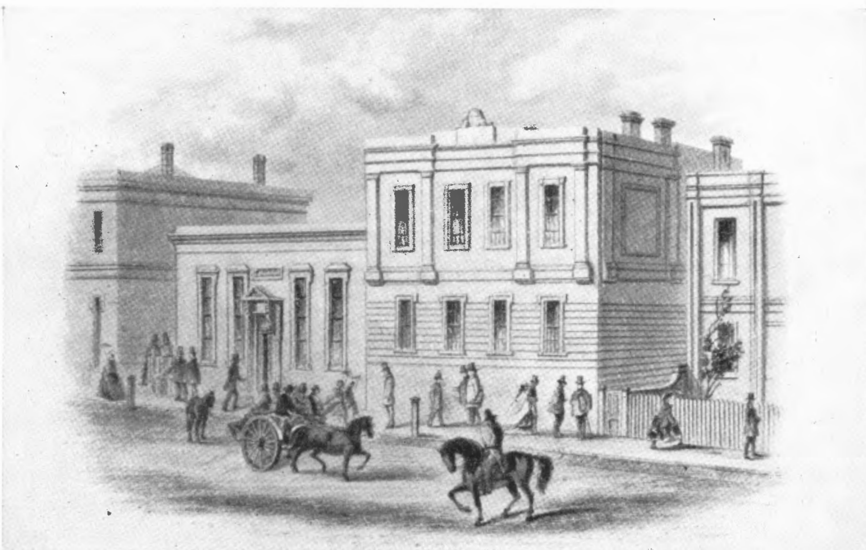
None of the three banks was anxious to meet competition during the 'sixties by opening new branches, but all were in due course forced to modify their position. McMullen was told by London in 1861:

> The directors still feel strongly that in many respects the numerical extension of our branches has been fraught with mischief; they have made the Bank as an institution more vulnerable in regard to runs, panics, etc.; have stimulated the competition among banks to occupy new fields; have greatly increased expenditure without commensurate returns of profit; and have led to further risks of losses from the effects alike of a scarcity of trustworthy officers, the consequent deficiency of sound management and efficient checks, and the impossibility of frequent inspection.

Gold-fields agencies were pointed out specially as unduly expensive. The Australasia Court's view was similar if less forthright. For both banks, gold-fields agencies were becoming of questionable value. Gold production in Victoria was steadily decreasing, and more competing banks meant progressively less gold available to the two banks, and higher prices. After the establishment of the Melbourne



Union Bank of Australia, south-east corner Collins and Queen Streets, Melbourne, 1860. (This and the lower engraving were published by Sands Kenny and Company, Melbourne, and are in the possession of Australia and New Zealand Bank.)



Bank of Australasia, Collins Street, Melbourne, 1862. The Bank moved into the two-storey building in 1840 and a new banking chamber (the single-storey building at left) was added in 1852. The portion of the two-storey building at right is the Wesleyan Parsonage which the Bank bought in 1858, and here in 1876 built the premises known as 77 Collins Street. The present Bank Place derives its name from the Australasia.

Surveyor General's Office, Queensland

Brisbane, Queensland, 1862. The Bank of Australasia on the north-west corner of Queen and Wharf Streets is the two-storey building with dark roof and two chimneys near the centre of the photograph. (The original glass negative is badly cracked.)

Mint in 1872, gold-dealing fell away to an unimportant place in the affairs of both.

The Union Board believed that interest on deposits was a better competitive weapon than the opening of new branches. McMullen was urged to be more aggressive in seeking deposits, and authorised in 1863 to receive, as well as deposits for fixed periods, deposits subject to short notice. He translated this into a directive to branches to raise deposit rates all round, and, somewhat dangerously, to take short-notice deposits at rates, below the fixed-deposit rate, arranged at the discretion of the individual manager. But he insisted to London that he foresaw no great accession to deposits from the policy.

London, however, remained reluctant to open new branches. The decision not to enter Western Australia was reaffirmed in 1863, and, somewhat later, petitions from merchants and planters in Fiji (1869) and New Caledonia (1874), for the opening of branches, were rejected. The reply in each case explained the refusal by saying that the Bank could only operate in a British colony. (Fiji was not yet one.)

Neither the Union nor the Australasia showed much interest in extension of South Australian branches during the 'sixties and 'seventies. After its small Port Adelaide branch was opened in 1854, virtually as an offshoot of the main Adelaide office, the Union opened at no other point in South Australia before 1888, when it commenced business at Port Pirie. The Australasia was a little more venturesome. Following its Kooringa (Burra) agency of 1860, it reached far afield in 1864 to Port Lincoln to tap the modest trade of Eyre Peninsula, but was then content (except for a minor agency at Aberdeen in 1874) to wait until 1881 for more serious expansion. Both banks found better prospects elsewhere than in South Australia, where the well-entrenched Bank of South Australia, the National Bank of Australasia, and the new and locally popular Bank of Adelaide (founded 1865) provided almost more banking service than was needed in centres outside Adelaide.

The Bank of South Australia, however, could not take such a passive attitude. Every new bank branch in a secondary port, a mining town, or a farming centre, was an attack on its old-established position. In the copper area at the base of Yorke Peninsula, Kadina was opened in 1862 and Moonta in 1865. The Board in London was cautious in approving such expansion, and rejected several 1865 proposals of the manager, such as Gambierton and Penola, but it did approve of the next phase: extension in the established districts relatively close to Adelaide. Port Victor was opened in 1865, with a sub-branch at Port Elliott four miles away (the manager remarked that the tramway connecting the two places made this possible). Tanunda, Mount Pleasant and Goolwa (all in 1866) and Strathalbyn in 1868 followed, all in proven farming areas close to Adelaide.

But caution reasserted itself in 1868, as other banks expanded. (The English, Scottish and Australian Bank had now entered the lists.) Development up the Murray and Darling rivers into Victoria and New South Wales had been discussed and was now rejected as too hazardous, and branches in the Northern Territory were not acceptable. The Board decided 'to confine its operations to its legitimate boundaries and to look to South Australia as a sufficiently large field for the employment of its resources'. Even within these boundaries there was retreat. The Port Elliott office was closed in 1868, followed in 1871 by Goolwa, Strathalbyn and Tanunda; all of these had been showing losses or negligible profits.

These were decisions in temporary depression, and as this lifted, the Bank passed to a more venturesome phase of branch expansion. Some branches opened in the 'seventies were extensions of existing business: Goolwa was reopened in 1873, the same year as Gawler branch acquired an agency at Farrell's Flat, and the Bank opened its first suburban branch at Norwood, in eastern Adelaide. Gumeracha and Palmer (1874) and Two Wells (1875) belong in the same group, within easy reach of Adelaide. But other openings took the Bank into new areas. Farmers were moving inland in the south-eastern corner of the colony, and the Bank occupied the territory at all key points. It was already in Robe, and to this quickly added Naracoorte (1872) Penola (1873) and Kingston on Lacepede Bay (1875). Meanwhile it had advanced northwards to Port Pirie and Gladstone in 1873, with an agency of the latter at Laura the following year. Manoora, midway between Adelaide and Port Pirie, was added in 1874, while 1876 saw the staking of a claim to Yorke Peninsula business at Maitland.

Both the Australasia and the Union were, until the mid-'seventies, equally reluctant to expand by way of new branches in Tasmania, Queensland and New South Wales, or to enter Western Australia. Expansion of business in these colonies came by way of growth at existing points. In Tasmania both banks were content to maintain Hobart and Launceston branches, though less content, as frequent grumblings showed, with their failure to progress. In Queensland the Australasia made a conservative move to Dalby in 1868, while the Union had already, in 1862, opened in Rockhampton in the vain hope of forestalling other banks. To both banks Queensland appeared to present undue risks and small chances of commensurate profits; pastoralists there were, at the time, regarded generally as excessively keen to borrow and unreliable customers, whose business was better left to the colonial banks and mortgage companies.

In New South Wales the Union even retreated. Its branches at Bathurst, Orange, and Goulburn were unable, in the face of competition, to make profits that justified the expenditure involved —Orange indeed was consistently making losses. Thus, for Bathurst, analysis showed:

	Interest Paid	Branch Profits
	£	£
1857-8	300	5,500
1858-9	2,000	4,600
1859-60	3,700	700

Under pressure from the Board, McMullen in 1862 negotiated the transfer of business at these points to the Commercial Banking Company of Sydney. Not until 1876 did the Union consider further New South Wales branches, and then it appeared that the 1862 agreement prevented re-entry into those towns. The Board's conviction that the Bank was missing opportunities in the 'Riverina' was met by opening that year at Deniliquin, Hay and Wagga. The Australasia's policy in New South Wales was similar, and it was not until 1875 that it resumed geographical expansion there by opening at Tamworth and Muswellbrook. The same year the Bank took a novel step which caused anxious discussion within the Bank, that of making the first start with what was to become a close network of suburban branches: Balmain and Newtown in Sydney, and Collingwood in Melbourne, together with 'Southern' and Royal Exchange branches in central Sydney. In part the new policy was aimed at building up deposits, but it was also dictated by realization that Sydney and Melbourne were reaching a size and dispersion which required the Bank to follow its customers, and not expect them to come to it.

The main growth in branches for both banks, however, was in Victoria and New Zealand. In the former, most new branches for both banks were in country towns which were clearly permanent legacies of declining gold-fields: for the Union, Jameson, Alexandra, Stawell, Clunes, Smythesdale, Rochester and Maryborough, and for the Australasia, Smythesdale, Bright, Rokewood, Elaine, Blackwood, Creswick. Some were on new fields, such as the Australasia's branch at Walhalla, and others, such as the same Bank's move to

Sale (1865) Rosedale, and Kingston (1873), represented advance into developing rural areas, with emphasis on the Latrobe valley and Gippsland.

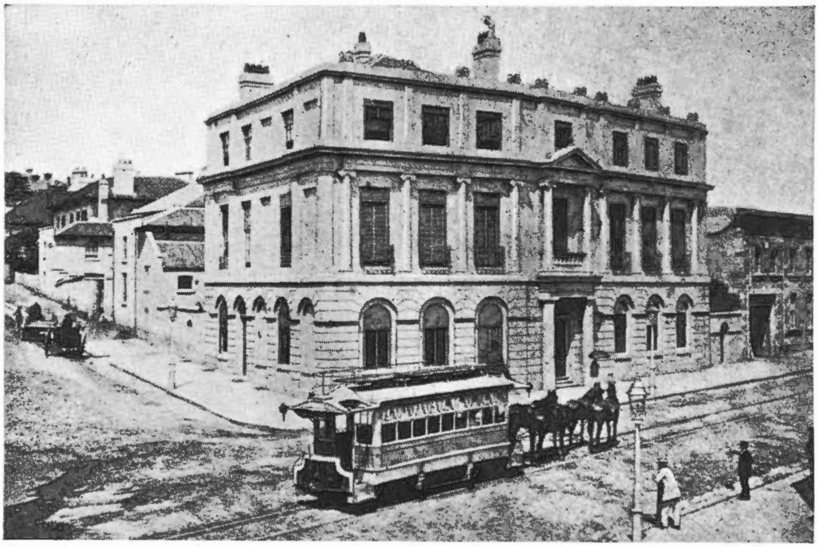
In New Zealand both banks had agencies, mostly transient, on the Otago and West Coast gold-fields, although the Australasia entered the colony too late for the former area. Decisions about more permanent branches disclosed the Union concentrating on the South while the Australasia developed in the North Island. The Union defended its early hold in the Canterbury plains against intruders by branches at Timaru (1867), Ashburton, Oamaru, and Rangiora (1873) and Waimate (1876); its only serious move in the north was at Gisborne in 1873. The Australasia, after its first main establishments in 1864, was content with Christchurch and Dunedin in the south (except for gold-fields bases centred on Hokitika). But in the north it moved shrewdly into the good pastoral areas, emphasising as usual the ports: Wanganui (1870); Napier and Waipawa (1874); Palmerston North, Marton and Masterton (1875).

New Zealand gold-fields agencies rarely yielded permanent branches for either the Australasia or the Union. Whether in the Otago area, on the Clutha River and its tributaries, or a little later, on the West Coast on and near the Grey River, or on the Thames field east of Auckland, the gold was generally scattered and the fields of short life, leaving permanent townships in few cases. Moreover, except in Otago, the Union was too late in the field, and everywhere the Australasia failed to develop major gold-fields business.

In Otago the Union opened a number of agencies, controlled from Dunedin: Queenstown, Arrow River (the small settlement of Arrow Town is its modern legacy), Dunstan, Tuapeka, Manuherikiri Island, and Hamiltons. In this area the Union was amongst the leaders; for 1864, for instance, its gold purchases amounted to nearly one-third of the total whereas the Australasia, with only one important agency at Dunstan, secured only a little over three per cent. Even the Union, however, was not in first place, which was taken by the Bank of New South Wales, followed by the Bank of New Zealand.

Most of these agencies were shortlived. By 1865 the Australasia's Dunedin manager was reporting gloomily on the severe contraction of business in general as gold output fell sharply. Meanwhile the West Coast fields were rising in importance and here the Union missed its chance. It was at the Buller River in 1863, Picton 1863-64, at Havelock and Deep Creek on the Wakamarino River in 1864, and at Hokitika in 1865. But the opportunity was approached cautiously,

Bank of Australasia, corner Queen and Wharf Streets, Brisbane, 1898. Parallel marks along centre of street are from recently-removed tracks for horse trams.



New South Wales Government Printer

Union Bank of Australia, Pitt and Hunter Streets, Sydney, 1861. These premises, which the Bank had built in 1847, were a feature of the neighbourhood and received special commendation in Fowles's *Sydney in 1848*. At this time most of the western side of Pitt Street between Hunter and Bridge Streets was vacant land through which the Tank Stream ran uncovered. (A photograph of the street at this period, including the Union Bank, is in the possession of Tyrrell's Pty. Ltd., Sydney.)

New South Wales Government Printer

Hunter Street, Sydney, 1912. The Union Bank is at the right (the building had been remodelled in 1908 and extended up Hunter Street). The building at left is the early premises of the *Sydney Morning Herald* which were rebuilt in 1929.

and both the Bank of New Zealand and the Bank of New South Wales forestalled the Union. Conditions were difficult in a rugged terrain with heavy rainfall and severe winter, and all the banks relied on itinerant dealers to buy gold from scattered claims. (Friday became established as buying day.) The Union found it difficult to secure staff, and the ones sent proved reluctant to face the hardships, and as a result the Bank secured only a small proportion of the gold. The Australasia fared even worse, for its decision to enter the area at Hokitika (which had become the main centre) in 1865, came when the fields were already contracting; extension of agencies at Ahaura, Greymouth and Stafford only reduced the profits. These, by 1872, were down to 4½d. an ounce at Stafford and a mere 2½d. at Greymouth. That year the Hokitika branch was closed, and the declining gold-fields agencies directed from faraway Christchurch. Fortunes on the Thames field—at its height in 1868-70—where both banks had agencies at Grahamstown and Shortland, were no better.

By 1875, however, both the Court and the Board accepted the inevitable conclusion that successful competition required greater initiative in opening new branches. That year the Union Board formally resolved: 'That the general manager be authorised to open branches throughout the Australasian colonies whenever a favourable opportunity for extending the Bank's business presents itself.' A few months earlier Australasia shareholders had been told:

> We no longer hold (it is idle to affirm it) the same prominence in the colonies that we once did. It is not that the business of the Bank has fallen off, or that it is managed with less ability than of yore, but rivals have sprung up, who have grown with the growth of the colonies until they compete on equal terms with our own institution. These banks have, many of them, an advantage over us which cannot be removed by any action of our own—they are local institutions, and the influences of interest, of friendship, and of association are all linked together in their support.

The conclusion that was drawn was that the Bank must actively extend operations, by new branches and otherwise. Shareholders meekly accepted notice that for some years dividends would not be allowed to rise, but a reserve fund would be created for expansion (and credited with its share of profits).

Until after the discovery of gold in Australia in 1851, finance of the pastoral industry had been a fairly simple matter. Apart from his sheep, the squatter needed little capital; simple equipment and Crown land, on some form of inexpensive leasehold or permissive occupancy, called for little beyond the working capital required primarily to maintain employees. The major part of this capital was provided, directly, by merchants who in turn were financed by the banks. Both merchants and banks shared in advances against wool exports, but the mortgage on sheep and lien on wool were mostly the province of the merchants.

After the 'fifties this picture was radically changed. Wool, almost abruptly, became an industry demanding substantial capital investment. In some measure this was the result of technological change. Prior to the 'fifties fencing was virtually unnecessary, and relatively light stocking meant that natural water supplies would serve. After 1860 fencing became increasingly essential. Labour shortage in the 'fifties may have forced recognition of the advantages of fencing boundaries and subdividing into paddocks, but it was those advantages, of reduced labour, higher carrying capacity, and, in a period when virtually all usable land was taken up, separation of different squatters' flocks, which produced the great extension of fencing. As drier lands were exploited and heavier flocks were carried, water conservation in the form of simple earth dams became another form of investment.

Of more immediate importance in demanding substantial capital outlay, was the fact that after 1860 the squatter was forced to become an owner, to replace his leasehold with freehold. From 1861, in all the Australian colonies, the official policy behind land legislation was to 'unlock the land', to promote arable farming by small holders in substantial replacement of sheepfarming squatters. The degree to which the policy was achieved was, except in South Australia, negligible; instead, the outcome was replacement of squatting leaseholds by nominal freeholds heavily burdened with debt.

Details vary from colony to colony, but New South Wales will serve to illustrate a picture which was repeated in its main lines elsewhere. Acts of 1861 authorised anyone, even children, to select a block of Crown land, up to 320 acres, regardless of squatting leases, which in future would be limited to at most five years. The selector paid one-quarter of the uniform price of one pound per acre, and, after one year's residence, payment over three years of the remaining purchase price, and the making of improvements worth one pound per acre, the land was his. The squatter, for his part, acquired a right to prior purchase of one twenty-fifth of his run and of certain improved areas, and ordinary sale by auction was retained. Anyone who acquired freehold land under the Acts was entitled to grazing rights over an area three times as large, rights which might, however, be lost by Crown sale of the land.

Squatters defended their positions by buying when they could, using dummy selectors to hold land for future purchase. Many selectors were mere blackmailers, many more were willing to be bought out after unsuccessful efforts at farming. A long and sorry story of fraud, evasion, and abandonment of farming, yielded, after twenty years, little of the avowed object of the legislation. In New South Wales, between 1861 and 1883, Crown land totalling twenty-nine million acres had been sold; land under crop had increased by less than half a million acres. In Victoria, between 1861 and 1881, the area under crop expanded by one million acres, but eighteen million acres of Crown land had been sold. In Queensland, despite ten successive land Acts, less than two per cent of the land alienated between 1860 and 1884 was cultivated. In all colonies, most of the relatively few selections which survived were devoted mainly to grazing not cultivation.

This vast change in pastoral land tenure, from leasehold to freehold, whether achieved honestly and openly or by fraud and evasion, required major capital outlay in land purchase. Added to the demands of technical change, it meant that for thirty years squatters were avid and often reckless borrowers. For the banks these developments presented two major problems of policy: how to control the level of their lending to squatters, and how to ensure adequate security.

Broadly the pastoralist had four types of asset over which security might be taken. There was his wool, the most attractive security from the point of view of the banks. Loans secured by liens over the growing wool, or advances, secured by shipping documents, against wool exports were well-established. The sheep themselves might be mortgaged, under legislation devised in the 'forties. Freehold land might be mortgaged, although the Australasia and the Union were more chary of this than the more adventurous colonial banks; in general the English banks preferred that land mortgages be left to the mortgage companies which multiplied after 1860. Finally there were Crown leases for that part of the squatter's run still so held; often it was by far the greater area, defended against selectors by purchasing areas containing the permanent water without which the leasehold was worthless.

These forms of security were clearly, in some ways, interrelated. A lien on wool could be defeated by a mortgage on the sheep; in Queensland, at least, it was held that an unregistered sheep mortgage took priority over a registered wool lien. It could become necessary, therefore, to take a mortgage on the sheep to prevent one being given to another lender, or to force disclosure of prior commitments. Foreclosure by a lender, who had taken an assignment of the squatter's lease, could jeopardise bank security based on sheep or wool. In any case, with squatters under heavy pressure to borrow, any bank willing to lend beyond fairly low limits would find it necessary in self-protection to include the run licence in the security.

The only fully effective way of doing this was to have the lease registered in the name of the bank, a practice which has led to the propagation of a hardy legend about bank ownership of pastoral property. Relatively few of the stations registered in bank names were properties foreclosed for debt. Predominantly these registrations indicated loans in which all was well. Foreclosure was a last resort for both the Australasia and the Union. Thus McArthur, in 1864, dolefully recorded unavoidable action to take possession of Queensland stations on which unsatisfactory loans had been carried for several years; the squatters concerned had reached such desperate straits that they were secretly selling cattle mortgaged to the Bank. 'There is thus,' wrote McArthur, 'the prospect of our having several stations thrown in our hands, a most deplorable alternative, for experience has shown the impossibility of the Bank advantageously managing such property .... Our policy is to realise as soon as possible, even at a price considered inadequate.' H. W. D. Saunders, Union manager in London, wrote in 1869 that station property 'ought never as a rule and as the basis of making an advance, to come into the Bank's possession; it is nothing short of the dedication of a commercial life that can grapple with all the difficulties inseparable from the working of stations, with all the liabilities and contingencies affecting them. Many experienced directors [of the Union] would prefer lending to a really undoubted customer without such security at all, if quite satisfied it remained unencumbered', (a condition which could not safely be presumed). Views such as these recur frequently in Union and Australasia correspondence, and the specific cases where possession could not be avoided indicate that it was avoided as long as possible, and followed promptly by sale, even at a loss.

Wherever possible both banks preferred to leave pastoral long term and mortgage lending to others, especially to the mortgage companies. A good example of what they regarded as a satisfactory arrangement is the relationship between the Union and the New Zealand Trust and Loan Company. From the time the latter was formed in 1863, the Union had intimate relations with it. The Trust Company gave the Union its banking business, and steered that of its clients in the same direction; for its part, the Union directed to the Trust Company all mortgage business, including mortgages on sheep. The two institutions worked very closely together; repeatedly, for instance, the Union undertook to pay interest due to the Company on a sheep mortgage in return for the Company's assent to the Union taking a lien on the wool.

More generally, both banks, but especially the Union, preferred to 'interpose a merchant' between bank and squatter. 'Our strict policy', said McMullen in 1867, 'is to advance through a merchant rather than direct to a squatter. The danger of direct advance is that the squatter may already be indebted to his merchant.' The Bank's Auckland manager described the same policy in operation there in 1861, by which the merchant took bills from the pastoralist, and lodged them with the Bank as security for his own borrowings, 'to which the only restrictions were: that the merchant did not offer any settler's paper for discount beyond the amount which could be retired out of the coming clip; that he agreed with the Bank for a limit in each case, depositing if necessary the collateral security held by the merchant, taken from the settler; such bills not to exceed four months' but a renewal not objected to if required, save in the case of an alteration for the worse in the position of either the settler or the merchant'.

The Australasia, while it did much business by the same sort of indirect advances, was more ready to extend into direct financing of squatters, and perhaps more sensitive to the competition in this field by the colonial banks. Consequently its records are more explicit on the problems of control. Some figures of 1865 suggest the Bank's heavy direct advances to squatters. London office made an analysis (in 1866) of advance accounts over £20,000. It is impossible to guess the distribution of smaller advances, but many of them must have been advances against wool. For the larger advances the results were: to traders, 56 accounts, total £1,178,614; to settlers, 33 accounts, total £722,600. Falconer was directed to impose limits on the amount of advances which a manager might grant without reference to Melbourne, but it was left to McArthur, when he succeeded Falconer, to evolve two rules for reconciling the pressure of competition and the need to limit pastoral commitments.

McArthur repeatedly insisted that excessive demands for formal security would only drive business elsewhere. Typical of his views is a letter of 1867:

> In my opinion the main reliance for safety in such advances is to be placed in the known character and means of the parties with whom we

deal; and my endeavour has been to get rid of all station accounts not coming under that description. The registers are, of course, always searched before making any such advance, and muster rolls of stock are produced, but an unregistered mortgage of prior date supersedes a registered lien .... There is no guarding against fraud, but the instances in which the Bank has suffered for the last twenty years have been wonderfully few .... I doubt the practical efficacy of any system that could be organised for periodical returns of stock on stations mortgaged, as our best and safest customers would not submit to periodical inspection by a professional agent even if a reliable competent person could be found for the duty, which is doubtful . . . . In any case it is evidently better to be satisfied with the owner's own reports; while on the other hand, dealing with an unscrupulous customer we could not depend on his report of numbers, and he could find means to prevent a reliable muster by an agent.

When London urged more precautions, he demurred. Suggestions for checks on wool shipments were dismissed.

I am convinced that were I to require that the certificates of either the warehouseman, the buyer, or the seller (as suggested by the Directors) should be furnished to the Bank, such a course would undoubtedly be regarded as a personal reflection on the parties concerned. And as this description of business is much coveted by the Banks on account of the advantages accruing from it through the exchange operations, I feel assured that any of our rivals would be glad to take up the business on conditions no more restrictive than those now in force with ourselves.

Any new or more stringent regulations, therefore, which we might seek to extract, would certainly be resisted by our own customers, and we may rest assured that the other Banks would not be slow to turn it to their own advantage.

I cannot therefore see how we are, without prejudice to our business, to avoid the risk I feel we must be prepared to take if we are unable to obtain security from the grantees of the credits in London.

We must, of course, continue to exercise here due caution in regard to the persons with whom we deal, though as a class those engaged in wool trade are respectable, and we have never yet found any difficulty in conducting their transactions.

The opinion that I expressed in my letter No. 1525 therefore, I still maintain, namely, that as the grantees in London of the credits reap the advantage, it is only reasonable that they should incur the risk attendant upon the operations and as the Directors appear to consider this unattainable, we must as I have stated be content to accept the risk as hitherto.

London's suggestion for an 'Inspector of Stations', of the type used by most colonial banks, was equally unacceptable to McArthur. In short, his first rule was: meet competition by requiring a minimum of formal security, but confine business to honest customers.

Such a principle, however, was not enough, for the honest men were still too numerous, the pressure on them to borrow for land purchase and development too heavy, and competing institutions—banks, pastoral and mortgage companies—too liberal. The second rule of McArthur's policy was, therefore, that where the borrower's assets were confined to pastoral property, the limit of advances to him should be the estimated value of his year's output. This principle McArthur again and again stressed to branch managers, and defended to London.

It implied, however, the provision of a squatter's working capital only, a serious restriction on the Bank's pastoral business. The assumption was that other institutions would provide long-term finance. In conditions of acute competition the rule could unduly hamper the Bank's business, and on a number of occasions, the Court urged greater liberality—an unusual position for the directors in relation to their general manager. For example McArthur was told in 1871:

> The improvement in the wool market, noticed in my letters No. 1751 and 1755, is still maintained as you will see from the broker's circulars; and as the clip of this year promises to be excellent both in quantity and quality, it may be safely anticipated that a great advance will take place in the value of stock and station properties, while a stimulus will be imparted to trade and business generally throughout the Colonies.
>
> Under these circumstances the Directors feel that a period has arrived when it is proper that the position and policy of the Bank should be reconsidered with the view of modifying in some degree the restrictive actions enjoined by them of late years in respect to station accounts and otherwise.
>
> Influenced by these views, but at the same time warned by experience, the Directors feel, that although some relaxation may now be sanctioned, it should be circumspect and gradual, and arise only out of a healthy and legitimate demand for banking accommodation. It is for you to judge of the practical conditions which should regulate any extension of Branch operations, but it is the desire of the Directors that they should not be extended by any general circulars, but only through cautious instructions to special Managers.
>
> In stating these views, however, I am to explain that the Directors do not contemplate any alteration of the existing policy in respect to New Zealand business, nor, I need scarcely add, in the regularity of the securities to be required for advances at all Branches. The general limit of the London office Cash Account is well known to you. At present there is a surplus in London available for Colonial requirements; but after this is absorbed, a further increase of means can be obtained only from a reduction of such accounts as are at present in

excess, from the realisation of old property or secured accounts, and from obtaining a larger share of Colonial deposits.

McArthur, on each occasion, was happy to respond by slackening the reins, but each time he refused to issue any positive directive to branch managers, thus indicating what was for him the key weakness in any system of control. Managers were, in small communities, too close to their customers and too keen to build up branch business, to be, of their own accord, restrictive, and too keenly aware of the aggressive competition of other banks to be unduly critical in their scrutiny of loan applications; McArthur, for his part, shrank from stern action against erring managers.

The Union's policy of 'interposing a merchant' minimised these problems of control, especially as advances to merchants were largely capital-city business, and therefore supervised by senior and experienced managers. But, as has been seen, even in this field the Union was led to adopt, in substance, McArthur's principle, by limiting advances to a merchant secured by a squatter's bills to the estimated value of one-year's output of that squatter. Moreover, the Union found it could not, with profit, avoid direct advances. In two areas especially, competition forced direct business. Queensland squatters of that time were regarded by both the Australasia and the Union as the most eager borrowers, the most difficult to control, and, it should be added, the least reliable; but this was an area where retention of business required direct advances. New Zealand pastoralists were also unwilling to be satisfied with merchant finance. The Christchurch manager of the Union, Joseph Palmer, wrote in 1866:

> It would appear that the chief aim of the Canterbury stockmaster is to work free of the merchant, and while with such ease liberal direct advances can be obtained from other banking institutions in the province, it would be simply throwing safe business in to their hands were this bank to refuse to grant such advances to careful and cautious flockmasters when amply secured by him or otherwise, while on the other hand these advances in great measure influence the disposal of the clip of wool, and their rejection would tend to destroy a most valuable portion of the business of the branch, the obtaining such large remittances for London office.

Other New Zealand managers—the one at Napier especially—pressed the same view, and McMullen conceded the need to retain business, imposing, however, the restriction that direct advances were not to exceed two-thirds of the value of a year's output.

During the 'sixties, under stress of competition, the banks became involved, not very willingly, in acting as London consignees for wool shipped by the customers, and responsible for arranging sale. Several forces produced this development. Woolgrowers in general claimed that pastoral companies, merchants, and London woolbrokers (often these three groups were the same firms or firms acting in virtual partnership) were levying excessive charges for handling exports and sale of wool. Whether the claim was justified or not (the Australasia chairman in 1873 said it was), it was a widespread complaint, and growers sought alternative outlets. For the banks, the direct profit in handling charges and commission was not important, since they employed brokers on their own behalf to whom the main part of payments went. More important was the security for advances to the squatter, arising from the bank receiving immediately the proceeds of sale. When squatters were commonly also indebted to the merchants who handled the sale (themselves or through affiliated firms or agents), a bank was apt to find that the merchant first discharged his own debt before paying the squatter. For the same reason, the offer of consignment to a bank had further attractions to the squatter himself, since it increased the security he could offer the bank. At times, too, there seem to have been elements of reprisal in the policy pursued by the banks: merchants and pastoral companies in any case competed with the banks in financing squatters, and when, as happened in this period, they also solicited squatters' deposits and used their wool export and sale activities as the basis for direct entry into the foreign exchange market in competition with the banks, it could appear to a bank as mere self-defence to agree to act as consignee. The obvious way to retain the deposit and exchange business of the squatter was to accept control of the wool from which that business derived.

At the same time there were restraints on bank action. These were more effective in the case of the English banks than for the colonials which were less conservative, more aggressive, and readier to become deeply involved in pastoral finance. Accepting consignments could mean accepting responsibility for completely financing the squatter, which the more conservative bankers avoided. Such action would normally mean loss of the bank's business with the merchants and brokers involved. And it was, of course, a non-banking activity for which the banks were not equipped and which they would have preferred not to undertake.

The Australasia was early in the field, from 1863, and remained in it, although the business was deliberately restricted. The Union, also in 1863, the year in which consignee business was first taken up by a number of banks, refused to follow, and maintained this attitude for eight years. There was, in its case, an additional and potent restraint: its London board included representatives of several woolbroking firms, notably Dalgety's, and a valuable part of its business both in Australia and New Zealand came from these connections.

By 1869 the inroads of the banks on the brokers' business provoked concerted protests, and an active newspaper campaign both in London and the colonies; the Union willingly agreed to its branches giving publicity to the case against banks being consignees. At one stage, in 1869, agreement was almost reached in Melbourne for all banks to withdraw, but the refusal of two colonial banks left each to pursue its own policy. The Australasia found a formula: its managers were instructed that consignments could be accepted from the Bank's regular customers only, and then only if the customer sought the service, with the proviso that in case of necessity a manager might seek a consignment to settle an overdue debt. This policy seems to have been followed, for in 1872, of all the wool against which the Bank had made advances, only five per cent was directly consigned to the Bank.

The Union found itself driven to qualify its earlier position. In 1871 a Board minute roundly declared:

> That the General Manager be informed that the Board are opposed to the practice of banks taking consignments of wool, and are not prepared to sanction it, because it is at variance with the legitimate and proper business of the Bank. That they consider that woolgrowers will ultimately find it to their own interest to retain for their shipments the attention, experience, and judgment of mercantile houses, and that the Board trust that the customers of this Bank will not press it to undertake a business which, for the reasons stated, they regard as objectionable in principle and unwise in practice.

But this resolution was transmitted to McMullen with a commentary which authorised the taking of consignments if customers were pressing, and always if necessary to retain an account. This broad policy, of disapproving the business but doing it nevertheless, was reaffirmed in 1878, and spiritedly sustained in the 'eighties against the heavy attack of some of its best merchant customers—indeed on that later occasion the Bank secured a pact by which, in return for refusing consignments from clients of its own merchant customers, it was guaranteed that those merchants would not deal in foreign exchange for a Union customer. Wool consignments may have been offensive to orthodox bankers, but as fringe business, they were too valuable as protection against non-bank competitors to be abandoned, and unavoidable as a self-defence against the aggressive unorthodoxy of some colonial banks.

During the eighteen thirties London deposits, for investment in the colonies, had been taken by the Derwent Bank, with ultimate results which were unfortunate. Revival of the practice in the mid-'sixties was due to the initiative of the Australasia and the Union, under the spur of intense competition in the colonies for deposits there. Hesitant and tentative as the first moves were, they evolved into a policy of using London deposits to offset short-term variations in London funds, not, primarily, as a source of expansion of colonial business. The picture was very different in the 'eighties, when most Australian banks were avidly seeking British deposits for the primary purpose of expanding advances in the colonies.

The first definite proposal would seem to be that of McMullen, who in 1863 urged the Union Board to sanction the taking of London deposits; but the Board warily 'deferred' decision. A year later the Australasia took the step. This time the initiative was London's; the Court originally contemplated raising substantial sums as a means of expanding colonial loans. Since capital issued could not be increased except by a supplemental charter, British deposits were, after legal advice, seen as an alternative. The decisions of June 1864 were consistent with this view: deposits of £500 or more were invited by advertisement, for one year or longer at 5 per cent, and the offer was notified to all the Bank's agents, insurance companies and other likely sources, with an assurance of one-quarter per cent commission to those introducing depositors. Provisionally the target was set at £300,000.

These terms, particularly the short period, proved insufficiently attractive, and by the end of the year, the Bank was soliciting one-year deposits as low as £100, and for £500 deposits, offered 5½ per cent for two years and 6 per cent for three years. The response was immediate; whereas only £20,000 had been received in the preceding six months, £34,000 was now offered in two, all of it for three years, and the amount steadily grew, reaching the target of £300,000 by May 1866. There was thus demonstrated early what was true for the rest of the century: the British depositor was not much interested in short periods, but wanted a certain rate of interest for three years or more.

The Union followed this lead, but in no haste, delaying decision until June 1865, and then offering only 4 per cent for one-year deposits—itself an indication that colonial investment was not the primary purpose. However, few depositors were attracted, and nine months later the Union felt impelled to match the Australasia's terms when it found that its own customers were being induced to transfer to the rival. The Bank of South Australia was also moved to action. Technically this bank was in the field first, for in 1863, and possibly earlier, its announced terms of business included 'money received on deposit in London for withdrawal at seven days' notice, interest being allowed at one per cent below the Bank of England rate of discount. Higher rates of interest given under special agreement as to withdrawal of deposits'. But it does not seem that any substantial deposits were received, and since these terms were those of the London banks, the clause probably represents not deliberate policy but simple copying. Certainly, on renewal of the Bank's charter in 1866, special power was included to take deposits in London and the published terms altered to 'the current rate being allowed for amounts subject to short notices of withdrawal, and special agreements entered into for deposits made for long periods'.

At first both the Australasia and the Union were somewhat uncertain of their purpose in taking deposits. Initially the Australasia proceeded cautiously by setting successive maximum limits, by reducing interest when deposits were growing (they were, for instance, offering 4 per cent for two years and 5 per cent for three in April 1867) and by insisting to McArthur that London deposits were not to be regarded as a normal means of expanding colonial lending. The Union initially was even more definite. McMullen was told that London deposits were to be regarded by him as a safety valve for 'an unexpected emergency', and was given an elementary lecture on the theme that, since three-year London deposits were available for at most two and a half years in the colonies, they could not normally be a profitable source of colonial lending. Nevertheless, somewhat inconsistently, the Board in April 1867 increased McMullen's London cash limit from £1,400,000 to £1,550,000, that is by the amount of London deposits, foreshadowing further increases as London deposits grew.

This was the policy McMullen had been urging since 1863, and the Board had barely made the decision when it had before it McMullen's response to the 'unexpected emergency' doctrine:

> As the Board have to some extent recognised the expediency of borrowing money at moderate rates in England in preference to paying an excessive price for it here, I feel less hesitation in advocating it now as a matter of the utmost importance to our future interests than when

I urged it upon their attention several years ago, although I then saw very clearly that we could not otherwise compete successfully with colonial institutions . . . This is really what we have to contend against. The colonial banks are gradually absorbing the local deposits, and with an undiscerning community we cannot prevent it. But in this colony [Victoria] especially we suffer from it in another way for the principal local banks profess not to care for high dividends and are therefore the better able to annoy us by paying excessively for deposit money . . . . we must obtain cheaper money in England.

McArthur, less able to express his thinking in general terms, and afflicted by an involved English style, nevertheless made his response clear enough in a succession of letters which assumed that the purpose of London deposits was direct addition to funds available for lending in the colonies. The alacrity with which both chief executives looked forward to a flow of extra funds was unwelcome to the Board and the Court alike, but changed financial conditions following the 1866 crisis made active measures of restraint unnecessary. Both McMullen and McArthur were presently reporting a sharp reduction in the pressure for loans, and less acute competition for colonial deposits. Meanwhile both London offices were assessing the experiment ruefully, and concluding that it had been unprofitable. Deposit contracts at up to six per cent had to be completed during a period at which colonial deposits were available more cheaply and loans were less.

Both banks accordingly allowed high-interest deposits to run off, reduced interest on new deposits, and limited their total amount severely. Thus the Australasia, as early as March 1867, reduced interest to 4 per cent on two-year deposits, limited the amount to be taken to £120,000 payable in each of 1869 and 1870, and forbade all deposits payable after 1870. Two years later, when this action had reduced deposits from their 1867 maximum of £394,000 to £162,000, the Court reviewed its policy, and determined to permit a maximum of £250,000 (at slightly higher rates) but told McArthur firmly that London deposits were not to be treated as an addition to normal loanable funds. McArthur retorted by accusing the directors of vacillating, and urged acceptance of London deposits to £500,000, which evoked a somewhat tart reply. The Court reaffirmed its limit, and was even more forthright in instructing him that they wished to treat London deposits as a precaution against short-term and unforeseen fluctuations in London funds; he was to regulate his policy on the assumption that London deposits were not available to him. McArthur's suggestion that substantial deposits should be raised and placed at his disposal, and that short-term London funds fluctuations be met by short-term borrowing in the London money market was brusquely rejected.

Consistently with this attitude, deposits were allowed to rise to £220,000 in 1870, but when interest rates fell in London the following year, the Bank made no effort to retain deposits. By 1871 the view held was that all deposits could safely be allowed to run off, and by October 1873 all had been repaid. The Union's policy in this period, though less fully recorded, followed a parallel course; at the end of 1871 this Bank decided to allow all existing deposits to mature, and two years later all were gone.

Resumption was determined upon by the Australasia as a result of the Bank being suddenly caught short of London funds in 1874, and forced to borrow £100,000. In notifying McArthur of the decision, the Court warned him that he was not to see London deposits as an alternative to colonial: 'until you receive advice that further means are at your disposal you must conduct your operations without expectation of relief from this source'. If this policy dictated reduction of advances, that consequence was to be accepted.

The Union followed suit, with similar admonitions, which included criticising McMullen for holding, in the colonies, cash reserves above twenty-five per cent of notes-plus-current-accounts; in the Board's view McMullen was asking for London deposits when he already held surplus resources. The two banks settled down for almost ten years to using variations in London deposits as a short-term balancing item. Most of the deposits were in substantial sums (for example £20,000) and were predominantly made by Scottish banks, insurance companies, and advocates with trust funds. These were depositors interested mainly in security and in reasonably long terms. Both banks varied conditions at frequent intervals in the light of current needs and available deposits. Rates of interest changed often, but were generally in the four to six per cent range; periods for which deposits were accepted fluctuated; goodwill was preserved by giving preference, if necessary, to renewals, and at times new deposits were refused.

Yet there was inherent contradiction in the policy. Except very briefly and occasionally, it was always easy to expand London deposits in case of need. In no conditions, or at any time, was it easy, after such an unplanned increase, to achieve the deliberate credit restriction (or expansion of colonial deposits) which was a prerequisite for the contraction of London deposits implied by the safety-valve policy. In conditions of prolonged economic boom in the colonies, and intense banking competition, the colonial sector of the policy would have been extremely difficult to implement, even had executives wholeheartedly pursued it. But it was too much to expect of McMullen and McArthur that they should discard good business in ruthless pursuit of a policy with which they disagreed. McMullen did not cease to press his doctrine that London deposits should be regarded as a cheaper, more easily obtained alternative to colonial deposits. McArthur, even had he not been of like mind, was ageing and his grip on the reins was slackening. London could therefore maintain its refusal actively to expand London deposits, but it could not escape the inevitable permanence of each expansion that it permitted. London deposits, and the approved maximum for each Bank, accordingly moved upward during the 'seventies.

Thus, early in 1876 the Union was writing of accepting London deposits of £150,000 to £200,000. Before the end of the year it was setting a firm maximum of £250,000. Within four months the Board was raising this limit—already exceeded—to £400,000 and agreeing to McMullen's London cash limit being permanently increased; a little over a year later the pattern was repeated, the deposit limit becoming £500,000, and in the next few years the sequence was to become normal. The Australasia's experience was similar. Thus in mid-1875, when deposits had passed £250,000, the taking of more was suspended; six months later the Court was approving a new limit of £500,000, which likewise grew in the following years. Competitive pressure and the passive, and probably unconscious, resistance of chief executives was transforming the safety-valve policy of London into the actively expansionist programme of McMullen. For some years yet, London's adherence to its policy was to provide at least a brake, but with the 'eighties McMullen's doctrine would be explicitly adopted.

The long boom years saw throughout Australia and New Zealand general improvement in hours of work and conditions of employment, with growing trade union strength. Associations of bank officers lay in the future, but in various ways the position of officers, as employees, improved. The Union was well ahead of the Australasia and South Australia in adopting a permanent pension scheme for staff. McMullen, in 1861, put forward a plan for a joint guarantee and provident fund. Its guarantee section arose from the increasing difficulty, when recruiting staff, of continuing to follow the old practice of taking sureties for substantial sums; instead, a part of all contributions to the joint fund were to be earmarked as available against defalcations by officers. The pension portion of the fund provided for joint contributions by the Bank and by officers to finance modest retirement benefits. The Union was not an innovator; similar funds were being adopted by English banks and by colonial banks in Australia, but it was among the first to accept the principle.

The Australasia's approach was more leisurely, probably because it had dealt with the problem of sureties in 1861 by agreeing to accept, in lieu of them, fidelity guarantee policies of the Guarantee Society of London; pensions appeared less urgent. McArthur urged a guarantee and provident fund in 1866, and by 1868 the Court had progressed to the point of asking for 'particulars' of all colonial staff, so that the idea could be considered, but nothing was done. The energetic Parkes, as McArthur's assistant, stimulated more serious consideration by sending London in 1873 a specific plan, which, after modification, the Court adopted in 1874. The modified plan was a fairly direct copy of the Union's; the Court inaugurated the Fund with a special payment of £6,000, to which it added later amounts; joint annual contributions by Bank and staff were to build up the balance, all of which above £10,000 (the guarantee portion) was available for retiring allowances. The colonial staff sought revisions which would have placed more of the cost on the Bank, but these were firmly rejected.

The Bank of South Australia was even more leisurely. Adelaide staff put forward, in 1875, a plan for a guarantee and provident fund, but despite the strong endorsement of the Adelaide board, the Bank was not prepared to adopt it until four years had passed. By that time pension funds were normal in Australian banks.

During the 'sixties regular annual leave became a normal part of bank employment. The South Australia introduced two weeks' annual leave in 1865, following a precedent set by the Union where McMullen was urged from London to insist that leave be taken. The Australasia had no systematic leave provisions until 1869, when three weeks were allowed officers with more than five years' service, and two weeks to all others. By 1877 the Bank was insisting that leave must be taken. Mere benevolence did not dictate these changes. General managers and directors saw leave with pay as an added attraction at a time when recruitment was difficult, while a point emphasised in the correspondence was that the transfer of duties incident to taking leave was an automatic check on embezzlement.

There were other signs that the English banks were, by the end of the 'sixties, offering a career service. Until then nearly all senior executives had been recruited as such in Britain (McArthur was a

South Australian State Archives, Adelaide

Bank of South Australia, North Terrace, Adelaide, 1870.

South Australian State Archives, Adelaide

The land for this building on the west side of King William Street was bought by the Bank of South Australia in 1866, the contract was let in 1875, and in June 1878 the Bank moved there from North Terrace.

Alexander Turnbull Library

The Union Bank of Australia, Lambton Quay (corner Hunter Street), Wellington, in the 'nineties. The area surrounded by railings was a gift by the Bank to the local council.

A.N.Z. Bank's New Zealand headquarters in 1960, at the junction of Lambton Quay (left) and Featherston Street, Wellington. Formerly the Union Bank.

conspicuous exception), as well as many juniors. Such a policy had been inevitable. Until the 'sixties the colonies had not produced sufficient young men of education interested in banking as a career; no bank was large enough for its young recruits, except by occasional chance, to be relied upon to mature into senior managerial quality. Moreover slow communication meant that an English bank had to be 'top-heavy' with senior staff. Death or incapacity of a superintendent or inspector could not be met by English action until eight or nine months had elapsed. Hence London directors had to plan for a potential substitute behind every really senior officer. Thus McArthur was 'double' for Falconer, and in time had his own 'double' in Parkes; McMullen was originally recruited on the same principle, and in due course had his shadow. Such staffing policy was, of course, normal in any well-organised large institution, but prior to the direct England-Australia cable of 1872, it was an especially important problem for the Australasia and the Union, and led to the carrying of a senior staff better qualified (and better paid) than the immediate work required—staff predominantly recruited in England. The obverse was that capable staff who commenced as bank juniors could feel with some justice that promotion prospects were limited.

But with the 'sixties, recruitment of junior staff in the colonies was far easier than it had been, and staff had grown numerically (the Australasia's in the mid-'sixties averaged 150, excluding manual workers). Recruiting junior staff in England became exceptional: a special arrangement for the son of a business associate of a director, or a means of dealing with a temporary shortage. By 1866 the Adelaide manager of the South Australia was writing firmly to his board:

> Considering the present efficient state of the staff it is undesirable that any new blood should be sent out from England, which would certainly lead to discontent and the probable retirement of several of the most efficient officers.

Even earlier, in 1863, the Union Board had conveyed to McMullen as assurance to a grumbling staff that, in future, the Bank's policy would be that all posts below the grade of assistant inspector would be filled by promotion, and that only the excepted class would be engaged in England. The problem indicated by the exception continued to exercise both the Union and the Australasia—the Union Board in 1870 for instance noted that McMullen's most senior staff included two managers chronically ill and two assistant inspectors seriously ill at the same time, and their response was to seek in

England a new senior officer. But by 1870 it was clear for all three banks that outside recruitment, even at the senior level, would henceforth be exceptional, and that all juniors had the whole service open to them.

One may add, perhaps, one of several other signs that, by this time, each bank's staff constituted an established career service: in 1875 the Union determined on a scale of travelling allowances in place of the unsystematic arrangements which had served. All officers were to receive fares and 30s a day while travelling, with a supplement of 10s a day for chief officers. This decision may be contrasted with a circular to branches in 1861: 'The Bank will henceforward pay all *reasonable* travelling expenses of officers and their families when directed to any given point, but no allowance will be made in connection with furniture, nor salary paid during transit'.

CHAPTER 11

THE DANGEROUS YEARS

NOT until 1888 was there a definite break in the long period of economic expansion in Australia. Between 1875 and 1888 gross national product rose from £127,000,000 to £201,000,000; some of that increase was due to price change, but even after correction for prices, the increase was more than fifty per cent. They were years of massive capital development in which, even more than in the earlier period, finance from Britain played a major part, through incessant government borrowing, through mortgage and allied companies, both in their own capital and in the debentures they raised, through direct private investment in Australian enterprises, and through the British deposits obtained in large amounts by the banks.

Capital expenditure by governments was concentrated on railway construction, at its height during this period. Private investment flowed increasingly into urban construction, and to a lesser extent into new extensions of sheep and cattle farming, and into a great growth of arable farming, particularly wheat and sugar.

The expansion of the pastoral industry, despite the downward trend in prices, took the form of a revival of geographical spread into new areas, by contrast with the 'sixties when growth was more by heavier stocking on developed lands. The new areas were especially in western New South Wales and in Queensland, and in areas of poorer land; relatively more new capital was demanded than for expansion by heavier stocking, especially capital for land purchase. Wheat cultivation was expanding, as the railway development provided the essential transport, in New South Wales, in Victoria, and in South Australia. Sugar, with the use of native labour from the Pacific Islands, was booming. Manufacturing was still far behind the scale of rural industry, but was growing solidly, aided, more in Victoria than in other colonies, by protectionist policy, and increasing the demands for urban capital development.

Mining experienced a great revival. The silver (and later lead) resources of Broken Hill were discovered in 1883, and Mount Lyell's copper became important in 1886. A series of gold discoveries in northern Queensland were capped by the finding in 1882 of the great Mount Morgan mine. Thereafter gold was to flourish in Western Australia with a succession of major finds, starting in 1884, a new outlet for the seemingly inexhaustible stream of British capital.

During the 'seventies the New Zealand economy boomed much as did Australia's eastern colonies. Under the leadership of Vogel, bold development plans, financed by London borrowing and concentrating on the building of railways and assistance to immigration, were pressed ahead. The provincial system of government which impeded the process was swept aside in 1876. Public debt was doubled in five years after 1870, and doubled again in the next ten years. Railway development, which had been negligible, changed the face of the country. In 1873 there had been 143 miles open for traffic; five years later there were over 1,000, and by 1885 there were 1,600.

Despite short-term fluctuations banking business expanded greatly to finance private development, increasingly as in Australia, by advances secured on land. Major growth in the wool industry temporarily ceased, and gold mining was declining. But cattle farming increased, associated with a marked expansion of dairy output, and the development of refrigerated meat shipments to Britain offered new prospects to pastoralists. There was a short-lived but very rapid expansion of wheat farming in the South Island, and a steady if unspectacular growth of the simpler manufactures.

This growth was interrupted by a recession in 1879-80 which was more acute in New Zealand than the slightly earlier one in Australia. Recovery ushered in a more sober rate of progress, and some New Zealand historians like to apply the label 'the long depression' to the years from 1882 to the middle 'nineties. Yet for much of the earlier part of the period, there was solid progress, and 'depression' meant rather the absence of boom. As G. F. Simkin has written: 'In spite of the long depression after 1882 .... New Zealand's resources were greatly developed. The population increased by 240 per cent, the area under cultivation by 1,120 per cent, the sheep flock by 200 per cent, the cattle herd by 190 per cent, and the number of factories by 300 per cent. Exports in the face of falling prices, expanded in value by 80 per cent, and after 1887 consistently and increasingly exceeded imports.' By contrast with the feverish boom in the Australian colonies, New Zealand's situation in the early 'eighties could seem depressed, and serious and prolonged contraction struck perhaps a year earlier—in 1886 rather than in 1887. Until then it would perhaps be more accurate to regard New Zealand's experience as uneven and interrupted, but nevertheless substantial, expansion.

These were not conditions to encourage new banks, and the Australasia and the Union were, as will appear, able to make solid increases in New Zealand business, and to improve their positions relative to other banks. The Australasia, whose poor New Zealand position was a grievance with Parkes, had greater relative success than the Union, perhaps because the Union was, in the 'eighties, treating New Zealand as a net source of funds for investment in the greater opportunities of Australia. For both banks, New Zealand in the 'eighties was clearly of subordinate importance to expansion in Victoria, New South Wales, Queensland and Western Australia.

Here, in the Australian colonies, with the exception of Tasmania and the partial exception of South Australia, the boom continued, despite occasional brief checks. Here were the banking opportunities and the dangers. The dangers lay especially in three of the striking features of banking development in this period. First was the intensive quest for British deposits in which all but the smaller banks joined; presently, the colonial banks were to have the lion's share, for the Australasia and the Union were more sensitive to the ultimate risk implied. Second was the growing dominance of real estate as the most important single form of security for bank lending, in the city as well as on the farms. Bankers made a virtue of necessity and rationalised the development as good modern banking, as they evaded, or had repealed, old-fashioned legal restraints. Finally there was a new intensity in competition, with more new banks, old banks extending into new areas, a multiplication of branches, and great pressure to attract deposits and satisfy eager borrowers, competition that was intensified by the great growth of other financial institutions—mortgage companies, land banks, and building societies.

They were years of dangers as well as opportunities, and the difference between Parkes, as Superintendent of the Australasia, and McMullen, as General Manager of the Union, is reflected fully in their reactions to the 'eighties. McMullen was ageing, and at times ill, and, recognising the dangers, he responded by intensified conservatism and caution, which limited the growth of the Bank during his last years, but carried the reward that its solidly-based business withstood the shocks of the 'nineties. Parkes, younger and more vigorous, was even more alive to the dangers, and his correspondence shows him through the 'eighties convinced that the feverish boom could not last. For Parkes, as for McMullen, sound business and safe policies were the first requirement, but need not dictate excessive caution. Profits which could be made safely, and expansion which was firmly based, should not be rejected. It was a policy that demanded alert reading of storm signals, and a readiness to shorten sail in time; as will appear, those demands were met in full.

Intensification of banking competition took the form, first, of new banks. Counting true banks, excluding both so-called mortgage or land banks and various other institutions using the title of bank, there were twelve new names in the Australian banking list between 1877 and 1888. Several of these were shortlived—the Australian and Economic Bank or the Joint Stock Bank of Victoria, for instance—and there were several failures, particularly the Oriental Banking Corporation, and the Provincial and Suburban Bank, while the National Bank of Tasmania was substantially a continuation of the Bank of Tasmania. The new names were:

1877 Mercantile Bank of Australia Ltd (Melbourne)
1877 Australian and Economic Bank (Melbourne)
1878 Commercial Bank of South Australia
1880 Town and Country Bank Ltd (Adelaide)
1881 Joint Stock Bank of Victoria Ltd (Melbourne)
1881 Federal Bank of Australia Ltd (Melbourne)
1881 Sydney and County Bank Ltd (Sydney)
1884 New Oriental Bank Ltd (London)
1885 National Bank of Tasmania Ltd (Launceston)
1885 Royal Bank of Queensland Ltd (Brisbane)
1888 Bank of North Queensland Ltd (Rockhampton)
1888 Royal Bank of Australia Ltd (Melbourne)

With the exception of the New Oriental and the Federal, these new banks confined their activities during the period to a single colony. But, for the Australasia and the Union the far more important competition came from previously existing banks spreading into additional colonies. In 1877 the Union and the Australasia were the only truly 'Australasian' banks, operating not only in New Zealand but also in every Australian colony, except Western Australia. The next most widely-spread bank, the Bank of New South Wales, was in New Zealand and three colonies in Australia. By the end of the boom, ten years later, the situation had changed greatly.

In 1877 there were twenty-four banks of issue in Australia. Of these, fifteen operated in one colony only; four in two colonies; three in three colonies; and two only (the Australasia and the Union) in five. By 1887 the total operating was twenty-five, of which twelve were single-colony banks; six were in two colonies; two in three, and two in four; two (the Australasia and the Bank of New South Wales) in five, and one only (the Union) in all six colonies. Or, to present the development another way, the numbers of banks in each colony in the two years were:

	1877	1887
New South Wales	10	14
Victoria	13	12
Tasmania	5	5
Queensland	6	10
South Australia	6	9
Western Australia	2	4

The expansion in New South Wales, Queensland and South and Western Australia is clearly shown in the table. In all colonies (including New Zealand), a great multiplication of branches, especially in city suburbs and in small country towns, went along with the creation of new banks and extension into new colonies.

From time to time there were warning tremors in the banking structure. In May 1879 a small and badly-run Melbourne bank, the Provincial and Suburban, was forced to close. Parkes reported:

> I expect [it] will be discovered to have been founded, reared, and ended in fraud, for although there have been one or two respectable directors on the Board, they have been entirely led by their manager, an unscrupulous man. Unfortunately the Bank has a note issue, and as the public are not careful to discriminate between the several issues, some of the bankers feel that it would be wise to redeem the dishonoured notes, which are not supposed to exceed £3,000, the weaker banks whose reserves are very slender, are no doubt also alarmed, lest there should be a panic, but the defaulting Bank has been so well known to be rotten that I am under no such apprehension.

Parkes' judgment was confirmed by an investigation on behalf of the Associated Banks, who decided to let the Provincial and Suburban go into liquidation, and later by a charitable judge, who accepted the excuse of inexperience and penalised proven fraud by modest fines only.

More serious in its threats was the failure in June of the Australian and European Bank, which was larger, and honest if inefficient. The Union Bank being appealed to for aid, declined to act except in concert with the other Associated Banks, who duly undertook to pay off the bank's note issue and to advance £50,000 to enable the bank to reopen within the same month. Again Parkes' judgment was vindicated; he forecast that it could not survive, and it emerged that reopening was only a prelude to absorption by the Commercial Bank of Australia.

The closure of the Australian and European Bank led to a sharp run the same day on the City of Melbourne Bank, the only other bank of issue not a member of the Association. Prompt action by the Associated Banks saved the day; a speedy survey of affairs was followed by a public announcement that the Associated Banks were 'prepared, if called upon, to afford them whatever assistance may be required to meet their engagements in the present emergency'. The run stopped forthwith, and no actual aid was required. A similar, but less severe, run on the Commercial of Australia also ceased, the public presumably assuming that the Associated Banks would be even readier to aid one of their own members, and, indeed, McMullen had already taken the initiative in urging the Commercial to seek a guarantee promptly if the situation should require it. The Bank of Victoria was also feeling the strain, and flirted for a time with amalgamation with the National. Parkes considered seriously the making of an offer by the Australasia but this came to nothing, as did negotiations between the Victoria and the National.

Difficulties were not confined to Melbourne. In New Zealand the Bank of New Zealand was in heavy weather in 1880, as a result of too intimate association with the adventurous public finance of Vogel's government. The Bank of Van Diemen's Land and the Bank of Tasmania were in a critical state the same year. Parkes hurried to Hobart to see if an offer for the Van Diemen's Land business was justified, but reported 'Of their capital of £135,000 only £25,000 is left and for many years their published accounts showing a reserve fund have been false; hopelessly bad debts have been included as assets'. Nevertheless the bank was able to reconstruct as a limited company and continue a precarious career for another decade. The Bank of Tasmania struggled on until 1885 when it was re-formed as the National Bank of Tasmania Ltd.

These difficulties provided the first occasion for concerted action for mutual protection by the Associated Banks of Victoria, a useful preparation for the dire demands of 1893. The Association grew out of joint action in the 'fifties and 'sixties, especially in connection with government loans. McArthur was chairman for several years until his retirement in 1876, and the Australasia provided secretarial services and a place of meeting for many years. In 1877 the Association was formally constituted, following the general withdrawal of the Bank of New South Wales from all banking agreements. No other colony had a similar formal association during the nineteenth century, although in London the Australian banks had an association from 1875.

In May 1884 the Oriental Bank suspended payment. The causes lay beyond Australia, in the sprawling unwieldy empire of the bank, extending over the Far East and Africa. It was, however, a severe shock, for little warning had been received; McMullen had been forewarned from London, but apparently kept this to himself. Winding up of the old bank was delayed and complicated, partly because it had to be directed from London, and in Victoria (where the bank's main Australian business lay), because the Victorian Government insisted on priority for debts due to itself. The chief sufferers were noteholders and depositors who had to wait for their money. The other banks were active in taking over the best of the Oriental's business in which the Australasia was particularly successful, although the Union perhaps was to value more highly its securing a future general manager, Charles Russell, in 1884 Oriental manager at Young, New South Wales. Except for a brief run on the London Chartered Bank in Melbourne, no other bank was threatened. The crash came, however, at a time when bank liquidity was low in Melbourne. McMullen was able to congratulate himself on having foreseen pressure and cabled for £400,000 in gold, 'not a sovereign too many' he later said. He was not alone in this, and shipments made in late 1883 and early 1884 go a long way to explain the ease with which the Oriental shock was taken. The Oriental was quickly reconstructed as the New Oriental Bank Ltd, and after some delay, reopened in Melbourne and Sydney. But it secured relatively little business, and failed finally in 1892.

There were dark rumours in 1885 about the Bank of Van Diemen's Land, but it managed to survive. The Commercial Bank of South Australia, however, failed disastrously in 1886, in circumstances of extensive fraud and embezzlement which ultimately led to gaol sentences. Parkes was keen to secure the task of liquidation so as to take over for the Australasia all the sound business, but the Court firmly refused to have the Australasia associated with a disreputable failure. No other South Australian Bank appeared to be in difficulties (although a short time later the Town and Country Bank avoided failure by selling out to the Commercial of Australia) and, except for a brief run on the Savings Bank, it appeared that the public was prepared to dismiss the affair as solely due to fraud in one bank. For the more perceptive, however, there were storm signals to be read. The Australian banking structure was thenceforth under strains of which the disasters of 1893 were the culmination.

The Oriental Bank failure provoked in Victoria proposals for banking reform, centring around protection to noteholders. After controversy, a Royal Commission was appointed, and reported in 1887 in the atmosphere created by the Commercial Bank of South Australia failure. McMullen, in evidence, was able to point out that the Union's liability for note issue was, under its new Act, unlimited, and supported a proposal that note issue be a first charge on the assets of any bank. But he went further, and after criticism of the low cash ratios common in Australia—he thought 15 per cent against notes plus deposits a minimum—argued that all banks should be subject to government inspection, although not regularly.

Parkes took a different line, declaring roundly 'the issuing of notes is a prerogative of the Crown; I therefore think the money from that source should be invested in government securities'. He explained that while he believed note issue should be a Crown prerogative, convenience dictated using the banks to manage the issue; if, therefore, banks were required to hold government securities to the full value of note issue, this would make the notes virtually a government issue, the banks being compensated for their services by the interest on the bonds. This scheme, however, did not commend itself to the Commission which proposed to make note issue a first charge on the Victorian assets of a bank. The government legislated accordingly, with the unexpected result that, in the 1893 panic, notes of banks which had suspended payment were preferred to deposits in banks which remained open.

Competition was not confined to the banks themselves. Note has been taken earlier of competition by the pastoral and, to a lesser extent, mortgage companies in lending to the pastoral industry, and in foreign exchange. From the mid-'seventies these forms of competition were intensified, especially from the increasing numbers of mortgage companies, and, particularly in deposits, from a great outburst of building societies and a number of mortgage 'banks'. As early as 1881, for example, the *Insurance and Banking Record* recorded sixteen mortgage companies incorporated in England for operation in Australia and New Zealand. Some of these had close associations with banks—three with the Union—which welcomed opportunities for transferring long-term land loans to more suitable institutions. But in general such companies accentuated competition in loans for banks as a whole.

The earliest building societies had commenced in the late 'forties, but they and those which followed over the next quarter century, were staid institutions relying on shareholders for funds. What distinguished the great rush of societies after 1875 was their avid seeking after public deposits. Melbourne was the scene of greatest activity, with Sydney not far behind; but such societies were to be found in every capital city, in the chief towns of New Zealand, and in the larger country towns of Australia. In the years from 1875, residential construction was the most important single form of fixed capital investment, and the major source of finance was the building societies, together with the mortgage banks and real estate companies which flourished in this period.

The ordinary banks of issue, until the late 'eighties, had little direct part in the finance of this urban building boom. They included among their advances some to home builders, and to professional builders, but their advances to building societies and real estate companies were small (total bank overdrafts of forty-nine Melbourne building societies in 1888, for example, were under £120,000), although there was a close association between the Federal Bank and the Federal Building Society. In general, therefore, the building societies were not seriously competitive with the banks of issue in their advance business. The serious competition was in deposits, which had become, by the end of the 'seventies, the major source of funds for building societies and for the mortgage banks as they appeared. (The earliest of these, the Land Mortgage Bank of Victoria, dated from 1864 but most were formed in the 'eighties.)

The *Insurance and Banking Record* in 1888 tabulated the latest balance sheet figures of sixty-nine institutions with business primarily in Melbourne, who solicited deposits from the public. There were forty-nine building societies, of which only six antedated 1875, and twenty-nine had been created in 1880 or later. They disclosed shareholders' funds of £3,300,000 and held deposits totalling £4,100,000. Six mortgage banks, with shareholders' funds of £1,200,000, held £3,100,000 of public deposits. Fourteen companies whose primary business was trading in real estate (six called themselves banks), with shareholders' funds of £2,600,000, had £1,800,000 in deposits. The same page of the *Record* carried a typical advertisement of a mortgage bank, the Metropolitan Bank Ltd, which announced an imposing authorised capital of £1,000,000 but was honest enough to add 'paid-up capital £175,000'. It invited deposits at rates ranging from 5½ per cent for twelve months to 3 per cent on the daily balance of current accounts.

In total these institutions held over £9,000,000 in public deposits. Compared with the deposits held by all note-issuing banks, which were ten times as much, £9,000,000 may have seemed modest, but what was significant was that banks of issue had to match rates of interest offered by building societies and mortgage banks; £9,000,000 had been acquired in vigorous competition against the banks of issue. In fine, the banks of issue were fighting not only each other for deposits, but the fringe institutions as well, and this alone was sufficient to ensure that, even if bank agreements had been stable, they could not have effectively limited deposit rates; agreements had to recognise the market reality of other hungry seekers after deposits.

Under such conditions bank deposit rates of interest continued high throughout the period. At times when bank agreements broke down there might be temporary variations between banks, but a good guide to levels of rates is the figures recorded by the *Insurance and Banking Record* as the rates generally observed in Melbourne:

June	12 months	6 months	3 months
1877	5	4	3
1878	6	5	4
1879	6	5	4
1880	5	4	3
1881	3	2½	2
1882	4	3	2
1883	6	5	4
1884	6	5	4
1885	5	4	3
1886	5	4	3
1887	5	4	3
1888	4	3	2

(The recession of 1880-1 is clearly marked.)

These rates might secretly be slightly higher for large depositors, and it had become general practice to allow 'fixed' deposits to be withdrawn at any time with partial loss of interest. (This is the main explanation of the marked increase in the proportion of deposits bearing interest.) Prideaux Selby, the Australasia's secretary, in 1884 unsuccessfully urged that a separate savings department be established to attract small deposits. Such devices were supplemented by open touting for custom and the adoption of much more vigorous and prominent advertising. The social standing and acceptability of managers became a matter of importance. Parkes was, by 1888, insisting that the Bank should pay subscriptions for chief executives to join the leading clubs. The Union bought for McMullen the princely mansion he had built for himself in St. Kilda (at a cost of £8,200) in 1869, on the grounds that his chief need of such a house was to maintain appropriate social contacts.

Growth in deposits of both Banks was certainly striking.

	£'000		% of Bank's total Australian business		Bank as % of all banks	
	1877	1887	1877	1887	1877	1887
Bank of Australasia						
N.S.W.	999	2,023	24.2	23.7	6.1	6.9
Victoria	2,093	4,699	50.8	55.0	12.7	13.3
Tasmania	323	661	7.8	7.7	18.7	17.3
W.A.	—	—	—	—	—	—
S.A.	296	644	7.2	7.6	8.5	12.3
Queensland ..	413	513	10.0	6.0	10.6	5.9
	4,124	8,540			9.8	10.3
New Zealand . ..	463	956			6.0	8.6
Union Bank of Australia						
N.S.W.	833	1,527	18.9	20.5	5.1	5.2
Victoria	1,984	3,211	45.1	43.1	12.0	9.1
Tasmania	482	907	10.9	12.2	27.9	23.7
W.A.	—	336	—	4.5	—	40.4
S.A.	295	539	6.7	7.2	8.5	10.3
Queensland	809	932	18.4	12.5	20.7	10.7
	4,403	7,452			10.4	9.0
New Zealand . ..	1,319	2,124			17.0	19.1

But, as significant as absolute figures, were changes in the relative importance for each bank of deposits in the various colonies, and the shares of all bank deposits which each was able to obtain. For all Australian colonies, the Australasia was able to maintain its relative share, but this was the net result of slight relative gain in New South Wales and Victoria, and a small falling back in Tasmania, a sharp improvement in South Australia and an equally sharp relative decline in Queensland. Parkes was cautious of Queensland generally and of its new sugar development, and unwilling to challenge vigorously the local banks. By contrast, the Union had suffered outright decline in total Australian position. It had made significant progress relative to other banks only in South Australia, and in its new venture in Western Australia, where the ambitions of the manager Denny were not under McMullen's close control. In New Zealand the Australasia had achieved a significant increase in its share of total deposit business, while the Union had been less successful.

Large as were the increases in colonial deposits, they could not supply all that were sought, and from the mid-'seventies London deposits grew steadily but not dramatically; with the 'eighties there was a change of policy, deposits being sought explicitly as an addition to colonial resources. For the Bank of South Australia no precise figures are available, but it was actively seeking deposits, with considerable success in Scotland, in common with the experience of other banks. The Australasia held £790,000 in August 1878, but over £2,000,000 in February 1886. For the Union all important fluctuations were recorded, and since its rates and those of the Australasia were similar, it is likely that the latter had similar experience.

Union Bank—London Deposits (£)

30 January 1877	240,000
18 January 1878	508,000
23 July 1878	612,000
5 June 1879	645,000
7 January 1880	733,807
10 May 1882	595,000
19 December 1882	1,126,000
18 September 1883	1,422,000
1 April 1884	1,478,650
27 May 1884	1,529,000
2 June 1885	1,660,000
19 January 1886	1,900,000
6 July 1886	2,061,000
2 August 1887	1,699,000
6 January 1888	1,469,696
22 May 1888	1,419,400
27 December 1888	1,562,000

(To the figures must be added after 1885 'inscribed stock deposits' which reached £750,000 by 1888.)

These had become substantial sums, the more so because, in this period, competition from the colonial banks was strong. They appointed agents all over Britain, soliciting deposits which were also sought by widespread advertising. Scotland continued to be a major source, with deposits from Scots banks and advocates with trust funds as well as individuals. How much in all was raised is uncertain. Selby, in London, had access to information based on income tax deductions (required by Inland Revenue) and he gave the amount as £14,000,000 in 1883, £21,000,000 in 1885, and £30,000,000 in 1888. The British banks were losing on their home ground.

For this their own restraint was mainly responsible. While both the Australasia and the Union accepted the new role for British deposits they were unwilling to take all that were offered. Both from time to time set maximum limits, the Union £600,000 in 1879, £1,000,000 in 1882, £1,500,000 in 1883 and £2,000,000 in 1885, a figure which the Australasia permitted in 1883. Pleas from Melbourne, especially from McMullen, for larger amounts were resisted; moreover the amounts added to funds available for colonial lending were held below the current accretions to deposits, the Union adopting the principle of holding in London one-quarter (later one-fifth) as a reserve in short-term securities. Nevertheless amounts rose, and by the mid-'eighties both banks were becoming concerned at the size of liabilities to depositors who might take fright; they were more sensitive than their colonial competitors to experience in English financial crises, which had shown that holders of fixed deposits were more easily scared than current account depositors or noteholders.

The Union decided upon action in 1885 and invented 'inscribed stock deposits'. As originally planned these were in sums of £50 or more, at 4 per cent per annum. Depositors could transfer credit balances, but not claim repayment for twenty years; the Bank could repay earlier on one year's notice with a premium of one per cent. The announcement of the scheme was in general favourably received, but at first little business resulted, and the Australasia Court decided not to follow suit despite the urgings of Parkes, who, like McMullen, appeared to assume that his directors would be readier to borrow in this way than by taking two or three-year deposits. Advice of agents and stockbrokers (who received 10s per cent commission) suggested that investors were shy because the amount of such deposits, and hence the ease of selling the stock, was unknown. Accordingly it was announced that 'the authorised amount of this issue is £500,000', and that, if a stock exchange listing was not secured within a year, holders could exchange stock for a twelve months' fixed deposit. When the issue reached £254,000, in April 1887, stock exchange listing was sought and, on the insistence of the Exchange, the right of earlier repayment by the Bank was abandoned. The assured market for the stock meant that, within three months, the whole £500,000 was received, and the following year (1888) a further £250,000 was obtained.

Union Bank—Inscribed Stock Deposits (£)

13 November 1885	10,250
24 December 1885	20,000
26 March 1886	31,000
3 September 1886	105,000
28 January 1887	200,000
26 April 1887	254,000
2 August 1887	500,000
19 July 1888	750,000

This substantial replacement of fixed deposits by long-term borrowing was to be a major advantage in 1893, when banks reconstructing after failure were to copy the device; compulsory extension of fixed deposits for long periods was a normal feature of reconstruction schemes.

In the period from Parkes' appointment in 1876 to the end of 1886, that is just before his death and just before McMullen's retirement, new branches opened by the Australasia and the Union were distributed thus:

Number of Branches opened

	Australasia	Union
Victoria	37	2
New South Wales	13	8
Tasmania	7	3
South Australia	4	1
Queensland	8	7
Western Australia	—	6
New Zealand	10	5
Fiji	—	2
	79	34

These figures are not net additions, since they take no account of branches closed; they do, however, point to the areas in which the Banks were advancing by branch extension and their relative activity in this field. Agencies and receiving offices are not included because the records of them are very defective, but inclusion of known ones would emphasise the inferences from the figures given. In general Parkes was convinced that occupation of sound territory

Photograph: Horace K. Hall

David Charteris McArthur

1810 - 1887

He joined the Bank of Australasia in 1835 and was Superintendent when he retired in 1876. The portrait, by Edward a'Beckett, hangs in the Melbourne boardroom of Australia and New Zealand Bank, and shows McArthur in 1884.

by a new branch was the best way of obtaining and retaining business, and it was the Court that was the restraining influence. McMullen, on the other hand, increasingly found reasons—lack of managers, difficulties of supervision, uncertainty of future prospects, initial costs of new branches—for resisting geographical expansion. In almost all cases of actual expansion the initiative came from the Board in London, which was increasingly critical of McMullen's lethargy. Rapid multiplication of new branches was a major competitive weapon of the colonial banks, and established in this period what continued to be a feature of Australian country towns and city suburbs, the presence of five, six, seven branches where one or two would serve. H. G. Turner, general manager of the Commercial Bank of Australia, in 1880 counted 326 bank branches in Victoria, or one for every 2,760 of the population, which he compared with a ratio of one branch to nearly 12,000 people in England. Parkes, consistently with his general principle of meeting the colonial banks on their own terms while insisting on safety and profit, was prepared to open where the prospects were good. In 1887 for instance, his successor, John Sawers, made a list of forty-two branches which did not earn 5 per cent, or, if net providers of funds, cost more than 5 per cent of these funds, and, trained by Parkes, endorsed his judgment that they were all worth maintaining for the future prospects. McMullen had to be prodded into every extension.

An example of the contrast is their divergent attitude to suburban branches. Parkes accepted the necessity for them, to take banking to the customer and to draw deposits, and his seventy-nine new branches included ten suburban ones as well as agencies, mostly in Melbourne and Sydney. McMullen, urged by London to move in the same direction, retorted in 1887:

> There has been such a rain of branch banks all round and about [Sydney] for some few years back that I am not very hopeful of there being any room left. The E.S.A. and Australasia at first had the field mostly to themselves, but of late years the chief local banks have been vieing with them in the multiplication of branches and once a bank begins in a growing city they appear to be irresistibly impelled to go on increasing their branches.

He cited the Australasia's Newtown branch: when other banks opened in surrounding suburbs, the Australasia was forced to open there too, but in doing so, drew some of the custom from its own Newtown branch. His concession to London pressure was to open in the Haymarket (Sydney), scarcely a suburb, where he made the seventh bank within a few yards.

While the Australasia Court was clearly a little nervous of Parkes' readiness to expand, invariably they supported him in his policy. They criticised his opening at Invercargill and Gore in the south of the South Island of New Zealand in 1878, but accepted his justification. In 1884 they questioned his penetration of the Goulburn Valley in Victoria, and in moving promptly into towns vacated by the failure of the Oriental Bank—but bowed to his judgment. Their views then were in accord with the principles they had laid down in 1880:

> 1. It is desirable to occupy all rising places in districts in which the Bank is already represented. This however is understood to have been generally done.
>
> 2. On entering a fresh district the principal town therein should be occupied.
>
> 3. Branch offices in progressive, or unoccupied parts of the chief cities may be expected, although more expensive, to be also ultimately more profitable than Branches in Country villages. It is now found in London that customers will not come to the Bank, the Bank must go to the customers and for some years past some of the Banks have been greatly extending the number of their metropolitan Branches.
>
> 4. Localities not actively progressive should be avoided unless under such exceptional circumstances as the certainty of obtaining important existing business and support.
>
> 5. It is important that premises in the best business positions should be so secured as to give some assurance of an intention to occupy the field permanently and they should give comfortable accommodation to customers, but it is not considered necessary that they should be of a commanding appearance.
>
> 6. No new opening should be decided upon until a competent officer has been found to be available for the management of the Branch, without crippling the staff of older offices, an unfortunate selection of a first Manager being sufficient to destroy all chance of success in a new locality. The last condition the Directors feel must necessarily prevent any rapid extension of Branches, unless means can be found to recruit the staff with officers having at least some experience of clerical work before joining the service. They presume that such officers are to be had in the Colonies, but if not, there are many applications here from *eligible youths* who would emigrate at their own expense if previously assured of a situation, the retention of which might, however, be made entirely dependent on their giving satisfaction after reasonable trial.
>
> The Directors feel that a heavy responsibility rests on them as well as on you in this matter and they have therefore restated with some detail the principles on which they deem it desirable to proceed. They are well aware of the temptation many men might be under to avoid increasing the weight of existing responsibilities but they leave the matter

> in your hands with no apprehension that you will shrink in the future, any more than in the past, from acting in accordance with the best evidence you can obtain.

By 1885 the Court was again somewhat nervous and imposed limits on the rate of creation of new branches, but after conference in London with Sawers, cancelled the restrictions, relying on Parkes' judgment. A similar episode recurred at the end of 1887.

The judgment which Parkes exercised, subject only to a need to justify particular cases to directors who were watchful but trusted the skill of their Superintendent, is suggested by the figures tabulated above, and by the full list of new branches. His main emphasis was on Victoria, where he spread his net widely in the good rural areas. Gold-fields branches were a thing of the past, and gold-dealing trifling, until the major Western Australian discoveries beginning in 1884. (The Australasia in 1877 dismissed its assayer with a gratuity, after twenty-one years' service.) South Gippsland (especially the Latrobe Valley) and the Goulburn Valley, Parkes favoured in particular. In New South Wales, apart from Narrabri and an agency at Moree, his branches fell into three groups: Sydney suburbs; Silverton and Broken Hill in 1885-6, as silver-lead mining developed; and the good pastoral area stretching from Albury north, in the eastern part of 'the Riverina', then economically as much part of Victoria as of New South Wales. Under pressure from London, McMullen followed him in this same area, but kept to well-established towns.

In Queensland Parkes' chief concentration was on the coastal fringe from Maryborough to Cairns, especially in the rapidly booming sugar areas and in ports which tapped the pastoral hinterland. McMullen's greatest effort was in the same area, but only after London had overridden his objections.

Tasmania presented problems of a different kind. Parkes rejected McArthur's defeatism there, and opened successively at all the more important towns of the northern half of the island; in his view, if the Bank's stagnation in the island were to be overcome, there must be positive action. For the same reason, in 1884 he gave the Launceston manager (Ames Hellicar, a future Superintendent) authority over all Tasmanian branches with considerable delegated authority, in the hope that speedy decision would aid improvement. Three years later he was well satisfied with progress in the north and north-west, but was depressed about Hobart:

> Coming from the north-west coast, where the Bank's name is a household word as being the friend of the people, it is very galling to realise

> what a fifth-rate position as regards active business we hold here. Our stability secures to us a large deposit connection, but general business we have almost none, and attempts that have been made to secure it have only been attended with losses. I have several times explained the cause of this. The good business of the place, which is limited as compared with the number of competitors for it, is firmly held, and as there is little fresh enterprise, it is seldom that we are offered any advances that are acceptable to the Bank.

New Zealand shows Parkes again pursuing a clearly-defined policy. There the Bank's strength had been in the rich sheep country north and west of Wellington, and here he placed six more branches in strategic centres to tighten his hold. It was here, too, that the Union moved—it was Palmer's policy, not McMullen's—to redress earlier errors in concentrating too exclusively on the Canterbury Plains. Three of the five new Union branches in New Zealand were located in the North Island area.

The Union's most striking initiative, in Fiji and in Western Australia, was wholly due to the Board in London. Western Australia was among a number of possibilities submitted by the Board to McMullen in 1877-78. Others were Fiji, Darwin, and New Caledonia. The last was response to an approach by French merchants there, following collapse of a local bank, the Bank of New Caledonia. The Australasia was involved in substantial exchange dealings with it, and Parkes chartered the small steamer *Waratah,* to carry there Selby, later London secretary, to try to minimise loss. The Union was momentarily interested, and discussed an approach to the French government for facilities in opening in Noumea, but abandoned it. On all the Board's other suggestions McMullen was lukewarm, and accordingly the Board imposed decision to open in Western Australia. J. T. Denny, the man despatched from Melbourne (he had been Portland manager) to open in Perth, sent back a long description of what he found, which McMullen must have found a vindication of himself:

> At Albany the storekeepers were compelled for many years prior to the advent of the National Bank to transact all the financial affairs of their country constituents, and throughout the Colony the same antiquated system exists to a greater or lesser extent, according to the distance from a Bank. In fact a system of barter is carried on, whereby the so-called merchant works his business and makes large profits by trading on the produce consigned for sale from the country districts, a system which I believe has prevailed in all trading communities at one time or other of their early history. It will of course gradually disappear here as elsewhere, but in the meantime the Banks may lose considerable exchange

> transactions and profits by the action of constituents who are actually much indebted to them. Last year or the year before Shenton of Perth told me he undersold his own bankers, the W.A., by at least ½%, having remitted considerable quantities of sandal wood, wool, &c., for realisation in excess of the amount indented from his Agents in London. Last season British bills were purchased here at par and in fact Victorian rates seem the guide here in many matters.
>
> In conversing with many business people here, I am told that the W.A. Bank is very liberal and it certainly is more popular than the National, although as regards rates they seem to run in couples. The general public here regard the W.A. with peculiar pride as one of the few evidences of really successful management, and as their leading men both in political and mercantile circles are largely interested in its welfare and believe in it to any extent it will be a very difficult matter indeed, if not at present almost impossible, to supplant it in public estimation. No doubt they are said to be old-fashioned, but then they are of the Colony, successful, a product of the place purely and simply, and so looked upon as peculiarly deserving of the Colonists' support. Certainly they are said to give unsecured advances at 10% in preference to a lower scale and the holding of security, but then their Board of Directors and their Manager know the monetary position of every person in the community, and can give advances which a non-local institution could not touch except with a certain amount of risk.
>
> A stranger arriving here is almost immediately struck by the extreme amount of consanguinity prevalent. Being a convict depot and seeing but little of the outer world, the respectable free classes here were almost compelled to intermarry, and the consequence is that from end to end of the Colony, relatives of the first, second, third, or fourth degree abound, clanship is the natural consequence, and adherence to the W.A. Bank the almost invariable result. Years must elapse before this feeling can be subdued, and until it is not only subdued, but entirely extinguished, outside institutions have but a small chance of proving very successful competitors. The projected opening up of the country by railways will no doubt bring many strangers here, and perhaps the old system will be surely if slowly broken up.

Prospects were certainly not encouraging, but Perth branch was opened in April 1878, to be followed by York, Geraldton, and Albany within the same year, and Roeburne in 1882. The Union was therefore strategically placed when major gold discoveries were made in the late 'eighties.

Fiji merchants, as has been seen, had failed in a petition to the Union while the islands were not a Crown colony, but in 1879, when it became known that Britain was about to proclaim sovereignty, and on the solicitation of the governor-designate, Sir Arthur Gordon, the Board was prepared to reconsider. The matter was decided by an approach from the Colonial Sugar Refining Company, which offered its Fiji business. A branch was opened in Levuka, then the commercial centre, in December 1880. Suva followed in January 1883, when that became the centre of government, and Levuka was closed in 1886.

Fierce bank competition, expressed in establishment of small branches in new settlements, added, in the late 'seventies, an unwelcome excitement to banking. Such branches were especially vulnerable to robbery, and in the second half of the 'seventies and first half of the 'eighties, 'stick-ups' of isolated bank branches were a commonplace. Not unreasonably, the staff—usually two or three—offered little resistance to armed robbers who had taken them by surprise, and hence, whenever an officer was more than usually brave (or foolhardy), the banks made a special fuss of him. Thus, when the manager of the Australasia branch at Moe successfully resisted armed attack on his branch in 1879 and ensured the arrest of the men concerned, the directors gave him a gold watch. His reward included promotion to a larger branch, and his successor discovered that he had been 'borrowing' bank funds on his own behalf.

Not all attacks were in Victoria and New South Wales, although they were most common there. In 1885 the remote Union branch at Roeburne, Western Australia, was attacked, and both members of the staff murdered. Predominantly, however, bank robberies were concentrated in south-east Australia, which had the combination of isolated branches near areas of settlement which provided robbers with the opportunity for crime and facility in subsequent escape and concealment. Not all bank attacks in this part of Australia were the work of the Kelly gang; there were several gangs, such as that of 'Captain Moonlight', as well as individuals. But it was the wild melodrama of the Kelly gang, 1878-80, which brought excitement to its height.

Neither the Australasia or the Union had a branch attacked by this gang, but they joined with other banks in various precautions. Cash at small branches was reduced to a minimum, the governments of New South Wales and Victoria were badgered to increase police protection in vulnerable areas, banks jointly offered rewards additional to the government ones, mutual closings of isolated branches were negotiated. Elaborate precautions to avoid surprise were instituted. Thus Parkes described the situation at Shepparton in 1879:

> The front door of the Bank—nay all the doors—are kept on a strong chain, and no one is allowed to enter without first explaining his

> business to the satisfaction of the officer in charge. This is indeed conducting banking operations under difficulties, and it appears to reflect great discredit on the Victorian police that traders should be thus kept in constant apprehension in consequence of these ruffians being still at large.

The same year Captain Moonlight's gang was broken up—two members were executed—and in 1880 the Kelly gang was destroyed in a battle as melodramatic as their brief career. Isolated robberies were thereafter still commonplace, but bank managers in small towns could once more face a stranger across the counter without trepidation, and the chains could hang unused behind front doors.

Competition in deposits and in creation of branches was matched by the search for advance business, in which loans secured on land became of increasing relative importance. To match high deposit rates, charges for discount of bills and interest on other forms of loan were correspondingly high, as illustrated by the prevailing Melbourne rates set out monthly by the *Insurance and Banking Record*.

Bank Advance Rates (Melbourne)

June	Bills 3 months	Bills 4 months +	Overdraft
1877	7	8	8-9
1878	8	9	10
1879	8	9	10
1880	8	9	10
1881	5-6	7	8
1882	5½	6	7-8
1883	7	8	9
1884	7	8	9
1885	6-7	8	9
1886	6½-7½	8-9	9
1887	6-7	8	9
1888	6	7	8

In 1880 H. G. Turner, of the Commercial of Australia, estimated that two-thirds of all bank advances in Victoria were advances secured by mortgage of land. This was an informed estimate and points to the high levels attained by some of the colonial banks. The Australasia at this time had less than half of its loans so secured, and the Union a smaller percentage. Just as the Australasia had found ways around the limitations of its Charter, colonial banks, with special Acts incorporating similar restrictions on land loans, found them not insuperable. As Turner put it: 'the limitations are practically ignored, in some cases by a special adaptation of the form of entry, but frequently by an entire disregard of them'. Late in the 'seventies a series of Australian court decisions, based on Privy Council verdicts in 1870, appeared to justify the view of the law embodied in the first textbook of Australian banking law published by E. B. Hamilton in 1880. His view was that no one but a shareholder had a right to take action for breach of a local Act (or a charter), and the Privy Council had ruled that a bank lending on land in defiance of its charter could thereby acquire a good title to land foreclosed. Some of the local banks were anxious for more certainty, and the National, New South Wales, and Bank of Victoria combined to press, for the time being unavailingly, for legislation to declare their right to lend on land, as they were doing, and continued to do, freely.

The Australasia had no reason to be so concerned, having forty years' experience of ways of complying with the charter restriction while avoiding its substance. Parkes gave evidence before the Victorian Royal Commission on Banking Laws of 1884 thus:

> 351. Your charter then absolutely prohibits direct advances on real property in the first place does it not?
>
> It does; but I need not say from the way in which this is drawn that it is easily—I do not like to use the word evaded—but an advance can be made on the same indirectly . . . . For instance, we can advance the money today, and take the security tomorrow.

The charter complicated procedure, and that was all; the colonial banks were worrying about an inconvenience not a barrier. McMullen, for the Union, was able to tell the same Commission that his Bank was free of even these minor restrictions. Land was, in fact, through the second half of the century the most important form of bank security whatever charters and acts might say. The serious problems were not legal ones.

The Union on the whole adhered to its settled policy of interposing a merchant, and developed the principle of co-operation with pastoral and mortgage companies. By 1878 it had intimate associations with three mortgage companies as well as Dalgety's, a pattern being followed by other banks, especially the Colonial of Australasia and the Bank of New Zealand. In each case, the association meant that the bank left long-term finance to the company, but in return, provided short-term funds for the company and had the bank accounts of squatters steered towards the bank. The Union did engage in extensive direct loans to pastoralists, but the level was kept down by its preference for these indirect methods.

The Australasia refused to follow. Morrah from New Zealand urged strongly in 1877-78 that the Bank promote an associated mortgage company with English capital. He was sure that without it he could not compete successfully with the Bank of New Zealand, nor, for that matter, with the Union. But the Court would have none of the scheme, their most vigorous words being reserved for the suggestion that they should adopt the methods of the Bank of New Zealand. Directors in London had come to accept the view put succinctly by Parkes' successor Sawers in 1888: 'Australian banks, like mortgage companies, make advances on land, and we must do it or else close our doors. Our great safeguard is not to have an *undue* amount of such business.'

What was a due amount was less easy to agree upon. When, in 1886, the Court was critical of the proportion of Bank assets in the form of pastoral advances, Parkes retorted by pointing out that the proportion had fallen, from 44 per cent in 1881 to 42 per cent in 1885, and threw the ball back to the Court:

> We can, of course, lessen the anxiety, and make our position more secure, by determining to reduce our squatting advances, but it must be remembered that there is nothing to fill their places, and that such a policy means reduction in profits and dividends . . . . It is a question for the directors' decision whether the policy of the Bank shall be to do a smaller business and be content with reduced profits.

There could, of course, in the time and place be only one answer, and attention as always concentrated on safeguards. The 1885 pastoral advances of which the Court complained were distributed thus:

6 accounts over £99,000	£825,288
18 accounts between £40,000 and £99,000	997,695
16 accounts between £20,000 and £40,000	441,366
225 accounts between £1,000 and £20,000	951,999
Advances under £1,000	1,014,642
Total pastoral	4,230,990
Total of all advances	9,950,151

The Court confessed, when challenged by Parkes, that 'losses on such accounts have been much less serious in the past than they had supposed', and urged him to maintain strong reserves, spread his pastoral advances widely, and avoid large individual accounts. Loans for long periods they especially disliked, a view shared by Parkes, who, in 1885 for instance, directed New Zealand branches, always prone to retain business by giving long terms, that loans for longer than one year could not be at a fixed rate of interest, and loans for as long as a year should be charged discount not interest.

Large individual loans to squatters were not the only form of land loan. Land selection legislation, in New Zealand as well as in the Australian colonies, produced a class of smallholder, even if in numbers far fewer than intended, who had an urgent need for funds to make the improvements which were a condition of tenure. Both the Australasia and the Union joined freely in such lending, regarding it as particularly good business, subject to wisdom of managers in judging the character of borrowers. The Union, for instance, in 1877 warned Palmer of impending selection in the New Zealand province of Otago and advised him to build up reserves in order to be able to take up business. Parkes was prepared to relax rules about long-dated bills to give selectors discount advances for yearly periods.

There were difficulties at times. Thus, in Victoria, practice was to require consent of the Lands Department to a selector's mortgage if a loan was raised before the selector had paid for his land. In 1877 a new Minister for Lands, Longmore, refused all consents and made sweeping allegations against the banks, which, when challenged, he withdrew, claiming that he really meant other lenders. Presently, discovering that his bid for popularity with selectors had in fact earned their hostility, he climbed down, agreeing to advances up to £1 per acre, a limit which was soon quietly abandoned. There was, however, a taste of things to come. Selection legislation had one legacy in the conversion of pastoral leaseholds into large freeholds; its other was the addition to Australian politics of the theme of cheap and easy finance for farmers. The depression of the 'nineties was to ensure that this found its chief expression in the creation of special government institutions for rural finance.

Growth in the scale of Union and Australasia advance business, and changes in their share of the total, are shown in the table opposite.

Within the Australian colonies, the Australasia virtually maintained its share of total bank advance business, while the Union fell away significantly. In New Zealand the Australasia gained a small improvement and the Union dropped back markedly. As in deposits, both countries show the effect of McMullen's slackening drive in contrast with Parkes' determination to meet the colonial banks' competition wherever he could do safe business. Apart from Western Australia, where it found deposits easier to get than advance

	Advances £'000		% of Bank's total Australian business		Bank as % of all banks	
	1877	1887	1877	1887	1877	1887
Bank of Australasia						
N.S.W.	879	2,198	18.3	24.6	5.5	6.4
Victoria	2,917	4,788	60.7	53.5	13.0	12.6
Tasmania	99	214	2.1	2.4	6.5	7.1
W.A.	—	—	—	—	—	—
S.A.	402	687	8.4	7.7	7.4	8.1
Queensland	507	1,059	10.5	11.8	12.6	8.1
	4,804	8,946			9.6	9.1
New Zealand . ..	765	1,121			6.6	6.9
Union Bank of Australia						
N.S.W.	590	2,708	11.4	32.0	3.7	7.9
Victoria	3,412	2,691	65.6	31.7	15.2	7.1
Tasmania	239	530	4.6	6.3	15.8	17.5
W.A.	—	321	—	3.8	—	24.7
S.A.	447	555	8.6	6.6	8.2	6.5
Queensland	512	1,661	9.8	19.6	12.7	12.8
	5,200	8,466	—	—	10.4	8.6
New Zealand . ..	1,815	1,908			15.6	11.8

business, the Union's only major improvement of relative position in advances was in New South Wales, where its extensions into the central south brought the kind of pastoral business it favoured. Its greatest relative decline—indeed a sharp decline in the absolute level of advances—was in Victoria.

The Australasia's extension into the Riverina district of New South Wales brought large rise in the absolute level of advances and moderate gain in relative position. Its only serious decline was in Queensland, reflecting Parkes' caution about the inveterate borrowing there, and especially his doubts about North Queensland, in particular about the expanding sugar industry. McMullen was convinced of the advantages to the Union of sugar advances, and maintained his relative advance position, but even he could not maintain deposits against the aggressive competition of the local banks, and the strong local feeling in favour of Queensland banks, which was expressed, for example, in the government transferring its account from the Union to the Queensland National, and in the formation of the Bank of North Queensland and the Royal Bank of Queensland.

Reflecting the intensity of competition, reserve ratios for many banks were low. For most, though not all, of the colonial banks, coin holdings of between 10 and 15 per cent of the total of notes and deposits were common. Ratios for the same bank could differ widely between colonies, but percentages over all colonies were not often above 15 per cent, which McMullen, for instance, regarded as the lowest permissible figure in the best of times. The Australasia, in December 1877, held 21.6 per cent, and increased this to 26.0 per cent ten years later; the Union, which had operated on lower figures, had also strengthened to 23.8 per cent in 1887. Such high ratios could at times be matched by those of a colonial bank, but in general, the colonial banks were distinguished by low ratios, and usually the smaller the bank the lower the ratio.

Competition took various other forms. One minor improvement in service was achieved by both banks in 1881—the opening in London of current accounts for colonial visitors in London. This had been canvassed several times during the 'seventies, but the number of customers interested was small, and both banks were unwilling to antagonise London banks, with whom they had good relations. Convention prescribed that English business was for purely English banks. But the number of customers who wanted the service increased, and several other banks—notably the Oriental and the New Zealand—provided it. The Union's arrangement, of introducing visitors to its own bankers, Glyn's, was no longer acceptable, and New Zealand managers especially were reporting that, small as the matter was, it was not unimportant as a competitive point. Discreet inquiry showed that London banks would not resent the provision of such accounts purely for temporary visitors, and the two banks acted together in making them available in 1881.

A few years' experience with direct cable communication and the contemporary speeding up of mailboats produced from bank customers pressure for modifications in the technique of foreign exchange dealings. By the late 'seventies surface-mail improvements were creating conditions in which an Australian importer would be confronted by bills which, drawn by his English creditor on the customary Australian usance of sixty days after sight, would fall due for payment uncomfortably soon after the goods arrived by slower freighter, perhaps a sailing ship; indeed it could occur that the bills matured before the goods arrived. The merchants' solution was extension of usance from sixty to ninety days, and, with some hesitation, both the Australasia and the Union agreed, though their acquiescence was not publicised.

The other side of the medal was the desire of Australian and New Zealand importers, with payments to make in London, to take advantage of the opportunity offered by the cable of making transfers payable immediately—which meant that they need make no payments to a bank in the colonies until immediately before payment was due in London. For the banks the implication was equally clear. To provide telegraphic transfer payments in London deprived them of the interest gain involved in mail transfers, and although, as has been seen, the service had been grudgingly provided for a few years, it was not offered generally, and while an adjustment of rates was appropriate, the amount of adjustment agreed upon between the banks was excessive, and designed to discourage the business.

The Australasia responded to customer pressure in 1879 by removing the limits on the amount of such transfers, while not yielding on rates, but by 1883, was again discouraging them, although prepared to meet competition. Selby in London wrote:

> This business has effected a revolution in the exchange transactions of this country with America and India. The change appears at present to be unprofitable to the banks, but as it has resulted from an extension of telegraphic facilities it could not long have been effectively resisted by them. As it appears that the Comptoir d'Escompte is ready to conduct such business in Australia, it is necessary to be especially careful not to prohibit arrangements desired by customers, when they can be profitable to the Bank.

The Comptoir had opened an office in Melbourne and another a little later in Sydney, not for general banking business, but for exchange dealings arising out of French interest in Australian wool, and its competition was therefore important. (The Comptoir after troubles in 1889, unconnected with Australia or New Zealand, was reconstructed as the Comptoir National of today.)

The Union's reaction was similar. Adjustment to the new type of business was accepted as inevitable, but to be delayed as long as possible. Yet there were compensations. As telegraphic transfer business extended during the 'eighties and became more general, both the Australasia and the Union found that it regained for them exchange business which they had lost to an 'outside' market of merchants and pastoral companies, who did not find convenient or profitable the holding of London cash reserves required by the business. For a similar reason, the two Banks found that they were acquiring a competitive advantage over colonial banks whose London operations were small. Telegraphic transfer had come to stay.

Parkes was tireless in pursuing another matter, in which, in his view, the less cautious colonial banks were securing an unfair competitive advantage, namely clearing. He made his objective the establishment of daily clearing in all main centres, with settlement of balances in gold. Except in Melbourne, which had its clearing house, balances were settled in gold or drafts (for example on London, or another major branch) at the convenience of the paying bank, and in several of the colonies settlements were weekly. Fairly enough, Parkes believed that such arrangements enabled many colonial banks to operate on lower cash reserves than would be possible in a system of daily clearing and gold settlements.

In New Zealand resistance of the local banks was protracted, although there Parkes had the support of the Union and the Bank of New South Wales. Between 1884 and 1886, it seemed several times that success had been achieved, but it was not until the latter year that stable agreement was secured. The same year he had a similar victory in South Australia. Tasmania did not follow until 1888.

New South Wales was even more intractable. There, the two major local banks, the Commercial of Sydney and the New South Wales, while eventually conceding daily settlements in 1888, held out for a clearing pool of government securities instead of gold. Parkes attributed the Commercial's view to its general manager being a brother of the premier, who saw in the device a useful testimonial to New South Wales government securities. The New South Wales held out, though the Commercial did not, when all other banks in Sydney agreed on daily clearing in gold in 1888, but the inconvenience of being the only bank outside the arrangement overcame resistance and, from mid-1890, the clearing agreement included all Sydney banks.

Bank premises, too, began to be seen as ways of impressing the customer. To provide more fitting headquarters for the Bank in Melbourne, the Union in 1877 bought, for £33,000, the Criterion Hotel in Collins Street. On this site was erected the building which is now the 351-7 Collins Street office of A.N.Z., but now without one of the striking and much-criticised features of the original—two square towers. The whole structure of the building was dictated by a facade prepared by a London architect, a design insisted upon by the Board, behind and conforming to which, Melbourne architects had to plan the building. The Union moved into the premises in July 1880.

The 1884 collapse of the Oriental prompted the Union to seek its own freehold premises in London, since its lease from the Bank of England was running out. An offer was made, unsuccessfully, for the Oriental's premises on the corner of Moorgate and Lothbury, and later for that bank's Threadneedle Street office. But these and other negotiations were fruitless, and for the time being the matter was solved by the Bank of England offering to extend the lease for twenty-one years.

It was in keeping with Parkes' almost fanatical pursuit of efficiency and proper procedure that he was a pioneer in the adoption of technical equipment. In 1878 he secured from London for trial, samples of 'Patent India Rubber Copying Sheets' to improve the press copying of letters, a practice which dates from his time and was, thenceforth, until the typewriter was commonplace, the bane of the junior clerk who had to make copies and of anyone who had to refer to the semi-transparent 'flimsies' the process required. In 1884 he made an innovation more generally applauded. The *Insurance and Banking Record* reported that the head office in Melbourne had installed electric light: 'The machinery at the Bank consists of a 50 h.p. light dynamo driven by an Otto silent gas engine of 6 h.p. The 50 Swan lamps are each 20 candlepower. Each lamp can be turned on or off separately.' The Court in London reproved Parkes for 'experimental expenditure', but went on to ask for precise details of cost and of the results of the experiment, so that London office might consider following suit. Parkes stoutly defended himself, insisting that the substitution of electricity for gas was essential for the health and comfort of the clerical staff, who were delighted with the change. That 20 candlepower lamps should be a great improvement suggests the conditions to which they had been accustomed.

Two years later, Parkes was investigating the use of the typewriter, then just developed to the very limited level of efficiency which was making its use in business worthwhile: 'It is an excellent substitute for bad writing, even if there is not much time to be saved by its use'. His choice finally fell on a Remington typewriter, which, with the special desk designed for it, cost £31. It and other machines which slowly followed were, for a long time to come, reserved for important letters and the work of the largest offices, but the proportion of records typewritten thereafter steadily, if slowly, increased.

More revolutionary was Parkes' decision, simultaneously with the purchase of the machine, to employ 'a lady, Miss M. E. Swifte, at a weekly wage of 25s' to operate it. Miss Swifte was the first woman clerk in the Australasia, and perhaps in any Australian bank, and held the post to which she was first appointed—'Superintendent's typist'—until she retired after almost thirty-four years' service in January 1921. Parkes was very pleased with her early performance, and advocated extensive employment of women; they would not be acceptable to customers at the counter, and would not normally remain in employment for many years, but he believed they would be very efficient in the routine work which was so large a part of all banking. But in this Parkes was before his time. His death within a month of proposing more female employment left unknown what he might have attempted; in the event, the move was delayed until the labour shortage of the 1914-18 war.

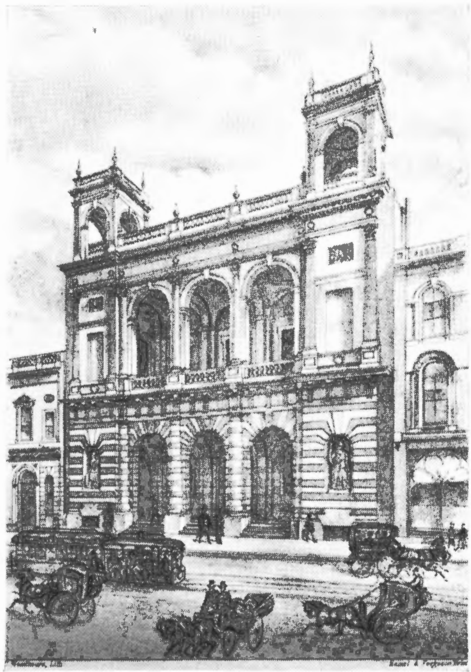
Bank agreements continued as prolific in the 'eighties as in the 'seventies and 'sixties, and were as frequently broken and evaded. In these years of fierce competition the Australasia and the Union took exactly opposite positions. Parkes was strongly in favour of tight agreements while his directors were against them; McMullen wanted no agreements but his Board remained convinced of their virtues. Thus McMullen wrote in 1877:

> We have under [agreements] been controlled in almost all our operations by a numerical majority of banks whose business, especially in exchange, is, with many of them, a mere bagatalle compared with ours. Our chances of profitable extension have been greatly lessened, a bitter and discontented feeling has been engendered amongst our best supporters by what they believe to be an arbitrary and hostile combination with the other banks to exact excessive rates (and I must admit that occasionally it would not be difficult to sustain this definition of our compact). Agreements have also tended, as they will continue to do, to increase the number of our competitors by holding out the temptation of high rates (and for new banks large dividends) albeit the rates are fictitious and likely to give place as heretofore to periodical and very pernicious fluctuations under the capricious action of any one bank.

These were very much the arguments which the Australasia Court was pressing on Parkes from 1877 onwards, and especially in 1880. As the Court saw it, agreements were never kept (except, the Court implied, by Parkes), and formal agreement, followed by inevitable unilateral breach, produced not stability in rates but extreme

New Zealand Herald

Victoria Street, Auckland, New Zealand, in the 'seventies. The Union Bank of Australia is on the first corner (Queen Street) on the left. At the rear of the building is the manager's residence—three windows in the upper storey and one in the lower.



The Union Bank of Australia, Collins Street, Melbourne. In July 1880 the Bank moved into this building, erected on land it had bought in 1877, now numbered 351-7.

The towers of the Union Bank appear in the centre of this photograph of Collins Street taken from the Elizabeth Street corner at about the turn of the century. In 1905 the Union Bank building was remodelled; a third floor was added and the towers removed.

fluctuations and intermittent warfare. In combination banks professed to limit deposit rates and to set high maxima for advances, which gave colour to charges of monopoly, and so far as genuinely observed, drove business outside the banking system to other institutions. Since many banks, especially the smaller, signed but ignored agreements, they were the chief beneficiaries; their margins of profit were less, but they were building up their volume of business at the expense of banks which honoured agreements—especially the Australasia.

Parkes, however, persisted in his view that proper agreements, properly kept, were desirable, and devoted much effort to their negotiation. As always, his directors loyally supported him while they tried to persuade him to be less singleminded in his pursuit. Selby wrote to him in 1883 offering a set of rules for agreements if he must have them:

1. Rates to be fixed for all probable business.
2. All rates fixed as minimum against the customers and maximum for them.
3. Rates to be altered in favour of customers on the demand of any one bank, pressed after notice and discussion.
4. Any non-customer applicant for terms on business not provided for to be asked whether he has previously applied to any other bank and to be cautioned that terms are given subject to his assurance that he has not done so. If he has, quotation to be declined. Terms given for any such business to be quoted to other banks on application by them. No such terms to be used as a lever to obtain an account.
5. A copy of the agreement to be signed by every branch manager affected by it, with his personal pledge that he will neither evade it, or attempt to evade it, himself, nor countenance any evasion or attempt at evasion by others. Such signed pledges to be lodged with the Secretary of the Associated Banks.

It is difficult not to believe that Selby was parodying Parkes' ideal agreement; Parkes probably believed these were good practicable rules.

The Union Board equally supported McMullen while trying to convert him. In 1884 he won substantially by inducing the Board to resolve:

> That the Inspector and General Manager be instructed to try to have a general understanding amongst the banks as to rates for business; but not to be bound by agreements in every transaction, and that a discretion be given to him to withdraw quietly from agreements, if he should think proper, as their working in the past has not been to the advantage of this bank.

For McMullen the substance was not in the instruction but in the qualifications. They described what he had been doing for years and would go on doing to the end. Covert evasion of agreements was left to the smaller banks, but the two chief overt breakers of agreements in the 'seventies and 'eighties were McMullen of the Union and Shepherd Smith of the New South Wales. Shepherd Smith, enterprising, aggressive and self-confident, resisted all agreements, and when coerced into joining one, promptly set about finding reasons for denouncing it. Again and again agreements collapsed, usually throughout all colonies, as he brushed them aside. McMullen was less aggressive, but not less persistent in welcoming escape.

In this there can be no doubt that McMullen was right and Parkes wrong. If well-kept agreements had been possible, which they were not, banks were very far from monopolising financial business whether deposits, advances or exchange, and could not have imposed rates different from those of a competitive market except by driving business elsewhere. The most they could have achieved was orderly competition on known and published terms—Parkes' unattainable ideal. Since agreements were never long kept, they invited the opprobrium of attempted monopoly (and some of its loss of business) and introduced fluctuations in rates which would not have occurred in untramelled competition; the principal sufferers were those banks which honoured their signatures.

The boom created staffing difficulties and both the Australasia and the Union had to recruit junior staff in London. The Australasia paid lower salaries for juniors than the Union—£40 a year for new recruits aged 16, compared with £50, for instance—and Parkes was a rigid master. He insisted, in 1887, that an applicant must have passed an examination of the newly formed Bankers' Institute of Australasia and that 'his family must be of undoubted respectability and social position, while the applicant himself must have been well brought up and bear a good character'. Officers were forbidden to have private dealings except in cash, or to engage in private transactions with a customer. Managers were instructed to watch the private lives of their juniors and not to allow them to board at hotels. (If necessary to avoid a hotel, a manager was directed to take a junior into his own home.) Staff were expected to work late—the Court in 1889 responded to complaints of excessive overtime by pointing out that, in London banks, 'even nine o'clock is not considered exceptionally late'. Parkes would have followed other Australian banks, including the Union, in prohibiting marriage of clerks below a specified salary (not normally attained until about age 30), but his directors found the principle objectionable. For such conditions of employment the junior in the Australasia received a probationary appointment, commencing at £40 a year and rising by £20 a year (with a living away allowance of £20); if taken on to the permanent staff, he could hope to attain £145 a year at 21, with no further increases unless he secured promotion out of the clerks' ranks. The Court, in the boom year of 1885, thought these salaries excessive. Yet the Australasia found less difficulty in recruiting juniors than the Union.

At times, it is true, the Australasia looked abroad for staff. In 1882, Parkes being in London, the opportunity was taken to recruit a few juniors, and from time to time others were sent out on the Court's initiative, while in 1884, New Zealand branches were circularised to look out for promising youths who might be employed in Australia. But on the whole, spontaneous applications and local recruitment by branch managers served. Under Parkes the Bank had acquired the reputation of being hard but just. Parkes demanded efficiency and was ruthless in penalising incompetence, but the youth who measured up to these standards could expect recognition and advancement—the Australasia rarely imported a senior man in this period.

By contrast, McMullen paid higher salaries, and was a far easier master for juniors. In 1886, for instance, the maximum salary for Union clerks was £200 against £145 in the Australasia, until the Board insisted on reduction to £150. He was quick to alleviate genuine hardships, providing, for example, in 1884, a special tropical allowance (of 20 per cent of salary, with a maximum of £100) as branches were opened in northern areas. Whereas Parkes, his eye on automatic check on embezzlement, insisted that staff must take annual holidays, McMullen allowed the rule to lapse, so that officers might, if they chose, sacrifice holidays to more pay. His only serious restriction was to persuade the Board to introduce, in 1884, a bar to marriage by officers with an income below £250, and his motive was paternalistic, to remove a source of temptation to dishonesty.

Yet the Union found juniors in Australia not attracted to its service. The Board was critical of the cost, and puzzled by the need to recruit in London. In 1883 some thirteen juniors were sent out, and in seven months of 1884, another twelve; they had cost £2,000 in passage money, with no certainty that they would stay in the service. Some did, and London recruitment gave the Bank three future general managers. Samuel Hallamore was sent out in 1874, with the restrained recommendation that he was 'an eligible candidate for our colonial staff'. Somewhat more senior was A. H. Chambers, a 26 year old recruit of 1876, who had already four years' experience in the Northern Bank of Belfast. The appointment of David Finlayson the following year was of a different sort. He was then aged 35, and had fifteen years' service with the Chartered Mercantile Bank in India. The Board designed him for the important post of Sydney manager, and was prepared to pay him, exceptionally, £2,000. 'His reputation as a banker in the East is second to none . . . . He has been accustomed to mix in the best society in Bombay, and the remuneration he is to receive at Sydney, though necessarily high in order to secure him, will have the advantage, which the directors look upon as of moment, of enabling him to maintain a suitable social position as the Bank's representative in so important a place as Sydney'.

McMullen was opposed to such senior appointments from overseas, genuinely because of his belief that juniors should have the highest posts open to them, but also because he saw in them a threat to his own position. Initiative and independence in a manager were unwelcome to McMullen. But junior staff he had to have, and London recruitment was pressed ahead, appointments being rarely less than one a month. In 1881 the Board responded by laying down some rules of procedure. Those recruited in London were to be between 21 and 25, with five years' experience in banking or a related occupation, and paid, at the age of 21, £150 a year. Juniors recruited in the colonies must be at least 16, and would be paid at that age £50, rising to £150 after five years' service. From that point, the two groups would advance in step by four annual increments to £200, the maximum for clerks. London recruits, unless they had passed either the Oxford and Cambridge Local, or Civil Service examinations, would be examined by the Rev. William Jowitt (who performed a like service for the London and Westminster Bank), at a fee of two guineas each.

But the Board was also concerned about senior posts, as illustrated by their choice of Finlayson, who was probably destined from the outset to succeed McMullen. McMullen, in his last ten years, caused the Board increasing concern by his attitude to senior staff. More and more he drew all effective control over policy into his own hands, narrowing the discretion of managers, and ignoring reiterated advice from London that more, not less, delegation was necessary. As the Bank grew, a general manager needed to free himself of direct responsibility even for major branches, and to encourage

Royal Victorian Historical Society

Sturt Street, Ballarat, Victoria, in 1903.
The Bank of Australasia was on the corner of Lydiard Street nearly opposite the clock tower.

State Library of Victoria

Geelong, Victoria, 1867. The Bank of Australasia's three-storey building, corner of Malop and Geringhap Streets, is on the right behind the trees. It contained a large boardroom and a splendid circular staircase extended from the ground to the top floor.

senior managers to display greater initiative. McMullen ignored the advice, and stubbornly resisted several Board moves to reorganise the Bank on a divisional basis with substantial delegation. Initiative in a manager met sharp reproof, and even the limited powers of Palmer as chief officer in New Zealand were reduced. Increasingly, as he aged, McMullen refused to believe in the competence of men he had chosen himself, to criticise them to London and to reprimand them sharply. Lack of good managers became his regular reason for not opening new branches. Thus he wrote in 1880:

> We are badly off for men fit to manage. If I had really good managers at the best points I could make much more than 16 per cent even in these bad times but men of that class are not to be had for the salaries we can afford at minor points, and we are obliged to put up with mediocrity or worse, which is another reason why we should not rush to open new and vulnerable points. It would not improve matters to import managers save for important places, as in Finlayson's case, and therefore good juniors should alone be sent out unless on special application.

To make matters worse, McMullen was finding it difficult to maintain good personal relations with his chief executives. Differences as to policy, or suppression of initiative, became personal quarrels. For his hostility to John Curtayne, Melbourne manager, there may have been some excuse, for Curtayne, though a good banker, resented McMullen's strictures on his private life. (He was eventually dismissed by the Board.) But McMullen quarrelled too with Palmer in New Zealand, and bitterly with Parkes of the Australasia, as well as with others of his own senior staff. It is a sad picture in the last years of a long and able career, of an ageing man, suspicious of organisational changes which seemed designed by enemies to weaken his authority, contemptuous of the efficiency of his own senior men, whose enthusiasm he killed as he drew more control into his own hands, quick to take personal offence at a questioning of his own judgment. Happily he was to choose retirement when the Board was screwing up its courage to impose substantial delegation of authority upon him. Here is to be found the explanation of why relatively good pay and favourable conditions of employment for junior staff should prove less attractive than the ruthlessness of Parkes.

When Parkes succeeded McArthur in 1876, the directors felt it unnecessary to give him detailed instructions in view of his long experience with the Bank. But some matters were specially emphasised. The office of Inspector of Branches previously held by Parkes was abolished, 'not because they think your services have been too highly requited, but because they think that the high qualifications which you brought to bear on these duties are not absolutely indispensable when the inspector works under a chief who will look after him as sharply as they hope you will'. Parkes was instructed to keep more control over drawings on London funds, to write more fully than McArthur had done, and to give special attention to the 'deplorable' state of business in Tasmania, and to the more promising prospects in New Zealand.

So Parkes was launched on his career of reform in which for some years his zest for efficiency was an invaluable corrective to McArthur's laxity. No officer under Parkes, whatever his grade, was left in any doubt as to his duties or the manner in which they were to be conducted, nor left in ignorance if he erred. The discovery of a blunder by a manager or accountant evoked a circular order laying down precisely what procedure should be followed. Nothing escaped Parkes, from the method of recording and filing correspondence to the general administrative structure of the Bank.

The Court in 1882 accepted Parkes' plan that all New South Wales branches (except those in the Riverina) and all Queensland branches should be supervised by an inspector in Sydney, and that New Zealand branches should have their own inspector—a first stage in the evolution of a plan for 'districts' each with a resident inspector. But increasing experience of his minutely detailed directives led to attempts to temper his zeal. Selby, London secretary, conveyed London's criticism in the friendly bluntness of private letters:

> A man cannot do more than a day's work in a day, continuously, and as I look at the present circular orders and memoranda I feel that if I were a Branch Manager or officer I should have to choose between neglecting some of them and doing no efficient work at all. If I felt that I must attend to all orders they would weigh so much on my mind as to leave no room for other effective thoughts. In short they would worry me out of usefulness—men are not machines set in motion by a handle and moving on in the same way until the handle is reset. The immediate occasion of this plain speaking is some recent orders and pray do not dismiss my remarks as unworthy of notice because they appear, or may be, exaggerated. Of course regulations are necessary. The question is only *where* to draw the line. Men *will* make mistakes and neglect common sense matters. It is very hard on a service when every such neglect of an individual leads to a new regulation for all. Not that it has done so with us, but that I think we tend that way. Then on a cognate subject—a reprimand or fear

> of a black mark will often do more to make a man careful in future than the actual punishment which he may treat as an injustice and turn into a grievance—the punishment being deserved does not make it always expedient to inflict it. If I seem to you to transgress bounds in writing so freely pray blame my want of tact for I would fain diminish, not increase, troubles which I fear must be hard upon even *your* strength and courage.

That was in 1886. The following year Selby was writing again:

> You cannot avoid giving the key of the Bank's safe to the Local Manager. And you cannot afford to increase charges by employing Managers of more experience. Our charges of supervision are out of all proportion, I believe, to the similar charges of other Banks. Cut them down and you will be able to pay more to the men who, after all, have to do the business of the Bank. But this is rank heresy. Our service is overweighted already with the results of attempts to prevent recurrence of individual accidents. For one risk avoided by liberal provision of extra rule and line a dozen new risks are introduced. Get rid of every manager who shows clear want of common-sense, or of power to say no. Let those who are left have as much liberty as may be at all reasonable, proportioned to their experience and proved character.

Yet the man to whom such strictures could be addressed was apparently, outside business, a likeable personality. He was a keen amateur tennis player, and Test cricket always found him in the stands. With his senior staff he exchanged warm-hearted letters in their personal tribulations. With Selby in London he conducted a long private correspondence, in which a constant theme was their common interest in adult-sized tricycles, then enjoying popularity as a means by which the business man without sporting skill could get exercise. They exchanged notes about the virtues of different makes (Otto, Climax, Rudge), their preference for various wheel arrangements and gears, their spills and their achievements. (Selby, for instance, was inordinately proud of having ridden from London to Dover comfortably within a day.) In their enthusiasm they were joined by Jeans, then London accountant, but later London manager and Sir Walter.

But this was not the face Parkes turned to his staff in business hours. A little more than ten years' rule by an unforgiving martinet was invaluable for the Bank after a long period of easy-going ways, but had it continued longer, it might well have been disastrous. The precise certainty of their duties and how to carry these out, so comforting to juniors, the confidence that efficient service would earn them promotion which carried them through the middle ranks, were souring into frustration among senior managers who felt themselves chained to files and driven to stereotyped procedures.

During the late 'seventies and the 'eighties a curious malaise afflicted the Bank of South Australia. Unhappily the total destruction of London office records makes close study impossible, yet the main points are clear. The colony, it is true, did not share fully in the rapid economic development of the eastern colonies, but in a period of general economic expansion, the Bank, behind a facade of apparent growth, was vegetating. It is clear that management in the colony was lacking in drive and efficiency, while direction from London was ineffectual and lacking in vision.

Superficially the Bank was progressing favourably, and shareholders, widely spread throughout Britain, may well have been impressed by figures of deposits and advances which doubled in thirteen years. But they were at times also restive that dividends did not grow correspondingly. It does not seem, however, that any studied the published accounts closely, for there were some odd features which the directors were apparently never called on to explain.

Bank of South Australia

Balance Sheet Figures

December	Note Issue	£ Deposits	Advances
1876	105,262	1,513,620	1,710,588
1878	119,329	1,757,608	2,401,217
1880	126,451	1,742,166	2,495,513
1882	114,855	1,860,417	2,864,463
1884	114,700	3,113,210	3,753,116
1886	99,487	2,827,886	3,520,271
1888	111,088	2,991,051	3,835,360

Failure to achieve substantial expansion of note issue was of no great moment. The use of cheques was spreading, and Australia shared the late-Victorian English taste for gold coin rather than notes, although to a lesser degree since most Australian notes were for £1. Note issue, in any case, had ceased to be an important source of profit. Growth of deposits seemed impressive, but the accounts did not disclose that, increasingly, these were British deposits, which ultimately were nearly two-thirds of the total. Within the colony the Bank was actually failing to maintain the absolute level of local deposits. In one respect this was an advantage. The London deposit rate was normally well below that in the colonies, and the Bank was therefore securing resources more cheaply than its competitors.

But in the twenty-two half-years June 1877 to December 1888, net profits were sufficient to cover dividends in only three. Yet it was not until the end of 1885 that the dividend was lowered from its usual 10 per cent (occasionally higher) to 6 per cent, and even this, though continued to the end, was hardly ever earned. In December 1885, although net profit was under £18,000, a dividend of £40,000 was paid. Two years earlier, after several years in which dividends had been maintained from reserves, a modest rise in profit, sufficient to cover the 10 per cent which had been customary, was more than absorbed by raising the rate to 12 per cent. In 1885 £50,000 was taken from reserve to cover 'bad and doubtful debts', and in 1887 a further £100,000, leaving that fund at £100,000 only. What the Bank was doing, in effect, was over-stating profits by not making adequate provision for bad debts, and keeping up the dividends shareholders expected by using reserves.

This situation, set alongside the interest advantage on deposits, throws a harsh light on the increasing level of advances. Clearly much of the advance business was unprofitable, and, indeed, involved the Bank in losses, ultimately in very heavy ones. The Bank was getting increased business, but the best business was going to its competitors.

There is nothing to indicate that the Colonial Inspector in Adelaide or the Board in London were alive to the dangers of these trends, nor quick to identify causes, except for constant complaint of unscrupulous and unfair competition. In 1880, the Board appointed an assistant inspector (J. Thornley) to look after branch affairs especially, but this does not seem to have arisen from doubts about the Inspector's efficiency. The reason was rather the increase in number of branches. Kingston and Maitland had been opened in 1876, Port Augusta in 1877, Georgetown, Jamestown, Melrose and Yorketown in 1878, Millicent in 1879, Orroroo and Port Germein in 1880.

Nevertheless unpalatable facts could not be ignored indefinitely, and in the years 1884-88, the directors developed a three-point policy reflecting their somewhat superficial diagnosis of the causes of the Bank's plight. When the colonial inspector retired in 1884, the Board was at least aware of the need for new blood, and chose Vipont Howgate, Huddersfield manager of the Yorkshire Banking Company. When he died suddenly after only two years' service, the Board again looked outside, and after anxious search, appointed J. W.

Meldrum. Two new directors were secured in London. The second point was change in the constitution and powers of the Bank, by the surrender of the Charter and registration under the Companies Act, in 1884. This episode, which is discussed elsewhere, was the prelude to the third policy, of expansion beyond South Australia. With some justice, if very belatedly, the Board had recognised that there were greater banking opportunities elsewhere. Formally the Bank took power to open in all Australian colonies, in New Zealand and in Fiji, and to lend on any form of security, but its actual plans were more modest. The Northern Territory was fleetingly considered, but postponed, partly because staff were reluctant to go there. The London manager commented: 'It would never do to send young married men to the tropics, leaving their wives behind them. I am therefore ready to seek a manager from the ranks of the Indian banks whenever you say he is wanted'. The main factor, however, was the continued lack of enterprise of the Adelaide board, which did not share general South Australian faith in the future of a territory then administered by that colony.

The London Board was convinced that the place to invade was Melbourne, but in 1886 sent one of its own members, A. W. Anderson, to survey prospects in all colonies. He arrived in time to act temporarily as colonial inspector when Howgate died, and made an obvious extension in 1887 to Broken Hill and (briefly) Silverton. Though in New South Wales, these silver-lead towns were economically linked with Port Pirie and South Australia. Anderson found no other place outside South Australia inviting, and specifically advised against Melbourne. He then resigned all connection with the Bank, ostensibly because of the failure of his mission for which he had originally been specially added to the Board; perhaps the knowledge he had gained of weak management in Adelaide and clouded vision in London, coupled with evident awareness of trouble brewing in Melbourne, was a more important reason for his decision.

Undeterred, the Board decided in principle on Sydney and Brisbane branches, and on immediate opening in Melbourne in 1888. To manage the new office, A. G. Eagar was selected (the name was to prove apt) and it was determined that the new branch should be independent of Adelaide control. 'The Colonial manager will be recognised as the superior officer in the colonies to whom reference can be made in case of need, but he is not to interfere in the Melbourne management or assume responsibility in connection therewith'. Each of these decisions was to prove disastrous; within three years the Board was to realise that it had sealed the fate of the Bank.

Developments relating to the charters of the Bank of Australasia and the Bank of South Australia during the 'seventies and 'eighties have to be understood against a background of British Treasury policy. Following the adoption in 1862 of legislation making limited liability generally available to trading corporations, the Treasury formulated, and for a quarter of a century consistently followed, a clearly-defined policy in relation to chartered banks. The Treasury's view was that the 1862 legislation, particularly as later developed and extended, made other forms of incorporation unnecessary; all commercial companies should come under general company law. Special privileges in charters were undesirable, and should, as occasion offered, be cancelled. Moreover, various provisions in charters were obnoxious, as implying some sort of government sponsorship. The very name of royal charter could convey that impression, as could the requirement of making special statistical returns to the Treasury; in the same class were requirements that capital increases should be with Treasury consent.

Accordingly the first phase of Treasury policy was to refuse all new charters. Between 1866 and 1889 no new charter (as distinct from a renewal or a supplementary charter) was issued, and inescapable renewals incorporated, wherever possible, clauses eliminating provisions which the Treasury found offensive. The Australasia's application in 1876 for renewal of its note issue power (the only terminable one) evoked a clear declaration, in a private letter from R. W. Lingen of the Treasury to Farrer, the Bank's solicitor:

> We grant no charters to new banks, and, if obliged to renew old ones, we endeavour as far as possible to omit all provisions which imply Treasury interference. We regard the old policy on this head as utterly exploded and wrong, and should prefer not to renew any charter.

Accordingly the Treasury insisted on inserting in the supplemental charter a clause eliminating compulsory returns. This satisfied Treasury sensibilities and reduced the Bank's obligations, but made little difference of importance, since, in each colony in which the Bank operated, it was required to make quarterly returns. More significant was the refusal to grant an extension of note issue privileges for twenty-one years, as the Bank asked; the Treasury, being engaged on review of all bank charters, would concede no more than ten years, before which, it hoped, general policy would be settled. On these terms the Bank accepted the supplementary Charter, which became effective in May 1877.

Meanwhile the Bank of South Australia had, also in 1876, sought an additional charter, to embody: authority to hold half-yearly as well as yearly meetings; power to lend on the security of land; replacement of the limitation of note issue to the amount of paid-up capital by a limit of that amount plus reserves; and a blanket extension of the Charter by twenty-one years from 1889 (the year of expiry). Welby of the Treasury minuted: 'This is a very droll bank. They never seem to know their own minds or how to attain the object they have in view'. He went on to point out that some of the powers sought, the Bank already possessed; the authority to lend on land was contrary to policy, and, in any case 'we do not grant new privileges by charter'; while the attempt to renew the charter, when it still had more than half its current term to run, was unreasonable. In Welby's view Treasury policy might be served by offering the Bank an entirely new charter in terms acceptable to the Treasury, but in view of other developments, it was better to let the present charter run its term and then expire. The Bank's request was refused. So too was a further application the same year, seeking power to do business outside South Australia. Another application in April 1877 was, however, approved. The Bank's Charter was exceptionally restrictive in that *all* its 'laws' were subject to Treasury approval, and the Treasury readily approved of half-yearly meetings, greater freedom in the use of reserves (which had been limited to meeting 'extraordinary' losses) and modification of the Adelaide share register.

The Bank's attempt to renew its Charter thirteen years ahead of time may well have been prompted by knowledge that the Treasury was preparing a Chartered Banks Bill, which broadly proposed to continue all existing bank charters but to eliminate all Treasury control, including discretion to approve capital increases. All the banks concerned were consulted and accepted the bill (the South Australia unsuccessfully sought inclusion of a clause permitting loans secured on land), but when it reached the second reading stage in August 1879, opposition developed. The Treasury, apparently believing that it was good tactics to defer action while educating members, secured withdrawal of the bill, with the intention, as it told the banks concerned, of reintroduction next session.

While this had been going on, the Treasury deferred action on a request from the Australasia for increase of capital, an application the Bank had itself deferred when negotiating in 1876 for the

Holtermann Collection, Mitchell Library

Bathurst, New South Wales, 1872, looking south along William Street from Howick Street. The low building at left is Cobb & Co.'s booking office. The site of the two-storey building next door was sold in 1835 for £20, and a public house 'The Carriers Arms' was erected on it. In 1846 it became the Union Bank of Australia, and in 1851 a private dwelling ('Capital Mansions'). Two years later it was the 'Victoria Hotel'. In 1863 it became the Australian Joint Stock Bank (the occupants in this picture), and in 1918 the Bank of Australasia bought the building for its branch; after the merger in 1951 it became a branch of Australia and New Zealand Bank.

Maitland, New South Wales, about 1893. These Australasia premises, erected in 1870 were perhaps the most elaborate bank building ever erected in Australia outside a capital city. The wing to the left has been converted to shops, but Australia and New Zealand Bank still occupies the centre and right portions.

New South Wales Government Printer

Orange, New South Wales, 1887, looking west along Summer Street from Lord's Place. The Union was at Orange from 1858 to 1862 and reopened there in 1887, the year in which the Australasia opened a branch.

extension of its note issue powers. Now the Treasury, which in this, as in all the various negotiations in pursuit of its anti-charter policy, showed itself firm but scrupulously fair, decided that the application should be approved. Had the Chartered Banks Bill become law, the Australasia would have had freedom to increase its capital; its present application had been made in February 1878, and to require it to await the problematical fate of the bill would be unreasonable. The Australasia was offered, and accepted, a supplementary charter permitting increase of capital from £1,200,000 to £2,000,000, by steps for which Treasury consent would not be required, on condition that the Bank would give an assurance, which it did, that it would continue its support of the bill when reintroduced.

The Parliamentary weather was, however, unfavourable, and the Treasury sought to achieve the objects of its bill by devising a 'model charter'. The main purpose of this was to bring each chartered bank under the provisions of the Companies Act, and the Treasury was disposed to take a strong line, insisting that every chartered bank would be required to accept the model as its existing charter expired, and that no special clauses would be allowed. By 1883 the terms of the model charter (which would have a standard term of ten years) were determined, and the various banks concerned were persuaded to give formal acquiescence. The Australasia was in a strong position, since its charter was perpetual except for note issue, and in the years 1883-85 there was much anxious discussion as to the ways in which the Bank might proceed if the Treasury should refuse extension of the privilege. The Australasia case illustrated the attitude of most of the chartered banks: they were reluctant to surrender chartered privileges but could not afford an open breach with the Treasury. The Treasury was unwilling to press matters to a conclusion. What emerged within the Bank was that the directors were impressed by the prestige advantages of the Charter, while Parkes was insistent in his view that it was an incubus, and that the Australasia should follow the lead of major English banks of the period and register under the Companies Act.

At this stage a new issue arose. The Ionian Bank got into difficulties, which presented complex legal problems because it traded under both a British charter and a Greek one, the two charters being in conflict. Rescue came from the Treasury which prepared a private bill to enable the bank to come under the British Companies Act. At once the Bank of South Australia saw its chance, and submitted a bill of its own, its purpose being to secure the advantages of the Companies Acts while retaining some of the privileges of the charter, which it seemed could not much longer be held against Treasury attacks.

Welby, of the Treasury, described the Bank's draft as 'a clumsy bill which had to be chucked out', but when it became clear that the Bank would accept the Treasury's revision, that department was ready to sponsor the bill as a way of disposing of at least one charter. Indeed, other banks were invited to follow suit; the Australasia, which received such an offer, coyly evaded reply. In the case of the South Australia there were two chief issues: the Bank wanted power to lend on the security of land, and the best of both worlds in regard to limited liability. The Treasury would not include explicit power for the former, and arrived at a reasonable solution to the latter.

The Bank of South Australia Act of 1884 cancelled the charter and empowered the Bank to register under the Companies Acts of 1862-80. It might operate in any Australian colony, New Zealand or Fiji, but must, in any colony, comply with all local laws. The critical clause was that relating to liabilities. Under the charter, liability was limited to twice the subscribed capital, whereas under the Companies Acts, the limit was half this. To preserve the rights of creditors, the Act provided that the charter, and not the Companies Acts limit should continue. On the other hand, under the charter all liabilities were limited, whereas the Companies Acts provided that a bank registered under those Acts should have unlimited liability for note issue. There was here a question of justice to Bank of South Australia shareholders, and the Treasury solution, embodied in the Act, was that for seven years the charter protection should apply and thereafter the unlimited liability of the Companies Acts would be incurred. This was a sensible solution, but in 1895 a Court of Appeal, presided over by no less a judge than Halsbury, was to be highly critical of the arrangement which they found 'clumsy', 'obscure' and difficult to understand. It may be suggested that their lordships' difficulties arose from a marked ignorance of the very recent history of British company law, and a fixed idea that to use 'limited liability', to mean any other limit than the amount of subscribed capital, was improper; however their confused reasoning finally arrived at the obvious interpretation and the only possible verdict.

The Bank of South Australia was not satisfied on the matter of land loans, and as soon as the Act of 1884 was in operation, returned to the attack with an amending bill. The Treasury was opposed to the principle of a special private bill for a company now registered under the Companies Acts, but after negotiations, acquiesced in a compromise solution. The Bank was also seeking repeal of the provision for ultimately unlimited note issue liability and power to carry on banking in London. The former was summarily rejected, and the latter excluded, on the grounds that the power nominally sought, to conduct banking 'arising out of or connected with its ordinary colonial business', already existed by implication. It may be noted that the Bank of Australasia was at this time also concerned as to whether seeking British deposits and keeping current accounts in London for Australian visitors might be breaches of the Charter. Their solicitor, Farrer, roundly told the directors that they were infringing the Charter, but as the offence was minor and the Treasury's only legal weapon was to cancel the whole Charter, the less said the better; the Treasury would not take such drastic action and would not thank the Bank for raising the question.

In connection with land loans, the Treasury ascertained that they were common in Australian banking, and no colony had general laws against them; there were some private bank Acts in the colonies which contained qualified prohibitions (based on the old Colonial Bank Regulations) but these were largely and legally avoided. The Governor of South Australia, consulted by telegraph, saw no objection, and the Treasury yielded, requiring only that the power to lend on real estate (which the Bank had been doing for half a century) should not be exercised until a three-quarters vote of shareholders approved. In these terms, the bill was passed in September 1886, and after a lapse of two and a half years, the special resolution was passed. The Treasury, which had been anxious to protect shareholders, could not have foreseen that the occasion for the delayed resolution was a plunge into Melbourne real estate speculation which was to destroy the Bank.

Meanwhile the Australasia, secure in its perpetual charter and note issue powers valid until the end of 1887, had fended off Treasury moves for a special Act for the Bank. By the time a supplemental charter for note issue had to be sought the Treasury had to recognise opposition (spearheaded by the Duke of Buckingham) to all special legislation for banks, and had returned to the policy of 1879, a general chartered banks bill. Hence the Australasia's application was met by a minute:

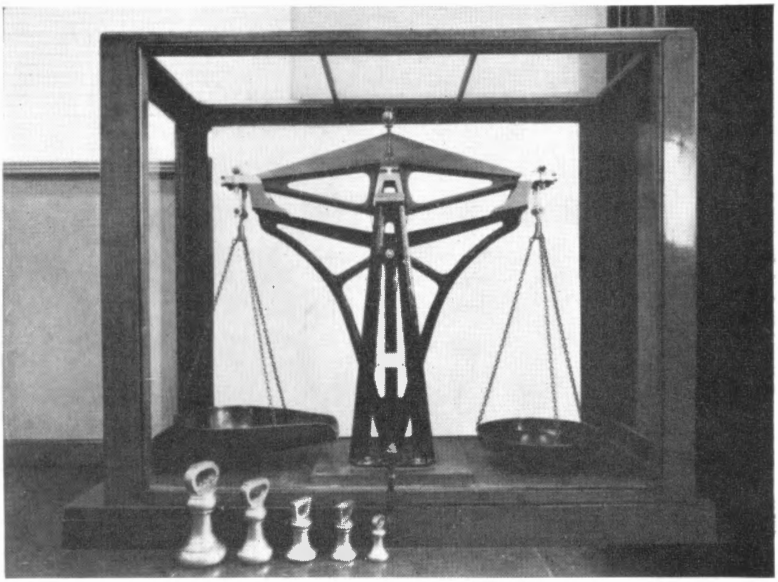
> The grant of supplemental charters to banks, which keeps alive an antiquated machinery, which involves a questionable interference of the Treasury in trading institutions, and which may subject such institutions to uncertainty and inconvenience, is a system which it is desirable in the interests of all parties to determine.

The Australasia was accordingly assured of a ten-year renewal of note issue, provided it agreed to the insertion of a clause enabling the Treasury, after the passage of its chartered banks bill, to give two years' notice of termination of power under the charter to issue notes. The Bank agreed, and the supplemental Charter was issued, although because of hitches over the form of words relating to the proposed Act, it was not issued until 31 December 1887, the day before existing powers lapsed.

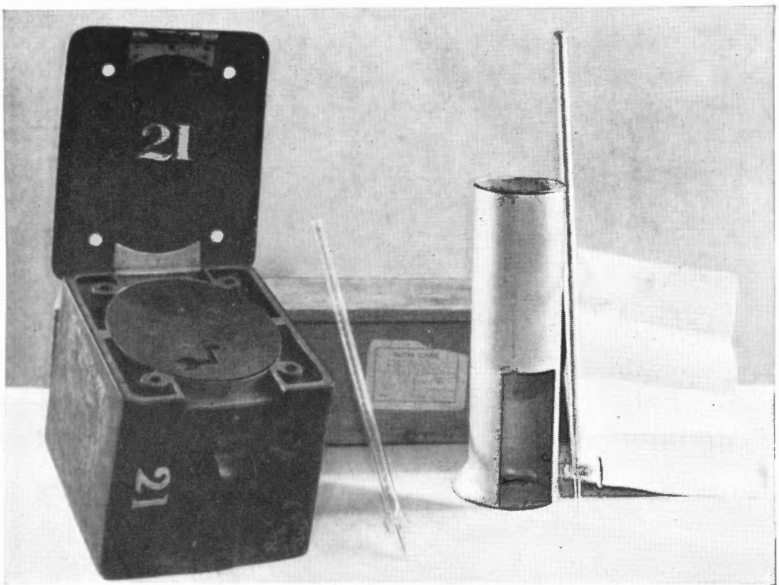
It seemed, however, that the end was near. The Treasury's draft bill was a generalisation of that for the Bank of South Australia in 1884, and, had it passed, the Australasia would have faced the choice of registering under the Companies Acts or abandoning note issue. However the Treasury's power in banking matters was crumbling. Members of Parliament were more responsive to private pressures on behalf of chartered banks than to the Treasury's general principles. The bill did not go ahead, and indeed, in 1889, the Treasury suffered a crushing defeat when the government insisted on a charter for the newly-formed Bank of Persia.

Thereafter the Australasia's Charter was secure. Renewals of note issue power and increases of capital were authorised, from time to time, in eight supplemental charters up to the last in 1943. Long before then all other royal charters had disappeared from Australian banking. The Oriental Bank failed in 1884; the E. S. & A. and London Chartered lost their charters in reconstructing in 1893, leaving the Australasia the last, as it had been the first, to operate in Australia and New Zealand under royal charter. (The final surrender of the Charter, in 1951, was a necessary preliminary to the Bank itself ceasing separate existence as it merged with the Union.)

While the Australasia and the South Australia were considering the Treasury's proposed bill of 1879, the Union was at long last preparing to acquire limited liability. Dramatic British bank failures in 1878, notably that of the City of Glasgow Bank, had evoked two major responses in England. On the one hand was the amending Companies Act of 1879 which, among other things, facilitated registration by banks as limited companies; on the other, shareholders in banks which had not acquired limited liability became insistent upon protection, and a number of leading banks became, for the first time, 'limited', among them the National Provincial and the Westminster. The Union shared in this pressure, and for a time flirted with ambitions for a charter, but a new charter was firmly rejected by the Treasury, and a scheme, for buying up a small chartered bank for its charter, was found impracticable. A



A set of gold scales in their original case (now in the Ballarat branch of Australia and New Zealand Bank). The pans are of copper and the lever below the scales is used to "ground" them when not in use. The five gold scales weights are equivalent to 100, 200, 300, 500 and 1,000 sovereigns.



On the left a metal bullion box for the transport of raw gold; on the right the gold testing apparatus designed by J. P. Doyle, Perth manager of the Bank of Australasia at the turn of the century. Employing exactly Archimedes' principle, bank officers weighed gold and measured its volume by displacement of water from the cylinder. Comparison of weight and volume coupled with simple tests, for example colour and hardness, suggested the nature and degree of impurity, and aided by prepared tables (which appear at right) officers could determine the Bank's buying price.

Bank of Australasia, Peak Hill, New South Wales, 1907. The manager, A. J. Shaw, stands to the right of the horse.

A selection of nineteenth century arms for the protection of the Banks' property.

private Act was considered, but made unnecessary by the 1879 legislation.

The Union directors, late in 1879, therefore decided to seek registration. A preliminary difficulty was that its shares were fully paid, and simple conversion to limited liability (except for notes) was certain to be ill-received. Accordingly the Board proposed, and the shareholders agreed, that nominal value of shares should be increased from £25 to £75. Shareholders substituted £50 reserve liability for unlimited liability, while creditors might reasonably assume that a two-to-one reserve liability (a ratio which was thereafter maintained for the whole separate life of the Bank) would be adequate protection. With alacrity the shareholders adopted the proposal, and from 4 May 1880, the Bank became The Union Bank of Australia Limited, amid favourable notice in the London and Australian newspapers. The chief sufferer was McMullen, who endured chronic writer's cramp as he signed the countless notices of the change, which the law required to be sent individually to customers.

Changed legal status required amendments to the deed of settlement. The opportunity was taken to declare that the Bank might operate anywhere 'East of the Cape of Good Hope and South of the Equator', despite the resistance of some shareholders to business outside British territory. (The real issue was Fiji, to which the Bank had been invited to extend.) Another consequence of the change was the need to appoint auditors, so that the balance sheet of July 1880 was the first to carry a certificate of audit. The auditors promptly objected to the practice of presenting balance sheets combining London figures with colonial ones of six months earlier. This practice, which had some excuse in early years, was unjustified after cable communication opened in 1872. The balance sheet of January 1881 was the first on a uniform basis.

As has been seen, the Union Board became increasingly concerned with McMullen's centralisation of all control in himself. In 1883 they wrote to him:

> The directors, after deep reflection, suggest that you appoint two chief officers to relieve you of some of your routine work. Just as Mr Palmer supervises ordinary business in New Zealand, Finlayson could control New South Wales—Queensland—Fiji, and an Assistant Inspector could help you for the southern district. They feel that when you retire a less able man would not be able to handle the business as you do, and would require assistance. Any such change as that suggested would best be carried out under your direction.

McMullen did not rise to the flattery, and resisted so vigorously that the directors temporarily dropped the subject.

They recurred to it, however, when McMullen visited London in 1884, appointing a sub-committee to confer with him. McMullen stoutly resisted any 'district' organisation, and the most the Board could achieve was a compromise. This provided that New Zealand business should continue to be controlled by a chief officer subject to the general manager's control; that Victoria and Tasmania should be directly controlled by the general manager, with the aid of an Assistant Inspector; that in each of New South Wales, Queensland, South Australia, Western Australia and Fiji the manager of the chief branch should be responsible for supervision and inspection of branches, with regular visits by assistant inspectors.

The Board soon realised that the compromise was a victory for the general manager, for this system depended on McMullen allowing assistant inspectors and chief managers discretion, and this he did not do. There was friction with Palmer as chief officer for New Zealand, who complained, with justice, that McMullen used his control over the size of the New Zealand London cash account as a lever to compel Palmer's subservience to control in detail; none of the others concerned had any formal authority other than what the general manager allowed. Repeated urging on McMullen that he should delegate elicited neither reply nor action, and the Board determined, when he next visited London, to enforce changes.

In preparation, a sub-committee reviewed the position of the Union relative to that of the Australasia, using the five-year period 1882-6 as a base. During that period they found that the increase in advances in the colonies for the Union had been £1,600,000, for the Australasia £3,200,000. Victoria had shown an outright decline for the Union of £452,000, compared with an increase of £1,900,000 for the Australasia. Of all the colonies in which they both operated, only Queensland showed the Union advancing more than the Australasia. In the five-year period the Australasia had opened four new branches to every one of the Union's (the committee apparently included receiving offices). The Australasia was developing suburban branches extensively while the Union had one lonely one in Sydney; in Victoria the Australasia had almost four times as many branches as the Union, and in particular had twenty-six country branches against three for the Union. The Australasia had adopted a system whereby a resident inspector in each colony supervised all branches except the chief one, whereas McMullen persisted with extreme centralisation.

The result was anti-climax, for McMullen announced his resignation upon arrival in England in May 1887, and the Board promptly appointed Finlayson to succeed him. The Board's views on the need to overhaul the Bank's organisation were referred to Finlayson with only one formal change: his title became in 1888 General Manager in place of 'Inspector and General Manager', to facilitate the creation of the grade of inspector as a more senior supervisory post than assistant inspector.

While McMullen was still at sea, on his way to London, Parkes suffered fatal injuries in a railway accident. As his successor, the natural choice was John Sawers, and to him the Court wrote:

> They have committed this great and important charge to you partly in reliance on the favourable estimate of your qualifications communicated to them confidentially two or three years ago by your lamented predecessor, but also influenced by the favourable impression made upon them during your last visit to this country, and the evidence of power and judgment shown in your brief management of the New Zealand branches.
>
> They expect much from you, and, taking for granted that you will do your best not to disappoint their expectations, they avail themselves of this early opportunity of assuring you of their steady support, and of inviting you to treat them as they will treat you, with the utmost frankness and absence of reserve.
>
> You enter upon your new duties with the advantage of a great exemplar before you, and the best advice which the Directors can give you, if any case of difficulty arises in the early days of your superintendence, is that you should endeavour to realise how the eminent man whom you succeed would have acted, if his valuable life had been spared.
>
> It may be that, ere long, you may wish to modify in some respects the regulations and rules which you inherit from him, and you may take for granted that any suggestions made with that object will be received by the Directors with respect and consideration. But for the present they desire that you will, as far as possible, abstain from any important changes, allowing the administration of the Bank in all respects, but especially as regards control of Managers, rules of discipline, limitation of advances, and general conduct of business, to proceed on existing lines, until you can support a recommendation to modify them with the weight and influence of a year's experience.

Both the Australasia and the Union were fortunate, in that almost simultaneously each found itself at this time with a new chief executive, of proven ability and wide experience, but each with the zest of new appointment and at the height of his powers. The long boom was cracking even as the appointments were made. There was to follow a decade of severe trial and danger, calling for qualities other than those of Parkes and McMullen. It is noteworthy that death had just robbed the Bank of New South Wales of its aggressive, dominating and adventurous general manager, Shepherd Smith, and placed it in a like position. The course of the 'nineties was to be influenced by other factors than the qualities and freshness of general managers, but the triple coincidence had something to do with the fact that these three banks were the only major ones to remain open throughout the crisis year of 1893.

CHAPTER 12

RIDING THE WHIRLWIND

THE first half of the 'nineties was a period of unrelieved calamity for the Australian economy. Traditionally it is associated with its most dramatic event, the 'great bank crash' of April-May 1893, although in retrospect this appears as merely the final explosion of a banking crisis which extended from mid-1891 to late 1893, a prolonged crisis which was itself a reflection of major depression, extending from the first clear break in the boom in 1888 until at least 1895. Fundamentally this depression was created by a crisis in domestic private investment, particularly in building and in the pastoral industry; and the concentration of disaster in building societies, land and mortgage banks, and more conventional banks, arose from the high degree to which the operation of these institutions depended upon that investment, and crumbled with its collapse.

The banking crisis was dramatic and extensive enough. How many banks closed, temporarily or permanently, depends on the meaning given to the word bank, which was self-applied indiscriminately by a large number of institutions. To restrict the term to banks of issue is misleading, for this would exclude the New Oriental Bank, which had not resumed note issue, and the Ballarat Bank, while it would include the disreputable Sydney Deposit Bank, which had a small note issue, and the Metropolitan Bank, which had not completed its conversion from a building company to a bank and had commenced note issue only a few months before failing. A useful, if arbitrary, definition is to use 'bank' of any institution which so described itself and which solicited public deposits. So defined, there were at least sixty-four 'banks' in Australia in mid-1891; by mid-1893 fifty-four of them had closed, thirty-four of them permanently. Of banks in a more restricted conventional sense, there were twenty-eight, and only nine of these remained open continuously. Only three of these—the Australasia, the Union, and the New South Wales—were large and operated in more than one colony. Six of the nineteen which closed either failed outright or were absorbed by other banks; thirteen reopened, but over subsequent years several were unable to re-establish themselves permanently and had to seek absorption. Only one mortgage or land bank—the Land Mortgage

Bank of Victoria, the oldest of all—had an unbroken record; thirty-five such 'banks' closed, most of them permanently and most in discreditable circumstances. The worst and most extensive failures were in Melbourne, and to a lesser extent in Sydney, although the most complete disaster was in Brisbane. Elsewhere, each major city could boast of one (purely local) bank of issue which rode the storm: the City Bank of Sydney; the Royal Bank of Australia, in Melbourne; the National Bank of Tasmania, in Launceston; the Commercial Bank of Tasmania, in Hobart; the Bank of Adelaide; the Western Australian Bank, in Perth.

Extensive as were these banking failures and prolonged as the financial crisis was over two full years from mid-1891, these dramatic incidents should be seen in a context of general depression initiated in 1888. That depression owed little to oversea influences. British funds for private investment in Australia showed little signs of falling off until after minor bank failures became commonplace; British deposits continued to flow into Australian banks until 1892—into the larger, such as the Australasia and the Union, until 1893. The Baring crisis in November 1890 shows little effect on the flow of private capital, although it may have helped to explain the collapse of the market for Australian government bonds: in succession, new loans placed in London failed, for South Australia in February 1891, for Victoria in April, for Queensland in May.

Nor was the effect of falling wool and other export prices direct. Coghlan's export price index shows a continuous downward trend from 1873, although the rate of decline increased after 1890. (It was 1,000 in 1873, 730 in 1890 and 512 in 1894.) The break in wool prices came after 1884, when they averaged 12¼d. a lb.; by 1891 the average was 8d. These falls were chiefly important because they were imposed on a pastoral industry facing rising wages and a huge burden of debt, for investment in fencing and other improvements and for land purchase, which had been predicated upon the maintenance of prices. Collapse of the most important form of private investment—building and especially residential construction—owed not even this effect to outside influences. There the simple explanation was that a boom, which had disregarded all caution, had out-built conceivable demand, and, stoked as it had been by blind assumption of continually rising prices, it crumpled when that assumption was first clearly falsified in 1888. Total private investment declined from 1889; building construction fell from an output of £22,350,000 in 1888 to £9,150,000 in 1891, and a mere £1,590,000 in 1897. Gross national product, from a peak of £221,000,000 in

1889 fell to its lowest point of £150,000,000 in 1895. (These building and national product figures are the estimates of N. G. Butlin.)

The great strikes which began in August 1890 should be seen in this setting of acute depression; much more direct is the link between banking disaster and the building crisis which initiated depression. Melbourne land prices, after years in which the only movement was sharply up, collapsed near the end of 1888, and as in Sydney, sales were thereafter small. A revival of stock exchange speculation in 1889-90, associated with a boom in Broken Hill silver shares, brought a last flicker of speculation in Melbourne land and some of the wildest land finance projects, but the failure in December 1889 of the Premier Building Association of Melbourne, one of the largest, holding deposits of £653,000, marked definitively the end of the building boom, and ushered in the building society collapse of 1890-91 which passed into the long mortgage bank and general bank crisis of 1891-93.

In the whole period there was never any risk that the Australasia or the Union would be in serious danger. Much must be allowed for their solid strength, but much was also due to the alertness with which directors and senior executives foresaw trouble and prepared for it. From 1887 onwards there flowed into the Australasia's head office in London reports of increasing signs of instability in the colonial economies. Not only Sawers, but Morrah in New Zealand, and chief managers in Sydney, Adelaide and Brisbane commented on mounting signs of weakness, and, sniffing the air, foresaw trouble. From London, independently, warnings went to Sawers that Selby and the directors were pessimistic about the economic future. As the months of 1888 slipped by, this chorus of doubt and apprehension increased. Selby, from the broad general view which was one of the great advantages of a London head office, wrote: 'It will be a marvel if the next two years pass without serious bank failures. But we cannot reject all business and must not get into a panic, now or hereafter.' His own prescription was set out in the informality of a private letter to Sawers in July 1888.

> To my mind there is one effective course and one only. Alone, or in concert with others equally careful and equally deserving of credit, do now what I have shown the Banks should have done long since. Lower rates. Not to fight. Not aggressively. Not unduly. Not indiscriminately. But let really sound customers feel that they do better by borrowing from us than by looking outside. Keep up rates to those we would rather be without and to those who can only give ordinary

security. Sell dead securities while the boom lasts. Shake off speculators and doubtful customers. Do not look for immediate results. Give the seed time to germinate before looking for the harvest, and remember that unless seed be sown and for the time lost to use, there never can be a harvest at all. I believe that if such a course had been followed by us in 1881 we should have had, perhaps even over the seven years, at all events for a time, less profits to divide; but we should now have had a larger and more safe and profitable business. Less competitors in the field. Better prospects for the future, and less amount in that formidable list of debts dependent upon improved prices and seasons for possible safety. I indicate what I regard as a true policy—as an end to keep in view. It does not follow that I should apply it at once and freely. It is seldom well to stand alone. Never desirable per se to make enemies. Much could be done by degrees without causing active talk. But the risk of a rate war must be faced. Very probably it would never come. Threats to put up deposit rate if I put down discount rates would be treated as empty words. If carried into effect I should go on unmoved on Mr Elliot's plan—show depositors that higher rates than mine could not be earned on safe business. Point to my coin reserves. When we had discounted for six months at 4½ per cent other Banks would be glad to put down deposit rate to 3½ per cent. But mind, a war of rates is an evil, to be avoided, if avoidable at reasonable cost.

Sawers was of like mind, though he found it difficult to be as ruthless about rates of business as Selby urged—he was too keenly aware how quickly he would lose deposits if rates were much reduced. But the next two years found him pressing, through the Associated Banks in Victoria and in negotiation of agreements in other colonies, for lower rates. Meanwhile, through 1889 and 1890, he was directing confidential circulars to managers, calling on them to show restraint in new loans and greater firmness in calling up old ones which were overdue. During these years he was steadily building up cash, remitting heavily to London rather than permit colonial loans to expand. He set himself the target of holding 20 per cent in hard cash against all liabilities to the public. Movements of reserves ratios (that is cash to deposits plus notes) over this period were:

Six Australian Colonies

December Quarter	Per Cent
1890	20.5
1891	19.7
1892	21.3

Figures for individual colonies showed some variation; the lowest was 17.4 per cent in Victoria in 1890, and the highest 29.7 in

Queensland the same year. But the overall picture shows the target reached, and more important, maintained, in a period in which the Australasia's own deposits were rising, but distrust of financial institutions was spreading and liquidity becoming the urgent need of all.

For the Union there does not survive such a wealth of written evidence of prevision and caution. In large measure this is explained by the loss of a number of the relevant records for this period. Such reports as survive were in similar vein to the Australasia's, and led to the same policy in practice. Thus in 1889 Finlayson, who at that difficult period had been taking a cash reserve of 22½ per cent as his objective, sought and obtained the directors' approval for maintaining a higher rate, even at the cost of reduced profits, a policy on which the directors were congratulating shareholders as early as 1891. Perhaps, as well, the Union had less need to discuss its fears on paper, because after the conservatism of McMullen's last years, no great restriction was called for. Its reserve ratio figures for 1890-2 were:

Six Australian Colonies

December Quarter	Per Cent
1890	24.7
1891	22.9
1892	21.7

As with the Australasia, there was variation, from 19.1 per cent in New South Wales in 1891 to 31.9 in Western Australia in 1892, but also like the Australasia, the Union was throughout strong everywhere. For both there was also a reserve strength not disclosed in colonial returns. In the colonies, liquid investments were few, but in London, both had large floating advances to the money market and large and varied holdings of gilt-edged stocks. The pressure in the colonies for cash was met by the selective calling in of colonial advances, by recall of London money market loans, and by sale of securities there. These London funds were drawn upon for colonial use by normal exchange dealings—the sale of sterling for cash in Australia was an easy operation at a period when less strongly-based institutions must husband the London resources they held, and seek to build them up, as precaution against loss of British deposits. Beyond these resources again, was the less formal and less measurable bulwark of the standing of the two banks in London and their intimate connection with institutions, such as the Union's with Glyn's. Thus at the height of the panic in 1893, the Union could cable Finlayson that, in case of real need, £1,000,000 could be obtained at once from any of three sources (including the Bank of England) and that if he thought necessary this could be publicly announced. Banks as well-protected in depth as were the Australasia and the Union could ride the whirlwind with complete confidence in their final safety.

The Bank of South Australia, directors and executives alike, showed no such foresight or wisdom. Indeed, as the sequel will show, that Bank chose just these critical years of 1889-91 to launch out wildly and to march to disaster with drums playing. The never-questioned security of the Australasia and the Union, by contrast, rested on well-chosen business even at the height of the boom, safeguarded, as that ended, by prescient caution and preparation for trouble; when trouble came, both groups of directors rose to the occasion equally with their chief executives and carried the two Banks through the greatest emergency of their careers without either being at any stage in danger.

In February 1889 the *Insurance and Banking Record* wrote: 'The liquidation of the speculation in real estate in Melbourne is now entering upon an acute stage. Meetings of shareholders in the property and investment companies formed last year are frequently being held to investigate affairs, to question the directors, to disclaim responsibility for purchases, and to do whatever is to be done to shift the liabilities back on to other shoulders'. The process was, at that stage, concentrated on the smaller and more extravagant syndicates and companies, but, as revelations multiplied and loss spread, it brought increasing distrust of others. In December 1889 this produced a great shock in the suspension of the Premier Permanent Building Association of Melbourne, which from the end of September had been losing deposits at the rate of £1,500 a day. Despite the disclosures which followed, and the failure of several other societies, confidence apparently survived, for according to published accounts, net deposits in other building societies increased during 1889-90.

But beneath the surface, the complex structure of building societies, land and mortgage banks and land syndicates was disintegrating. During 1890-91 there was a steady loss of deposits, while the fall in land values forced reconsideration of the figures at which real estate was carried in accounts; many purchasers in increasing economic depression were unable to meet commitments for payment. Desperate measures kept many institutions afloat—the Universal Land and Deposit Bank in Sydney, for instance, offered up to 11 per cent for deposits and professed to 'guarantee' them, while, in other cases, manipulation of accounts and falsification of balance sheets concealed the truth for the time being.

While these developments were in progress, the first outright failure of a bank of issue occurred—the Bank of Van Diemen's Land. Already, early in 1891, the Mercantile Bank of Sydney had found itself in trouble, but it was small and badly-run, and its absorption by the Commercial Bank of Australia without open failure, distracted attention. The Van Diemen's Land failure, however, was more serious. That bank had continued to be managed ineptly since its conversion to limited liability a decade earlier, and by mid-1891, it was in a desperate condition. Stoppage was precipitated by the London and Westminster Bank's refusal to acquiesce in the Van Diemen's Land's exceeding, by a full one hundred per cent, its agreed London debit, and on 3 August 1891 the bank closed.

Both Sawers and Finlayson promptly hastened to Hobart. In turn, the City of Melbourne Bank, the Australasia, and the Union were invited to take over the business and each, after survey, refused. Both the Australasia and the Union, instead, concentrated on taking over individual accounts as they were offered—the Australasia, for instance, doubled its business at Zeehan in this way. The Union, which had earlier advanced the Van Diemen's Land £35,000, at one stage sought to protect its interests by offering to liquidate the bank, but this failed when a scheme, which proved abortive, was devised for amalgamation with the National Bank of Tasmania. In the end, the bank went through a long-drawn-out liquidation, which included two unsuccessful lotteries intended to dispose of foreclosed properties. The Union bought the bank's head office in Hobart to house its own branch there.

Meanwhile, on the mainland worse was happening. Late in July the Imperial Banking Company, a Melbourne mortgage bank, collapsed, to be followed in August by two similar and related institutions. In September there was a burst of failures in Sydney of land banks and building societies. In December the centre of disaster was again Melbourne, with building societies and mortgage banks collapsing in quick succession, including the Metropolitan and Standard Banks. These two institutions had commenced as building societies but had recently set a pattern, which others were beginning to copy, of transformation to conventional banking, the first stage being to separate building society and bank. The Metropolitan had carried the process far enough to have commenced note issue in January 1891.

Both these banks applied to the Associated Banks for aid, as a sharp drain of deposits developed. The Metropolitan solved the problem by suspending payment before its application was considered, and, after quick survey, the Associated Banks decided that the Standard's position was so bad that no good purpose would be served by delaying its failure.

With land banks and building societies toppling in Sydney and Melbourne (the crisis spread to Queensland early in 1892), both colonial governments rushed through emergency legislation. The immediate problem was the panic withdrawal of deposits and, with limited success, institutions in danger had sought to buy time by trying to persuade depositors to agree to sweeping deferment of claims. The New South Wales Act was a reasonably sensible provision to facilitate this process, and provided that if a numerical majority of creditors holding three-quarters of the liabilities of a company should agree to an arrangement (for example for deferment of claims), this could be made binding on all creditors; this would then defeat the right otherwise possessed by any single creditor to force compulsory liquidation. But in Victoria one of the worst features of the mounting disclosures of mismanagement, chicanery, falsified accounts, and fraud, was the extent to which leading members of Parliament were involved. The Victorian government proved amenable to pressure, and an Act very different from that in New South Wales was hurried through. This provided that a court might order compulsory liquidation of a company only if one-third of creditors (one-quarter if not all resident in Victoria) both by number and by value of claims, should join in application to the court. Such a condition was nearly impossible to achieve, and during the year this Act remained in force, creditors in insolvent land banks and building societies were virtually at the mercy of directors. There was little that depositors could do but agree to defer claims, and little that shareholders could do but acquiesce in capital 'reconstruction'. In New South Wales directors had at least to convince creditors of the equity of a scheme; in Victoria they could rely on the near-impossibility of the dissatisfied securing the necessary vote to force liquidation. During 1892 under these Acts both colonies became familiar with a standard pattern of bank 'reconstruction', and this familiarity explained the readiness with which the formula was applied to the major banks of issue in April-May 1893.

Outright failures continued. Between August 1891 and February 1892, twenty-two building societies, mortgage and land banks soliciting public deposits failed in Sydney. For two of these no deposit figures are available; the remaining twenty had, according to their latest balance sheets, deposits totalling £3,612,473. By June 1892 there remained seventeen similar institutions making official returns, but their total deposits were then only £606,067, and only three had deposits in excess of £50,000. Only two mortgage 'banks' remained, and of these one did not last long.

In Melbourne from July 1891 to March 1892, twenty building societies and 'banks' (excluding the Ballarat Bank, which had no note issue) failed with total deposits of £10,582,806. There were some forty Melbourne building societies not among these failures, but their total deposits in mid-1892, according to latest balance sheets, were only £2,195,347. Only seven had deposits exceeding £50,000.

Of the Sydney institutions which failed, six described themselves as banks, whereas there were twelve such in Melbourne, and in the case of both cities the vulnerability of institutions dependent on public deposits was evident. The story in Brisbane followed the same pattern.

Formal failure was, however, only part of the story. As the weakest, worst-managed, and most fraudulent were weeded out, and the Victorian and New South Wales Acts took full effect, there were many arrangements with creditors which were the prelude to gradual liquidation without formal suspension. Open failure of financial institutions virtually ceased in the second half of 1892, but in fact all building societies, the few remaining mortgage banks, and the most vulnerable of the banks of issue were, during those months, suffering a steady drain of deposits. Confidence of depositors, in all but the strongest, was badly shaken, and as deposits matured, they were transferred to the major banks. Both Sawers and Finlayson commented on such deposits flowing into the Australasia and the Union. To a great degree, too, withdrawals were enforced by need as much as distrust; small depositors suffering unemployment or loss of income in depression; depositors whose own creditors had suffered by the failures; debtors being pressed for payment—all these contributed to the continuing drain, which was presently to threaten the banks of issue.

For the banks of issue the storm signals were already flying by the end of 1891. When the Metropolitan and Standard Banks failed in December, the Associated Banks in Melbourne were notified that the Mercantile Bank of Australia would almost certainly seek aid in the immediate future. Three months later the forecast was realised. An investigating committee, headed by Blundell, Melbourne manager of the Australasia, found the bank in a bad way, the full extent of which could not be ascertained in view of the reticence of the Mercantile. Conditions, both as to security and disclosure of facts, accompanied an offer of assistance, which was promptly rejected by the Mercantile which closed the next day, 5 March.

Bank Failures 1891-92

Note: 'Bank' includes any institution so named taking public deposits. Building societies and real estate companies, not called banks, are omitted.

	Head Office	Date Suspended
Mercantile Bank of Sydney Ltd	Sydney	—
Imperial Banking Co. Ltd	Melbourne	24 July 1891
Bank of Van Diemen's Land Ltd	Hobart	3 August 1891
British Australian Land & Banking Co. Ltd	Sydney	6 August 1891
British Bank of Australia Ltd	Melbourne	15 August 1891
Anglo-Australian Bank Ltd	Melbourne	17 August 1891
Northumberland Banking Co. Ltd	Sydney	— August 1891
Mercantile Building Land & Investment Co. & Deposit Bank	Sydney	— September 1891
Excelsior Land Investment & Building Co. and Bank Ltd	Sydney	28 September 1891
Australian Banking Co. of Sydney Ltd.	Sydney	2 November 1891
Land Credit Bank of Australia Ltd	Melbourne	1 December 1891
Metropolitan Bank Ltd	Melbourne	3 December 1891
Standard Bank of Australia Ltd	Melbourne	3 December 1891
Real Estate Mortgage and Deposit Bank Ltd	Melbourne	— December 1891
Sydney Deposit Bank	Sydney	29 January 1892
Freehold Investment & Banking Co. of Australia Ltd	Melbourne	30 January 1892
Victorian Mortgage and Deposit Bank Ltd	Melbourne	2 February 1892
English and Australian Mortgage Bank Ltd	Melbourne	4 February 1892
Queensland Deposit Bank & Building Society Ltd	Brisbane	8 February 1892
Toowoomba Deposit Bank	Toowoomba	16 February 1892
Mercantile Bank of Australia Ltd	Melbourne	5 March 1892
Australian Deposit & Mortgage Bank Ltd	Melbourne	23 March 1892
Ballarat Banking Co. Ltd	Ballarat	26 March 1892
Commercial Agency Trading & Banking Co.	Sydney	— April 1892
Bank of South Australia Ltd	London	—
New Oriental Bank Ltd	London	8 June 1892

Newspaper controversy attacking the Associated Banks followed this failure, and intensified the alarm which the failure itself created. One casualty, as a result, was the Ballarat Bank. Basically solvent, with a business restricted mainly to its home town, and with no note issue, it could not stand a rush of depositors, although an arrangement with creditors enabled it to reopen in July. The parlous condition of the Bank of South Australia had become known, and there were active rumours concerning the Federal Bank and the Commercial Bank of Australia, both of which had a large business with building societies. Accordingly in Melbourne, the Associated Banks met several times at the end of March to discuss what joint action could be taken to allay mounting panic.

A number of the colonial banks were strongly in favour of all members of the association giving an unqualified guarantee to each other—an enthusiasm explained by the fact that the most vocal were, later, the first to fall. Sawers and Finlayson were strongly opposed, and the outcome was a public announcement—

> We are authorised to state that the Associated Banks in Melbourne have agreed on mutually satisfactory conditions on which they will extend their support to any of their number requiring it.

In fact this had little substance, for the 'conditions', not published, read: 'That the Associated Banks are prepared to assist any one of their number should occasion require, to a reasonable amount upon the sound basis of approved securities.'

The press, however, hailed the published formula, and interpreted it as virtually a mutual guarantee, giving Sawers, as he confessed, some 'scruples of conscience'. Both he and Finlayson were troubled, and had agreed with reluctance to the publication. Sawers' explanation of his yielding was:

> I am very sensible to some of the obvious objections to the arrangement, chief of which, to my mind, is the levelling of all the Associated Banks down to one common platform, by which we lose some of the benefits to which our past conservative policy entitles us. But, on the other hand, so great was the distrust then prevailing, that, had not some action been taken, a run was imminent at any time upon the Federal, Commercial, and City of Melbourne Banks. Had these banks closed their doors, especially the Commercial with its ramifications in other Colonies, there is no saying where the crash would have stopped, and in any case the depreciation in values would have been so great as to entirely throw into the shade any benefits which we would have derived from acquiring new accounts from the failed institutions. I therefore still think that it was the lesser evil of the two to make the announce-

> ment that the Associated Banks had agreed upon conditions on which they would give joint assistance to any of their number requiring it.
>
> Such an agreement should, however, not continue for all time and I have informed my colleagues that, at the end of three months, I shall propose its abrogation.

As the months went by, both Finlayson and he were relieved that the declaration had achieved its immediate purpose without any actual aid being called for. Panic subsided, and the failure in June of the New Oriental Bank caused hardly a ripple. Its failure, as of its predecessor, arose from causes outside Australia, and its Australian business was small. It had not resumed note issue, and its total Australian deposits were only a little over £300,000.

The other issue considered by the Associated Banks was a proposal for joint action in making advances to depositors in institutions which had failed. Sawers was responsible for raising the question, but insisted that there should be no blanket offer, the arrangement being confined to selected institutions. The Australian Deposit and Mortgage Bank, which he wanted to make the first, intervened to decline the honour, and other banks took fright at the thought of a rush of holders of frozen deposits, many of which must be refused. The proposal was dropped, but Sawers and Finlayson took independent action to help the general situation by each making large advances to a building society they regarded as sound, even though they recognised that repayment would be a matter of years.

The Bank of South Australia was one of the early casualties of the crisis, although it is questionable whether it would have survived even if there had been no crisis. As early as March 1887, the Adelaide manager of the Australasia was describing as 'an open secret' that the Bank was so heavily involved in frozen loans that any serious withdrawal of deposits would bring a stoppage. The directors' response to belated recognition of the Bank's decay has already been noted, and the decision to enter Melbourne was fatal.

Eagar, the Melbourne manager, immediately plunged into loans to land speculators. Allowed a London cash advance of £100,000, he promptly exceeded it; London responded by increasing the limit to £300,000, despite a strong warning from the Colonial Inspector, Meldrum, who was without authority to interfere. Ten days later Meldrum wrote again, in some agitation, that Eagar was lending rashly to land syndicates. To that the directors' response was to instruct Meldrum to transfer funds to Melbourne for Eagar's use, and themselves to report to shareholders the great success of Melbourne business.

On the evening of 8 August 1894 J. C. Dunn returned to Coolgardie 'with a camel-load of quartz' from a reef he and his brother Thomas had discovered. The load weighed 450 lbs. and contained 1800 ounces of gold. They had been prospecting on behalf of a Perth syndicate which included Sir John Forrest and his brother Alexander. The photograph shows John Dunn and Alexander Forrest at Coolgardie on their return from an inspection of the mine, the 'Wealth of Nations'.

Mount Gambier, South Australia, in 1866. Australia and New Zealand Bank now occupies the building erected in 1860 by George Nobes, an auctioneer, and used in turn by E. S. & A. Bank, 1868-84, and the Town and Country Bank, 1884-6. The Union Bank, which began business in Mount Gambier in 1899, moved into these premises in 1901, remaining there until the merger. (From a photograph in the possession of J. L. Hill, Esq., of Mount Gambier.)

Ora Banda, 1913, on the Western Australian goldfields. The Union Bank opened an agency there which was supervised from Kalgoorlie branch twenty miles away. The Kalgoorlie branch accountant, W. C. Hall, is the passenger in the car.

This was apparently a genuine conviction. In the years 1887-90 London was sending to Adelaide a stream of optimistic assessments of the future, and advice to expand loans. When Meldrum complained in March 1889 that Eagar had made normal trade advances of £159,000 but had lent £605,000 to dealers in land, the board brushed this aside, and empowered Eagar to commence note issue in Melbourne at the beginning of 1890. A Sydney branch was opened in June of that year, although fortunately its business was small. Meldrum's warnings should be read against appreciation of his own outlook: in Adelaide he was lending substantial sums to finance speculation in Broken Hill silver shares, although his judgment appears to have been good since he made a personal profit of £10,000. This good luck enabled him to escape the ruin he saw impending, by resigning at the end of 1890, the official reason of ill health being at least partly genuine.

The directors piled blunder on blunder. To replace Meldrum they chose James Ogilvy, then Melbourne manager of the Oriental Bank. He had held a similar post with the Commercial Bank of Australia, where in a short time, his errors of judgment had cost that bank £50,000. Sawers reported the general amazement at the South Australia's choice. But by now the board was in very deep water. Despite evidence beginning to accumulate of heavy losses in Melbourne, where the land boom had collapsed, the directors presented, in April 1891, a formal report which purported to show a net profit of £25,372, although correct figures would have disclosed heavy losses; even so, a dividend of 6 per cent per annum was declared for the half-year, absorbing £24,000 of the fictitious profit.

In July the Imperial Banking Company failed, owing the South Australia £92,000, and rumours of extensive Melbourne losses multiplied. The directors in London issued a reassuring circular, declaring roundly that the only Melbourne loan even doubtful was that to the Imperial, and that was covered several times over. (Almost the whole proved irrecoverable.) Shares, which had collapsed to £14 from a level of £25 before the Imperial failure, rose to £17. 'I cannot swallow [it]', wrote Sawers in a private letter, 'and I cannot help having an uneasy feeling that something will come out some day.'

He had not long to wait, for the South Australia's directors were soon forced to admit reality; the mounting tale of Melbourne losses could not be concealed by ignoring them. In October shareholders were shocked to receive a circular notifying them of a proposal to dispose of these Melbourne losses by writing off a total of £340,000, made up by using the whole of the Bank's remaining reserve of

£100,000; reducing capital by £6 per share, or £192,000 in all, and allocating the half-year's 'net profit' to meeting the remainder. Shareholders were assured that this would cover all losses ascertained after careful scrutiny, and that all South Australian assets were quite sound. (They were not told of an Adelaide advance of over £200,000 which had been known to be thoroughly bad for at least five years, and of which ultimately little more than a third was recovered.)

The shareholders, though thoroughly stirred, proved tractable, and endorsed the policy, even if they did appoint a committee to confer with the board; share prices recovered. But depositors were less credulous, and from this point onward, British, and especially Scottish, deposits were withdrawn as they matured. The shareholders' committee presently reported in critical but reassuring terms, and the fears of some proprietors of their unlimited liability for note issue were calmed by a resolution limiting note issue to £150,000. The directors, however, seem for the first time to have realised that they stood on the verge of ruin, and they secretly approached the Union Bank with a suggestion of amalgamation. The Union was definitely interested, for of the South Australia's twenty-four branches in that colony, twenty-one were in towns where the Union was not represented. The Board estimated that, on balance-sheet figures, the South Australia business was probably worth 10,000 Union shares, valued at £61. But they were suspicious of the balance sheets, and a proposal that the Union examine the South Australia's books ended the negotiations.

In January 1892 the South Australia's board issued a special report (to which two of the shareholders' committee were parties), claiming that Melbourne losses had now been fully investigated and that the provision made to cover them was ample. 'Net profit' for the half-year to December 1891 was said to be £21,000, concerning which the intention was to propose that £10,000 be used to replenish the exhausted reserve—clear warning to shareholders that there would be no dividend. Shares promptly collapsed from £14 to £5, and a further Board circular made the position worse. The Bank, the directors roundly asserted, was now in a very solid position; this 'profit' had been made in a disastrous half-year, and was a happy promise for the future. There was a flat denial of the withdrawal of deposits which was by now a matter of common gossip. Inevitably, British depositors responded by removing all deposits as they matured.

The sorry tale was almost at an end. Later in 1895 the official receiver was to summarise it in restrained and sober terms. (The quotation is from the *Times* precis of a report no longer available.)

> During the last decade of its career, the directors and officers were to a large extent responsible for its failure (a) through negligence in imposing effective control and supervision, especially over the branch manager at Melbourne, and (b) to laxity in imposing and enforcing restrictions and limits as to individual advances, especially on the security of land and speculative investments . . . . Although the head office was aware of the critical position of many of the accounts and that considerable loss was likely to arise thereon, no mention of this appears to have been made in the half-yearly reports presented to the shareholders . . . . There does not appear, however, to be any ground for suggesting fraud or improper motive.

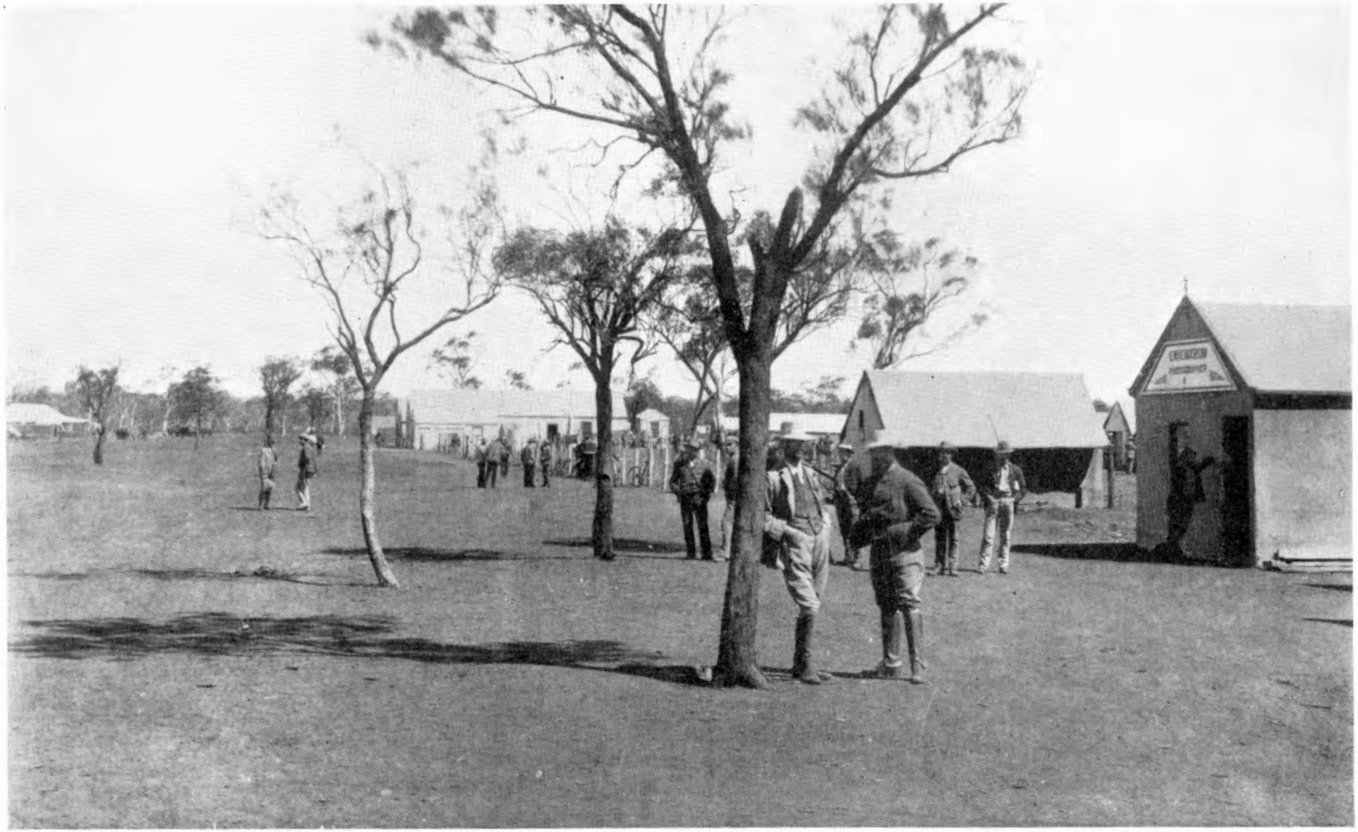
The last phrase was at least charitable for, having issued the circular of January 1892, the directors immediately approached the Union Bank again, this time cap in hand. The Union was offered the business at a price to be settled in due course by valuation, with payment in shares or cash at the Union's option; nothing was asked for 'goodwill', merely the excess of assets over liabilities, whatever it might prove to be. The Union made a quick investigation and ten days later made a specific proposal: the Union would take over all liabilities (other than to shareholders) but assets must be divided into two classes. Class A would be taken over, at values to be determined. Class B would not be taken over; apart from the Adelaide Milling Company (advance £150,000), these included the major part of the Melbourne advances and totalled in all, on paper, £569,000, after the previous drastic writing down. Among them were such items as £73,000 nominal value of foreclosed properties; £27,000 due by a bankrupt timber merchant; £35,000 from an auctioneer; £50,000 owed by a stationer who speculated in land, and so on. Finlayson reported by cable on the Melbourne advances, which at their written down figures were just under £690,000: 'safe but not all desirable, £65,000 . . . leaving doubtful debts £625,000, of which estimated recoverable £204,000'. The Union was prepared to realise these class B 'assets', but as agent only. After remaining assets were valued, there should be an accounting; if a surplus emerged it should go in cash to the South Australia, but a deficit must be met. The Union insisted that the contract must include an explicit undertaking to make calls on shareholders if necessary, the one condition which the South Australia directors did not accept without demur. But they signed, and shareholders in glum resignation approved. On 12 April 1892 the Union formally took possession of the business.

The immediate taking over was smooth and uneventful. In South Australia most of the deposit and advance business was continued with the Union, and South Australia notes were replaced by those of the Union. In London the chief liability was deposits, although at the last minute it emerged that the South Australia had not disclosed a debt to the London and Westminster Bank of £190,000. British deposits of the South Australia totalled £1,616,000, holders of £1,255,000 of which immediately accepted transfer to the Union. Some £17,000 due for repayment was collected, but a third of this was immediately paid into the Union. Holders of £344,000 did not make their wishes known—indeed months were to pass before all depositors bothered to declare themselves.

The Union was not keen to retain the South Australia's London deposits, since large amounts were at high rates of interest, and these were cheerfully repaid. Many of the South Australia's depositors were shareholders and needed the money, and many more did not recover from their earlier scare. South Australia deposits in London were therefore steadily repaid during 1892, and by the end of the year, were just under £1,000,000. There was virtually no fall in the Union's own deposits.

Valuation of the class A assets and realisation of those in class B proved far more protracted, although it soon became apparent that a deficit and not a surplus would result. The South Australia shareholders were unlucky in that these processes took place in prolonged depression, but by transfer of the business they had escaped the even worse depreciation that would have followed simple winding up. Eventually the Union claimed payment of £550,000, and required the liquidators to make calls on shareholders. The amount was made up of the deficiency of the valuation of class A assets below the liabilities taken over, reduced by the amount realised on class B assets (most but not all of which had been disposed of). Throughout the early months of 1894 there were unproductive negotiations between the Union and the liquidators, who sought to compromise on the full extent of the Union's claim, mainly by trying to persuade that Bank to take over the remaining class B assets at generous valuations. Negotiations broke down in July, and the parties turned to litigation.

In court the Union was taken aback by the attitude of the liquidators, who adopted a very pedantic view of their trustee duties. Despite the pleadings of the judge, who pointed out that the ultimate outcome was certain, and that further delay and more litigation could only mean larger losses for shareholders, the liquidators insisted that their duty required them not to admit liability, not to accept an obligation to make calls, nor to make them except under a court order, which they should not in any way facilitate. The Union was therefore forced to take separate proceedings to secure an order for



Kalgoorlie, Western Australia, 1895, looking east along Hannan Street from Cassidy Street. The Bank of Australasia is the building bearing a sign at the side, almost at the far end of the street.

Peak Hill, Western Australia, 1900. The Bank of Australasia's building is that with two chimneys beyond the row of stores. The 'back' verandah can be seen; the 'front' verandah faced the open country. Red ink notations on the original print include a plan of the premises and indicate the Post Office, etc.

compulsory winding up of the Bank of South Australia by an official liquidator.

The verdict was a foregone conclusion, and was accepted by the directors and the original liquidators. But a stormy meeting of shareholders who heard the official liquidator's report on the extent of liability (which implied calls of perhaps £17 per share) and on the mismanagement which had ruined the Bank, was less tractable. There were proposals to sue the directors for recovery of dividends paid out of fictitious profits, and for damages for negligence. The liquidator warned that there were no grounds for criminal charges, and wiser counsels prevailed as shareholders realised that, in the doubtful event of action against directors succeeding, any amounts recovered would fall far short of the Union's claim. Nevertheless, with little more wisdom, a shareholders' committee appealed against the court's verdict, claiming that, despite the Bank's Act of 1884, registration under the Companies Acts had limited liability to the amount of subscribed capital plus note issue. Inevitably the appeal failed, and in the four years following, by calls and sale of the remaining class B assets, the debt to the Union was finally cleared off. On the last day of 1899, the Bank of South Australia was formally dissolved, a shabby and inglorious end to a career that had started in providing banking service on the beach at Glenelg to South Australia's first settlers.

With the failure of the Federal Bank in January 1893, the banking crisis passed to its third and worst phase. This institution was relatively the smallest and weakest of the Associated Banks, to whose membership and clearing arrangements it had been reluctantly admitted as recently as four months earlier. It still had close associations with the Federal Building Society, and in the public mind it was linked with one of the founders, James Munro, whose career as a promoter of building societies and land companies had ended in a still unfolding tale of disaster. Throughout the second half of 1892 it was losing deposits steadily, in all one-third of the total. It claimed, too, that it experienced a heavy loss of British deposits, but one might question whether actual withdrawals of these had much to do with its failure. The bank was, quite apart from any such British drain, in a hopeless position. In due course committees set up by the Associated Banks surveyed its assets, and classified more than one-third as 'bad'; on advances (rather over half the total) classified as 'good or fairly good', interest was being paid on less than half; shareholders could be relied on for well under half the uncalled capital.

In turn, the Bank of Victoria, the National Bank, and the City of Melbourne Bank considered taking over the business, but each retreated. The Associated Banks, after examining various ways by which the Federal might be liquidated under Associated Bank supervision, rejected all, and on 29 January the bank closed. Outwardly the event was received calmly by the public, but depositors drew some obvious morals. Here was the first of the Associated Banks to fall, and apparently no serious attempt had been made to save it; the misunderstood assurance of mutual aid of March 1892 clearly was no protection. From this time onward the withdrawal of deposits from banks believed to be weak rose to almost panic levels, concentrating especially on the Commercial Bank of Australia.

So serious was the distrust of this bank that the Treasurer sought a meeting with the Associated Banks, pleading with them to make some public gesture of mutual aid. Sawers was absent in Sydney, but the other banks drafted a statement which, by telegram, Sawers refused to sign. Nevertheless, after a minor change in wording, a public statement was issued:

> The Associated Banks, having considered the position of affairs, have agreed to act unitedly in rendering financial assistance to each other, should such be required; and that the government of Victoria have resolved to afford their cordial cooperation.

It was added that, when he returned, Sawers would be asked to concur.

Sawers was, not unreasonably, angry. His views were well-known to his colleagues. He was acutely aware of the danger of avoidable failures spreading panic, but equally convinced that propping up doomed institutions did more harm than good, and was just as likely to create suspicion of all banks. He had been deeply troubled by the public misunderstanding of the assurance of March 1892, and was rightly convinced that the refusal to support the Federal Bank had destroyed any real value in such assurances. The present one he initially rejected because he regarded it as just as ineffective as the earlier one, and so worded that it appeared as deliberate deception of the public—indeed he was sure that its chief sponsors had chosen their words to convey to the public the delusion of a genuine mutual guarantee. Now he was confronted by a hard decision: to sign was in his view dishonest; to refuse to sign, even more to make any public statement of his own, would be simultaneously to bring hostility on the Australasia and to convert the initial public enthusiasm for the announcement into far worse distrust.

The speed of events saved him from decision. Even while, in the train from Sydney, he worried over the right course to take, the other banks were holding an emergency meeting. They had been horrified by the general public acclaim of a sweeping mutual guarantee by the banks, and, some of them, were scared to discover that others of the banks wished to hold the stronger to a vague general understanding to that effect. At the instance of Finlayson, a resolution was carried, as Sawers joined the meeting, and because the substance of this was to be published, Sawers agreed to make a united front on the original statement. The new, explanatory, declaration was:

> This opportunity is taken, in view of articles which appeared in yesterday's [13 March] newspapers, to define accurately to what extent the Associated Banks accept the obligation in question, namely: that they will in the future, as in the past, be willing to render financial assistance to each other on such terms, and to such an extent as may seem justifiable to each of them, if, and when the occasion arises.

The fat was really in the fire. Such an assurance guaranteed nothing whatever, although it recorded, for the first time precisely in public, that the banks were in fact not prepared to give each other any guarantees at all. Had such a statement been made a year earlier, or, as Sawers had wanted, no statements at all had been made, public distrust could have been no worse. One can sympathise with bankers, under intolerable pressure to make a reassuring public statement, finding themselves forced first to make one and then to destroy all its benefit; but the sequence could not have been better planned to touch off panic. The public were not merely told unambiguously that there was no guarantee; they were reminded that the Association had not saved its own member, the Federal; and the compulsion to make the explanatory statement was taken to be clear warning that some at least of the member banks were so rotten that other members would not, even as a matter of desperate self-interest, risk a penny to save them. The run on deposits now became a panic, so far as banks believed to be tottering were concerned, restrained only by the effect of a recent joint decision of the banks that breaking of fixed deposits should in all cases take the form of an advance at normal rates, and the natural refusal of banks under pressure to make any such advance. Most vulnerable, hardest pressed, and first to go, was the Commercial Bank of Australia, which closed less than four weeks after the banks' explanatory statement.

The Commercial had been under heavy pressure for well over a year. It was generally known that it had advanced extensively against Melbourne real estate, and it had especially cultivated building society business. Accordingly it suffered when the crisis in, and failures of, building societies and land banks became acute in the second half of 1891. During the next fifteen months it lost about £1,250,000 in deposits, nearly £500,000 in the last quarter of 1892. With the deepening fears of early 1893, the drain grew rapidly, and after the explanation of the banks' mutual 'guarantee', became a rush; over £1,000,000 was lost in the first quarter of the year. Its shares, which had rallied to 80s when the 'guarantee' was published, fell to 47s when the explanation appeared.

Immediately before Easter the bank's position was that it still held £1,400,000 of current accounts, which were going fast; £1,000,000 of British deposits was due to mature in the next quarter, and although thus far there had been no British drain, the bank fairly assumed that little of this would be renewed when publication of the March returns made plain the extent of the colonial drain. The bank had in eighteen months called in £1,500,000 of advances, and this resource was exhausted; it had lost roughly £1,000,000 in coin. For some time the ugly choice had been plain: either the bank must close, and perhaps reorganise, or it must seek substantial aid from other banks, with no certainty that they would be willing to give aid on a large scale, and even less certainty that any available aid would be enough. H. G. Turner, the general manager, chose the first, and a reconstruction scheme was in preparation for some time before the decision was announced.

Turner, however, was in a difficult position. For any major bank to suspend at this stage meant a panic rush on all; yet suspension and reconstruction must, to succeed, be carried through speedily, without the delay and gossip inseparable from exploring, with the Associated Banks and the government, ways of averting suspension. Turner chose to make formal request for assistance, while insisting on conditions which ensured that assistance could not be given. Already on 23 March, the other banks, while discreetly talking of 'any bank', had made known to Turner how far they were prepared to go. It was agreed that 'any bank' among the association could, in need, have up to £1,800,000 immediately, made up of transfers of £100,000 of government deposits from each of the other member banks, plus an advance of £100,000 each from all but one, together with a similar advance from the Bank of New South Wales, not a member of the Association. On 4 April Turner delivered what Sawers called an ultimatum: he told his fellow members that he expected, if the Commercial stayed open while reconstructing, to lose £1,000,000 deposits in London within a month, £1,400,000 in colonial current accounts at any time, £3,000,000 in other colonial deposits in the course of the next quarter, and, roundly, that reconstruction without suspension required an undertaking by the other banks to meet *all* the Commercial's deposits, some £11,000,000. He demanded a public declaration that the other banks 'unanimously agreed to give their united financial support to that institution [the Commercial] to such extent as may be required', together with a public guarantee of government support.

Such sweeping unconditional guarantees were, of course, impossible, but despite pleadings and the renewed offer of £1,800,000, Turner was adamant. Nothing but the unqualified guarantee would avert immediate suspension. Accepting at last the evident fact that the Commercial was determined to close, the meeting disbanded, fearfully, to make what little preparation could be made overnight to stem the rush the news would bring. On 5 April the Commercial was closed, with a published announcement of its intention to reconstruct and an outline of the prepared plan.

That plan, model for the subsequent schemes of other banks, provided for: a new company with the same name; a new capital of £6,000,000, of which half was to be provided by the *creditors* (that is depositors); deferment of payment of deposits for, it was forecast, five years. If approved by the necessary majorities (three-quarters) of creditors, this scheme could become binding on all under a court order, in accordance with an Act passed the previous December, to replace the unfortunate legislation of December 1891. The following day well-organised meetings of Melbourne shareholders and depositors, remarkable as it may seem, enthusiastically endorsed the scheme, to be echoed a few days later by meetings in London and Edinburgh.

Thereafter formal procedure was executed rapidly. Further meetings under court orders were held on 24 April, with extraordinary unanimity in supporting the scheme as now given in detail. The most important features were two: shareholders in the 'old' bank who accepted shares in the 'new' would be released from all liability for calls in the 'old', which ensured full shareholder support; depositors learned that they would be called on to accept one-third of their claims in shares, with limited preference rights, the other two-thirds being deferred for five years, with right of the bank to repay earlier. Yet the only dissent was a formal one on behalf of two trusts, to make the point that trustees could not consent to accept shares. Otherwise depositors were unanimous, including 2,936 British depositors represented by proxy. The Supreme Court thereupon gave the necessary orders to make the scheme binding, and the Commercial reopened for business on 6 May, just thirty days after it had closed.

The Commercial's failure and successful reconstruction have been described in some detail, for this was the central clue to events of the following weeks. Mere closure of the Commercial was sufficient to spread panic among depositors of all banks, but the terms of the reconstruction were crystal-clear warning: depositors who now hesitated could expect, at best, long-term freezing of their deposits under a reconstruction scheme. Moreover the point was underlined by the Commercial's introduction, four days after it closed, of trust accounts, through which deposits and withdrawals might be made without the funds being involved in the 'old' business; the Commercial even persuaded the other banks to act as agents in country areas for handling these. There ensued the spectacle of depositors in banks still open, hastily withdrawing their funds to escape the threat of reconstruction and promptly depositing in a trust account in the Commercial.

But the consequences did not stop there. Every surviving bank had thrust before it the great advantages of 'reconstruction': permanent accession of capital; immediate elimination of the mounting tide of panic withdrawals; and miraculous restoration of confidence. Harassed and worried bankers, who knew in their hearts that their own banks could not last long, or who at least feared the worst, who could see no other escape, and who knew now that the panic was out of control and amenable to no joint action, very naturally, as the pressure became intolerable, followed the lead of the Commercial. In reconstruction lay safety and peace, and, so it seemed, also honour and public approval. Each successive suspension intensified these dual pressures. The precise incidents varied with each bank, and within the general pattern of reconstructions there were minor variations, but the main sequence was uniform: suspension, a reconstruction scheme hinging on long deferment of deposit liabilities; acquiescence by depositors (who had little real choice, and must have welcomed some definite action which, once taken, seemed to ensure restoration of confidence and ultimately repayment); and finally resumption of business, normally preceded by 'trust account' business.

Tabulation is the clearest way of conveying both the sequence and the rapidity with which a majority of the banks of issue followed each other into reconstruction. (See opposite.)

A serio-comic footnote to this list may be recorded. In 1894 Whitaker's *Almanac* listed Australian banks, distinguishing those which had suspended and including the Australasia in that category.

Desperate efforts by the publishers succeeded in recalling only half the edition, and the Australasia therefore took formal proceedings. The judge was told that the Bank's purpose was to secure a public declaration of its not having closed, and that it sought only nominal damages, which were assessed at £1.

	Head Office	Date suspended	Date reopened	Days closed
Commercial Bank of Australia	Melbourne	6 April	6 May	30
English, Scottish & Australian Chartered Bank	London	13 April	19 August	128
Australian Joint Stock Bank	Sydney	21 April	19 June	59
London Chartered Bank of Australia	London	26 April	10 August	106
Standard Bank of Australia	Melbourne	28 April	11 August	105
National Bank of Australasia	Melbourne	1 May	26 June	56
Colonial Bank of Australasia	Melbourne	6 May	10 July	65
Bank of Victoria	Melbourne	10 May	19 June	40
Queensland National Bank	Brisbane	15 May	2 August	79
Bank of North Queensland	Brisbane	15 May	19 July	65
Commercial Banking Company of Sydney	Sydney	16 May	18 June	33
City of Melbourne Bank	Melbourne	17 May	19 June	33
Royal Bank of Queensland	Brisbane	17 May	7 August	82

The banks which did not suspend were:

	Head Office
Bank of Australasia	London
Union Bank of Australia	London
Bank of New South Wales	Sydney
City Bank of Sydney	Sydney
Royal Bank of Australia	Melbourne
Bank of Adelaide	Adelaide
Commercial Bank of Tasmania	Hobart
National Bank of Tasmania	Launceston
Western Australian Bank	Perth

A year after the crash such concern about reputation is understandable, for in April-May 1893 the financial disaster which had overtaken the Australian economy was devastating. Exact comparisons between reconstructing and open banks in terms of deposits and note issue are limited by the dates of available figures, but the magnitude of the calamity can be assessed accurately enough. The averages for the March quarter immediately preceding, showed total bank deposits for all banks in the six Australian colonies of £99,000,000 (excluding the Federal, which being closed made no return, but including less than half a million for the Australian business of the Bank of New Zealand). Total average note circulation of all banks was £3,815,000. The banks which suspended in April-May accounted for 56.2 per cent of all deposits, and 61.3 per cent of all note issue in these figures. Some at least of the banks which suspended were more distrusted than those which stayed open, so that by the time the crashes came, not only had panic reduced the absolute size of the figures but there was probably also some decline in these percentages. But their order of magnitude was not seriously affected. In the weeks of April-May, at least half of all bank deposits in the country had been frozen and at least half the note circulation ceased to be freely negotiable. Tasmania escaped entirely and Western Australia relatively lightly, but this only meant that the situation was worse than the averages imply in the eastern colonies where the larger populations and the large deposits were.

As time went by the disaster to business firms and individuals was somewhat softened. Notes were a first charge on assets in Victoria and South Australia, and a limited acceptability was therefore re-established in those colonies, depending on varying estimations of the time which would elapse before the issuing bank reopened. Fixed deposit receipts from suspended banks were presently negotiable at a heavy discount, so that those whose need was urgent could get cash —but at a price which could approach or even exceed 50 per cent.

These developments softened but did not remove the impact of the sudden and complete loss of spending power on the business community and on private lives. In time, as suspended banks reopened and flourished, or appeared to, it could appear to those who had suffered acutely that, by financial legerdemain, the banks had saved themselves, and their profits, at the expense of thousands of individuals. Suspicion of financial institutions had long been endemic in Australian thinking, becoming active at times of economic stress; but a tradition of unscrupulous motives and maleficent policy as the normal characteristics of 'the banks', which was to be a major strand in twentieth century Australian politics, owes much to this apparently obvious deduction: in the 'nineties the banks' escape by reconstruction was made at the expense of their customers.

At the time the strain on the surviving banks which, in effect, had to carry on the active banking of the whole community, was severe, and was concentrated overwhelmingly on the Australasia, the Union, and the New South Wales. The other banks still open were minor contributors to total business, as is indicated by the fact that the three major survivors had accounted, in the March quarter averages,

Wiluna, Western Australia, north of the East Murchison goldfields. The humpy above served the Union Bank of Australia when it opened in 1900. By 1908 it had moved to more substantial accommodation shown below.

Above

Kurnalpi, about thirty miles east of Kanowna, Western Australia, a claim owned by two prospectors Routledge and Graham (one kneeling, the other standing, on opposite sides of the winch). Second from the left is W. R. Collett, manager of the Union Bank at Kanowna from March 1912 to July 1913 when he went to Perth.

At left

Stamping gold bars at the Union Bank of Australia's branch, Kalgoorlie, 1908, before packing for despatch to Perth. Boxes went by railway bullion car which served all banks and which was met at Perth by banks' representatives where the boxes were checked before being taken to the Mint.

for 88 per cent of the deposits and 84 per cent of the note issue of all banks which did not subsequently suspend. To carry successfully the burdens suddenly thrust upon them would have been a major achievement had the panic not continued. But it did continue, and temporarily the Australasia and the Union had to shoulder their new burdens while at the same time they gradually convinced the public, by honouring every demand for repayment of a deposit or conversion of a note, that suspension of their two banks was unthinkable.

Both the New South Wales and the Victorian government rushed through emergency policies, as the end of April made clear the severity of the crisis. In Victoria knowledge of the intention of the National to suspend on Monday 1 May led a handful of ministers, sufficient for an Executive Council quorum, to determine on the proclamation of a bank holiday, without reference to the banks; on Sunday evening, by special train, they met the governor at his country estate, and he signed a proclamation for five days' bank holiday throughout Victoria, oddly not including the following Saturday morning.

Sawers and Finlayson heard of this plan late on the Saturday night, and a midnight conference followed, at which both were in complete agreement: the proclamation should be ignored. Sawers, fearing a similar move in New South Wales, had the previous week instructed the Sydney manager to ignore any special holidays there, but the question did not arise. The Melbourne manager of the Bank of New South Wales, who attended the conference, was without instructions, and felt bound to obey the proclamation. Accordingly in the small hours of Monday morning special urgent telegrams went out to all country managers of the Union and the Australasia, directing them to open as usual on Monday, and instructing them how to act.

These instructions had to take account of the fact that some transactions completed during the holidays might be challenged by other banks or individuals. Thus all notes of other banks were to be received for collection, while bills and cheques on other banks were to be similarly treated, and if this were unacceptable, the holder should be requested to present 'after the holidays'; cheques of the two banks' own customers were to be honoured, if the customer himself presented them, or authorised payment in writing.

On Monday morning Collins Street Melbourne was filled with excited crowds, which included many apprehensive depositors of the Australasia and the Union. The Australasia, for instance, that day paid out £108,000 to depositors, £40,000 in gold. Next day the rush had subsided, and the New South Wales opened shortly before noon.

The demonstration of strength by these three banks carried them through the next two weeks with no heavy pressure, despite other banks suspending. But those which had closed were not so fortunate. The National had already formally suspended, the Colonial was unable to reopen, while reopening brought a renewed run on the Bank of Victoria and the City of Melbourne Bank, forcing them to suspend.

The New South Wales government, after considering a similar measure, adopted instead a much more sensible one. What was required was that all who demanded cash should get it. Since there was no central bank, and a government note issue, even if acceptable, could not be arranged in time, the government legislated to provide that the notes of any bank might be declared legal tender. Because all the banks resisted this proposal, the intention was that no bank would be included unless it so requested. Unfortunately the major banks would not move, placing others in the position that a request would be a public sign of weakness. Even the Commercial of Sydney held off, and suspended payment, before the government overrode bank objections and declared the notes of all banks, still open, to be legal tender in New South Wales for six months from 16 May. Within a few days the run on banks in New South Wales collapsed, for depositors were now confronted by the choice of retaining deposits or of holding notes of the same banks.

But for the Australasia and the Union, the story was not quite at an end. Both were prepared to pay in gold if necessary, and unwilling to accept power to pay in legal tender notes as an obligation to do so. But within a day or two, Finlayson, despite the endorsement of his board, fell into line and ceased paying gold, since it was evident that no advantage could come from a gesture of principle, and gold paid out was merely hoarded, or went into suspended banks in settlement of obligations to them. Sawers also pocketed his scruples, recognising that once a demonstration had been made it was, in his own word, 'quixotic' to pay out gold only to see it hoarded. He was reinforced in this decision by the fact that, in Victoria, the banking failures following the enforced holiday had brought a renewed run on the few remaining banks, so that in the week ending 22 May the Bank lost £334,000 in deposits in Victoria, with no immediate signs of improvement. Sydney gold might well be needed in Melbourne.

The Sydney situation was further eased by government action to deal with current accounts frozen in suspended banks. Government legal tender notes were made available for advances against such deposits. More important was the fact that the Commercial Banking

Company of Sydney was able to release all current accounts within seven weeks of its suspension. Fear of further trouble did not vanish overnight. Sawers and Finlayson were convinced for some weeks that the Bank of New South Wales was in a dangerous position and might suspend at any time. The smaller City Bank of Sydney was in desperate straits for some months, only saved by repeated aid from the New South Wales, the Australasia and the Union. So that, as Sawers put it, the City Bank was practically 'liquidated standing'.

Queensland and South Australia were also stirred to legislation on note issue, but in their case, the plans were less to provide cash with which to choke the crisis than to use the crisis as excuse for introducing a government note issue. In South Australia nothing eventuated. In Queensland the outcome was a prohibitive tax (10 per cent) on private bank issues and the substitution of Treasury notes supplied to the banks, who paid 25 per cent in gold for them and 4 per cent interest on any more placed in circulation. By the time this policy was in force the crisis had subsided; otherwise the enforced replacement of bank notes might well have intensified it.

As has been seen, both the Union and the Australasia were well-prepared for crisis. During the collapse of building societies and land banks in 1891-92, and the growing distrust of the latter half of 1892, both received substantial accessions of deposits, and increased pressure for advances. The latter was met by a selective policy: as a general principle, the objective was to curtail advances while not refusing good new business. Both found the increase in deposits unwelcome, and directed branch managers to refuse very large deposits, or large ones which did not fit into a smooth spread of maturity dates. As the crisis became more serious in early 1893, the flow of new deposits increased, despite the two banks having forced a reduction in interest rates. In March they secured reduction in Victoria by combining with the New South Wales to insist that, whether other banks agreed or not, they would reduce; similar reduction in New South Wales followed. Yet the rise in deposits continued with each bank failure. Neither Finlayson nor Sawers welcomed this embarrassing sign of public confidence, which was fully sustained up to the final crashes in May.

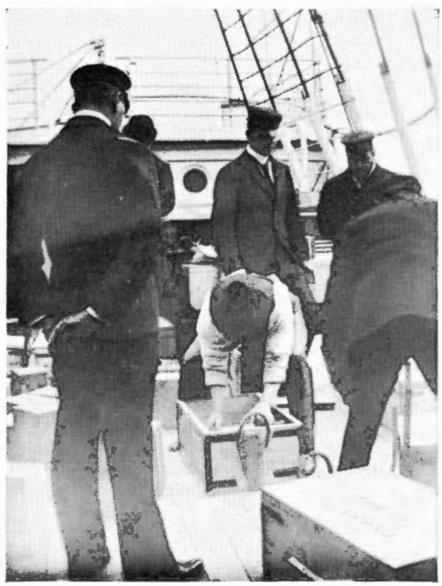
The same situation prevailed in London. Neither bank suffered any serious reduction in London deposits right up to 6 May 1893. The more complete figures, partly reproduced here, are for the Union. The Australasia pattern was broadly similar, except that, for it, there was no parallel to the Union's special case of deposits taken over from the Bank of South Australia.

London Deposits

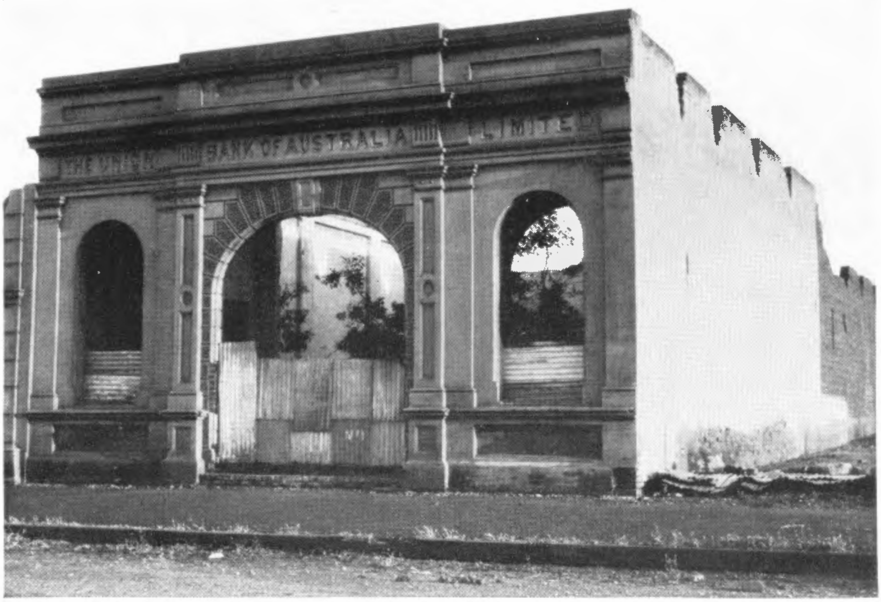
	Union Bank of Australia	Bank of South Australia	Total
8 Jan 1889	1,583,000		1,583,000
5 Feb 1889	1,649,000		1,649,000
1 Oct 1889	1,704,000		1,704,000
22 Apr 1890	1,859,828		1,859,828
28 Oct 1890	1,804,000		1,804,000
26 Jan 1891	1,883,000		1,883,000
10 Nov 1891	1,966,000		1,966,000
8 Dec 1891	1,970,150		1,970,150
15 Dec 1891	1,961,850		1,961,850
22 Dec 1891	1,966,965		1,966,965
26 Apr 1892	2,124,239	1,615,714	3,739,953
10 May 1892	2,148,000	1,615,000	3,763,000
17 May 1892	2,202,620	1,534,760	3,737,380
14 Jun 1892	2,250,000	1,400,000	3,650,000
13 Sep 1892	2,437,400	1,195,433	3,632,833
22 Nov 1892	2,411,247	998,606	3,409,853
29 Nov 1892	2,400,447	987,499	3,387,946
21 Apr 1893	2,423,469	704,461	3,127,930
30 May 1893			3,035,000
18 Jul 1893	2,394,215	543,480	2,937,695
15 Aug. 1893	2,370,120	498,890	2,869,010

Indeed there is little evidence that, prior to May 1893, any Australian bank lost British deposits in substantial amounts, and nothing to suggest that any bank was forced to close because of actual loss of such deposits. Had British depositors taken fright early, withdrawals would have been delayed by such deposits being for fixed periods which wise banks had spread fairly evenly. But withdrawals, once initiated, would have been of great importance to some banks. In March 1892, the New South Wales government, against bank protests, enforced returns disclosing British deposits held by banks operating in the colony. Only two, the City Bank of Sydney and the Bank of North Queensland, held none. The London Chartered and the Queensland National held British deposits larger than their colonial deposits, while the Commercial of Australia's London deposits were 45 per cent of its total, and those of the Australian Joint Stock were 36 per cent. Those of the Union and the Australasia were 20 per cent. Several banks, at the time of suspension, professed to expect large British withdrawals in the future. How far these fears were warranted is not important for the present story—though the

Shipping gold from the Union Bank of Australia, Albany, Western Australia. P. & O. Steam Navigation Co.'s regulations in 1898 directed: '. . . . the Commander is required under all circumstances of time and place to give his personal attention to this important matter and must always be present together with all the officers at the receiving and discharging of specie. . . . After treasure is shipped the ship is to be considered *en voyage,* a strict officers' watch must be kept, no leave is to be granted, and the Commander must sleep on board.'



Gold escort at Coolgardie, Western Australia, some time between 1895 and 1906.



Australian National Travel Association

Like many boom towns Coolgardie did not long survive the end of mining in the surrounding fields. Abandoned buildings soon became derelict like this one which had housed the Union Bank of Australia's branch which closed in 1912.

later withdrawals from the Australasia and the Union are not necessarily to be read as confirmation. Some modern discussions of the crisis have laid great stress on the nearness of the Scottish Whitsun term day, May 15. Scots lenders were accustomed to contracts which terminated then or at Michaelmas, and had deposits maturing on May 15 been a high proportion of all deposits, and had Scottish investors refused to renew, banks which survived until then might nevertheless have gone under. Fear of this result may have been a factor in determining some banks to close before May 15, just as the claim by several that they closed in the face of Australian panic in order to protect the interests of British depositors whose deposits had not matured, was not necessarily insincere. But it may be doubted if the actual or expected behaviour of British depositors had decisive influence. What is clear is that the panic and the heavy withdrawals which provoked suspensions were purely Australian.

In recognition of this, Finlayson and Sawers had taken special precautions to increase cash reserves, and to spread them wherever they might be wanted. Thus in March the Sydney Inspector of the Australasia was reporting his compliance with orders to provide cash at distant branches.

> I will quietly replenish as directed. I propose to ship £20,000 to Townsville for the group of North Queensland branches, and ask Brisbane to supply those further south. Supplies for the Hunter River and Northern New South Wales branches will be sent tomorrow. The Cootamundra manager will be here in a day or two, and he can take his proportion, also possibly that for Young and Grenfell.

As the crisis drew to its climax, managers were required to report their key figures of cash, deposits and advances every night, so that surges of distrust could be met by prompt action, and the overall picture closely assessed. Finlayson was following a parallel policy. Indeed the two men drew together for constant discussion and advice, and during April-June were frequently communicating with their directors by joint cables. In London the managers of the two banks and their directors were in equally frequent conference.

Advance policy during the crisis was a matter of great concern. Sawers in mid-May explained at length the course he desired managers to follow:

> The severity of the present crisis and the probability of its increase render it imperative that the Superintendent should place before the responsible Officers of the Bank his views as to the course of action which they ought to pursue.

The Bank has scarcely ever before been so strong in coin as it is at this moment, but it is threatened, especially in Victoria, with heavy withdrawals of deposits in consequence of the prevailing public belief that all Banks, however sound, must sooner or later reconstruct and that it therefore behoves customers, if they wish to prevent their money from being locked up to remove it in good time.

This erroneous belief is fraught with grave danger to the Bank, and despite the large reserve of coin and the shipment of half a million of sovereigns on its way from England, the Superintendent very strongly feels that, in view of the probability of the crisis increasing in intensity, no money should be allowed to go out which can be retained and that a policy conducive to getting in coin should be followed for the present.

The loss of connection weighs as nothing in the balance as compared with the Bank's safety. At the same time the action of Managers must be conducted with great tact and discretion, as much more harm than good might easily be done by a display of too great eagerness to get in money.

The obvious courses to be pursued are: 1. To refuse all fresh advances on the grounds that they do not suit the Bank at present. 2. To charge all customers, not under special agreement, a higher rate of interest on their advances, on the perfectly true plea that money is much more valuable at present than it has been for a long time past. Should customers take offence and withdraw their accounts, the regret this result would otherwise occasion would be more than counterbalanced by an *immediate* acquisition of sovereigns for our reserves. It would not, of course, suit to let such accounts stand during the crisis and be paid off afterwards at the conveience of Mortgagors.

Pressure should be continued on accounts in reference to which it has been already exercised.

It will obviously be useless and will only attract unnecessary attention to press customers whose securities are unsaleable at this moment as what is wanted is immediate relief, regardless of offence or loss of connection so long as customers are not led to believe that the Bank's necessities prompt a Manager's action.

The Superintendent is glad to think that he can rely upon the cordial cooperation of the Bank's officers even at the risk of injury to their business. There is no occasion to feel panic-stricken—as already explained, the Bank's position is strong, but the coming drain may be severe and, with so much at stake, the duty of wise men is to prepare for all eventualities.

For the guidance of Managers it is mentioned that the very lowest direct advance rate at Melbourne branch is 8 per cent, and discount 7½ per cent, but Managers need not necessarily charge such low rates. They will do well to raise whatever rates they have been charging by at least ½ per cent.

> The 60 days buying rate for London Exchange is now 3 per cent discount, and it should be adhered to at Branches, as the cost of shipping gold (and possibly afterwards returning it) is very onerous.
>
> The Superintendent may mention that the Union Bank and, he believes, other Banks are charging similar high rates, but no matter what other Banks do, the course of the Bank of Australasia is clear, and as the Superintendent has before observed, if accounts leave in consequence, it will at this moment be the lesser of two evils.
>
> In case of misconception it may be well to add that it is not intended to refuse good customers usual discount and overdraft facilities without first referring here, but they must not be permitted to accommodate friends through their accounts.

Ten days later Finlayson issued a similar circular which reads like a summary of the Australasia's, one of many suggestions that, although Finlayson was quick to see the value of Sawers' views, initiative and originality lay primarily with Sawers.

Apparently the Union directors in London became aware of Finlayson's limitations for, from March onwards, they kept a close hand on the reins, restricting Finlayson's full discretion and urging on him policies they felt necessary. Initially, they were extremely wary of any help to other banks, insisting in March that this should only be given if all banks in the colony concerned participated, if security given was ample, and if the bank in need was fully solvent, and indicating that Finlayson should seek their approval in each case. By contrast, Sawers was able to give aid on the basis of his own judgment. A month later the Union Board had changed its views drastically and urged that the Union, the Australasia, the New South Wales and the Commercial of Sydney should form a pact for full mutual support, although, as Finlayson explained, it was then too late for such a step to restore confidence.

Similarly, the directors from March onwards were urging shipment of coin from London, despite Finlayson's assurance that he felt his cash position was strong enough, and that shipment might be misunderstood by apprehensive depositors. By May both Sawers and Finlayson asked for large coin shipments as a precautionary move, but the Union Board at first demurred, suggesting an alternative it had already canvassed, of securing assurance of an advance of £1,000,000 from the Bank of England, with appropriate publicity. Finlayson retorted that gold in Australia, not a credit in London, was what depositors wanted. The Union gold (two shipments each of £250,000) was sent, but without the public announcement Finlayson sought. Sawers received a similar amount.

Finlayson was also required to send a weekly cable report of his reserve position, in addition to the constant stream of cables which both banks were exchanging with London. In May a special sub-committee of three directors was appointed (it was the forerunner of the later Standing Committee) for daily consultation and advice to the General Manager. Finlayson undoubtedly felt his position keenly. Whether the reduction in his discretion sprang from a loss of confidence by the Board, or from excessive alarm by the directors, is not clear, but the extent to which the Board took direct control was very marked, especially in contrast with Sawers' position. Moreover it was maintained, and in due course precipitated Finlayson's premature retirement.

For the Union and the Australasia the most anxious period came after the last of the failures of other banks. During May both suffered substantial losses of deposits, and were subjected to heavy pressure for advances. Thus the Australasia increased its advances during the month by £141,000, while its liabilities for deposits and notes (mainly deposits) fell by £533,000. During the worst week, 16-22 May, the decrease was £346,900, of which £226,000 was paid out by Melbourne office alone. The Union suffered similarly, but less severely. Its non-Government fixed deposits fell by £143,000 in the last week of May, by £176,000 in the first three weeks of June, and by a further £70,000 in the next week. For both banks, steady decline of deposits in the colonies continued, to which now had to be added decline in London.

For this drain several factors were responsible. Many depositors were in need of cash, if only because their own creditors held deposits in suspended banks. As the immediate banking crisis receded, Finlayson and Sawers recognised that behind it there was general depression and deflation. The most immediate cause of the drain on deposits, however, was the widespread belief that the remaining banks would not resist reconstruction much longer. Superficially the reconstructed banks were stronger, less vulnerable, than the survivors, and the expectation that either simple inability to pay or the advantages of reconstruction would lead the remaining banks to follow, kept the drain going steadily. The consequences to depositors, if a bank suspended, were constantly advertised in the market prices of fixed deposit receipts of suspended banks, which were dealt in on the stock exchanges at heavily depreciated prices, duly published.

Both banks were well able to meet demands but deeply concerned about a possible revival of panic. The first hurdle was the publication of September returns, with the inevitable public disclosure of loss of deposits in the preceding quarter; but this passed off quietly. The second was termination of the New South Wales legislation providing that bank notes should be legal tender. The Australasia and the Union were both opposed to this being renewed at the end of its six months' life in November, but somewhat fearful that termination might bring a sudden demand for gold and touch off a new run. Yielding to the banks, the government allowed the legislation to lapse, but planned a new, government issue which, however, was abandoned following a change of government. Sawers' and Finlayson's fears proved to be unfounded, and by the end of the year they could relax, confident that all danger was past. Indeed their chief worry was soon to be an unprofitable accumulation of deposits, and difficulty in making advances. Pressure to curtail advances had been maintained up to October, but then relaxation, and active encouragement to managers to seek business, produced no response. For several years to come, excess deposits and sluggish movement of advances were to plague both banks.

New Zealand avoided a banking crisis as serious as the Australian, although it had its own banking troubles which, however, had little impact on the Union or the Australasia. In 1888-90 the Bank of New Zealand was in difficulties, but managed to stay open. During 1891 it became known that the National Bank of New Zealand was also in danger. In fact its business was offered to the Australasia, and refused, and then offered to the Union. Negotiations with the Union reached the point where a firm offer was made and rejected, to the relief of Finlayson.

As crisis loomed in Australia, Sawers applied to New Zealand the policy he enforced in the Australian colonies, partly because he feared trouble in New Zealand, partly because if trouble did not come, New Zealand could provide relief to Australia. In 1891 he took special steps to strengthen New Zealand reserves, and during 1892 he was insisting on advance restriction. This caused some anguish to Morrah, who saw many prospects of good business becoming available because of difficulties of the local banks, but he loyally obeyed.

During these years the Union's policy was different. Poor New Zealand business had become a subject of complaint with the Board, and when Palmer retired in 1890, the directors insisted, against the wishes of Finlayson, on going outside the service for a successor. Bluntly, they told Finlayson that he needed more experienced senior staff, and that new blood was required in New Zealand. Their choice was George Tolhurst, fifteen years with the Bank of New Zealand,

and currently its acting general manager. The appointment was unwelcome, at first, to senior Union staff in New Zealand, but it was a good one. One of its first results was the transfer of the Bank's New Zealand headquarters from Christchurch back to Wellington, in May 1891.

Tolhurst believed that expansion of New Zealand business was possible, and indeed that this had only been held back by excessive caution and unduly high standards of security. The Board, as late as February 1893, endorsed this view, and agreed to encourage Tolhurst in a more enterprising policy. But before this news could reach him through Finlayson, the final phase of the long Australian crisis was opening, and expansion had temporarily to be put aside. Indeed, by 1896 Finlayson was urging the Board to sell the Union's New Zealand business to the Bank of New Zealand. The directors were dubious but at least prepared to entertain the idea. But Finlayson failed to convince them, and instead, that year, Tolhurst was at last given active encouragement in a programme of building up New Zealand business.

Fortunately the succession of Australian suspensions produced little alarm in New Zealand, and beyond quite minor withdrawals, direct effects were insignificant. Some at least of these arose from confusion. Thus, when the failure of the National Bank of Australasia was announced in Wellington, the New Zealand representative of Thomas Cook & Son, who did not know the National and assumed the reference was to the Bank of Australasia, hastened to withdraw his firm's funds from the Australasia, to place the gold in a locked box, and then to lodge the box on safe deposit with the same bank; and for some time he conducted his business on a strictly gold basis. A similar confusion in Auckland led to a few withdrawals there, and later, an irrational run on the Auckland Savings Bank. But in general New Zealanders regarded the Australian bank crashes as no concern of theirs.

Morrah and Tolhurst were therefore startled when the New Zealand government used the Auckland Savings Bank run as an excuse to rush through a Bank Note Issue Act at the beginning of September. The banks were 'consulted' to the extent that they were summoned during the dinner adjournment of Parliament to hear the substance of a bill which the government proposed to pass through all stages forthwith. It was a combination of the Victorian Act, which made notes a first charge on the assets of a bank, and of the New South Wales Act, which enabled the government to declare bank notes legal tender for a limited period.

It soon appeared that the real purpose of the government was aid for the Bank of New Zealand. But as things turned out, the aid was not enough, and in July 1894, that bank had again to be rescued from immediate suspension by more far-reaching government aid and drastic reconstruction. In the course of that reorganisation, with its unfortunate revelations of mismanagement, the Colonial Bank of New Zealand was shown to be in an equally bad position, and was hastily absorbed by the Bank of New Zealand in its new form. But no general bank distrust developed, and the Union and the Australasia were affected only by being offered much good business.

With the passing of the crisis, both banks turned to a drive for economy and increased efficiency to offset the inescapable legacy of loss left by the crisis and the reduced earnings thereafter. Salaries received early attention. As a first step, the rates for newly appointed probationers were reduced to £30 in the first year of service—in the conditions after 1893 there was no lack of youths anxious for bank employment. More important was a general ten per cent reduction in salaries at all levels, agreed upon in London by the two boards, against the advice of Sawers. This took effect late in 1895, although Sawers succeeded in having it cancelled for the Australasia in April 1897. The Union, however, maintained the general cut until 1901, and reinforced it by compulsorarily retiring, at 55, less efficient staff especially in 1895-6. Finlayson, who had advised his directors not to follow the Australasia in reversing the salary reduction, was presently writing in pressing terms of the adverse effects on the Union staff. Men of eight years' service on the permanent staff were receiving, he pointed out, only £120 a year, and morale was suffering badly; the best men in the middle ranks were leaving the service as opportunity offered. The most he could achieve, however, was a right to review annually the salary of each officer and to make individual adjustments, which meant that in 1901 the 'general' reversal of the cut in fact affected only a minority. The directors, it should be said, did not restore their own reduced fees until that time. And in other directions directors could be generous. When bank staff volunteered for service in South Africa in 1899, both banks undertook to hold each man's position for him, and to pay half salary for at least six months during war service. The Union, too, the same year gave the London office cricket club its initial equipment and undertook to pay the rent of a ground, £80 a year.

Another form of economy was the mutual closing of branches. Here the initiative was with the Australasia directors, who in July

1895, authorised Sawers to arrange closings with Finlayson, or any other bank if appropriate. In that year the Union's business in Fiji was handed over to the Bank of New Zealand. The Australasia and the Union themselves arranged a few exchanges of branches, but the scope proved small since, in economic depression, neither bank much wanted the business the other was prepared to surrender.

Except in Western Australia, and to much lesser extent in Queensland, new branch development in the seven years after the crisis was slow and cautious. The Union opened more branches, and in more varied places, than the Australasia, in a belated attempt to make good the opportunities lost in the 'eighties, especially in New South Wales. But in a period of general depression and falling bank advances, the prospects for new branches were not good; a high proportion of the branches of both banks (outside Western Australia) opened in this period were closed within a few years.

In Western Australia the situation was dominated by the continuing discoveries of gold. The Australasia considered entering the colony in 1891, but decided the time was premature. Late in 1893 the subject was revived, Sawers' letters showing him fluctuating between cautious doubt about long-term prospects and a feeling that, if an entry was to be made, it should be soon. The directors were equally dubious, and left decision to the Superintendent who, finally, early in 1894 decided to act, although he did not need the Court's injunction to commence business 'quietly', and did so only after unsuccessfully seeking to start by taking over the Western Australian business of the Commercial Bank of Australia. Perth branch was opened at the beginning of May 1894, almost half a century after the Bank had abandoned its original Western Australian business; Fremantle, Coolgardie and Cue followed the same year, with branches on other gold-fields at Menzies and Kalgoorlie in 1895, matched soon after by Union branches at the same places.

The Union, being earlier in the field, had the larger business, especially in gold, and had profited by the prestige acquired in 1893 when it remained open in the colony. For both banks, however, the chief problem was staffing branches on the gold-fields, where the main opportunities outside Perth were to be found. The gold, unfortunately, was mostly in remote desert areas, where oppressive climate, harsh living conditions and high costs made bank service extremely unattractive. Many junior staff resigned rather than remain, and those who stayed were only held by supplements to salary which were at times as high as fifty per cent. At Coolgardie, Union staff all had to live in tents and had to depend on a precarious supply from tanks for water for all purposes. Finlayson had to make special rules to meet the case: the Bank paid for the tanks; it bought tents from clerks who had bought their own, and promptly wrote these off; stretchers and bedding were supplied with a note that there would be no later demand on the staff to account for bedding. Service on the Western Australian fields was regarded by both banks as one for which only volunteers were worth considering. Not unnaturally, such staff included some colourful personalities whose flamboyant ways would not normally commend them to banks. Thus in 1897, the Australasia office in Perth received a coded telegram from the teller at Broad Arrow: 'Manager absent since yesterday at Kalgoorlie being married. Do you know anything about it?' It emerged that the manager, known as a hard drinker in a community of hard drinkers, had determined to marry the barmaid at Webb's Hotel, and, brooking no delay, abandoned the bank, secured a special license, and swept his bride and the whole wedding party off to Kalgoorlie for the ceremony and a riotous celebration.

More important than branch policy was the effort to restrain unprofitable accumulation of deposits. The Australasia directors took the lead in urging that small unprofitable accounts should incur a service charge, but were unwilling to act alone. In 1896 Sawers was able to secure agreement for the practice in Western Australia, whence it gradually spread in the early years of the century. For a time both banks discouraged short-term fixed deposits, the Australasia in 1894 refusing to accept any for shorter periods than six months. The main objective of policy, however, was reduction in interest rates, with the dual purpose of lowering costs and facilitating reduction in advance rates in order to promote expansion of advances.

In 1895 the Australasia authorised Sawers to cut deposit rates everywhere to not more than 3 per cent, provided the Union would agree, even though other banks did not follow. A strong united front secured reductions in several colonies—though not as much as directors wanted—a process which was aided as reconstructed banks found themselves also in need of reductions. Most of those banks were finding the interest to which they were committed for deferred deposits very burdensome, and were forced to negotiate new agreements with depositors. Success of this process was difficult until rates of interest on post-crisis deposits were reduced. Under the pressure of these forces, rates on new deposits were, by late 1894, down to relatively low levels: in Melbourne, Adelaide and Hobart, to $1\frac{1}{2}$ per cent for six months (the shortest term) and 3 per cent for one year, with $\frac{1}{2}$ per cent higher in Sydney and Brisbane.

With rates such as these, and still surplus colonial deposits, British deposits were an embarrassment. Both banks accordingly allowed these to fall, and encouraged the movement by reducing interest rates. The Australasia's London deposits, which were £2,600,000 in July 1893, were down to £339,000 five years later. Movement of the Union's was:

London Deposits

	£
29 Aug 1893	2,850,780
6 Mar 1894	2,761,050
23 Jul 1895	1,545,000
5 Nov 1895	1,423,680
14 Jan 1896	1,330,000
21 Apr 1896	1,274,630
5 Jan 1897	944,000
23 Nov 1897	887,500
25 Feb 1899	726,000

For practical purposes, the taking of British deposits had been abandoned.

Nevertheless colonial deposits continued obstinately high. Balance sheet totals for the Australasia had been at their peak in April 1893, at £15,589,000, from which they had slumped to £12,846,000 a year later. During 1895 and 1896 they were rising again, and restrictive measures brought them below £13,000,000 for only a little over a year. Against these movements, advances had fallen from £15,465,000 in April 1892 to a minimum of £11,185,000 in October 1895, and did not reach £13,000,000 again until four years later. The Union's total deposits had similarly increased until February 1893, when they stood at £18,118,000; they were still above £16,000,000 four years later. Advances in the colonies were at their maximum in August 1893, £15,859,000, but thereafter declined steadily until the end of the century. (They were at their minimum, £11,731,000, in February 1900.)

Profits inevitably suffered, the more so because, in the depression which continued until 1895 and in the severe drought which followed, losses were progressively realised in the liquidation of advances to customers who had suffered in the crisis. Dividends summarise the result. Since the early 'fifties the Union had never paid less than 12 per cent, and had paid as much as 30 per cent. But in February 1893, shareholders were made sharply aware of the situation by a reduction to 8 per cent, then to 6, and in 1895 to 5 per cent; not until 1899 was there a modest rise. The Australasia's record was similar. For forty years it had paid at least 10 per cent—at times 20 per cent—but, like the Union, its dividends dropped by stages to 5 per cent, although it was able to make a small increase in 1898, a year before the Union.

Although these results were very similar, reactions of the two boards were very different. The Australasia Court accepted as the inescapable result of a devastating crisis and prolonged depression, a reduced scale of business, heavy writing off of losses, and lower dividends. Throughout, they maintained confidence in Sawers and in their senior staff, and little in the nature of criticism came from them. The only organisational change they made was in creating, in 1896, the office of London manager, in addition to the post of secretary, but this was in recognition of the burden on Selby, who, as secretary, was performing also the duties now allocated to the post of manager to which he was appointed. Nor was there any special significance in the fact that the Australasia (and the Union), from 1895 onwards, allowed the system of local boards to die out; as vacancies occurred among local directors, these were not filled. For many years successive chief executives of both banks had been extremely critical of the working of local boards, which by the end of the century had outlived a usefulness which belonged to the period of small banks operating in distant new communities.

Illustrative of the directors' willingness to trust Sawers' judgment was their concurrence in his purchase of a site for a new Sydney office, at a price which clearly startled them. This was at the corner of Martin Place and George Street. Land resumption required for the creation of Martin Place left the government with a number of small pieces of land which, after several false starts, it finally sold. Sawers was determined to have the corner site, which he described as the best in Sydney, and in due course in 1900, he secured four blocks, at a total price of £91,900. On this site was erected the building which is the present main Sydney office of A.N.Z.

The Union had already indicated that it, too, possessed the faith in the future required for major building. As early as 1891, in view of the approaching end of its lease of 1 Bank Buildings, it had been searching for a permanent site for its London headquarters, and had fixed on 68-72 Cornhill. The ground landlord was the Grocers Company and the lessee was prepared to sell the remainder of the lease, seventy-six years. Building, however, was deferred, and it was not until the beginning of 1896 that the Bank occupied its new premises, 71 Cornhill, now the head office of A.N.Z. Moving in was accompanied by an echo from the past. In 1868, when the Bank occupied 1 Bank Buildings, it had ceased to provide lunch for staff, and in lieu had paid a flat amount of £10 a year to each member. 'Luncheon money' was continued for all existing staff, but from the end of 1896, was not paid to new recruits.

Building in London was one matter. The state of business in the colonies was another, and the Union directors were deeply dissatisfied with affairs. From their concern developed major changes in organisation and, with these, friction with Finlayson. The root of this development lay in the Board's lack of confidence in Finlayson's handling of the crisis in early 1893, a distrust which seems to have been only partly justified. Finlayson was less rock-like in the midst of emergencies than Sawers, and on many occasions seems to have looked to Sawers for guidance. But the Union, in fact, suffered less in the crisis and immediate post-crisis period than did the Australasia. The directors, it may be suggested, were initially the victims of their own fears, and later not altogether fair to Finlayson in holding his management responsible for the low level of profits.

The directors' alarm was responsible for their taking the initiative, by cabled orders, in many matters during April-May 1893, when the Australasia directors saw their role as keeping Sawers well-informed on London developments, and giving directives when Sawers asked for them. In May, as has been seen, the Union Board appointed a special committee of four directors 'to consult daily with the manager during the present critical condition of affairs', and from this committee, a stream of instructions went to Finlayson. The next month, the directors notified him, without prior consultation, that they proposed to appoint an assistant general manager, in terms which, in their implications, were not complimentary. He was invited, however, to make a nomination, but had little choice since Tolhurst was the obvious man, although it turned out that he was not prepared to leave New Zealand permanently.

The immediate crisis past, the Board turned its special committee into a Standing Committee, at the instance of one of the active members, Arthur Flower. Finlayson was told:

> A Standing Committee of Directors is an entirely new departure, and it is hoped it will not need to be a permanent arrangement. The Board, however, are determined upon one thing—that the most strenuous and continuous efforts shall be made both at your side and here to stop the occurrence of losses through bad management at the Branches, and that to achieve this it is essential that the instructions sent from here and

> from your Department shall be obeyed. Losses from depreciation of securities are one thing—those from advances that should not be made are another. It is the latter that cause the Directors so much anxiety, and unfortunately they cannot at present see evidence (tho' with every desire to do so) that further losses that might have been prevented are not pending, and may even continue in the future. This the Board are determined to put an end to so far as it is possible to do so, and the 'raison d'être' of the Standing Committee is to watch continuously the course of Accounts and to communicate with you by letter and cable as may seem necessary—so as to aid you as far as practicable at this distance in carrying out the determination of the Board.

Flower justified the change by detailed criticism of the colonial management, and this origin clearly distorted the working of the Committee for some years, since the members saw its function as that of taking over many matters of detail which properly belonged to the management on the spot. Thus in 1895, orders were given to abandon the preparation of the detailed annual survey of branch business in branch balance books; instructions were given about the conduct of correspondence; directions were given (in 1899) that typewriters be introduced in all important branches and all juniors required to learn typing. More important was the instruction to Finlayson in 1896, against his strong advice, to withdraw from all agreements in all colonies. A system of reports from the colonies to the Standing Committee was prescribed, designed to enable it to give detailed supervision. In 1899 William Lees, who replaced Finlayson, was taken to task for allowing his reserve ratio to fluctuate widely, and had to explain at length—it should have been unnecessary—that seasonal conditions, and especially the wool export period, dictated considerable fluctuation. Accepting the Standing Committee's view that 5s in the £ of deposits-plus-notes was a desirable figure, he insisted that this only made sense as an average over the whole year. At times it had been, quite safely, below 4s, and he pressed the principle that, normally, decline to 4s 6d should not cause alarm; but if the ratio fell below that level persistently, this should be regarded as a signal for inquiry and probably remedial action. It was significant, too, that he felt it necessary to argue at length that interpretation of cash ratios required regard to the proportion of current accounts to fixed deposits and other variables; a rigid percentage was bad policy. Authority was given to the Committee in 1896, by first deciding that its chairman, Flower, should take the chair at full board meetings, and then making Flower salaried chairman of the Bank, subject to formal annual re-election.

In time the system was to mellow and work well. But initially, detailed intervention promoted neither harmony nor efficiency. Thus Lees wrote in 1899:

> It is my duty to inform you that the work caused by the present system of minute control which necessitates such voluminous correspondence has reached its limit and that continuous overwork in the Inspector's and General Manager's Departments must tend to disorganisation. I hear also that Managers complain of the excessive attention required to small details which absorb their time at the expense of more important duties. . . .
>
> In conclusion I would say that if the Board continue to exercise the same control as at present it is my opinion that they should have as adviser on technical matters a capable man thoroughly trained in all the grades of banking, and of fairly broad views. We are now about entering on a period of prosperity, and as our rivals gain strength they will lose no opportunity of competing for our connection, and unless our Managers are allowed a larger degree of individual action we may lose our premier position.

For sixty years both the Australasia and the Union had drawn great strength from the observance of conventions originally enforced by the long delays of correspondence. Each board gave its chief executive large powers and wide discretion, and signalled lack of confidence by ending his appointment; from their position in London directors could, while they stayed above the detail, give wise and well-informed general guidance, and where necessary, clear decisions on major policy. At the beginning, by contrast, the Union's new machinery was operated partially to supplant a general manager in whom confidence had been lost, but who was continued in office.

The loss of confidence was plain. Criticisms of Finlayson's management were blunt and sweeping, and he could, with justice, complain that the standing committee was holding him and his senior staff solely responsible for the impact on the Bank's business of a depression of unparalleled severity. As the losses on old accounts, which no bank could have escaped, became known in the two years after the crisis, Finlayson was told that these would not have occurred if managers had exercised proper care and had been efficiently supervised by the general manager. When Finlayson analysed large accounts of which the standing committee complained, he was brusquely told that the directors were not interested in details, only in the fact of losses. Management in branches was described as 'extremely bad' and his own supervision 'greatly wanting'. Such strictures continued even after the Board's own reorganisation of control was implemented. In 1898 Finlayson was told: 'The correspondence from London on the question of expenses and possibilities of economies has now been of long continuance and the directors have been as much surprised as disappointed at the apparent want of response from your side to their anxiety in this respect, and at the evident failure to appreciate the importance and urgency of this matter'. There was much more in the same vein, not restrained by Finlayson's replies, which pointed out that much was due to general economic conditions, that the Australasia's position and profits were no better, and that the Board did not recognise the steady improvement that was already evident.

The Board had hoped for much from the system of resident inspectors it adopted in 1896. It will be recalled that McMullen had refused to entertain a divisional organisation, but Finlayson himself in 1890 put forward such a plan. The Board at that stage, however, was unwilling to proceed. In 1896 the standing committee reverted to the plan, and directed the appointment of resident inspectors in the several colonies. Finlayson now demurred, arguing that this would lower the status of senior managers and discourage their initiative, but under pressure he produced the detailed scheme which was adopted. Each of the colonies, including New Zealand, was placed under the immediate control of a resident inspector (Tasmania was combined with Victoria in 1898), and the post of assistant general manager became that of chief inspector. Each inspector was responsible for the continuous supervision of all the branches in his division, subject to the general control of Finlayson, who must have felt that, with loss of authority on the one hand to the standing committee, and on the other to resident inspectors, his own role was somewhat dubious. He cannot have been unaware that chief executives of other banks, including Sawers, read the changes as meaning that Finlayson was now only a figurehead. (It is worth recording that Sawers thought this result unjust to Finlayson, and bad for the Union's efficiency.)

Matters were clearly coming to a head. In 1898 Finlayson visited England, apparently believing that it was a routine visit. There, he had a number of interviews with the chairman, of which no record exists except the summary given to the Board by the chairman:

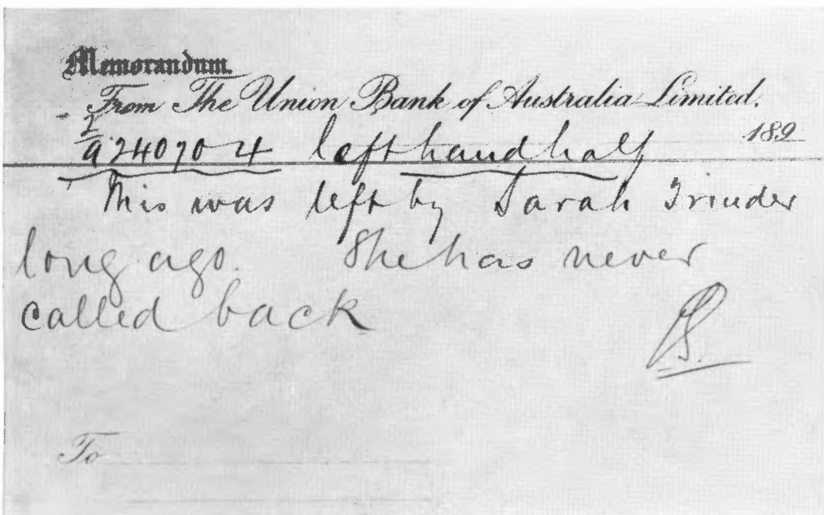
> The conversations had shown that there continued to be a want of harmony between the views of the Board and those of the General Manager, which it is most undesirable should continue to exist, but Mr Finlayson had given no indication of these divergent views being reconciled.

The Board accordingly resolved that Finlayson should retire six months later, and—clearly implying that they did not doubt his ability—made him a handsome retiring allowance, subject to the condition that he should accept no employment of any kind in the colonies, a condition to which no qualification was acceptable. To succeed him the Board chose William Lees, then chief inspector, formerly inspector for Western Australia and earlier Sydney manager.

In some measure there may have been insufficient awareness in London of the slow nature of the recovery from depression in the colonies, and the changed conditions in which the Union was now operating. General economic depression imposed on the Union, as on the Australasia and other banks, not only the nursing of old accounts, but difficulties in finding outlets for increased new advances. In particular, the two fields which had been most important in the 'eighties—building and the pastoral industry—offered little scope. Building revived somewhat in the last three years of the century, but even if the scale of revival had been greater, disasters in this field were too vividly remembered for any bank to be adventurous.

The pastoral industry suffered from continuance of low prices for wool, and from recurrent drought, which was virtually continuous over different major areas from 1894 until after the turn of the century. Numbers of sheep fell very heavily, so that wool output was sharply down. Pastoralists were more concerned with financial survival than with borrowing for major investment. Arable farming, especially wheat, was expanding rapidly, but the banks' attitude was influenced by their general reluctance to plunge on the security of real estate, after such recent disaster associated with concentration on security of this type. Moreover from 1893 onwards, most of the colonial governments entered the field of lending to farmers, sometimes by encouraging government savings banks to dispose of funds in this way, sometimes by creating special institutions such as Western Australia's Agricultural Bank of 1896. Victoria, Queensland, South Australia, Western Australia and New Zealand all legislated in 1894 to promote State loans to farmers. The private banks thankfully left to governments a field they regarded as dubious, and one in which the demand of many borrowers was for advances on unprofitable terms.

The Australasia and the Union had to meet such conditions in the face of the revived competitive power of the reconstructed banks. All of these were untramelled in their new business by their pre-1893 entanglements, against which their reconstruction schemes protected



Memorandum

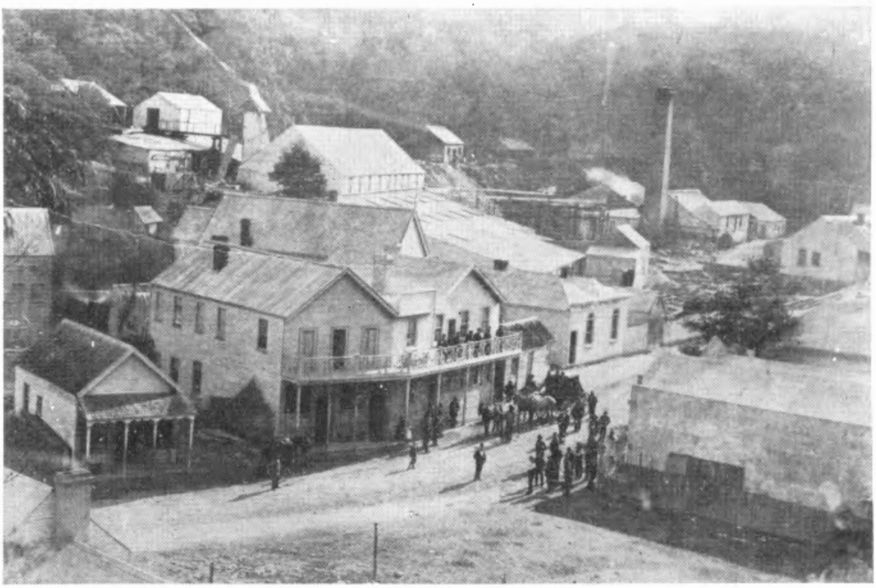
From The Union Bank of Australia Limited.

£1 A 240704 left hand half 189

This was left by Sarah Trinder long ago. She has never called back

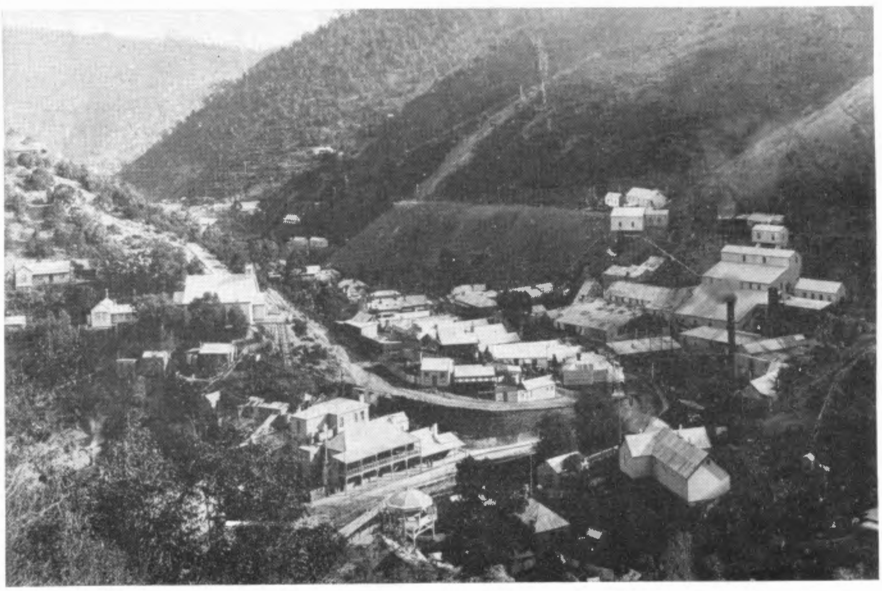
To

The Sydney Office memorandum attached to the piece of a Union Bank note tells its own story. Private banks, no less than the Reserve Bank today, were involved in the expenses and problems of servicing their note issues.



Royal Victorian Historical Society

The goldmining town, Walhalla, Victoria, in 1888. The Bank of Australasia is the building behind the single-storey building and the coach; beyond the Bank is the Long Tunnel Mining Company, which produced 815,569 ozs. of gold during its 45 years of operation, 1868-1913.



Walhalla about 1911. The Australasia branch is partly obscured by a tree to the right of the centre of the picture and to the left of the mine buildings. By 1947 the Victorian Census revealed a population of 83, and by 1954 the town was not listed.

them, except that they were committed to pay, on deferred deposits, rates of interest which some could not earn. A number were therefore forced, from 1895 onwards, to seek new agreements with depositors for lower rates and sometimes longer deferment. The City Bank of Melbourne was unable to achieve compromise and failed permanently in August 1895, to be followed in 1898 by the Standard. But the major reconstructed banks continued, and after early release of current accounts, were in some cases able to repay deferred deposits in instalments ahead of the times agreed upon. 'Repayment', in the case of colonial, but not British, deposits, normally meant that the major part of the released deposits was continued on new contracts. The only surviving reconstructed bank which got into further serious difficulties in this period, the Queensland National, was rescued by the government, present or past members of which had been deeply involved in its affairs.

There was cause for concern by the banks in another respect. The crisis inevitably provoked schemes of financial reform and especially for measures of control over banking, for 'State banks', and for government note issue. Thus in July 1893, the premiers of South Australia, Victoria and New South Wales met and declared themselves against State banks, but in favour of some measure of control of note issue and of banking laws uniform throughout all colonies. No action followed.

'State banks', a favourite panacea, carried various meanings but common elements were that such a bank should provide the sole note issue, have some special role in government finance, and provide special facilities for farmers; often an existing government savings bank was seen as the stock on which these functions could be grafted. Conservative opinion was against such experiments, but it should be noted that they got their strongest support from politically moderate people, and not from the nascent Labour Party, which was not yet very seriously interested in banking politics. After the crisis, pressure for such developments, pressure which had existed intermittently for half a century, was strong enough to produce special inquiries in Victoria and New South Wales, but everywhere the movement for state banks was captured by farmers' organisations anxious for liberal and cheap loans and not interested in, or even opposed to, government note issue. The Victorian Royal Commission on State Banking of 1895, for instance, was thus diverted from its primary reference, and its recommendations became the occasion for a 'credit foncier' system in Victoria.

Government note issue, nevertheless, was a favourite objective of reformers in the mid-'nineties. In 1893 a bill for such an issue reached the South Australian legislature, but did not survive. The Treasury note system in Queensland was modified in 1894, but its continuance did not provide a model for other colonies, since the evident interest of the Queensland government was not in monetary reform but in extracting the best profit it could from its monopoly. The banks were sufficiently concerned to meet in Sydney in 1895 and to draft proposals for banking law amendments which they submitted to the various premiers, without provoking action. Their proposals were far from revolutionary, including, for instance, such defensive measures as the restriction of the use of the word 'bank'.

Not unexpectedly, in public, bankers were opposed to any government issue. But privately they were prepared to welcome a sound issue for which governments and not the banks would be responsible. There was no longer any worthwhile profit in note issue. Finlayson, in evidence before the 1895 Victorian Royal Commission, set out clearly a situation about which bankers were also writing privately.

> Q.7139. What is the profit on the circulation of these notes?—I do not think there is any. I have got a statement here showing the estimated cost of the notes. The initial cost of the notes, as stationery, including freight from London, duty, &c. is 12s per cent—one-fourth of that, the average life of a note being about four years, is 3s per cent, but I think that four years is rather an over-statement. Note tax is 2 per cent in all colonies except New South Wales, where it is 2½ per cent, and Queensland where it is 10 per cent. In Queensland the note issue of the banks has been abolished; they allowed the former tax to go on for two years, and after that it was fixed at 10 per cent—that was merely to insure the notes coming in. Allowing that you keep a coin reserve of 10s in the £1, the money being worth 4 per cent, that would come to 40s per cent, or a total cost of, say, 4¼ per cent, while if you allow for a coin reserve of only 6s 8d in the £1 it would come to 3 7/12 per cent —this does not include clerical labour in handling, signing, narrating, writing off register, and distribution books, &c, besides postage and sending the notes about the country.

Private note issue was, by the 'nineties, worthwhile to banks only because there was no satisfactory substitute, and because, so long as some banks issued notes, all must, since the advertising effect of notes was all-pervasive. But a government note, if issued under appropriate control, and acceptable throughout all colonies, was a better solution even for the banks. For them, therefore, the answer lay in opposing issues by individual colonial governments, and looking forward to action on a uniform basis by a Commonwealth government after federation. Conservative colonial governments, unwilling to become involved in dangerous experiments, concurred in regarding the question as one to be left for the prospective Commonwealth.

This was one reason why bankers all favoured federation, and the Australasia and the Union even contributed modestly to funds to aid the cause, after making sure that they were keeping clear of the domestic politics of any particular colony. More generally they welcomed the move towards federation because, if there were to be legislation on banking, they preferred that it should be uniform over the whole of Australia. Power to legislate on banking had been included in successive drafts of a federal constitution since 1891, without contention, and was only modified at a late stage because of a belated fear that the Commonwealth might seek to legislate about the government banking institutions—savings banks, and recently established banks primarily concerned with finance for farmers—of the several colonies. (There was less readiness to accept the idea of a 'Commonwealth Bank', a name already being canvassed.) The private banks were not interested in these inter-governmental issues; their concern was with one of the contentious issues of the last stages in acceptance of the new constitution: preservation of the right of appeal from Australian courts to the Privy Council. Both the Union and the Australasia, while hoping the right would be retained, agreed after mutual discussion to refuse to join colonial banks in a petition to Britain on the subject

On the eve of the twentieth century and of the inauguration of the new Commonwealth of Australia, there had emerged from the trials of the 'nineties a 'big four' of Australian banking. Measured by the quarterly averages for December 1900, their shares of all Australian business were:

	Per Cent of Total	
	Deposits	Advances
Bank of Australasia	12.7	9.3
Union Bank of Australia	12.1	10.6
Bank of New South Wales	20.5	17.1
Commercial Banking Company of Sydney	12.2	11.5

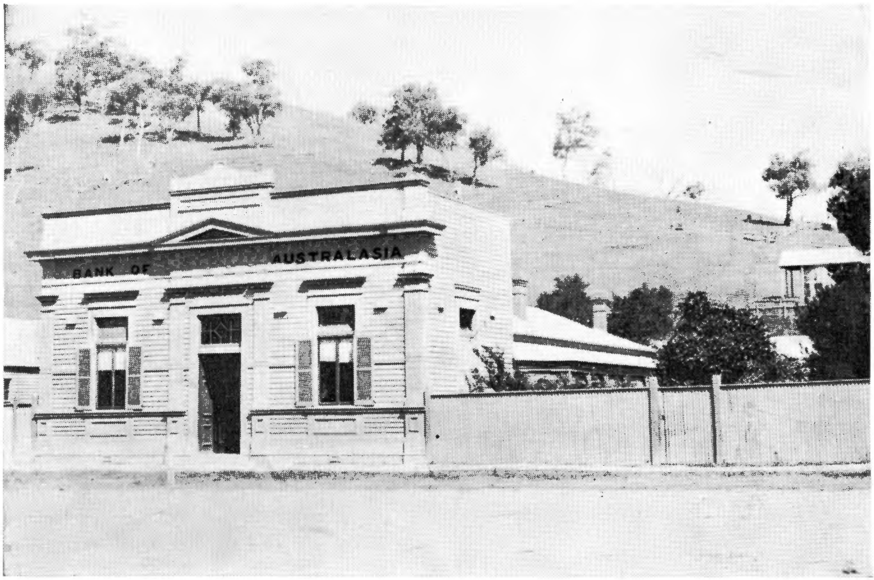
The other seventeen banks were all substantially smaller—some very small—even though in a single colony they might appear large. Even the Commercial of Sydney was, at this stage, confined to New South Wales and Queensland, whereas the Australasia and the Union were strong in all colonies, including New Zealand.

Share of all business of Banks of Issue

December Quarter 1900

	Number of Banks Operating	Bank of Australasia Deposits %	Bank of Australasia Advances %	Union Bank of Australia Deposits %	Union Bank of Australia Advances %
N.S.W.	13	9.1	6.2	7.8	8.7
Victoria	11	18.0	14.5	13.0	12.0
Tasmania	4	22.9	11.5	17.9	11.6
W.A.	6	12.4	6.0	25.7	16.5
S.A.	7	12.2	5.9	22.9	19.9
Queensland	11	8.0	6.8	10.0	7.6
Australia	21	12.7	9.3	12.1	10.6
New Zealand	5	8.4	13.6	14.5	11.3

The Australasia and the Union enjoyed greater relative strength than is suggested by these figures alone. There was the immeasurable prestige which was the reward of strength in disaster. They were free, as many of the lesser banks still were not, of the handicaps imposed by reconstruction schemes. Superficially these schemes could appear to give advantages. Thus, the major banks which had not suspended, enjoyed a smaller percentage of advance business than of deposits. In some degree this was the natural corollary of the small relative size of most of the reconstructed banks: efforts to recover lost ground dictated greater liberality in lending; but the major reason was that the deferred and capitalised deposits of the reconstruction schemes (not included in deposits in the figures above) provided lending resources above those drawn from 'free' deposits. However, there were disadvantages for reconstructed banks: the obligations of reconstruction schemes had still to be met. One bank, the Australian Joint Stock, eventually had to concede failure to regain stability, and to transfer its business in 1910 to a completely new bank, the Australian Bank of Commerce. Others, over the first quarter of the century, were to find that the dual handicaps of reconstruction obligations and of the weak relative size enforced by the crisis, dictated amalgamation and absorption. This was to prove the source of a threat to the leading positions of the Australasia and the Union. They absorbed no other banks, while their chief competitors grew in comparative rank by absorbing smaller institutions, and in the process, extending their business over all States of the Commonwealth. And, in turn, this concentration of competition was to be a major factor leading to the merger of the Australasia and the Union in 1951.



Bank of Australasia, Tallangatta (*above*) and Bethanga (*below*), Victoria, in the early 'nineties. The Tallangatta building was a standard design much used at this period for country towns, for example Walhalla. Tallangatta was originally an agency of Bethanga and became a full branch in January 1882. Bethanga was closed in July 1884 and thereafter conducted as an agency of Tallangatta until transferred to Wodonga branch in 1946. Since then, however, the old Tallangatta township has been inundated by the waters of the Hume Reservoir on the Murray River.

Tyrrells Pty. Ltd., Sydney

George Street, Sydney, 1888, looking south from King Street. In 1890 the Union Bank's 'central' branch was opened in the building on the corner at left; in 1901 it moved across the street to No. 389, this side of the Coffee Palace; then in 1912 it moved to No. 377 which is just out of the picture to the right and which is today a branch of Australia and New Zealand Bank. This side of the Town Hall can be seen the markets which were replaced by the present Queen Victoria Buildings. Note the provision of iron posts and supports for the first awnings over footpaths.

Yet in 1900, there was little hint of these developments. The two Banks faced the new century, perhaps even a little complacently, proud of their triumph in the face of crisis, and conscious of their prestige. For a decade and a half there was to be peaceful, solid growth; the lives of Superintendents and General Managers were to be concerned mainly with humdrum matters of banking, without excitement, even somewhat dull. Not even the loss of note issue rights to the new Commonwealth or the appearance of the Commonwealth Bank (regarded a little loftily as an unorthodox and minor competitor in relatively unimportant areas of banking) appeared, at the time, as momentous events in the prosperous Edwardian calm before 1914.

Chapter 13

GOVERNMENT INTRUSION: THE TWENTIETH CENTURY

Economic development, from the beginning of the twentieth century to the outbreak of the Great War in 1914, followed broadly similar patterns in New Zealand and in Australia. New Zealand remained—as it does today—more predominantly rural, and the somewhat slower and less rigidly disciplined development of its political Labour Party modified, without basically changing, the broadly similar economic policies pursued by governments. The most notable differences between the two countries sprang from the impact on Australian growth of the new federation, especially in the self-conscious nationalistic policies which had become accepted more gradually and less aggressively in New Zealand after the elimination of provincial governments in 1876. Within the purely banking field, the most striking events were the creation of the Commonwealth Bank and the substitution throughout Australia of an Australian note issue for the note issues of private banks. Neither was, however, in its inception a revolutionary change.

For New Zealand the period was one of solid prosperity and substantial economic growth, briefly interrupted after 1907. While there was some industrial development—factory employment rose markedly, especially in clothing—New Zealand remained overwhelmingly a country of farm production with only modest output of the simpler manufactures. The large expansion of rural production in this period was closely associated with exports dependent on refrigeration, especially in meat (mainly mutton and lamb) and dairy products. A good deal of the increase in factory employment was, indeed, in factories processing these exports. To accord with the new emphasis on meat production, there was a great shift away from merino sheep to the cross-bred Corriedale developed in New Zealand, a compromise between meat and wool production.

Accompanying these developments was improvement in transport, especially North Island railways, and a substantial increase in the area of land in productive use. The latter was associated with continuation of the 'nineties policy of closer settlement aided by government finance to farmers. One striking result of these developments, taken together, was a major transfer of emphasis to the North Island, which grew far more rapidly in population, and came to have the most productive dairying areas, and to challenge the Canterbury plains in sheep. In the finance of this economic expansion, the Union and the Australasia were the leaders. The Bank of New Zealand, almost recovered from its troubles of the 'nineties, was conspicuous for caution, and other Australian banks were less ready to expand loans than were the two British banks.

For banking, as for the economy, these were prosperous, but also uneventful years. There were minor alarms and controversies, echoes of Australian moves for government note issue and a government bank rather than indigenous movements, but no major problems for the two banks. For them, the story in New Zealand was of comfortable, undramatic expansion: a rising volume of loans, a big increase in the number of branches to serve expanding and multiplying rural communities, and, it should be added, an increase in the importance of New Zealand relative to Australia in the total business of the two banks.

In broad outline Australia presented similar experience. There were similar government policies of closer settlement aided by government advances to farmers, and a rise in primary production based on refrigerated exports. Butter production, for example, doubled between 1901 and 1914, growing especially in Victoria and coastal New South Wales. Meat production for export was becoming important, but climate dictated that the Australian pastoral industry should remain faithful to the merino, and primary concern with wool exports.

But other rural products were of growing importance. Between 1901 and 1914 wheat acreage was doubled, assisted by extensive railway construction, much of which was thinly-disguised subsidy to wheat farmers and to others placed on farms under closer settlement schemes. Irrigation areas on the Murray and Murrumbidgee rivers, in Victoria and New South Wales, were finding their role in fruit production. Meanwhile in the north, the Queensland sugar industry, built up with the use of Pacific Islands labour, was being reconciled with the immigration policy of the Commonwealth by the adoption of a combination of administered prices and exclusion of imports.

Such development was in line with the trade policy of the Commonwealth as it finally emerged. Federation meant not only the disappearance of inter-colonial tariffs but the possibility for the first time of an Australia-wide trade policy. As that finally crystallised, it was clear that conversion of the Labour Party had swung the balance to a programme of protection. Tariffs were accepted as the means to promote the expansion of simple manufactures already well marked. Government policy of encouraging steel production finally found its embodiment in the opening of the Broken Hill Proprietary Company's works at Newcastle in 1915, and in the establishment of a modest munitions industry. Arbitration of industrial disputes, accepted also in New Zealand, was at least supposed to share equitably the national advantages of these policies.

Emergence of these developments as settled and accepted national policies was not clear for some years after federation, because until the new machinery of government was created and in working order, clear political divisions were not apparent. When they were, after ten years, it was obvious that Labour was permanently one of the two dominant political groups, and in a social atmosphere that accepted social amelioration, industrial and rural protection, and nationalist sentiment, a reformist Labour movement inevitably appeared as the party of initiative and change.

But few of the policies it pursued were far out of line with the ideas of liberals in other political groups, or promoted deep social conflict. For the banks, the two most important were the imposition of a single Australian note issue and the establishment of the Commonwealth Bank. The former was direct continuation of the policy adopted by almost every preceding federal government, itself the outcome of converging lines of thought in the last quarter of the nineteenth century. Bankers might fear the honesty and wisdom with which colonial politicians would control paper money, but they were not unwilling to surrender an activity which now brought more criticism than profit; there is an air of shadow-sparring about their formal objections to a government note issue, and they accepted the inevitable quietly enough. The Commonwealth Bank, too, was a project with a long pre-history, and as it finally took shape, was certainly unwelcome to bankers who considered it at best unnecessary. But in its final form, despite the extravagant language of some of its supporters, it seemed to pose no major threat to private banks.

With these two major differences, therefore, in the years before 1914 Australia presented to the Australasia and the Union much the same experience as did New Zealand. Prosperous years, especially after the long drought lifted in 1902-3, were not unbroken, but they were years without dire threat, years of complacent growth. Australian government policy required the two banks to adjust themselves to the loss of note issue privileges after eighty years, and to learn to live with the modest competition of the Commonwealth Bank. Neither was a difficult adaptation, though the latter was to be pregnant with large issues in the years to come.

Indeed, little as it was realised, the major issues for the two banks at this time were created by internal developments within their own organisation. Partly by virtue of personalities, partly because modern communications made it possible, there was, in the early years of the century, a marked transfer of formal executive authority from Melbourne to London. It was to take time for London to learn the art of exercising, in more detail than in more spacious days, control from a distance; it had to learn that such control demanded more intimate knowledge and more informed advice than the broad policy directives of the nineteenth century, and that such control could work badly if senior executives in Melbourne not merely accepted the final decisions of London, but looked to it to initiate and formulate all important policy. These executives, for their part, had to learn that relinquishing, over wider areas, formal power of decision to London did not free them from responsibility for taking the initiative in formulation of policy, nor did it necessarily mean any loss of power. These are problems of any large and widely-spread institution, accentuated in the Australasia and the Union cases by the distance involved. It was the misfortune of the two banks that the problems emerged in a period when successive appointments to the chief executive posts were, for the best of motives, of elderly men who were at times retained into old age, and whose otherwise admirable qualities were not appropriate for the new internal relationships of the two banks. Men who had progressed from junior posts until, at a late age, they reached the top, could not be expected to display venturesome initiative and original enterprise in the face of an apparent policy of subordination to London control. They were well-equipped for competent management of established institutions and efficient direction of familiar forms of business and methods of operation. The time was to come when more was needed.

With the turn of the century both banks resumed branch expansion, the Union being the more energetic. Between 1900 and the outbreak of war in 1914, the Union opened one hundred new branches and closed twenty-three, a net increase of seventy-seven. The Australasia opened seventy-three for a net increase of fifty-three.

Several factors contributed to this expansion. For the Union the depression of the 'nineties had delayed the making good of the effects of McMullen's conservatism, but under Hallamore the handicap was overcome. Thus during 1901-14, the Union increased its Victorian country branches by seventeen, and opened, in all, four suburban branches (one in Auckland). But more general factors were at work for both banks. In both Australia and New Zealand, population was growing and finding outlets both in secondary industry and arable farming, developments which promoted the growth of the smaller towns. The same growth was encouraged by policies of 'closer settlement' pursued by state governments in Australia and by New Zealand. Accordingly the great majority of the new branches of both banks were in country towns and in villages which had grown into towns. For the Australasia only one branch out of fifty-three was not of this type, for the Union only four out of seventy-seven.

This type of branch expansion was one to invite competition, and in fact other banks were even more active in opening. Accordingly both banks had often to accept the need to open in new centres to meet competition, while doubting the immediate profitability. Thus C. R. Cowper wrote in 1910 of his policy for the Australasia in terms which equally described the Union's caution:

> The demand for Branch Banks has been greatly stimulated by the complacency with which other Banks are rushing into small townships and partially developed districts, where only a large increase of population will enable a payable business to be obtained. In many cases the business never will be of great extent, and at the best its growth will be slow, as our experience in the past has shown. A check to the present prosperity will probably lead to the withdrawal of some of these Branches. Unfortunately in the matter of cost, the leading Banks are at a disadvantage compared with some of the local Banks who place low-paid officers in charge. Where conditions are favourable and supervision by a Manager of another Branch at hand is practicable, I think we should endeavour to meet this by reverting to the system of Agencies, with one officer temporarily in charge until the office shows it can pay its way as a Branch. Such opportunities, however, are few.

The need to multiply branches was recognised by both chief executives and directors. In 1903-4 Sawers was writing of the need, even while his directors were formulating directives urging him to miss no good opportunity, and Hallamore had the same experience in the Union. Sawers personally investigated points in southern Queensland and in the dairying areas of coastal New South Wales, both north and south, in order to choose key points from which to extend later. By 1909 both groups of directors felt that there was too much caution, and that other banks were being allowed too often to get in first. The result was that in the two years 1910-11 the Australasia opened thirty-five new branches and the Union twenty-five, before the directors in each case reversed their views and called a temporary halt.

The geographical distribution of new branches partly reflected the rates of economic development and partly was a matter of policy. Efforts by the Union to remedy its weakness in Victoria have been noted, but for the Australasia, already with a wide Victorian network, there was no reason for similar expansion there. Both added largely to their New South Wales branches (sixteen for the Australasia, fourteen for the Union) and to those in Queensland. In each case there were seven new Western Australian branches, but this meant much greater relative increase for the Australasia after its late start. Neither bank was prepared for major expansion in South Australia or in Tasmania, but for both the greatest number of new branches was in New Zealand, where the Australasia added twenty-one and the Union twenty-five. These, except for the Union's suburban branch in Auckland, were all in quite small towns, the Union being more active in the North Island and the Australasia in the South, to redress unbalance noted in earlier chapters. Immediately before the outbreak of war in 1914, in Australia the Union had 139 branches and the Australasia 157; in New Zealand the numbers were respectively 42 and 44. Several competing banks had substantially more, but many of the branches were to prove shortlived, whereas most of those of the Australasia and the Union were permanent.

The Union even explored opening in New York. In 1902 the London manager was so stimulated by the news of several English banks establishing New York offices that he had a detailed survey made of Australia-United States trade, and became convinced that this was growing so fast that if Australian banks did not open in New York American banks would enter Australia. However the difficulties which Hallamore was quick to present discouraged action, and instead an experimental arrangement with Brown Shipley & Company for direct exchange between America and Australia and New Zealand, in place of operations through London, was adopted. London, however, still hankered after its own New York office and the subject was discussed for several years until, in 1906, the London manager made a personal visit of exploration; his report on the highly speculative nature of the business the Bank would be expected to do ended the matter.

Branch expansion relieved one staff problem as it created another. In the first few years of the century there appeared a legacy of the 'nineties' interruption to expansion: both banks had far too many staff in the middle ranks whose normal line of advance had been closed. Sawers faced the problem more energetically than did the Union, which had enforced some early retirements in 1895-96. In 1900 he devised a new promotion system for senior branch appointments. These had previously been at fixed salaries, varying with the size of the branch, and Sawers introduced the principle of increments up to a maximum salary, with future salary increase dependent upon winning promotion. This at least had the virtue of offering reward to the more efficient, but in itself, did not reduce the surplus in middle-rank posts. Accordingly he sought, and obtained, the directors' approval for a policy of requiring the retirement of all surplus officers as soon as they attained the minimum pensionable age, and insisted on full and candid reports from inspectors and managers on all staff, partly to control promotion and partly as a means to eliminate the less efficient.

Within a few years this problem of blocked promotion faded away, as the multiplication of new branches offered outlets. Indeed the pendulum swung the other way and by 1908-9, the difficulties were rather to find experienced officers to take responsible posts and enough juniors to staff new branches. The more rapid expansion of other banks accentuated these difficulties, particularly as they paid higher salaries. Branch openings had sometimes to be delayed, and recreation leave fell into arrears. The Union reverted to its old policy of importing staff from England, particularly in the years 1910-12, adding, in 1914, the bait of six months' English leave on full pay after ten years' service. The Australasia relied more on material inducements. Salaries became more generous and were supplemented from 1910 by annual bonuses, usually, in the pre-war years, ten per cent. The pension fund was overhauled in 1912, and for the first time the Bank committed itself to fixed annual contributions; it also instituted a fund to provide for the families of deceased officers. Yet for both banks, staff shortage continued until war brought its own problems and compelled recruitment of women.

The most serious problems of all related to the appointment of chief executives. Sawers retired, broken in health, in 1905 (he died a few months later). The obvious successor was C. R. Cowper, who had already acted twice when Sawers was in England. But Cowper was a man of substantial private means, still in the prime of life, and preferred the quiet life of New Zealand inspector. The directors thereupon chose Ames Hellicar, Sydney inspector, the first Superintendent to have started at the bottom as a junior clerk; born in 1847,

Surveyor General's Office, Queensland

East Street, Rockhampton, Queensland, in the 'nineties. The Bank of Australasia was on the corner of William and East Streets on the left-hand side beyond the clock tower. The notice on the lamp-post reads: 'Caution. Must walk horses round corner.' Contrast this with the 1893 flood picture of the Bank's building which is on the corner behind the boats.

The Bank of Australasia at Charters Towers, Queensland.

Surveyor General's Office, Queensland

Gill Street, Charters Towers, between 1894 and 1898. The Bank's premises were at left just out of the picture; the horse is tethered to one of the hitching posts in front of the Bank which can be seen in the upper picture.

he had joined the staff in Melbourne in 1863. His term, however, was extremely short, for within eighteen months he was stricken with paralysis, and, as an emergency measure, Cowper was persuaded to take the post. This he did reluctantly, and on the understanding that he would resign as soon as the Court had chosen a successor. The directors managed to hold Cowper for nearly four years, while they groomed a new man.

Their choice was C. J. Henderson who, like Hellicar, had started (in 1871) as a junior clerk aged 16, and was also Australian-born. In the reshuffle following Sawers' retirement, he had become Melbourne manager, and, in preparation for Cowper's resignation, was made Assistant Superintendent in 1907 and given six months' London experience. When he took over from Cowper at the end of 1910 he was 54. The Court, however, failed to draw the moral from the difficulty of replacing Hellicar, or from the success of nineteenth century policy of always having a potential superintendent on the staff. Henderson, for lack of a successor, served seventeen years, until he was 71, and his successor in turn was appointed at 54 and retired at 71.

The Union, on the surface, was more fortunate. Finlayson's successor, Lees, served only four years, and was succeeded by Samuel Hallamore, whose term as general manager extended from 1902 to 1912. The Union therefore escaped the fate of the Australasia which, over ten years, had had one Superintendent in ill-health in his last years, one seriously ill for his whole brief term, and one who regarded himself as merely acting briefly; the mere fact of three appointments in a little over five years was destructive of definite or continuous policy.

But the Union suffered in another way, by paying undue regard to seniority, a new policy first marked by the appointment of Lees in 1899, when he was nearly 60. Hallamore was 63 when appointed, his successor Russell 59, and the latter was followed by Chambers aged 66. Moreover Hallamore stayed in office until he was 74, Chambers until 78. All of these were very able men, but there were to be some consequences inseparable from appointing to the chief executive post elderly men, two of whom were retained into old age. The Australasia in lesser degree had the same experience. None of its twentieth century superintendents, except Hellicar who was not first choice, was more than 54 at appointment, but the reigns of two men, Henderson and Healy, spanned the years from 1910 to 1944.

The contrast with nineteenth century policy was notable. Kinnear had been only a little over 30 when chosen, Parkes 42, Sawers 45; in the Union Finlayson had been 44 and McMullen a little younger. Each bank had had experience of the faltering of decision in a too-elderly chief executive, the Australasia with McArthur and the Union with McMullen, and had faced the unpleasant implication.

The changed policy of the early twentieth century had its admirable side, and its justification. Considerable discretion had had to be given to distant executives in the nineteenth century, because communications were poor and rapid economic development called for local knowledge and quick decision. Moreover, then, the life of even a superintendent could be arduous, entailing as it did much travel by primitive means. These were conditions demanding physical vigour as well as wisdom. The demands of the early twentieth century were different.

London directors could, for instance, effectively exercise control in ways which would have been impracticable earlier. Decisions about interest rates, opening of branches and a host of other matters at a similar level could be intelligently determined in London, not merely because the cable made possible quick exchanges within each bank, but still more because directors could be generally well-informed about economic, financial and political conditions in Australia and New Zealand. This, as much as personalities, explains why, in both banks in the early part of the century, directors came to take a more direct and active part in daily decisions, to a degree which made restive those senior officers who could remember more spacious days.

In the Union, Arthur Flower, until his death in 1912, ruled as chairman, and took over a good deal of the general manager's authority. One of Flower's less happy innovations was the introduction, in 1902, of a new method of measuring the extent of drawing upon the General Manager's credit (that is the equivalent of the Australasia's London cash account). This had been reduced, in 1901, by one-eighth, and was now to be calculated differently, on what were claimed to be more correct principles. Much confusion ensued because of divergent interpretations in London and Melbourne, the former complaining that limits were persistently exceeded, while Hallamore contended that he was not using all his limit. London in the end prevailed, but the necessary consequence was a restriction of advances, which London welcomed despite Hallamore's protests. He pointed out that the Australasia, with smaller deposits, had substantially higher advances than the Union, and argued that the situation called for expansion to match, especially, the Australasia's business in Victoria. But London was adamant, and presently reinforced its pressure for advance reduction in preparation for the maturing in 1905 of inscribed stock deposits. Flower would entertain no alternative to accumulation of London funds for full repayment, and insisted that plans must assume that no deposits would be renewed or alternative deposits obtained. For three years Hallamore was bombarded with demands that he build up London funds by advance restriction, until he complained that London was 'gnawing at my financial vitals'. In fact there was substantial renewal of London deposits, but it was not until 1907 that the restrictive rules about the general manager's credit were abandoned, the London manager describing them as 'quite unreliable . . . misleading . . . never represented the true position'.

The Australasia followed the same trend to the extent of having a Daily Committee on the model of the Union's Standing Committee. Both groups of directors, in the period between 1910 and 1914, frequently gave Melbourne detailed instructions, and at times—for example on deposit rates—vigorously overruled Melbourne decisions and firmly dismissed Melbourne advice, only to recognise later that that advice had been better than their own judgment. These were troubles inevitable in a transfer of greater authority to London, which itself was in general inevitable and proper, and time was to bring accommodation on both sides.

But these aspects of the transition period were to lend support to the policy of choosing older chief executives and retaining them past normal retiring age, which was itself influenced by more human considerations of the legitimate expectations of senior staff. The need for physical vigour and adventurous initiative was genuinely less than it had been, and could even seem insignificant, the more so as it appeared that the directors could, in modern conditions, more easily and quickly step in to correct mistakes or to initiate new development. For three decades the policy was to appear justified. The chief executives may have been elderly but they were undoubtedly able, and both banks enjoyed solid progress and high reputation for soundness.

Time was to show that there were less welcome trends. By the end of the 'twenties it was apparent that soundness and solidity had not been enough to keep the two banks in the van with the leading banks in New Zealand or in Australia, and in later years, directors and senior executives were to talk of stagnation and lack of enterprise. Such periods of slackening vigour in large enterprises are rarely to be explained in simple terms, but it is clear that a major factor was the seniority of chief executives after 1900. Men, appointed late in life and retained into their seventies, could be admirable controllers of an efficient machine proceeding on its established path, but they could not be expected to be vigorous and enterprising in striking out on new lines—even if their directors would have concurred. So, for example, in the decade following the war of 1914-18, neither the Australasia nor the Union had any share in the many bank amalgamations by which several leading competitors grew.

Long before amalgamation was an issue, the effects of the new attitude to control and direction were becoming plain, and may be summarised by the following figures:—

Percentage of All Banks

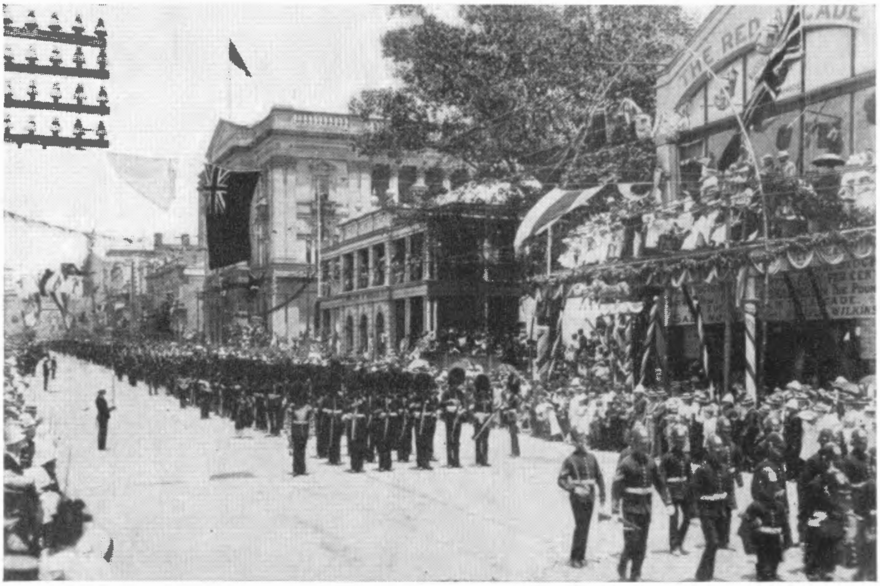
	Bank of Australasia				Union Bank of Australia			
	Deposits		Advances		Deposits		Advances	
	1900	1914	1900	1914	1900	1914	1900	1914
N.S.W. . . .	9.1	9.2	6.2	8.0	7.8	7.0	8.7	7.4
Victoria . . .	18.0	13.9	14.5	12.1	13.0	14.4	12.0	9.4
Tasmania . .	22.9	20.1	11.5	13.8	17.9	15.5	11.6	5.2
W.A.	12.4	9.7	6.0	13.3	25.7	15.3	16.5	22.5
S.A.	12.2	8.4	5.9	4.2	22.9	17.6	19.9	12.9
Queensland . .	8.0	7.3	6.8	6.7	10.0	10.4	7.6	7.7
Australia . .	12.7	10.6	9.3	9.3	12.1	11.2	10.6	9.4
New Zealand .	8.4	7.9	13.6	12.2	14.5	12.2	11.3	16.7

In deposits both banks had lost ground compared with competitors, almost everywhere. The Union's small improvement in Victoria was small return for its extensive opening of branches, while its gain in Queensland was negligible. Advances showed a position little better. For the Australasia there had been satisfying relative advance in New South Wales and Western Australia where the Bank had opened branches more vigorously, but over the whole of Australia it had done no more than retain its share of advance business. In a period when the more aggressive of the Australian banks were expanding freely this could be regarded as a satisfactory result, but the Union had less reason to be satisfied. Gain in Western Australia and Queensland was offset elsewhere, and its overall share declined. Even in New Zealand neither deposit nor advance business of the Australasia nor deposits of the Union responded fully to the liberal opening of new branches by both banks. Competition by local banks might, at the time, seem adequate explanation, and caution in meeting competition might have been regarded as a virtue to be rewarded later. But longer perspective from twenty years later was to show that these

Bank of Australasia, Ipswich, Queensland, 1927, on south-east corner of Brisbane and Nicholas Streets. At left is imprint from the original brass stamp of the Bank's branch which opened on 7 November 1853. This was the Bank's first branch in what was to become six years later the Colony of Queensland.

Surveyor General's Office, Queensland

The Union Bank's branch at Townsville in 1897 was in Flinders Street. It is the single-storey building at the right, partly obscured by the roof of the building in the right-hand corner.



Royal Historical Society of Queensland

Imperial troops marching along Queen Street, Brisbane, in 1902 after the second South African War. The Union Bank's building on the corner of Creek Street is in the centre below the tree.

Surveyor General's Office, Brisbane

Looking east along Queen Street during the flood of 1893. The Bank's building is at the left this side of the tree.

figures marked the beginning of a trend which was not to be reversed completely until the merger of 1951.

So far as deposits were concerned, London policy was the determining factor. In the years between 1900 and 1912 both boards were continually insistent on holding down deposit rates even at the cost of losing deposits, and more than once imposed their policies by forthright orders. Thus in 1903 the Union prevented the general manager matching the rates of other banks. In 1905-6 both boards compelled reductions. The Australasia Court, despite repeated argument and protest from Hellicar, reduced rates to 2½ per cent for twelve months and 3 per cent for two years, in concert with the Union, and continued to reject urgent cables from Hellicar until some months after the Union, also losing deposits, matched the rates of other banks. Again in 1910-11, the same situation recurred. As on earlier occasions, the directors were primarily concerned with unprofitable accumulation of funds in London. These could have been reduced by more liberal lending, but caution ruled advance policy, and accordingly deposit reduction seemed to be required. Henderson, Australasia Superintendent, expostulated at length and repeatedly, pointing out that there were other consequences beside reduction in fixed deposits. Current accounts were lost, and old-established connections broken, and business thus driven away for temporary reasons would be lost permanently. The Court, however, was adamant, and three months' argument by letter and cable was terminated by peremptory instruction in June 1911 to reduce rates below those of other banks, despite the fact that this time the Union did not join in the move. Deposits, in fact, fell heavily, and by the end of the year the directors were prepared to yield, only to find that other banks, in New Zealand as well as Australia, reacted by a further increase in their rates, which the directors hurriedly agreed to match. Difficulty in expanding deposits at this time was the occasion for a new issue of shares; the total proceeds were £1,000,000, placement of the £40 shares at a premium of £60 being evidence of the high standing of the Bank in London.

The Australasia had learned the same lesson that the Union had somewhat earlier, that neither was strong enough to follow a policy concerning rates at variance with that of other banks. Arthur Flower was opposed to all agreements on principle, and in 1900 had summarised his policy, in relation to the particular case of exchange rates, in a vigorous directive to Finlayson:

> This Bank—as you are aware—decline to be parties to any agreement *formal or informal* with other Banks on matters of Exchange.

> They do not wish to compete for the business of other Banks and are desirous of acting in harmony with other institutions so far as such harmony can be maintained in the entire absence of any agreements *or understandings partaking of the nature of agreements*—And all Inspectors and Managers are clearly to understand that it is not open to them to enter into any understanding whatever which might in any way fetter their entire freedom of action, in any case which might arise for retention of their own, or acquisition of fresh business.
>
> The Directors see no harm in your quoting, from time to time, to General Managers of other Banks, Rates at or about which you hope to conduct Exchange Business—but they entirely decline to sanction any understanding *or implied understanding* that those Rates will not be varied at any time, either by yourself or Managers, quite independent of any previous communication with other Banks.

Free, and at times cut-throat, competition ruled in the exchange market for the next five years, partly because of the Union policy, partly because of the importance in the market of non-bank dealers such as the pastoral companies. But by 1906 the banks, including the Union, had had enough, and uniform agreed exchange rates were restored. Deposit rates, however, continued to be kept generally uniform, not by agreement, but by competition.

Despite the weakening in relative position both banks had made substantial absolute advance. Comparison of the first balance sheets of the century with the last before the war shows that the Australasia had increased deposits from £13,972,000 to £19,260,000, while the Union's had grown from £15,249,000 to £23,539,000. The Union's figures included the major part of inscribed stock deposits which had been renewed on a short-term basis when the original twenty-year term expired; the Bank was preparing to repay them all when war postponed the move. In advances both banks expanded over the 1901-14 period by more than £4,000,000. For both, the increase in advances was by roughly one-third.

The introduction in Australia of a government note issue in place of the issues of the banks became a political question with the birth of the Commonwealth. With the passage of time, tradition has blurred the story and combined later controversy with the fact that legislation for a Commonwealth note issue was finally passed by Fisher's Labour government. This has produced the legend that such a note issue was a key plank in labour policy achieved against bank resistance. But the facts were otherwise. From the outset the banks accepted as inevitable that any federal government would legislate to control note issue, and to control it in such a way that no profit remained on any private issue, and perhaps would legislate for a single government issue. They criticised various government proposals, and put forward alternatives, believing with some reason, that various government proposals had purposes other than producing a sound note issue, but in the end they acquiesced in a federal issue and co-operated to ensure its smooth introduction.

Moreover Labour was somewhat late in the field. Every early federal government had a note issue plan, and delay in legislation was not due to obstruction by the banks or to conservative resistance. All governments from the outset of federation until Fisher's government of 1910—there were seven of them in nine years—had in common their own instability; furthermore, in the early years, basic legislation to make a workable system of government must take priority over reformist economic policy. Labour's legislation might well have come from any of the early governments, for all saw in the note issue—Fisher's government most frankly of all—not a matter of high principle but a cheap source of funds. Note issue, whether government or bank, was in effect an interest-free loan from the general public. This sweeping statement must be qualified, without affecting its main truth. If a reserve were held, the effective loan was the amount of issue minus the reserve; and expenses of printing and management must be met, while, for the banks, there was the additional cost of State note taxes. The States could not tax a federal issue, so that for a federal government, note issue offered a tempting source of cheap money. None of the early federal governments disguised the fact that this was its motive, and the banks had some reason to fear that politicians so motivated could not be regarded as ideal custodians of the note issue, even while they conceded that, if profit were to be made from issue, the government had a better claim than the private banks. Hence their own policy was directed to proposing the continuation of private issues under government control, so that all profit would accrue to the government.

The first government move came with great promptitude after the inauguration of the Commonwealth in January 1901. On 21 February the Treasurer asked all the banks to submit their views on a banking act to replace the divergent State acts, indicating privately that their opinion on note issue control was especially desired. The result was the first general conference of all Australian banks, held in Melbourne in May 1901, attended by all except the Western Australian Bank. Lees, the Union's general manager, being in London, was represented by a substitute, whose participation was purely formal, but Sawers had a more active role. The Australasia played host to the conference, Sawers was a member of the sub-committee which drafted note issue proposals, and the record of proceedings shows him contending sturdily for sound if conservative commonsense; his interventions were terse but carried great weight with his colleagues.

On the general subject of banking law the discussions are now of limited interest. They were mostly directed to urging uniformity based mainly on New South Wales legislation, with some previously drawn from Victoria, but in the end nothing came of it all. Far more importance attached to note issue, since for the first time the banks were called upon to formulate, semi-publicly, their considered views. Barton, the Prime Minister, was known to favour an adaptation of the contemporary Canadian system, under which the banks would have been required to hold an amount equal to 40 per cent of their cash reserves in special federal notes, supplied only to banks in exchange for gold. This at least had the virtue that its main purpose was unambiguous: the special note issue was a gesture, little more than a form of receipt, which did not conceal that the government would receive a loan free of interest, repayable only to the extent that bank issues were contracted. But control over bank note issue would have come only from its effect in compelling banks to hold very high reserves, well in excess of 40 per cent. The conference in due course rejected the scheme but was so nervous about its obvious attraction for a needy Treasurer that criticism of it was omitted from the written statements submitted to the government.

Before the conference assembled the Queensland National Bank circulated a proposal for a federal government issue on Queensland lines, with provision for emergency issues in a crisis, a proposal which was supported with qualifications by the other Queensland banks. This was far more revolutionary than the 'Canadian' system, and the assembled banks at first were disposed to endorse it; some time was spent in amending details preparatory to submitting it to the formal conference. But second thoughts prevailed, the central point being that bankers did not trust politicians with the direct issue of paper money.

Instead, the conference adopted a proposal prepared by Sawers' committee which underlined these fears by the extent to which they were prepared to forgo profit on note issue. The scheme was for banks to retain their own issues throughout Australia (the Queensland government issue being abolished), such notes to be convertible into gold in each capital city, and accepted at par by all banks throughout Australia. Issues were to be limited to the amount of gold held within

Australia, and were to be a first charge on assets. A joint guarantee fund was to be established, to which each bank would contribute five per cent of its circulation, the fund to be invested in federal securities. An annual tax of two per cent on average circulation was to be paid to the federal government. With memories of 1893, provision was made for an emergency declaration that notes were legal tender, in which event issues might be expanded on the deposit with the government to meet commitments to the States. Had the banks been no burden on the more conservative banks, and the federal government would have secured the tax revenue which still accrued to the States.

The government, however, was too busy with other matters and neither uniform banking law nor note issue claimed its attention. In any case the banks, as events were to show, had misjudged the politicians. They were not interested in ensuring sound note issue, and not much attracted by the opportunity to take over a modest annual income from the States; their interest was in the substantial capital sums to be secured free of interest. Nevertheless the programme of the 1901 conference remained, through subsequent intermittent discussions, the banks' official policy, though further experience of the primary purpose of successive governments made their support of it half-hearted; at the end, accepting the inevitable, they co-operated readily in the introduction of a government issue. They then pinned their faith to assurances about reserve provisions which would limit the issue—only to find the assurances broken within a year.

By mid-1902 the government was again considering the 'Canadian' system, but it was squeezed out of the legislative programme by more urgent business. The short-lived first Labour government of 1904 announced its intention of adopting that plan but lost office before any action could be taken; the following year the Labour Party included in its fighting platform a 'Commonwealth Bank of Deposit and Issue'. Thereafter Labour Policy was uniformly directed to a government issue, although there was to be marked divergence between the slogans of party conferences and policy documents and the measures of Labour in office. Thus in 1908 the flamboyant King O'Malley succeeded in having adopted by the party a scheme for a bank to be owned and controlled jointly by Commonwealth and States, which would have included note issue among its comprehensive functions. But Labour in office always treated note issue as a separate matter from a government bank.

Meanwhile the banks had apparently more serious threats to worry about. Forrest, Treasurer in the second Deakin government, in 1907 circulated among the banks, for comment, bills to provide for uniform banking law, and for a federal note issue in place of all bank issues. Both were the subject of vigorous critical scrutiny by the banks who joined in a long memorandum of protest together with detailed suggestions for amendments. Forrest was unmoved, but his resignation from the Cabinet ended the matter for the time being. His successor, Lyne, returned to the subject a year later, but the defeat of the government occurred before any action developed.

Once again there was a shortlived Labour government which formulated a plan for a federal note issue on much the lines which were ultimately implemented. The banks agreed to make no representations to the government, but did agree among themselves to abolish all exchange charges on each other's notes. These charges were of long standing, and in origin had some justification. Especially in the second half of the nineteenth century, with banks of very varying stability, it was reasonable enough in principle that notes presented to a branch of another bank, far removed from the issuing bank, should be cashed at a small charge. But the charge was unpopular and in the early years of the new century was being abandoned piecemeal, and in 1909 the banks agreed to remove a ground of complaint popular with critics.

Labour once again lost office before action could be taken, but almost immediately Forrest, again Treasurer, notified the banks in 1909 of his intention to move for a government issue. He made no secret of the fact that his purpose was to secure an immediate large sum of money, and that annual profit on issue was not a major consideration. Reconciled to the fact that every federal government regardless of political colour was impelled by the same motive, the banks agreed to urge on Forrest an alternative plan formulated by Cowper of the Australasia. Shorn of its details this amounted to a new version of the 1901 conference programme with one vital addition: the banks were to be required to hold an amount equal to 75 per cent of their note issues in special federal bonds. Nominally these were to bear interest, but there was to be a note tax calculated to offset the interest, so that in practice the government was offered an interest-free loan equal to three-quarters of total bank issues. Since it was generally accepted that any government note issue would have a 25 per cent reserve, this offer was a better financial proposition for the government than an issue of its own, as it would escape costs of printing and managing the issue, and costs of safe-keeping of a gold reserve. The banks would, in fact, be paying substantially for the privilege of retaining their own issues, from which no profit could accrue; the gain, as they saw it, was avoidance of a note issue controlled by governments whose avowed interest in it was not the establishment of a sound currency, but the raising of substantial immediate funds for public works. London gently reproved Cowper. Jeans, the Australasia's London manager, saw no special advantage in the scheme, and preferred government notes. Over the ensuing months he convinced the directors who instructed Melbourne to avoid all opposition to government notes, the prospect of which, as Jeans put it, they contemplated without alarm or regret.

There might have emerged from Cowper's plan a continuation of private issues, but Parliament was in the last months of its life. Elections saw, in April 1910, the third Labour government, the first federal government with a secure and stable majority. The banks learned, through the press, that Labour policy for the abolition of private issues and substitution of a single federal issue would be implemented by early legislation. In private conference the Prime Minister, Fisher, made it plain that this was regarded as settled government policy which he was not prepared to discuss with the banks, although he would listen to suggestions on details.

The main burden of conducting these discussions fell on Hallamore as chairman of the Associated Banks (French of the New South Wales spoke for banks with Sydney headquarters). The government's proposal was for a note issue controlled by the Treasury; the banks were to be the first recipients of notes, in exchange for gold; against the issue, the government was to hold 25 per cent gold reserve up to an issue of £7,000,000, with one hundred per cent reserve against any issue above £7,000,000. (The sum of bank and Queensland issues suggested a total of about £9,000,000.) From a date to be proclaimed, private bank notes issued or reissued would incur a tax of ten per cent per annum, more than enough to ensure withdrawal. Details, however, were unsatisfactory to the banks. The original formulation of the reserve requirement was ambiguous, and Fisher agreed to state it clearly as not less than 25 per cent. The date originally proposed for the commencement of the ten per cent tax was unreasonably early for the banks to prepare to withdraw their notes; it would also have embarrassed the government, which had no notes of its own. Fisher agreed to make the date 1 July 1911, but demanded, as the price, that the banks buy immediately notes for £2,100,000 to enable the government to meet commitments to the States. Had the banks wished they might have seriously embarrassed the government, which could only commence its own issue by obtaining from the banks their own note forms for over-stamping, but the forms were readily made available, and the required amount was taken up. (The Union sent in a bill for £1,300, cost of its forms used by the government.)

In correspondence and by interview, Hallamore had even less success on other points. The government insisted that notes would be made available to banks in Melbourne only, and that nowhere else would they be convertible into gold. Fisher would yield one concession only: notes in the first, but no other, issue might be sent post free to branches, but all other costs of moving gold to Melbourne and distributing the notes would fall on the banks. The refusal to convert notes except in Melbourne could have had serious effects on public acceptability—sovereigns were still in common use, and the public might well have turned away from a Commonwealth note issue which was virtually inconvertible. To offset this, the government included a remarkable provision in the bill, that anyone receiving payment from any branch of a bank might demand either Commonwealth notes or gold. The notes, though convertible, were declared to be legal tender, so that this provision would have meant that, except in Melbourne, the banks and not the government would have had to carry all the expense and trouble of holding a scattered gold reserve to honour the government's liability to cash notes in gold, and at the same time would be forced to hold notes which any payee might demand. Despite Hallamore's repeated arguments, Fisher was adamant, but the clause was, in the event, removed during the bill's parliamentary passage.

These were unpromising beginnings, and the government's clear determination to thrust on to the banks the major part of the cost of making and managing the issue offered easy opportunities for the banks to discredit the issue at the outset. It says much for the political wisdom guiding their response—Hallamore was an effective diplomat—that none of these opportunities was taken. There must have been considerable temptation. In 1911 the New Zealand government was inspired to copy the Australian legislation, and discredit in Australia might have killed this scheme. As it happened virtue was rewarded; the New Zealand government was defeated, and for another quarter century bank notes continued to be issued in that country.

Instead, in reliance upon Fisher's assurance that the reserve provisions would be maintained, the banks in Australia accepted Commonwealth notes as a satisfactory form of what they agreed was inevitable, and were prepared to suffer the unreasonable conditions for introduction and management as their contribution to smooth passage to the new system, in whose acceptance by the public without distrust they were vitally interested. Indeed, so convinced were they of the sincerity of Fisher's assurances about reserves, that they readily held more of their own reserves in notes than was required for till money. By late October 1911 the total issue was £9,700,000, of which the banks held more than £6,000,000. There was a measure of self-interest in this, since notes, while they cost the banks the same as sovereigns, were easier to hold and to transfer from point to point. But it was also very much to the advantage of the government, and helped to ensure public acceptance of the notes.

There was therefore justification for the banks' resentment when, within a few months, the government proceeded to tear up the reserve provisions, legislating in December 1911 to permit an issue of any size with 25 per cent reserve against the whole, and not merely £7,000,000. The reason for the change was simple, even if it emphasised that the government's interest in note issue was in securing interest-free funds. From the surplus over reserve requirements from the original issue, payments had been made to the States, and four of them had also obtained loans totalling £2,550,000. The remaining 'free' gold in the notes fund was quite inadequate for the ambitious works programme of the government. By substituting 25 for 100 per cent reserve for the issue above £7,000,000, the government freed funds which it then appropriated to the building of the trans-continental railway, purchase of privately-held land in the federal capital territory, purchase of land and building in London, and other activities, totalling in all £2,500,000. (This is the factual basis for the recurrent story that construction of the Kalgoorlie-Port Augusta railway and of Australia House in London was financed by issuing notes; properly interpreted, the story is true, but in its usual form it is not.)

To Hallamore again fell the duty of protesting on behalf of the Associated Banks, and courteously but firmly, he pointed out the direct breach of the assurances Fisher had given the banks in order to enlist their co-operation, and the danger of treating note issue reserves as merely a convenient fund to raid when in need. Half a century later a community well-used to an inconvertible government note might find the concern about the exact size of a note issue reserve excessive, but at the time such reserves were everywhere regarded as essential, and Fisher's actions looked like the prelude to wilder experiments with paper money. Bankers were justified in believing their worst fears were likely to be realised; and from the manner of Fisher's departure from his recent undertakings, stemmed, understandably, much later distrust of Australian Labour in relation to banking and currency. The Associated Banks were not alone in protesting. They were joined by other banks, chambers of commerce, and other bodies, alarmed by what was seen as the beginning of wild finance. None succeeded in eliciting from Fisher anything but a bare formal acknowledgment of receipt.

Meanwhile, the Australasia and the Union, in accordance with the policy adopted by all banks, maintained their own note issues in Australia until the end of February 1911. Thereafter no new notes were issued, and all notes presented for payment or deposited were cancelled. Totals in circulation at once commenced to fall steeply, although the process of withdrawal took some time. But by June 1914, for the last quarter before war broke out, circulations were very low. In Victoria the Australasia had £13,925 and the Union £6,135; in New South Wales the respective figures were closely similar. Small amounts continued to be shown in returns for many years thereafter, the major part representing notes lost or destroyed. For practical purposes bank note issue was at an end by the beginning of the war of 1914-18. By contrast, in New Zealand both banks continued issue, the June 1914 averages showing £146,602 for the Union and £142,267 for the Australasia. In 1907 the Australasia had secured a supplementary charter extending note issue powers, which were due to expire under the last supplementary charter of 1897. This time, the British Treasury finally acknowledged abandonment of its policy of twenty years earlier by giving an extension for twenty-one years. After the Australian legislation the power was relevant only in New Zealand.

By this time another issue was settled. The Union directors in 1912 took the initiative in proposing that the banks should settle clearing balances in Australian notes in place of gold, and thus avoid the substantial costs of movement and safe-keeping of coin. Hallamore's successor, C. W. T. F. Russell, cabled a protest, arguing that the result would be to increase the note issue, only to have his view dismissed as irrelevant. The Australasia Court agreed to support the Union, but tentative inquiries showed that other banks would be unanimously opposed. The Australasia accordingly directed Henderson to give notice that, if it should prove convenient, notes would be tendered in settlement. Despite vigorous objection the other banks were forced to acquiesce, and by 1914 the manifest advantages of replacing gold with notes had led to its general adoption. 'The unwillingness to recognise the inevitable,' wrote Jeans, 'did more credit to the sentiment of the banks who opposed the change than to their skill in forecasting the future.'

Hard upon the introduction of a Commonwealth note issue came the definitive announcement that the Fisher government would introduce legislation to create the Commonwealth Bank of Australia. The story of its genesis is long and complex. In time, King O'Malley was to foist upon tradition the legend that, almost single-handed, he had brought it into being by sustained advocacy over a decade, and, at the end, by engineering a Labour Party caucus direction to obstructive party leaders to proceed immediately with legislation. O'Malley has a real place in the story and might legitimately claim some credit, but much less than this. The caucus vote story is unconvincing. According to O'Malley it was a close vote, for which the support of a group of enthusiastic supporters had to be supplemented by forged proxies, in order to overcome resistance based upon the unwillingness of Fisher and W. M. Hughes to have a bank at all. Whatever the facts of the caucus vote, the real issue appears to have been, not whether there should be a bank, but the reasonable desire of Fisher to choose his own time, and resistance to the obvious aim of O'Malley to dictate to party leaders. According to his own account an honest vote would have been against him; Fisher and Hughes were so far in command of the situation that the Bank they created was different in many respects from the varying plans O'Malley had sponsored over several years, and he was excluded from all part in it. (He did not, for instance, contribute at all to the parliamentary debate.) Party leaders, in such a position of strength, had no need to be bullied by a faked, or at best marginal, caucus vote if their own convictions had been opposed. If the caucus vote achieved anything, it was not more than a minor increase in speed of action in implementing what had been official party policy since 1905.

There is more to O'Malley's claim on grounds of sustained advocacy. From early in the century, in season and out, he had preached the desirability of a bank, and within the party he was accepted as the leading spokesman for it, no doubt being influential in having a bank included in the party's programme in 1905 and in 1908. But there were times when his fellow members wished him silent. O'Malley, an American who by successfully representing himself as a Canadian, and therefore a British citizen qualified for membership of the Australian parliament, included among his early activities those of a pushing land salesman in the United States and the founder of the 'Water-lily Rockbound Church, Redskin Temple of the Cayuse Nation', of which he made himself bishop. The colourful language and flamboyant posturing, briefly successful in the bishop, could have other effects when applied to advocating a government bank in Australia. In the minds of most Australians O'Malley successfully identified plans for a Commonwealth Bank with the Labour Party, but the identification was accompanied by the conviction that O'Malley was a wild demagogue with a dangerously woolly mind, whose varying bank schemes were grandiose and impractical. Labour Party members were repelled as well as converted, and even those who believed in the bank plan could not ignore the fact that, with non-Labour voters, O'Malley's brand of advocacy brought discredit on the objective, and distrust of the financial wisdom of a party of which he arrogated the role of spokesman on financial policy. O'Malley's success in helping to make the bank part of Labour's settled policy was probably more than offset by these effects. Certainly they made the successful creation of the bank more difficult, and undoubtedly explain in some measure why Fisher and Hughes chose to adopt a very conservative form of bank; in some degree, complete separation of a federal note issue from the bank was also ironically a product of the rantings of O'Malley in support of a bank which would include note issue among its multifarious activities.

In assessing these matters it must be realised that long before O'Malley had migrated to Australia, or a Labour Party had existed, government banking had been supported successively by a variety of people who were far from radical, and whose conception of such a bank included all or most of the main features of the bank as it finally came into being; even the name 'Commonwealth Bank' was current in the federation debates of the 'nineties. Indeed, there is substance to the suggestion that the first document in the pre-history of the bank is Ricardo's pamphlet, *Plan for a National Bank,* for in the 'forties and 'fifties of last century it was repeatedly cited in support of vaguely formulated plans for a 'national bank' which would provide the note issue and, in ways very imperfectly defined, exercise some sort of guiding control over the banking system. As the century went by, other strands were added to these ideas, commonly under the label of 'state bank'. All colonies had established their own savings banks, and this function was usually supposed to be taken over. The state bank was also to conduct government banking business, and to manage the public debt. Later in the century special provision of finance for farmers, particularly small holders, was a popular addition. As has been seen, three colonies in the 'eighties and 'nineties had full-dress official inquiries into the desirability of state banks, while parallel advocacy recurred in New Zealand. No one plan included every item, but by the end of the century, certain ideas about a government bank were part of the stock-in-trade of all financial reformers: sole right of note issue; some undefined kind of monetary control; savings business; government banking; public debt management; rural credit. All these lay ready to hand for O'Malley to pick up and exploit, and his achievement was that his contribution to making them Labour policy aroused distrust in many who might otherwise have supported them. It was in spite of O'Malley that a Commonwealth Bank, charged with all these functions except note issue and central bank control, was accepted with a minimum of fuss. Separation of note issue was one of the chief criticisms by non-Labour parties; in the elections of 1914 the programme of the conservatives made no suggestion for abolishing the bank, but did propose to give it control of the note issue, and to enable it to take over the banking business of State governments.

Fisher bluntly informed the banks that creation of the Commonwealth Bank was settled government policy, and would not be discussed with them. The plan as it emerged in legislative form was for a conventional commercial bank, with ordinary banking as its dominant activity, despite hopes expressed in the debates that central bank functions would ultimately develop. The nature of the bank was underlined by the choice for the post of governor of Denison Miller from the Bank of New South Wales; Miller was ambitious for the bank and willing to develop any form of business, but ordinary commercial banking was what he understood best, and the area in which he was keen to expand—he nursed, for instance, hopes of doing so by taking over, at various times, more than one of the private banks. Circumstances dictated that Commonwealth government banking, enormously expanded by war, and savings banking, should be the major activities for some years, but Miller remained primarily a commercial banker in training and purpose.

In this lay the source of the chief concern of the ordinary banks, namely the creation of a government competitor in their ordinary business. Initially Miller did not have the resources to compete aggressively. Separation of note issue from the bank deprived it of capital resources from that activity. Transfer from the private banks of federal government business brought a large volume of transactions, and a modest income, and made the bank well-known throughout the community, but did not yield large stable deposits as a basis for extensive private advances.

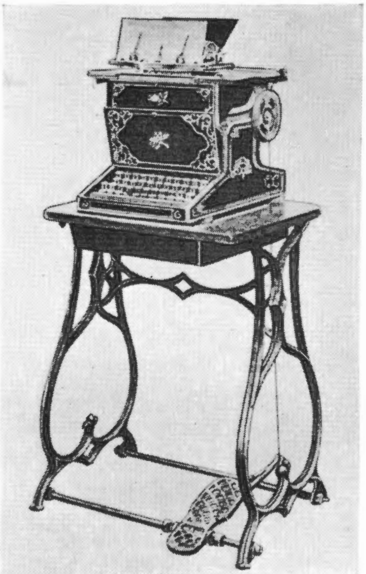
This explained why Miller began savings banking some months before the bank opened for general business in January 1913, and why he moved so aggressively into a field which had been a preserve of the State governments. As colonies they had all developed savings banks, using their post offices to reach even small communities, but with federation, post offices passed to the new Commonwealth, although at first this did not affect the savings banks for which post offices provided agencies. Miller arranged for these same offices to become savings agencies for the Commonwealth Bank, thus striking a shrewd blow at the State banks, which must either accept his invitation to be taken over, or find other offices. The States were determined to keep their banks, which had become regular sources of cheap borrowing for capital expenditure; Miller was equally determined to acquire the funds without which his ordinary banking opportunities were hamstrung. At one stage in 1914 the States had agreed to transfer to the Commonwealth Bank the major part of their own general banking business, in return for its retirement from the savings field. Public controversy between Miller who, relying on his official independence of political control, proclaimed that only legislation would induce him to agree, and the new Conservative government, was terminated by a double dissolution. Labour's election programme endorsed Miller's stand, but sought to placate the States by reviving O'Malley's idea of a bank board including State representatives, while the retiring government, which wanted a different sort of board, announced that it would legislate to implement the savings bank agreement with the States.

Labour won the election, and the States therefore reverted to the programme which all but Tasmania had already adopted. The government savings bank in Tasmania was small and its business was surrendered; Western Australia, after long negotiations, chose to retain its own bank, and with other States turned to finding alternatives to the post offices. Various makeshifts were used—Queensland, for instance, for a time used railway ticket offices—but in general two main lines were adopted: establishment of independent savings bank branches, and, where this was uneconomical or was delayed, arranging for the ordinary commercial banks to act as agents on commission. The model of these arrangements was a formal agreement between the Victorian Savings Bank and the Associated Banks covering 123 towns in which trading banks undertook to act as agents. The Australasia and the Union both took a share in this business.

Thus far the ordinary banks had not suffered from the new competitor except in the loss of Commonwealth government banking business, which had been surrendered without much regret. But in a number of respects bankers had been irritated by the somewhat cavalier manner in which Miller conducted his relations with them. He sought admission to the clearing house on privileged terms, but had to retreat when the banks refused his demand for the advantages of membership without its obligations. He attacked the recently generalised practice of charges for keeping current accounts, proposing to limit it to accounts with a minimum credit balance in any year under £50. The Australasia and the Union took the lead in opposing this reversal of a policy originally promoted by the Australasia, but had to acquiesce in falling into line in areas where the Commonwealth Bank opened, so that, as that bank's business extended, the more restricted charge became the general rule. There was resentment, too, at Miller's attitude to inland exchange charges on Commonwealth cheques. Arguing that the public would object to exchange on Commonwealth cheques when Commonwealth notes were free, he offered to pay direct to the banks the equivalent of the exchange charges. This the banks could hardly resist, but they found it unpalatable since it appeared to an uninformed public to put a premium on Commonwealth cheques compared with their own.

There were more mixed feelings about the inevitable loss of staff. The number lost was itself of no great moment; up to January 1913, when the new bank opened its general banking services, the Union lost to it nine officers, the Australasia ten, higher numbers than those taken from any other bank. What was more important was that these were picked men, among them, for example, James Kell, the Australasia's sub-inspector in Perth, who became deputy governor, and in due course governor. Such competition provoked in both the Union and the Australasia, but especially in the latter, a review of salaries. Changes in rates which followed were partly to remove anomalies, but their overall effect was a modest general increase. On the other hand there was the compensatory reflection that the new bank was being staffed, not with political nominees, but with efficient trading bank officers. Minor irritations apart, it could seem that the government bank would be orthodox, not only in its constitution, but, more important, in its methods and outlook. State governments seemed to be the chief sufferers, and the omens were fair; apparently, after all, the government bank would not be a dangerous competitor, and at least the worst fears about politics in banking were allayed, and presently to be almost dismissed as the new bank became so fully immersed in wartime activities.

Henderson of the Australasia and Russell of the Union, being close to the scene and exposed to the cross-currents of local controversy, were disposed at first to be highly critical of, and even hostile to, the new competitor, hovering between resentment over minor matters and a disposition to be more ready to fight possible competition than to accept the inevitable. They were, for instance, quick to report that the presence of the chairman of the Associated Banks at a Melbourne opening ceremony was in his private capacity and not with their concurrence. But London took, as it had so often done in matters of long-term political judgment, a more balanced view. Both boards refused to contribute to funds to support campaigns against the government's proposal, despite the fact that several colonial banks had done so. With the first announcement of the bill for the bank, Jeans, the Australasia's London manager, commented: 'I do not think there need be any great anxiety regarding the results', adding, as details became available, 'I do not think it will be found impossible for the other banks to exist comfortably in spite of it'. Both boards directed chief executives to accept the situation and cultivate amicable relations with Miller. Henderson, who was disposed to refuse the offer of the Melbourne account of the Commonwealth Bank and indeed to keep his relations with it to the bare minimum, was firmly instructed that he should make available any services desired, provided the terms were not more favourable than to other customers. (The intervention was too late and the account was lost.) It turned out, too, that except on the matter of current account charges, Miller proposed to follow the terms of business of the other banks, without, however, committing himself to any formal agreement. London's policy of graceful acceptance of the inevitable appeared to be reaping its reward.

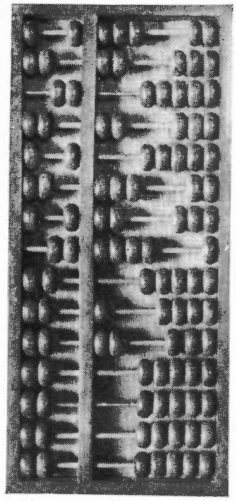


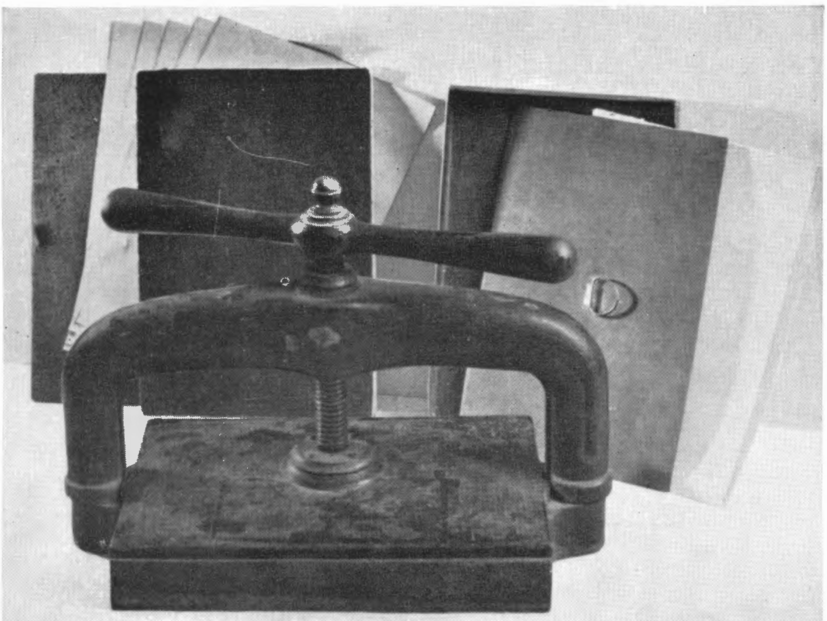
Left

A Remington typewriter and 'desk' of the same model as that used by Mary Swifte from 1887.

Right

Abacus kept for many years at the Townsville branch of the Australasia for use by Chinese customers.





Letter press-copying equipment which preceded the general use of carbon paper. The process involved dampening special translucent paper which was then firmly pressed on to the original to transfer to the back of this paper a mirror image which was then read through the translucent paper. Considerable care and experience were required to secure legible copies by this process, which did not finally disappear from Australian business until the nineteen thirties.

Perth, Western Australia, 1894. The Bank of Australasia's temporary premises on the corner of St. George's Terrace and William Street from which two years later it moved to the building at 68 St. George's Terrace.

Government Printing Office, Perth

84 St. George's Terrace, 1922. The offices of the Union Bank of Australia are the four-storey building this side of the vacant land.

Chapter 14

THE DOLDRUMS

The war of 1914-18 produced less drastic changes than might have been expected in the banking systems of either New Zealand or Australia. Abandonment of the gold standard and an elastic system of exchange control were less important than the effect of export control schemes and import controls in bringing foreign exchange transactions under government supervision. A very large segment of banking business was, by those same export controls and by the methods of raising internal war loans, brought within a framework in which the conditions of business were the result of negotiations between governments and banks collectively. Inevitably the distribution of such business was so managed that the relative shares of individual banks were based on past operations and did little to change competitive position. Little formal choice was left to a bank other than whether it would participate, and if so, whether it would take up the share allocated to it. Even that choice was more formal than real.

As a result, over large areas of business all banks were obliged to observe terms and conditions negotiated with governments, subjected to the same circumstances, and assured of similar if limited profit margins. There was a continuous narrowing of the areas for the exercise of independent policy, competitive enterprise and initiative, though the opportunities remaining were very real. Overall, however, the war tended to crystallise and preserve the banking structures existing in 1914, until the coming of peace opened the way to changes held back by the restraints of war. The most important long-term development was that of the Commonwealth Bank which, whatever the divergent intentions of its founders, was made by the exigencies of war into a bank which was in some respects—notably organised export finance and support for war loans—on all-fours with other trading banks. But it was in a special position in regard to these, both because it took a far larger share than any other bank and was the government's adviser on banking matters; the magnitude of government banking both within and outside Australia had made this part of its activities bulk largely. Its progress towards an imperfectly formulated central banking role had been small, and its ordinary trading bank business was modest. Yet it ended the war large compared with most other Australian banks, and determination of its future role was clearly to be one of the central questions of the 'twenties.

On the outbreak of war Australia abandoned the gold standard, although the only formal legal action taken, and that not until July 1915, was to prohibit export of gold without Treasury consent. In law, notes remained freely convertible, and there were no legal restrictions on freedom to dispose of gold, except by export. The branch mints continued to buy gold at the old price and to supply sovereigns to anyone—in practice only the banks—who tendered 1,000 ounces or more of gold. But notes were in fact inconvertible, gold coin disappeared into the Treasury, banks or private hoards, and banks ceased to pay gold except small amounts to privileged customers. Australian notes, for all practical purposes, replaced gold coin.

With the first news of war there was considerable uncertainty about general public reaction and about fears of hoarding; there was too a need for temporary financial aid to individuals and business to tide them over the interruption to uncompleted transactions, especially in connection with exports to or imports from enemy countries. To a large degree fears of alarm proved unfounded. Several savings banks experienced a mild run, and had to be helped by advances from the trading banks, but the trading banks in turn suffered from only isolated withdrawals. Following British example, the stock exchanges were closed until late September to prevent panic transactions, while British action in suspending foreign exchange dealings indirectly had the same effect for both Australia and New Zealand. State governments, who were responsible for the great bulk of savings bank deposits, were offered advances of Australian notes against deposit of 25 per cent in gold. The loans were not restricted as to purpose, in anticipation of later policy of buying off State competition in the loan market by the Commonwealth itself providing, by loans in notes, for State public works expenditure. From the outset the Commonwealth government showed itself ready to meet financial needs by resort to the printing press, though pedantic in ensuring that the legal provisions for gold reserves were maintained.

There was general agreement in the first days of war that an emergency increase in note issue should be provided for, not only for the direct needs of government but to enable the banks to aid customers in temporary need of cash and the savings banks. It was also accepted that in the circumstances issue of notes to banks for their full value in gold was inappropriate; it did not add to the total stock of legal tender, and gold was in fact more useful to the banks than notes, in stemming any panic withdrawals. Accordingly government and banks agreed that 'emergency' notes might be obtained by a bank depositing one-third in gold, the remainder to be treated as an interest-bearing loan, an arrangement later known familiarly as 'three-for-one'.

The Government, however, wished to go further and to suspend convertibility of notes while concealing the fact as much as possible. Over this Fisher behaved badly. At a meeting with bank representatives, Ministers asked the banks to undertake to refrain from presenting notes for conversion into gold, a step fraught with considerable consequences. It implied that the 'emergency' issue would be permanent; and it thrust on to banks, and not the government, the responsibility and odium of refusing gold for notes presented to them by their customers. The banks demurred, but Fisher proceeded to assure his Cabinet and a premiers' conference that they had agreed. In origin this may have been genuine confusion, but Fisher refused to listen to protests and denials from the banks. Brushing aside the evidence that written record of all other points of agreement had been made but nothing was recorded on convertibility, he proceeded to act on his unsupported assertion. The banks insisted that they had not agreed; that it was unfair to use such a trick to make them take public responsibility for a suspension of convertibility which the government was publicly pretending was maintained; that suspension was in any case unnecessary and premature since the actual gold reserve held by the Treasury was 54 per cent against a legal requirement of 25. Fisher was adamant. Threatening legislation, he withdrew arrangements by which banks had been able to convert notes at cities other than Melbourne, and at the Treasury in Melbourne, the only statutory place for conversion, all comers were refused gold for notes with the excuse that this was by 'arrangement with the banks'.

Left with no alternative but an unthinkable public dispute over a delicate subject involving just-revived public confidence, the banks could do nothing but acquiesce; it does not appear, however, that they ever gave a formal undertaking not to present notes for conversion. In their turn they were forced to suspend the use of gold. For inter-bank clearings there was at last, in 1915, general formal agreement that notes should be used in place of gold for this purpose. Customers presenting cheques were paid in notes, and in general gold was not paid out. By July 1915 the Australasia, for example, was instructing branches: 'Without going to the extreme length of prohibiting gold payments altogether, managers are imperatively instructed that payments in gold *must* be confined to the smallest dimensions, that is, a few pounds only in special cases'.

Meanwhile government policy in relation to note issue and gold had moved a stage further. In September 1914 Fisher demanded that the banks exchange £15,000,000 in gold for notes, with an undertaking that the notes would not be put into circulation for at least one year, the notes to be redeemed after the war by a loan floated in London; legislation was threatened if the banks failed to comply, although the amount demanded was reduced to £10,000,000. The banks were concerned mainly about the immobilisation of such a large part of their reserves for a year, and the uncertainty about redemption. Some of the colonial banks were disposed to resist, or to bargain for guarantees about banking legislation, but such moves collapsed quickly when the Australasia and the Union directors separately instructed their chief officers that they should agree to the government's demands in full. Quotas for each bank, based on size of deposits, were drawn up (rather over £1,000,000 for each of the two Banks) and the gold transferred in instalments. A further £5,000,000, intended this time for export, was similarly transferred in 1916.

Another source of gold transfer was an arrangement made in 1914 by which an Australian bank could transfer gold to the Commonwealth Treasury, to be held for the Bank of England, which would credit the bank concerned with sterling. For the banks it was a welcome arrangement, simpler and cheaper than building up London funds by gold shipments, but it was short-lived since the Commonwealth's need of sterling for war payments led to its excluding the private banks from the arrangement.

The result of all these moves was that the note issue jumped from £9,600,000 in June 1914 to £32,100,000 a year later, the greater part of the increase being due to the transfer of gold from the trading banks and to substantial loans in notes to State governments. Not all the increase was a net addition to money supply; much of it was replacement of gold coin. Nevertheless bankers were nervous of the sudden rise, and especially of the readiness with which the government turned to the printing press. But in fact much of the gold was wanted for external payments rather than note issue expansion, and in any case the government turned to primary reliance on public loans.

New South Wales Government Printer

Sydney, 1892. The demolition of buildings to make way for the new Martin Place had been completed, and on 13 February 'by order of the Hon. W. J. Lyne, Minister for Public Works, Important Sale of the Subdivision' was held (see notice at foot of photograph). Only three of the eleven lots were sold. In 1900 the Bank of Australasia bought four blocks (the George Street corner) seen here beside the telegraph pole.

New South Wales Government Printer

The Bank of Australasia corner, Martin Place and George Street, Sydney, September 1906. The Bank's building at the left of the picture had been erected on the site shown in the preceding picture and was first occupied in March 1904; it is now one of the two Chief Sydney Offices and New South Wales Divisional Office of Australia and New Zealand Bank.

In New Zealand problems were simpler and the solution more direct. With no State governments, there was not the same problem of public works loans not under the control of the central government, and there was no government note issue to provide an easy escape from pressing problems. Except for control of gold export, no overt action occurred until 1915, when the Australian prohibition of the export of gold (on which banks in New Zealand relied for replenishing reserves) was followed by New Zealand legislation making bank notes legal tender. The original legislation was periodically renewed, and ultimately continued into the post-war period; its effect at the time was to remove all difficulty about domestic cash reserves, since the limits set to any bank's issue (the amount of coin, bullion, and public securities), while real, in practice were not operative restraints.

After initial disturbance of war, Australian export trade was rapidly readjusted to new conditions, and in general at profitable prices. One consequence for the banking system was that London funds were well maintained, and despite the departure from the gold standard, exchange fluctuations were not much beyond the modest range to which the system was long accustomed. The striking exception to the favourable export position was wheat. At first the situation was marked by a poor harvest, but the following year's crop was good, exposing the fact that peacetime markets were largely closed by shortage of shipping, a situation to be repeated in 1939-45. The government stepped in, taking over wheat in return for negotiable wheat certificates which, it was arranged, the banks would accept as security for advances. For this first 'pooled' harvest, farmers received an advance of 2s 6d per bushel, for which the immediate guarantee was the relevant State government behind which stood the Commonwealth. With variation in detail the same principles came to be applied to other products, most notably wool, the whole output of which was, from 1916, bought by the United Kingdom government. The resulting bank advances were, for practical purposes, advances to the Commonwealth government, but the machinery adopted had the incidental consequence that individual producers could continue to deal with the bank to which they were accustomed.

Such business could create additional need for cash for the participating banks, and part of such arrangements came to be provision by which a participating bank could obtain advances of notes, at interest, from the federal Treasury. Alternatively a bank could exchange funds held in London, required by the government for external war payments, for cash in Australia. Between themselves the banks agreed to share the total commitment for these export finance schemes in proportion to their deposits, an additional force tending to retain such business, despite its changed form, within the old channels. Each bank tended to retain roughly its pre-war share of the financing of primary production, with little scope for active inter-bank competition.

New Zealand similarly enjoyed satisfactory export trade. Its wool came under the same United Kingdom purchase, while exports of meat and dairy products were under government control. The New Zealand device of declaring trading bank notes legal tender removed any difficulty, on the score of cash reserves, about the banks participating in export finance. But, as in Australia, the final outcome was more change of form and procedure than any drastic modification in the traditional role of the banks in export finance, or in the relative shares of individual banks. Indeed, in both countries, except for the withdrawal for overseas service of large numbers of men, participation in the war modified the economy only in limited ways, the most important in the long run being moderate development of secondary industries in replacement of imports, reduced or excluded primarily by difficulties of supply and shipping.

The Union's New Zealand inspector in 1916 fairly described the situation in terms which applied as well to Australia:

> The community generally is prosperous, especially the primary producers who are again realising high prices for their produce. Local industries such as meat freezing, woollen manufacturing, cheese and butter making are also doing well, and thanks to the large profits secured want of capital has not yet been felt notwithstanding that the London market is practically closed to colonial borrowers. The continuance of the present prosperity necessarily depends largely upon outside conditions and it must be recognised that a decided 'slump' in prices of wool, meat, butter etc. would be followed by a more or less severe check upon the progress of the country. There is, however, no doubt that the maximum of production is not yet reached and that there is still room for the profitable employment of capital and energy. The partial cessation of public works, together with the improvements in dairying and other machinery have minimised the shortage of labour which might have been expected to result from the withdrawal of some 50,000 men for military service abroad. Happily we have been free from serious labour disputes and none appears likely in the near future.

Within Australia the largest single share in export finance schemes was usually taken by the Commonwealth Bank, which, for example, provided 30 per cent of the funds for the 1916 wheat harvest. The Australasia provided 9.65 per cent and the Union 9.77 per cent of a total of £10,363,000. The following year the wheat total was over £14,000,000; wool advances totalled £42,500,000 and other export pool finance £7,500,000.

Movement of deposits was important in relation to these demands for massive advances. In the early months of war, fixed deposits rose uncomfortably. By June 1915 the Australasia was refusing all new deposits for six months periods; for all other periods, rates for new deposits were reduced by ½ per cent, except for modest sums from old customers. The Union followed a similar policy, and reversing an earlier decision, decided in 1915 to repay the remaining inscribed stock deposits in London. But even as these decisions were taken, the situation was changing as, in both Australia and New Zealand, governments turned to raising large war loans in local markets. Ultimately, of total New Zealand war loans of £82,000,000, some £55,000,000 were raised within the Dominion; Australia raised £188,000,000 locally compared with £92,000,000 abroad. Such large government borrowing was a new development for both countries and reversed the earlier movement of fixed deposits. After the middle of 1915, for a year, the Australasia and the Union, in common with other banks, were seeking to retain and build up fixed deposits by the offer of more favourable terms, until the imposition of legal limits on deposit interest (4½ per cent in Australia) brought such competition with loan raising to an end, and in the process, intensified the need for special arrangements for the banks' cash resources to enable them to provide finance for exports.

The procedures devised for exports came to be applied to war loans themselves. In both countries the banks advanced to customers for the purchase of bonds, and increasingly the two governments encouraged this. By 1917, in New Zealand, banks might regard as 'government securities' (against which legal tender notes might be issued) the amounts advanced to customers to purchase war loan; in Australia the ultimate development was reached early in 1918 by a formal agreement under which bank customers could borrow 90 per cent of loan subscriptions, the bank concerned being entitled to borrow notes from the Treasury for any cash required. A post-war arrangement for the cashing of Australian War Gratuity bonds amounted to the banks advancing their value to the Commonwealth, the necessary cash base being again made available as a loan of notes. In all these various ways, in both countries, the banks made heavy advances to governments; the small amounts of government securities, directly so described, which they took up are therefore misleading.

In the Australasia and the Union a marked difference of opinion developed between London directors and Melbourne chief executives as to the correct advance policy to be followed in the new circumstances. Henderson for the Australasia and Russell for the Union (and Chambers, when he succeeded Russell in 1916), adopted from the outset a restrictive attitude. Thus Henderson wrote at the end of 1916: 'I regret to be at variance with the directors but I consider the main cause of our present shortage [of London funds] is the non-restriction of advances several months ago when I first recommended it, but which the directors then and since have opposed. During the last six months advances have increased £1,270,000 while deposits have gone down £1,060,000. I can safely say that all banks here, except possibly the Commonwealth Bank, have been restricting advances for some time, while some have been actually calling in. It seems to me high time to stop the increase and I am glad the directors have at last consented to restriction'. Russell and Chambers took a similar line in relation to their board. The argument continued at intervals throughout the war, Henderson and Chambers each keeping a tight hold on the level of advances and sternly enjoining managers to restrict, while London was urging that restraint was unnecessary and merely involved the forgoing of profit. Both Henderson and Chambers avoided taking up rights to borrow notes until 1918, Henderson only yielding, despite repeated London argument, when he found it unavoidable if he was to honour his arrangements with the government. Both men, particularly Henderson who was in all things extremely conservative, disliked the note-lending arrangements which they regarded as unsound, and from which they expected future trouble. Henderson in particular refused throughout to acknowledge that the policy of not taking up note-loans—and its equivalent in New Zealand, of restraining the expansion of the Bank's own note issue—necessarily dictated his advance-restriction programme. Chambers, less able to explain himself, was just as conservative; indeed in New Zealand, whereas the Australasia's note issue grew from £202,995 in October 1914 to £761,710 four years later, that of the Union grew from £219,475 to £553,578 only.

The short-sightedness on the part of both men was to the effect of their policies on the overall business of their banks. Each accepted loyally the need to take his bank's full share of financing government export schemes, war loans and the like; restriction to accord with the pressure on liquid resources—which neither would allow to expand freely by the means each of the two governments provided—fell of necessity on that part of the bank's business lying outside the field of arrangements with governments. Each bank, therefore, by the deliberate policy of its chief executive was rejecting, unnecessarily, business in the areas in which effective competition remained.

London expostulated repeatedly, urging that abnormal times justified unusual procedures, pointing to the loss of income, and stressing the effect in transferring business to other banks, but to no avail. Henderson and Chambers continued into peace their policies of restriction and of minimum use of special facilities for obtaining cash, while London continued to argue for the opposite policy. Solid conservatism may be good for a bank's reputation, and no doubt their qualities explained why Henderson and Chambers were repeatedly chosen by the Associated Banks as their spokesmen in post-war negotiations with governments, but an unfriendly critic might have pointed to less happy results of those qualities. Total deposits of the Australasia grew from £19,109,000 in October 1914 to only £21,904,000 in October 1918; those of the Union in a similar period from £22,913,000 to £24,265,000. Advances showed almost the same increase for each bank, £3,000,000, far less than would be expected in the conditions of the war years.

There was evidence of conservatism in other, less immediately important, ways. During the war branch expansion ceased, less because of minor government restraint than because the occasion for new branches rarely arose. Amongst themselves the banks agreed that, if one of them closed a branch because of staff shortage, no other bank would open there during the war. Neither the Australasia nor the Union showed serious interest in new branches. The Union, for example, opened two in Victoria, two in New Zealand and one in Western Australia, but various other branches were closed and the Bank ended the war with the same number as in 1914, that is 181. The Australasia opened a total of three, but closed ten, its total falling from 203 in 1914 to 196 in 1918.

The war had little effect on the structure and organisation of either bank. Plans for a new Australasia Charter, widening its area of operations to include islands in the Pacific under British control, were deferred by the British Treasury on the outbreak of war, and again in 1917. When the war was in its last stages the subject was reopened, but became bogged down in negotiations about the period of the Charter. The Bank wanted enlargement of its area of operation, but more importantly, power to increase capital, whereas the Treasury wanted to bargain for elimination of the perpetual charter. Eventually the Treasury offered a charter for forty years, while the Bank insisted that it would not accept less than sixty, and negotiations were suspended. The Union, which had been planning division of shares to make the nominal value £5, was forced to defer action until after the war ended. There was equally little change in organisation and control. Henderson remained Superintendent of the Australasia throughout the war and early peace years; Russell was succeeded as General Manager of the Union in 1916 by A. H. Chambers. His policy was not markedly different from that of Russell, and advancing years were to make his outlook not dissimilar to the increasingly rigid conservatism of Henderson.

One of the earliest effects of the war on the two banks was loss of staff. In London many did not wait to be conscripted, and very early the two head offices were adjusting themselves to the novel experience of women bank clerks; when sporadic air raids began, the women staff were solemnly escorted to basement shelters when alarms sounded, but the men did not think it proper to join them until the guns opened up. Australia and New Zealand clung to the principle of voluntary service and, despite two referenda, the principle was maintained in Australia. Nevertheless from the outset, staff of the two banks volunteered freely, beyond the average proportion of the total male population. In all, some 398 officers of the Bank of Australasia were accepted for overseas service, some 40 per cent of the total Australian and New Zealand staff at the time war began; the Union's proportion was slightly higher. One such young volunteer whose service was distinguished, was A. R. L. Wiltshire, later to be the first sole general manager of A.N.Z. Bank.

Each Bank from the outset made up the pay of men who enlisted, adding to military pay the amount necessary to equal the salary the man would have enjoyed in the Bank. (The Australasia, for example, spent £75,000 in this way during the war.) There was less willingness to follow the lead of London in employing women, even as typists. Henderson, Russell and Chambers were alike opposed to women as bank employees, and only inability either to get through work with a depleted staff or to recruit male substitutes brought a change of view. Russell gave way first, in September 1915, but initially only to the extent of admitting some twenty typists. Henderson held out two months longer, until London pressure and advice that women had been satisfactory in head office employment brought reluctant acquiescence. Thereafter women were employed more extensively, but were never allowed custody of cash, were required to resign on marriage, and were kept away from direct contact with customers.

Increasing living costs also dictated salary adjustments, but all banks were cautious. In November 1915 the Australasia took the initiative in making a temporary addition to salaries of ten per cent, limited to a six months period. But for it, as for the Union, the increase had to be continued, by annual resolution, until some time after the war. The increase was additional to the practice of wartime bonuses (initially 5 per cent in 1915, later 10 per cent) for which the official reason was the increased burden of work. Not until several years after the war were these additional payments added permanently to the scales. Unwillingness of banks generally to recognise that price increases were permanent was to contribute to the decision of junior bank officers after the war to turn to union organisation and to seek arbitration court awards.

With the end of the war, salaries and to a lesser extent, pensions, became a serious grievance with staff. For two years both the Union and the Australasia continued the wartime system of 'temporary' supplements, and in 1920, when the supplement had grown to 25 per cent, agreed to make it permanent. But staffs of all banks were dissatisfied as prices continued to rise, and turned to the machinery of compulsory arbitration. Initially they proceeded on a separate State basis. In Queensland there appeared the United Bank Officers' Union, in New South Wales the Bank Clerks' Guild, in New Zealand the Bank Officers' Guild, all in 1920. Banks generally took up a hostile attitude, although both Australasia and Union directors firmly instructed their chief executives that the right of staff to join such organisations must be respected, and officers allowed to participate actively. In New Zealand the banks refused to negotiate with the Guild or to recognise its right to speak for staff; in New South Wales a local bank successfully challenged the technical form of the union which was compelled to reconstruct.

But such tactics could only delay union action, while the ill-will created convinced wavering staff that there was no other way to secure salary increases. Queensland led the way with the first compulsory award for bank officers, in March 1920, followed soon after by one in New South Wales. Meanwhile clerks had formed the Bank Officers' Association and a compulsory conference under the supervision of the Commonwealth Arbitration Court in September 1920 arrived at an agreement having the legal force of an award, which, however, applied only to members of the Association and within Australia. Both Henderson and Chambers took the initiative in securing directors' consent to payment of the salaries involved to all staff, including those in New Zealand. The broad pattern was thus set for future salary determination for the great majority of staff below the most senior grades: negotiation with an association of clerks entitled to take advantage of compulsory arbitration and disposed to resort to it if agreement proved impossible.

The September 1920 agreement had provided for women employees. At the end of the war there had inevitably been some displacement of women as men returned from the forces, but London called a halt to the policy adopted by Henderson and Chambers of replacing women with new male recruits. English experience, said both boards, had shown that women were a success in bank work, and directed that their permanent employment should be accepted as settled policy. It must be admitted that, in fact, they continued to be employed only as typists or in subordinate clerical posts; it must also be recognised that the chief restraint came from the reluctance of customers, still evident in some degree nearly forty years later after a second war, to take kindly to dealing directly with women in more senior posts.

Two years after the end of the war a sharp foreign exchange crisis developed, the more severe because it was quite unforeseen. In June 1920 Chambers was writing to the Union directors advising them to accept an ultimatum from the Commonwealth Bank. All banks had excessive London funds and the Commonwealth Bank, obliged to pay that month £3,500,000 interest on local loans, notified the banks that if they would not accept payment in sterling—the Union's share was £310,000—it would sell sterling at a substantial discount. Yet within weeks the situation was completely reversed, and all banks were desperately short of London funds. The Australasia was sternly reproving Henderson: 'Your cable of 16th [September] announcing your inability to meet your impending overdraft on London office came as a startling surprise. It has been so frequently laid down as imperative that you should meet your obligations to London office that it was considered a tradition which under no circumstances could be departed from without previous arrangement'. He was instructed bluntly: 'if you cannot cover you must not sell', which Henderson implemented by a severe rationing of sales of sterling; to London he retorted that the sudden flood of imports which precipitated the crisis could not have been foreseen—unless by London which was better equipped to know. Chambers, too, felt called upon to justify himself:

The scene outside the head office of the Bank of Van Diemen's Land, Hobart, on 3 August 1891, the day it closed. The Union Bank bought the premises which were rebuilt by Australia and New Zealand Bank in 1959. (From a photograph in the possession of Russell Young, Esq., of Hobart.)

New South Wales Government Printer

The Bank of Australasia, Newcastle, New South Wales (photographed in 1895) represents the most favoured design for the larger branches of the Victorian period. This building was on the corner of Brown and Blane (now Hunter) Streets. Sometimes the manager's residence was on the upper floor, sometimes in a one- or two-storey section adjoining the rear of the main building.

By way of contrast, the residence of the Manager of Australia and New Zealand Bank, Suva, Fiji. Here and elsewhere the Bank has had the residence specially designed for the climate and built in a suitable residential area away from the main business section of the town, which is in keeping with the Bank's resolution to keep abreast of new trends in staff policy generally.

> The main cause of the heavy increase in our advances and the jump in our exchange figures would appear to have been that English and American manufacturers, finding that the European markets had collapsed, started filling Australian and New Zealand orders at an abnormal rate. Goods to which our customers were committed, and delivery (and payment) of which was expected to be spread over twelve months or more, all came forward at once. The rush of imports not only inflated our exchange business but also overdrafts. Coupled with the fall in metals, skins, etc., and the failure of the wool sales, together with the payment of some £7,000,000 to the Imperial government for interest—all led to an unprecedented position being created.

Movement of the exchange rate could only limit future pressure (although by March 1921 sterling was at 6 per cent premium). The government would not permit export of gold, except to allow the Gold Producers' Association to export, directly, newly-mined gold. The Australian tariff of 1920 stemmed the flow of imports somewhat, while the formation of the British Australian Wool Realisation Association to dispose gradually of large wartime stocks enabled the wool market to recover. Rationing of sterling to buyers and credit restriction combined to help, and with the sharp but short recession of 1921 the crisis was passed.

That crisis had affected both Australia and New Zealand. It was replaced by new difficulties associated with management of the Australian note issue. In 1920 Treasury control had been replaced by a Notes Board, linked with the Commonwealth Bank to the extent that Miller as Governor was chairman. But the dominant member was Sir John Garvan, later to be first chairman of the Commonwealth Bank Board. The policy which he successfully imposed on the Notes Board was described by his bank critics as deflation and by himself as restraining inflation. Neither term conveys Garvan's view accurately; it was both simpler and more rule-of-thumb than such words suggest. Holding rather as an act of faith that expansion of the supply of money was always inflationary, he believed the correct policy was to restrain growth in the cash resources of the trading banks. His critics were disposed to question his impartiality. He headed the Mutual Life & Citizens' Assurance Company and could be expected to attach great importance to stability in the purchasing power of fixed money claims. Moreover in two important respects his company was in direct active competition with the trading banks and the Commonwealth Bank itself. In the exchange troubles from 1920 to 1925 an active 'outside' market developed, unconnected with the banks, and profiting by freedom to deal at rates which took business from the banks. The Associated Banks in 1922 listed thirty-three companies extensively engaged, many of them in New Zealand as well as Australia—insurance, shipping, importing and exporting companies. In addition serious competition for deposits had developed; a similar list showed fifteen building societies and twenty-seven other major companies all actively taking deposits at rates above those of the banks. Garvan's interests may have conflicted at times, but his adherence to the policy of restricted money supply was the result of deep-rooted conviction, a conviction that to respond to bank and public demands for note expansion was to promote inflation, and especially to let Australian currency follow sterling in depreciation. The policy which the Notes Board was to pursue may have been based on theoretical analysis of dubious validity, but it was the first deliberate central banking in Australia.

The roots of conflict between Notes Board and banks dated from October 1920, in the formulation of the legislation creating the Board. The first draft proposed to require that banks hold minimum percentages of deposits in notes; this unnecessarily rigid device was abandoned in return for an undertaking by the banks to extend for five years the arrangement under which banks did not present notes for conversion into gold. In exchange the Treasurer gave a formal assurance that 'all existing facilities' for the banks to secure interest-bearing advances in notes would be preserved.

No difficulty emerged until 1922 when the Notes Board sought to define 'existing facilities', which it interpreted to include definite commitments for note advances in connection with certain loans, but to exclude any further transactions under the 1915 'three-for-one' arrangement. The banks protested, less because they had need of notes than because they regarded this interpretation as a direct breach of the 1920 assurance, as indeed it was. The Notes Board, however, had reason on its side, for the 1915 arrangement would have permitted any bank to tender gold and demand an advance of notes to three times that value; this entailed the risk of an undefined note expansion in which the Board would be at the mercy of the banks, unable to discharge its obligation to regulate the note issue according to its own judgment of the right policy. There was, therefore, sense in the Board's determination to get rid of the undefined obligation, but its method of doing so was less defensible: the 'three-for-one' arrangement was a wartime one and therefore ended, argued the Board, at latest one year after the proclamation in 1921 of the legal end of the war, regardless of the Treasurer's 1920 five-year guarantee.

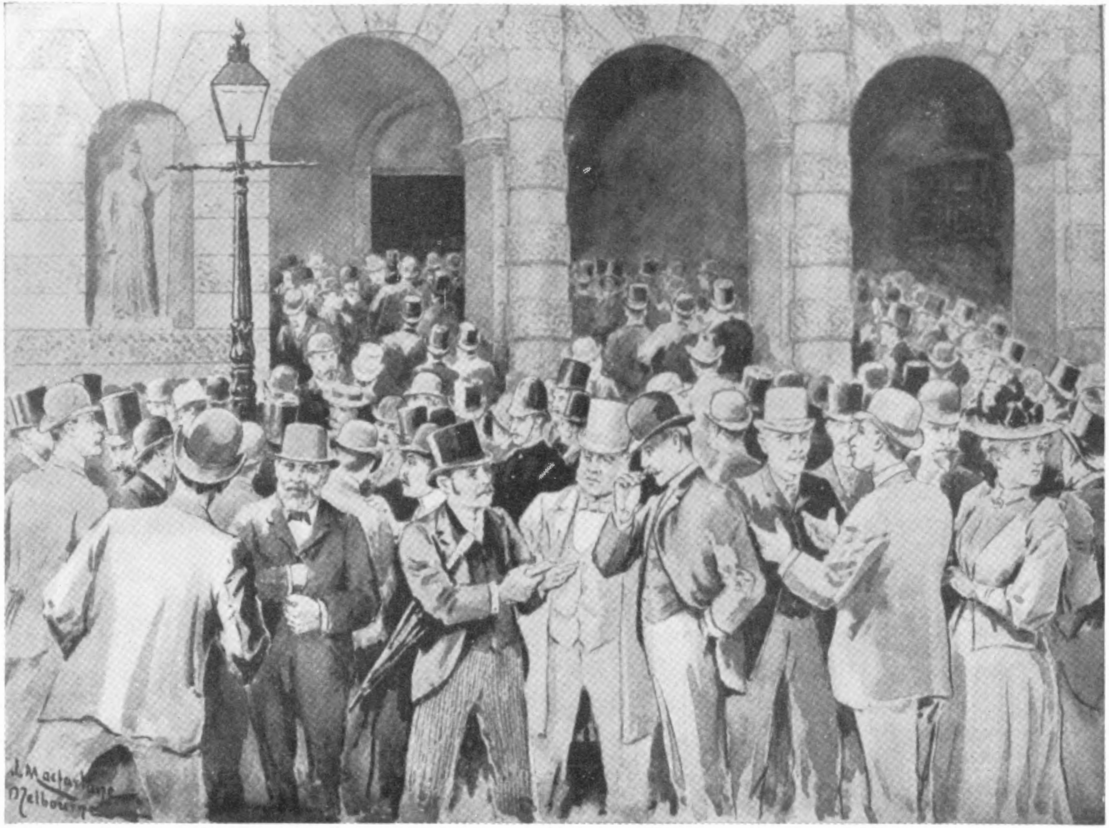
The Board was immovable and the banks, not needing notes, dropped the matter. But it was to contribute, with other episodes, to bank suspicions of the good faith of the Board, and later of the Commonwealth Bank Board (which included three of the four Notes Board members). Thus in 1921 and again in 1923, the banks were invited to settle clearing balances through accounts with the Commonwealth Bank, and privately agreed that this would be satisfactory if they could secure assurances that clearing deposits would not provide funds to be used by the Commonwealth Bank in competition with them. The assurances were not forthcoming, and the banks drew their own conclusions. Again in 1924 and on several occasions thereafter, the Commonwealth Bank asked banks for figures of their London funds; the banks from the outset volunteered to supply total figures for all banks combined, but the Commonwealth Bank insisted that individual figures were essential; no clear reason was given, and it was inevitable that bankers should believe that the real purpose was to secure information of value in competitive trading, not data to aid central bank policy.

The Notes Board continued its policy of progressive reduction of the note issue, with mounting public criticism. Matters finally came to a head in 1924-25, when London funds were stubbornly tending to increase to unprofitable levels, the joint result of profitable export markets and heavy overseas government borrowing. Contemporary public comment pictured large unusable London funds accumulating while credit was restricted in Australia and New Zealand. Later critics, ascertaining that London funds were not, in fact, remarkably large, have tended to minimise the difficulty. Both views miss the essential point. Banks did not allow their London funds to become excessive; their problem was that the means necessary to achieve this objective involved free selling of sterling and credit expansion, which was handicapped by the notes situation.

That problem can be illustrated from Henderson's correspondence with the Australasia directors. In March 1924 he was writing of the impossibility of selling sterling except at a heavy discount. 'There have been no buyers of London exchange for over a week', and business was passing into the outside market—wheat and wool buyers seeking Australian currency, the New South Wales government transferring £2,000,000 of a London loan, and others prepared to sell sterling cheaply. All the banks were in a similar position. Exchange rate variation would have been an effective solution, but this was restrained by a combination of attitudes. Parity between sterling and Australian currency was not sought merely for traditional reasons—Australian banks had always been ready to accept significant variations in case of need. There was expectation of an early return to the gold standard, which would require exchange rates within the gold points. Return to gold was assumed to require that Britain returned simultaneously—indeed Henderson as spokesman for the Associated Banks had criticised strongly a tentative Australian government suggestion of following South African example in returning independently. But Australian and New Zealand sales of sterling at depreciated rates would increase that difficulty. Sales of accumulating London funds would in any case involve losses.

London directors were cautiously ready nevertheless to see some rate changes. Henderson was opposed: 'A free market in exchange would make great inroads on our profits and I would strongly deprecate such a step. That the necessity may come in the end I admit is possible but such an innovation should be delayed as long as possible. If we find the excessive purchase of wool bills inconvenient or unprofitable, or both, we can use our funds here profitably in advances, which, after all is one of the main functions of bank trading in Australia'. London was alarmed at Henderson's readiness to take the easy path, and simply to adjust his business to cash available in Australia rather than to bend every effort to increasing that cash.

But his reluctance to secure it by selling sterling at a heavy discount was shared in London, especially by the 'general manager' there, Walter Jeans who had been a member of the 1918 Cunliffe Committee on Currency and Foreign Exchanges After the War, which had laid down return to the gold standard as the target of policy. Jeans was a figure in the City. Born in 1846 he had entered the Bank as a junior clerk in 1864, and risen steadily until in 1897 he became London manager, a title modified, as an honour, to 'general manager' in 1910; while still in office he became a director in 1919, retiring as 'general manager' in 1923. Physically diminutive he remained mentally alert and vigorous to the end, and his official and private letters, full of terse wisdom and occasional waspish comment, had guided four superintendents over nearly thirty years, as he had in more personal contact influenced directors. Knighted in 1922, he was immensely proud of his storybook career, and of his vigour in late age, but his associates accepted this with good-humoured tolerance, for it was a record for pride. When he died in 1924 the *Times* misreported the value of his estate (£131,000) confusing it with the duty payable, £21,000, 'enough', wrote his successor Godward, 'to make him reappear on earth to demand an apology'. Jeans was very much a London banker, and at heart ready to support Henderson's policy of avoiding heavy discount on sterling.



The scene in Collins Street, Melbourne, on Monday, 1 May, 1893, when only the Australasia and the Union opened. Sketch by J. Macfarlane, of Melbourne, *Illustrated London News*, 24 June 1893.

New South Wales Government Printer

'The Birth of the Commonwealth'—the celebrations in 1901 for the visit of the Duke and Duchess of Cornwall and York (later King George V and Queen Mary). A procession moves up Pitt Street, Sydney, under one of the decorated archways, at Hunter Street. (The Union Bank's building is at the left of the archway obscured by flags.)

If major change in exchange rate were ruled out, the persistent tendency of London funds to accumulate could appear as the paradox of surplus cash in London (and shortage in Australia) and the problem of how to transfer the surplus. It was so discussed in public controversy. The traditional solution would have been credit expansion in Australia, but this was severely limited by pressure on bank cash reserves, for which the 'deflationary' policy of the Notes Board was blamed. Import of gold was a theoretical solution, ruled out by the price of gold in available markets. (Export from Britain was still prohibited.) Jeans secured authority for Henderson to borrow against holdings of government securities, but Henderson, the arch-conservative, rejected this except as a desperate last resort. His own solution, as of all Australian bankers, was that the Notes Board should expand the note issue either by advances to the banks or by buying part of their London funds.

Despite the urging of the Prime Minister the Board would have none of buying London funds, and the dispute therefore concentrated on the question of note advances. In this the chosen spokesman of the Associated Banks was Chambers, presently reinforced by Henderson as chairman of the Association; the Sydney banks, less pressed for cash, took only a minor part. There ensued much fruitless argument, in which the old 'three-for-one' arrangement was canvassed, and which at first produced only a Pyrrhic victory. The chief remaining right to the banks to borrow notes arose from the overdrafts to the Commonwealth under the War Gratuities Loan, and this the Notes Board decided to pay off, in notes, claiming that the £4,200,000 involved would meet all the currency needs of the banks. As Henderson explained to London, this did not improve the cash position, merely reduced profits. On the overdraft—the Australasia's share was £529,000—the banks received interest; the right to borrow notes to this amount was virtually as good as cash. Now he had the notes but had lost the interest on the overdraft, and his remaining rights to borrow notes were £372,000 only. Further restriction of advances and purchase of wool bills was dictated.

The Notes Board appeared adamant: any increase in note issue would be inflationary, and currency was adequate for the needs of the country. But it was wavering. An immediate consequence of the banks' difficulties was that the five most heavily engaged in finance of wool sales, including the Union and the Australasia, were forced to restrict, as they had been doing for months, purchase of wool bills drawn by buyers to secure funds for purchases. Wool (and wheat) growers were alarmed at the effect they believed this had on prices.

A coalition government in which the minority was the Country Party, whose leader was Treasurer, could not ignore this. An olive branch, to by-pass the Notes Board, was the offer in April 1924 of advances (at 4 per cent) from the Commonwealth Bank to the trading banks, for export finance. Henderson was unwilling to take advantage of the offer, and in any case the export season was ending.

But grower pressure was still active, and for the next season the Notes Board yielded, undertaking to advance up to £5,000,000 in exchange for London funds. Again Henderson was reluctant to participate, arguing that the date of repayment (June-July 1925) was too close, and he advised London of his determination to continue restriction of loans, although his directors tried to convince him he was wrong. But help was at hand. Note issue control passed to the Commonwealth Bank whose board was more responsive to export finance needs. Under its guidance a scheme for pooling of exports of wool and wheat, to an estimated total of £87,000,000, was devised, banks to share roughly in proportion to deposits and previous export business, with advances of £15,000,000 in notes (including the previously arranged £5,000,000) from the Commonwealth Bank to provide the cash base. The Australasia's share of the export total was £11,500,000 and of note advances £1,983,000.

Henderson was still pessimistic. 'I have considerable misgivings in having recommended the Bank to join in this scheme, more especially in view of the low state of our Australian coin at present . . . . The whole affair being an experiment, it is unfortunately quite impossible to relax our severe restriction on advances which has now been in force for such a long time.' London protested, telling him he should take full advantage of the note advance offered, and not seek to avoid borrowing by drastic credit restriction. Henderson was unmoved. 'It will be absolutely necessary to continue the severe restrictions on advances.' Not until the return to the gold standard could his fears be allayed, and, in the circumstances fortunately for the Bank, that was at hand.

Early in 1925, largely as an answer to note restriction, the banks took advantage of the fact that gold could now be bought abroad at prices which made its import worthwhile. Nearly one-fifth of the total so imported was due to the Australasia, which by purchases in South Africa and in San Francisco imported in all £1,947,000. The Commonwealth Bank became concerned at the threatened breakdown of its control, and negotiated with Henderson, as Associated Banks' chairman, freedom for banks to re-export all gold imported since the beginning of 1925. This was a compromise on its original proposal to free all gold for unrestricted export, which the banks vigorously opposed, insisting that Australia should return to gold only when Britain did.

In New Zealand meanwhile, currency and exchange questions had been quieter. There was no government bank, and the declaration that bank notes were legal tender was continued; perhaps the government was more responsive to the interests of primary producers. Both the Australasia and the Union indeed found they could reduce note issues, and did so deliberately in expectation that the legal tender proclamation would not be renewed indefinitely. At the end of April 1925, Britain, Australia and New Zealand returned to gold simultaneously; in New Zealand notes remained legal tender, while Australia followed Britain in making the minimum amount convertible 400 ounces.

By this time the Notes Board had been merged in the Commonwealth Bank. The Act of 1924 purported to convert that bank into a central bank, but there was little clarity about the nature of such an institution. Central banking was in the air throughout the world in the 'twenties, with the Bank of England as the usual model, adopted with little appreciation of the extent to which formal organisation and nominal powers depended for their effect on a host of circumstances, few of which were reproduced everywhere. Most of the clauses of the 1924 Act were irrelevant in Australia, and necessarily remained inoperative. The most important provisions were two. Transfer of note issue control was achieved by evident copying of the Bank of England's division into note issue and banking departments, itself as old as the Bank Act of 1844, but the purpose was less to arm the Commonwealth *Bank* than to soften the restrictive policy of the Notes Board. Similarly the creation of a board of directors, with a majority drawn from 'agriculture, commerce, finance, or industry' was inspired by a desire to limit the powers of a governor who, as Miller had demonstrated, might challenge government policy, and by a desire to balance the Notes Board members by joining them with other directors of less rigid views. It was no accident that the note-advances arguments from 1920 to 1924, with their allegations of advance restriction and depression of export sales, produced these, the main changes achieved in practice by the 1924 Act. Nor was it chance that the sponsorship of these changes rested with the leader of the Country party. But it was perhaps ironical that, in the name of central banking, changes should have been made with the political purpose of weakening restraint on monetary expansion, changes which within a few years were to be held responsible for preventing monetary expansion in the midst of economic depression.

Directly, the Act affected the private banks in two ways. For the first time quarterly returns of business were required on a uniform basis throughout Australia, and, more important, banks were required to settle clearing balances through the Commonwealth Bank. They grumbled but they complied. The 1924 discussions, however, initiated two abortive proposals for more comprehensive legislation, which finally came to naught in 1927-28. Chambers was then chairman of the Associated Banks and spent much of his time in conferences among banks, with the Treasury and with the Commonwealth Bank. His colleagues found his efforts so welcome that they elected him for a second term (annual rotation was a firm convention) so that he could see both matters completed; later they took the unusual step of a formal resolution of congratulation, sent to the Union directors.

One of these matters was revival of the old proposal for a uniform banking law, which involved scrutiny of the often divergent company and related Acts of the several States and the preparation of a comprehensive statute. In this kind of work Chambers was in his element. But the government was not genuinely interested and by 1928, when the bill was in draft, the Treasury ruefully reported to Chambers that it was pointless to take the matter further. The uniform banking law of the Federation debates was not to be achieved until 1945.

Chambers was less well-equipped to deal with the second question, the creation of a reserve bank to take over the central banking activities of the Commonwealth Bank. But he was not noticeably less well-equipped than others. Central banking was still more a slogan than an established system of theory, conventions and rules of practice. Commonwealth Bank directors and governor were no more well-informed but were tentatively seeking enlightenment. One of their moves involved an invitation to Sir Ernest Harvey, Deputy Governor of the Bank of England, to visit and advise, and throughout 1927 and 1928 his not very profound doctrines provided the focus for public, and more private, discussion. Harvey visualised an Australian central bank as a small Bank of England, and his prescriptions tended to concentrate on the more obvious features in which the Commonwealth Bank diverged from the model: a central bank should not compete with the trading banks, should not take interest-bearing deposits; and so on. But accepting Australian realities, he concentrated, in more private discussions, on the desirability of banks keeping reserves other than till money as deposits with the Commonwealth Bank, which should not compete with private banks (except for doing all government business) and should be responsible for the level of London funds.

There ensued two years of fruitless negotiations between the Commonwealth Bank and trading banks, in which a sharp division of attitude emerged between the Associated Banks with headquarters in Melbourne, and the Sydney banks. At the outset in April 1927, Chambers defined it as desirable that the banks co-operate amicably with the Commonwealth Bank, and this was endorsed by his colleagues; in July they again supported his approval of a reserve bank 'on the lines laid down by Sir Ernest Harvey'; by September they were (led by Chambers and by Healy of the Australasia) offering to deposit with the Commonwealth Bank fifty per cent of their gold reserves, even if the Sydney banks continued to disagree. But these banks were consistently critical of the whole scheme, and discussions petered out—to be revived in a completely different atmosphere of world crisis.

London directors generally supported the central bank moves, but were pessimistic. Thus the London manager of the Australasia wrote in May 1927:

> I suppose we should all welcome the establishment of a central bank if it functioned on the lines suggested by Sir Ernest Harvey, and eliminated the ordinary trading now carried on by the Commonwealth Bank, and the directors would like you to do what you can to assist.... I fear, however, that the seed having been sown and germinated it would need too much courage to put the plough through the crop, and unless continuity of policy were assured it would be useless to do so. Unless, therefore, agreement by all parties can be assured, and I doubt it, I have not a great belief that a purely central bank will come into existence.

Two months later the superintendent was again being told that directors 'desire that if and when opportunities occur you will lend your support in bringing the proposed changes into operation'.

In the minds of both Commonwealth Bank and trading banks was experience of the early working of the restored gold standard. At the very outset the Commonwealth Bank had undertaken to buy London funds from the banks at par. This was designed to cushion the immediate transition, but as banks were now free to import gold, the undertaking, while welcome, did not modify the basic situation. The Commonwealth Bank could make transfer of London funds to Australia a little dearer or cheaper to the individual bank, but it could not prevent it if it were profitable, and it was not equipped to exercise serious restraint on credit expansion if banks could increase reserves in Australia. Between 1924 and 1929 Australia demonstrated in a milder form than England and some European countries the incompatibility of an automatic gold standard and many forms of domestic economic policy. More generally, it illustrated the dilemma of central banking in a boom: policies of restraint and restriction can only be effective if the central bank is equipped with powerful and comprehensive weapons, and no community is for long prepared to tolerate their use. In the years after 1924, the interest of the Commonwealth Bank in legislative change and its exploratory moves within the limits of its existing powers, and equally the reaction of the trading banks, represented both parties groping towards a workable compromise.

Chief objective of the Commonwealth Bank was to induce trading banks to hold the major part of reserves with it; but they were unwilling unless they received interest or, alternatively, received guarantees limiting competition, and in any case they were opposed to compulsory reserves. The Commonwealth Bank saw itself as responsible for exchange stability, but was unwilling to hold the London funds it bought from the banks. Asked, on the initiative of the Australasia's London directors, if it would advance to banks in case of need against government securities, it declined, but was prepared to lend short-term at the current overdraft rate. It experimented with well-camouflaged sales of securities in 1926, but apparently had no objective of developing systematic open-market dealings. Treasury bills it was prepared to resell to the banks in 1927, with assurance of rediscount at any time, but methods of government finance did not permit this to develop into a method of controlling bank cash, despite the willingness of some banks to contemplate such a development. The Australasia, for example, reproved Henderson for not taking up part of a £2,000,000 issue in 1927, urging him to hold part of his reserves in rediscountable bills.

By the late 'twenties it was becoming apparent that both Banks were losing some ground relatively to their competitors, and both boards of directors were showing increasing, but not as yet acute, concern. As has been seen, this trend could have been detected in the early years of the century, bound up with the policy followed in choosing chief executives and the difficulties of learning by experience how to adjust management to the shift of greater control to London. Continuation of this trend after the 1914-18 war was even more marked, and showed up clearly in the figures of business, in the limited expansion of branches, the persistently restrictive lending policy, and the holding aloof from amalgamation with other banks.

The shares of deposit and advance business which each bank still retained are a better index of relative position than their place in lists of banks by size, the measure occasionally used in the 'twenties by London to pinpoint their dissatisfaction. A bank's place in such a list would change simply because other banks amalgamated, without any other change in the competitive situation. Percentage shares, however, only underline the moral of the cruder index.

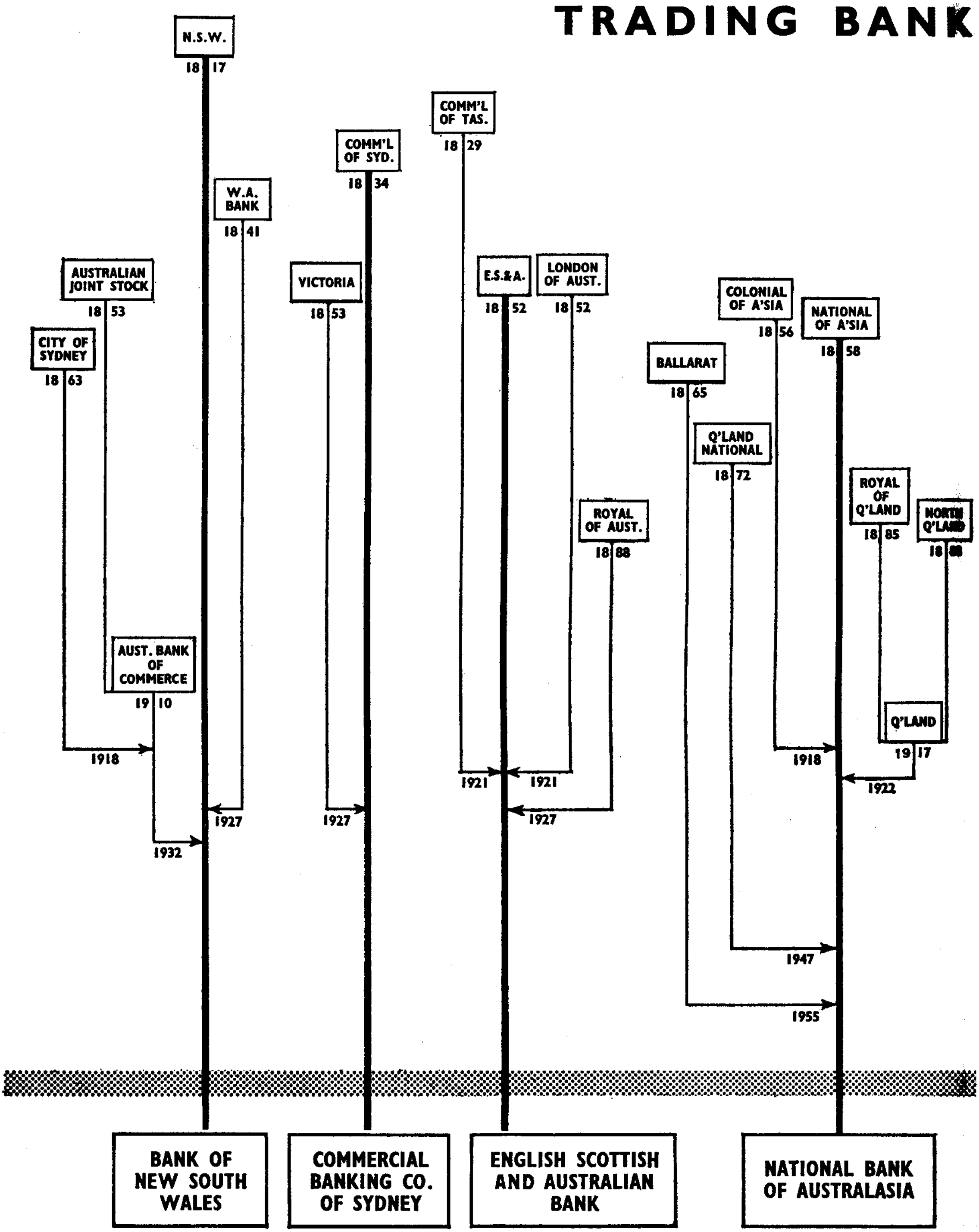
Percentage of all private banks
(excluding Commonwealth Bank)

	Bank of Australasia				Union Bank of Australia			
	Deposits		Advances		Deposits		Advances	
	1914	1928	1914	1928	1914	1928	1914	1928
N.S.W. . . .	9.2	7.3	8.0	9.8	7.0	5.6	7.4	7.0
Victoria . . .	13.9	13.5	12.1	12.8	14.4	10.2	9.4	8.8
Tasmania . .	20.1	19.4	13.8	15.7	15.5	10.7	5.2	6.9
W.A.	9.7	7.4	13.3	10.4	15.3	15.5	22.5	14.6
S.A.	8.4	6.8	4.2	6.8	17.6	12.7	12.9	11.5
Queensland .	7.3	6.5	6.7	7.1	10.4	7.9	7.7	5.1
Australia . .	10.6	9.5	9.3	10.4	11.2	8.4	9.4	8.2
New Zealand .	7.9	9.0	12.2	9.9	12.2	10.8	16.7	10.5

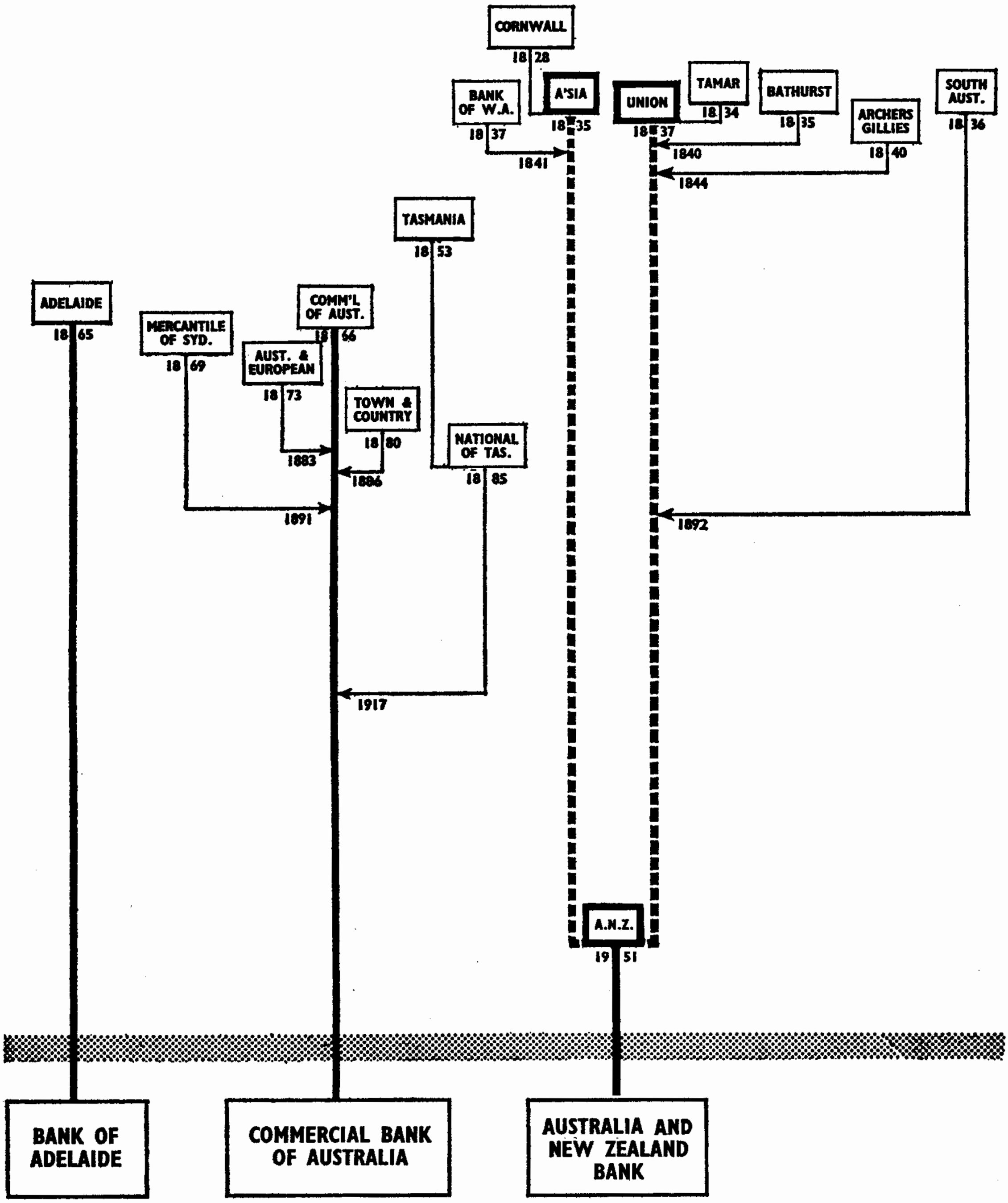
The Australasia could find some comfort in its advance figures which, within Australia, declined seriously only in Western Australia. There was marked gain in South Australia and everywhere else moderate improvement; overall Australian advance business was a slightly better share of the total than in 1914, a result which might be regarded as quite good. But by contrast, the loss of ground in New Zealand was serious. Moreover the difficulty in holding the Bank's share of deposits was ground for worry. Nowhere was the falling away in relative position calamitous, but only in New Zealand was there comfort to be found in a modest increase. Everywhere in Australia there was loss of relative position.

The Union had like cause for concern. There had been a small improvement in advances in Tasmania, but everywhere else in Australia its relative share of advance business had fallen, especially in Western Australia; in New Zealand the falling away had been marked. Nowhere except in Western Australia had the Union held its former share of deposits, although in New Zealand the loss was not substantial.

TRADING BANK



AMALGAMATIONS



Post-war growth in branches, while numerically substantial, was not enough to offset the expansion which leading competitors achieved by amalgamation. The Australasia after 1918 opened a total of 49, and closed 8, carrying its total to 237 in 1929. This total does not include anticipatory purchase in 1924 of a site in Canberra, the future Australian capital, nor the interesting move in 1923 of opening a West End branch for the convenience of Australian visitors to London. In the same period the Union increased branches to 214, the net result of opening 41 and closing 7. Both banks concentrated on the areas of old-established strength—Victoria, New South Wales and New Zealand. In Victoria the Australasia added 19, the Union 10; in New South Wales the Australasia added 12, the Union 15; in New Zealand the figures were respectively 8 and 5. Neither bank moved at all in Tasmania and each reduced by one the branches in Queensland, while additions in South and Western Australia were small. The reasons for this concentration are obvious. New communities produced by government policies of settling soldiers on the land were to be found in New Zealand, Victoria, New South Wales. Those new branches which were not in such new settlements were mainly suburban ones, in the two cities, Sydney and Melbourne, which offered most scope for such expansion.

With the end of the war amalgamation became a major instrument of bank competition in Australia as in England and other countries. Between 1917, when the Royal Bank of Queensland and the Bank of North Queensland merged to form the Bank of Queensland, and 1932, when the Bank of New South Wales absorbed the Australian Bank of Commerce, there were some eleven amalgamations; the number of Australian trading banks was reduced from twenty to nine. In no case was the reason to be found in one of the banks being in difficulties, although several of the smaller banks had come to realise that their long-term prospects of survival in competition with the largest were not good. For the larger it had become evident that the most effective and most rapid form of expansion was by absorbing other banks; competition of these was removed and the combined resources gave strength in competition with the surviving rivals.

There were, too, certain special factors. Australian banks had come to display a wide range in size and geographical specialisation. A few were large and operated throughout the continent, but with limited business in some States. Others, of small or medium size, were confined for practical purposes to one or two States. Such banks, in the conditions after 1918, were at a serious competitive disadvantage in relation to the large nation-wide banks, especially in their inability to handle large accounts or accounts of businesses themselves widely spread. Amalgamation thus became a means not only of seeking competitive strength in greater size, but of achieving, by the easiest route, nation-wide representation. Thus the Commercial of Australia absorbed in 1917 the localised National Bank of Tasmania; the National Bank the same year secured a major foothold in Queensland by taking over the Bank of Queensland; the E. S. & A. also entered Tasmania by absorbing the old-established Commercial Bank of Tasmania and acquired the substantial Victorian business of the Royal Bank of Australia and London Bank of Australia; the Commercial of Sydney remedied its relative weakness in Victoria by taking over the Bank of Victoria; and the New South Wales became a leader in the west by absorbing the Western Australian Bank. By 1932 seven of the nine surviving trading banks (not counting the small Ballarat Bank) were truly national banks, even if unevenly represented in all States.

From this amalgamation movement the Union and the Australasia stood aside. Once or twice there was a flicker of interest, as when the Union discussed an invitation to bid for the London Bank of Australia in 1918, made a cautious offer in 1927 for the Royal Bank of Australia, and toyed with ideas of bidding for the Bank of Adelaide and Ballarat Bank. But these were moves after ten years experience of the amalgamation process and initiated only after it was known that other banks were making offers; the Adelaide proposal did not pass beyond brief discussion within the Union, and the other offers were not enthusiastic.

To some extent the Australasia and the Union were handicapped by their own earlier expansion. The Royal Bank of Australia, concentrated in Victoria where the two banks were already strong, was less a prize for either of them than it was to other banks weakly represented in that State. Similarly the City Bank of Sydney or the Colonial Bank of Australasia could seem, to banks firmly entrenched in New South Wales or Victoria, worth less than other banks were prepared to pay. But the fate of those two banks throws doubt on such a comfortable explanation, for each passed to a large competitor already strongly-based in the same State. Moreover in areas where the two banks were not strong they allowed competitors to move unchallenged, notably in Tasmania where the two remaining localised banks passed to competitors without a challenge, despite the old arguments that the failure of the Australasia and the Union to advance there was due to the good business being held by the local banks.

There was an apparent failure in enterprise and initiative not only in missing opportunities to expand the two banks' own business but in not even attempting to forestall competitors. Most obvious of all, perhaps, was the apparent lack of appreciation of the meaning of the amalgamation movement which was rapidly transforming the structure of the Australian banking system. When it was all over and the results plain for all to see, each was faced with newly invigorated and strengthened competitors, operating over the whole of Australia, and enjoying a larger business than either the Union or the Australasia. The unpalatable truth had to be faced: the two banks were no longer among the leaders at the top of the list; for a century they had not only held that position in terms of size but had been leaders in the more important sense that they had provided much of the wisdom, vision and enterprise of the system, to be followed and copied by lesser banks.

In the Australasia London office there was growing concern at the loss of rank. As early as 1921 Jeans was drawing attention to the low proportion of deposits to capital compared with other banks and the relatively high reserve proportions. In passing he commented, 'Recent amalgamations of other banks raise the question whether it would be in our interests to acquire some other institution', but the subject was not pursued. Emphasis was placed instead on more energy in seeking deposits. The theme was stressed again a year later, evoking from Henderson a spirited defence, the force of which was spoiled because it amounted to saying that other banks were more efficient in winning deposits and less conservative in lending; weak drive for deposits and undue restrictiveness in lending were London's repeated criticisms.

Henderson responded by establishing at the end of 1923 half-yearly reports from branches on their deposit position, telling them that 'One object of the system is to bring prominently under notice a manager's ability or inability to acquire deposits and his success or failure in that direction will have a material bearing upon his own advancement in the service'. Two years later, as an alternative, a new system of assessing branch profit and loss was announced, with the same avowed purpose. But inability to secure deposits on the same scale as other banks continued to be a complaint, and one of the first moves of Healy when he succeeded Henderson was to approve competition in terms offered for deposits as a more effective weapon than adjuring managers.

On the side of advances the root cause was clearly conservative policy. Henderson, as has been seen, unnecessarily limited his own cash resources in the period from 1920 to 1924, and restricted loans to conform; a large rise in total advances continued with him to be a signal for concern. Such a rise in 1926, for example, drew from him a circular to branches in terms which suggested a crisis: managers were told 'to drastically restrict new or increased advances', and 'to be very sparing of new or additional advances'. Those who failed to conform would have their discretionary powers withdrawn. It was not surprising, therefore, that, when a new superintendent after a little over a year in office had not greatly modified the situation, London should be writing in 1928: 'This bank cannot afford to let its competitors get too far ahead. Judging from balance sheet totals we are now a long way down the list, and although some of the banks have displaced us by amalgamations it is essential that they should not out-distance us'.

Both banks hoped that changes in management would bring new vigour. The Australasia was well aware of Henderson's qualities, but reluctant to suggest his retirement which was delayed until 1926 when he was 71. 'Increasing years', commented the London manager, 'had to some extent deprived him of initiative, never a strong characteristic with him'. To succeed him the directors chose George Daniel Healy, then aged 54, who had, except for a few months in Sydney, spent his whole career in Melbourne branch, and the Superintendent's office. The directors' choice was influenced in part by his age, in part by deliberate decision that the state of the Bank required a 'builder'. Certainly there appeared to be an immediate improvement, but the directors were soon to be disturbed by Healy's over-vigorous expansion. Later the London manager was to write of this period: 'It had been necessary to urge Henderson to action. Possibly Healy, having read the directors' advices and heard their discussions in London, imagined they desired him to keep abreast or even in front of his competitors; he certainly set the pace during the first few years of his leadership, which were also years of fictitious prosperity for Australia. In a year or two I became apprehensive . . . .' He endorsed a file of cables marking October 1929 as the date when Melbourne expansiveness created a critical shortage of London funds. Acute economic depression was to impose belated caution, and to delay more effective moves to recover lost position. The Union was, at this stage, less concerned, and less critical of Chambers than the Australasia was of Henderson.

Both banks made several increases in capital after the war. For the Australasia this required a supplementary charter, duly issued in 1919, to authorise raising capital from £2,000,000 to £4,000,000.

The occasion was taken to secure a minor expansion in the Bank's area of operations, to include any territories in the Pacific under the control of Britain, Australia or New Zealand, and power to divide shares into units of £5. This last point was of some importance since the Bank's shares still had their original nominal value of £40 and the 1919 issue carried a premium of £70; only a restricted class of investors could consider such shares. The actual division did not occur until 1921. Extension of area was merely precautionary, and no action followed for some time.

The new share issue was limited by the continuing wartime capital issues control in Britain, but in fact the Bank wanted initially only half the amount of £1,000,000 allowed under that control. In 1920 capital was increased by capitalising £1,000,000 of reserves and issuing bonus shares, so that a nominal £500,000 remained for issue under the new charter; this was made in 1921, at a premium of £60 a share, and only after that was nominal share value reduced to £5 by division.

The Union took similar action in 1919, resolving to issue new shares with a face value of £500,000, but at 100 per cent premium, thus bringing paid-up capital to £2,500,000. Opportunity was taken at the same time to amend the deed of settlement to enlarge the Bank's area, nominally to remove all limitation but in fact to follow the Australasia's change, and to provide that only annual general meetings be held in future. (This the Australasia had already adopted.) Subsequently the Australasia lead was also followed in dividing shares into £5 units, with £10 reserve liability. The two banks thus had shares of equal nominal value, which was to prove convenient in the final merger. The two banks were again in step when, in 1921, the Union increased capital by £500,000, plus £400,000 in premium.

The year 1924 saw a similar Union issue of £500,000, with an even larger premium, an operation repeated in 1927. Paid-up capital then stood at £4,000,000. The Australasia's paid-up capital had stood at that figure since 1921, although since £1,000,000 of bonus shares were included, the banks were still on equal terms in practice. By the 1921 Charter, increase to £6,000,000 had been sanctioned, and £500,000 of this was issued in 1928, at 120 per cent premium.

These changes were in line with the solid conservatism which characterised both banks, but there is little evidence that directors who spoke and wrote of the desirability of maintaining a high proportion of capital to deposits recognised that there was another side to the medal. Provision of resources by shareholders eased the pressure in the Dominions to seek resources by acquisition of deposits; to a significant extent, weakened drive for expansion of business was being given unconscious encouragement by London. Shareholders could be even less aware of this effect than directors, for dividends on the enlarged capitals were satisfactory. The Australasia paid 13 per cent each year from 1920 to 1925, and 14 per cent from 1926 to 1929; the Union had an unbroken 15 per cent from 1920 to 1929.

Continuation in New Zealand of private bank note issues provided the occasion for the last supplementary charter for the Australasia. At the end of the war New Zealand adopted 10s notes, and since the Australasia charters prohibited notes for fractions of a pound, a supplementary charter was obtained in 1919 to permit, for five years, notes for such denominations as local law might permit. (The New Zealand government was contemplating also 5s notes.) A further supplementary charter in 1924 extended this right until 1928, the year of expiry of the last general extension of note issue powers. The Union was less quick to respond, and did not adopt 10s notes until 1920.

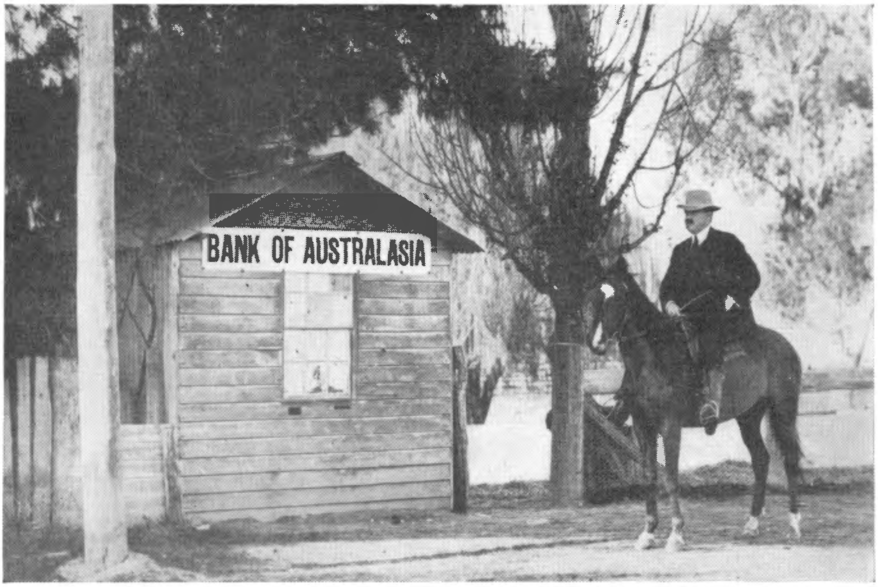
At the end of 1928 the Australasia's note issue powers would come to an end. Accordingly, well in advance, the British Treasury was asked for an extension, which it gave without argument. The supplementary charter of 1928 extended note issue powers for twenty-one years, that is until the end of 1949, but with the old proviso that the power must be exercised in accordance with local law. Within a few years New Zealand was to abolish private bank issues, and, since note issue was the only terminable power in the Australasia's charter and notes were issued only in New Zealand, the 1928 supplement became a dead letter; even a precautionary continuation of the power in 1949 would have been irrelevant since by that time the merger plans, which included surrender of the Australasia's chartered status, were well advanced.

CHAPTER 15

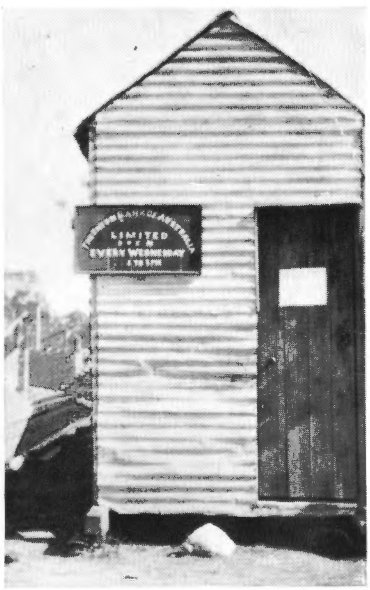
PRISONERS OF CIRCUMSTANCE

BY the end of the 'twenties, the directors of both banks were well aware that their institutions needed to be reinvigorated. They were not unduly alarmed—the situation in truth did not justify alarm—but they were conscious that there had been a falling away, a drifting with the current, in place of the leadership and expansion which had characterised both banks. There was less certainty in the tentative and preliminary discussions of causes and cures. The Australasia, it is true, chose its superintendent, Healy, as 'a builder', and sent the London manager to study at first hand the potentialities of its managerial staff, actions which implied views both as to the source of weakness and the course which should be followed. But the thinking of directors and of new chief officers in both banks had not, in 1929, passed beyond tentative exploratory stages. That the banks were lagging was accepted; that there should be corrective action was axiomatic. What could not be foreseen was that for sixteen years the course of events should make effective action, or even systematic planning for change, impossible to achieve.

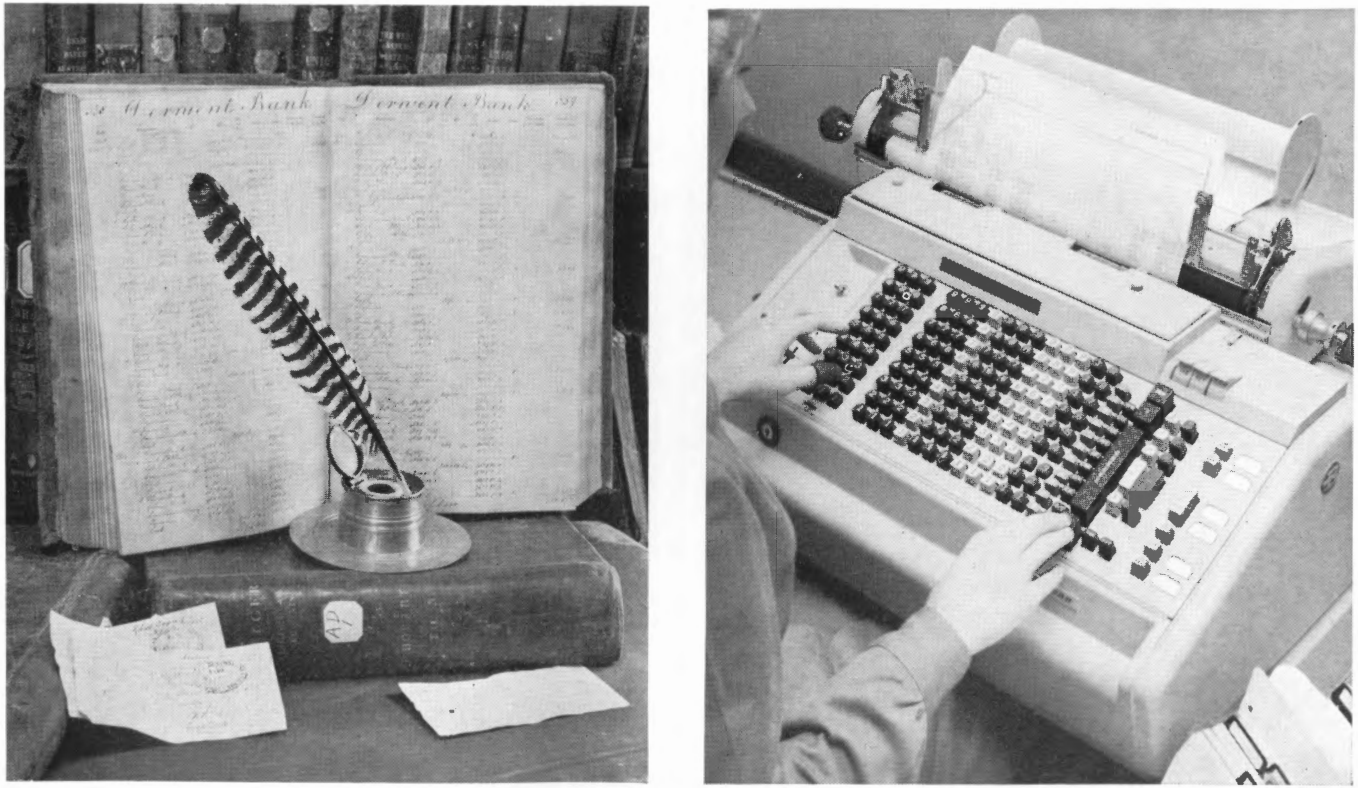
These years were to see, first the Great Depression, followed by anxious recovery during which banks and banking were the centre of political controversy, and then the war of 1939-45 which inhibited any expansive drive by any single bank. In acute depression, and especially one in which government action in relation to the balance of payments and to budgets was the focus of policy and of controversy, action to improve a bank's competitive position could, not unreasonably, seem secondary; if its pursuit were attainable only by disregard of government policy, it could even seem improper. Later, in recovery, when the Commonwealth Bank was seeking, according to its lights, genuinely to act as a central bank, it could seem important to prefer the security of a united bank front to adding, by separatist or aggressive action, to the depression-created opinion that far-reaching banking reform by legislation was required. War brought its own severe constraints, which did not, it is true, exclude all possibility of seizing advantages over a competitor, but left few which did not involve open or covert conflict with government policy.



Walwa, Victoria. The Bank opened a branch there in 1910; the first manager, J. H. Lowe, is the figure on horseback.



Rand, New South Wales, between Jerilderie and Wagga. The Union Bank agency in 1925.



A contrast in banking methods. At left the account of the Derwent Bank with the Bank of Australasia, Hobart, bound volumes of handwritten ledger accounts, and the cheques of the middle of the nineteenth century; at right, a modern electric ledger-keeping machine.

So, during these years, between the end of the boom in 1928 and the end of war in 1945, the two banks had, in a sense, little separate history. Theirs was, for this period as in no earlier, a part of the story of the banks collectively. They conformed to the general line followed by the banks jointly, and showed less initiative and less forcefulness than was traditionally theirs, in determining that line. In this there were elements of caution, even of timidity and limited vision, but there were also more admirable elements. To play a lone hand against the government and against the other banks could seem risky; it could also be rejected because it seemed not to be the right policy, whether judged by the public interest or the interests of the banking system.

Given this outlook, the events of 1929-45 could fairly seem to offer little scope for independent and expansive policy, and to dictate rather that immediate problems should take priority over long-term rebuilding. Not until 1945 could the two banks feel that they had escaped from their prison, and by then, thinking on the problem of regaining their old leadership had crystallised into the conviction that the solution required for each a great and immediate expansion of resources, to be achieved only by amalgamation.

Australians and New Zealanders have always been prone to explain each depression from which they suffered as caused by external forces, over which they had no control, and which struck disastrously at what, one is left to assume, were otherwise stable and healthy economies. Rarely in that simple form has the tradition been in accord with fact, at least for serious depressions, but there was more than usual justification for this interpretation of the way these two countries came to share in acute world-wide depression from 1929, after a decade of uneasy prosperity. For both countries, the first clear onset of depression presented itself as a balance of payments crisis, ushered in by a drying-up of overseas loans and a sharp fall in prices of major exports; the severe unemployment and sharp fall in incomes which followed, could plausibly be regarded as the direct consequence of the loss of external incomes and of capital inflow, and the budgetary crises which soon took the centre of the stage, as equally the consequence of overseas developments and of their repercussions within the two economies.

The course of events in both countries was much the same, although the initial impact on New Zealand was somewhat later. For Australia trouble developed early in 1929 when overseas loans became unavailable. (Since 1918 government oversea borrowing had averaged about £20,000,000 a year and in 1928 had exceeded £50,000,000.) Moreover export prices fell sharply, and at their lowest point in August 1931, were at half their 1928 level—even measured in Australian currency, by then depreciated by 25 per cent on sterling, the currency of the chief oversea sales. Imports showed no such immediate response, and a balance of payments crisis of unparalleled severity presented itself abruptly. For ten years the adverse trade balance had been on the average a modest £2,000,000, and now in a single year shot up to £30,000,000. Capital inflow, which had been adequate to provide for 'invisible' items (especially interest on past borrowings) of a similar size, ceased. Total international reserves in 1928 of about £75,000,000 (excluding legal minimum note reserves of £12,000,000) fell abruptly, being down to about £20,000,000 by mid-1931, about the minimum for bank working balances.

Various measures were taken to meet this situation. Rationing of bank sterling sales to customers, export of gold, partly by individual banks partly by the Commonwealth Bank, severe import restrictions, progressive and reluctant exchange depreciation all contributed. But in the event, the chief factor in restoring balance was a precipitous decline in imports by the most painful route of all—enforced collapse of demand under the pressure of widespread unemployment and a heavy fall in money incomes.

For unemployment, only crude indexes were available, but these showed 11 per cent of trade union members unemployed in 1928 and 28 per cent in 1931; the earlier figure was perhaps an overstatement, and the latter certainly was lower than the grim truth. In two years, 1929 and 1930, national income fell by more than a third. The structure of private debt had to be underpinned by various forms of moratorium and 'debt-adjustment'.

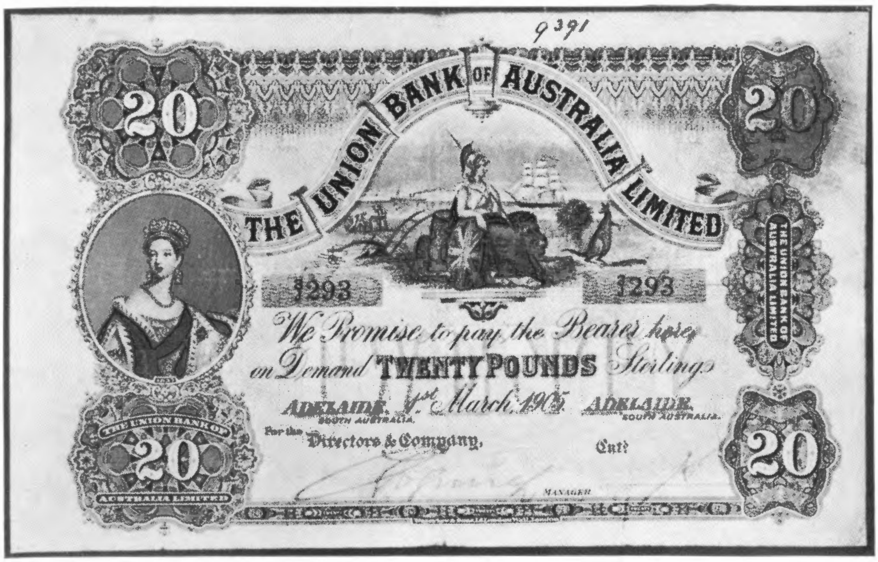
A focal point for policy discussions was the condition of public finance, where after 1929 deficits grew to relatively huge proportions. Commonwealth revenue was heavily dependent on customs duties which fell abruptly as imports slumped; for the States income tax yields declined more than proportionately with the fall in incomes. Other forms of revenue sagged while expenditure, as yet little influenced by falling costs, appeared likely to rise, because of special depression needs such as unemployment relief. Immediate balancing of budgets was clearly impracticable but the overwhelming body of opinion accepted the view that an early approach towards balance was essential. This deceptively simple proposition brought to a focus all the major issues of policy, even those apparently remote from public finance, and all the conflicts of sectional interest inherent in the situation.

Thus, to take an obvious example of a key issue, the financing of government deficits fell inevitably on the banks, and thereby brought into the discussion of deficits far-reaching questions of banking policy. The more banks would or could provide, the less severe need government economies be, and the more remote could be set the target of balanced budgets. For the private banks there were clearly difficult questions—apart from their judgments on the wisdom and reliability of governments—of how far they could, within available resources, give the needs of governments priority over the claims of private customers, or sacrifice the interests of shareholders to public policy. The Commonwealth Bank took seriously its responsibility for monetary policy, and was largely free to maintain views not shared by the government of the day, since that Labour government faced a Senate in which the Opposition had a solid majority. On the whole the Commonwealth Bank's views on bank finance for governments were as conservative as those of the private banks, but without their cogent reasons.

What is striking in retrospect is the extent to which, apart from very real clashes of sectional interests, all issues were bedevilled by dogmas. Private bankers, central bankers, Treasury officials, business men and employees were all prisoners of doctrines inherited from past experience as they faced new situations in which those doctrines had little application. To a later generation, concern about 'inflation' when one in three was unemployed and steeply falling prices and incomes were general, may seem perverse, but to every one (except the vocal but uninfluential monetary heretics who flourished) it seemed throughout the whole episode a very real danger. The later generation may find less puzzling the clinging to a fixed rate of exchange, since it shares the same rigid adherence. But at a time when there was no really effective alternative to devaluation available in practice, the sincerity with which importance was attached to the outward forms of a gold standard and stable exchange rates may still seem odd. Bankers, public servants, business men and politicians in positions of influence were not young men. Many of them could have lively personal recollections of the 'nineties; fresh in memory there were the recent galloping inflations of Germany and other European countries in the early 'twenties. The formulae which represented the practical experience of a century were not things to be shed overnight. Even the ritualistic preservation of a gold reserve against government legal tender notes is comprehensible when seen against the past. So seriously was this taken that when in 1931 it was desired to release part of this reserve for urgent export, the result was achieved by formal legislation to reduce the ratio and provide for its progressive restoration despite the obvious sensible alternative of revaluing the gold in Australian currency (against which it was a reserve) in place of an irrelevant valuation in sterling.

In time the depression was to create its own dogmas which were to control and direct thought and action after 1945 in a period of massive development, comparable not with the 'twenties but with the 'seventies and 'eighties: a deeply-rooted hostility to even a small decline in employment, a faith in the all-pervading power of central banking, the assumption that arbitration courts should determine wages according to principles of general economic policy, the tradition of 'the banks' as representatives of the evil powers of high finance, most of all, perhaps, belief in the superiority of conscious direction of the economy over the working of the market. The last perhaps is the oddest of all, derived in part from the assumption that recovery from depression was achieved by government planning on unorthodox lines, against the resistance of sectional interests and especially of the banks. Yet the actual measures which emerged from the depression's 'battle of the plans'—cuts in public expenditure, increases in taxes, reductions in interest rates, wage reductions, export of gold, exchange depreciation, import reduction—these were the traditional responses of the free market. The 'planning' of 1930-32 was directed not to novel policies but to traditional ones dictated by inherited ways of thought; it represents rather the inevitable political process by which conflicting interests were finally brought to compromise, not a resolution of significant differences in policy. There is more to be learned from a study of what the men of 1930 thought and of why they thought as they did, than from examination of what they did.

The onset of depression in New Zealand and response to it followed a similar pattern. New Zealand too had been enjoying good export returns and capital inflow; interest on government oversea debt increased from £5,000,000 in 1921-22 to £8,500,000 in 1929-30. The full blast of the balance of payments crisis was later in striking New Zealand; the government was able to continue some oversea borrowing until 1931, for instance. But export prices fell heavily after 1929; the index showed average prices for 1930 as 76 per cent of 1928 and those for 1931 as 58 per cent. The consequences were similar to those in Australia: severe unemployment, heavy fall in national income, a



A £20 note of the Union Bank dated 1905 illustrates the Board's decision to retain the portrait of Queen Victoria despite Her Majesty's death on 22 January 1901.

Reproduced by consent, in accordance with the Reserve Bank Act

When the Commonwealth Government's note issue was introduced in 1910 the new bank-notes were not available and private bank-note forms had to be used. This example is of an Australasia £5 note-form across which has been stamped 'C O 29957 AUSTRALIAN NOTE Payable in Gold Coin at the Commonwealth Treasury at the Seat of Government' followed by signature of the Accountant and Secretary to the Treasury, 1st December 1910.

Photograph: Green & Hahn

A Bankers' Derby, Christchurch, New Zealand, 24 July 1935. From left to right: J. E. Astill and L. H. Williams (Wales); A. H. M. Manning and J. S. Todd (Australasia)) J. M. Saunders and L. G. Parke (Union); G. L. Littlejohn and H. L. Jamieson (National of New Zealand); P. L. Porter and D. Callinan (Bank of New Zealand); H. H. Rodd and A. V. Taylor (Commercial of Australia). Manning and his "propellor" Todd won, a mock Court fined each manager £1 for having driven in an unlicensed vehicle, 'to wit, a wheelbarrow', and £110 was raised for charity.

decline in prices more rapid than that of costs, depletion of London funds.

There were some differences in policy; an export pool, for instance, delayed acceptance of exchange depreciation. But in general New Zealand followed the Australian lead: sharp government economies, wage cuts, devaluation, moratorium. For various reasons—later onset of depression and its somewhat less severe impact—the New Zealand problem was more manageable, but it was in principle much the same problem and ways of thought were the same. Moreover the influence from Australia was in some degree direct. Sir Otto Niemeyer of the Bank of England, in Australia to give advice to the government, was invited to New Zealand for a like purpose; in both countries his was the voice of stern orthodoxy. Professor D. B. Copland, prominent in official Australian policy discussions, was an influential member of the Economists' Committee in New Zealand in 1932. There was the same widespread acceptance of the doctrine of 'equal sacrifice', which may have meant to a few a handy slogan to soften resistance to cost reductions which the thinking of the times demanded; but to most it really meant the curious thesis that an initial uncontrollable loss of income should be spread fairly by imposing income reductions on other sectors of the economy. In Australia there was an abortive plan in 1930 for a reserve bank separate from the Commonwealth Bank; in New Zealand the outcome was the creation in 1934 of the Reserve Bank of New Zealand. The doctrines of Major Douglas (among other monetary heretics) were more popular in New Zealand, and at least nominal adherence has remained widespread even after thirty years.

Politically and administratively the New Zealand problem was simpler than the Australian. It did not suffer the complications of federation with its division of powers on a basis inapt for strong centralised economic policy, and the consequent need to negotiate the compromises which are only attainable in recognised crisis. There was no central or other government bank, so that direct agreement between the government and the banks collectively could proceed more readily, the more so as in New Zealand the banks could agree more easily among themselves whereas in Australia on many major issues Sydney and Melbourne banks were at variance. In substantial measure these differences stemmed from the outlook and policies of A. C. Davidson, general manager of the Bank of New South Wales, youngish on appointment in 1929, more clear-sighted and original in mind than most of his fellow bankers, but contemptuous of the Commonwealth Bank as an institution and of the wisdom and competence of its chief people, and determined to pursue the policies he thought right whatever might be government or central bank policy or the views of his banking colleagues. It was perhaps unfortunate for Australia—certainly it was for Davidson himself—that he was not governor of the Commonwealth Bank. New Zealand was spared the division of opinion among trading banks, between Commonwealth Bank and trading banks, and between Commonwealth Bank and government which made the Australian path to agreed monetary policy in depression so thorny.

For both countries the turning point, not recognised for a long time, was early 1932. Australians and New Zealanders continued to talk of 'the depression' for perhaps five years more as a still-present phenomenon, although these were years of steady recovery almost up to the eve of the 1939-45 war.

For the percipient, the coming of the Australian London funds crisis was visible well ahead. As early as September 1928, Godward, London manager of the Australasia, was so concerned with the troubles he foresaw—which did not include world slump—and the freedom with which Healy was expanding loans that he wrote privately at length to warn him that 'there seems to be no doubt that Australia will need all the London money she can get for many a long day'. Australian branches, however, continued to sell sterling freely and to increase advances without being equally active in purchases of sterling. Accordingly, after anxious discussion, the directors wrote officially in December:

> Notwithstanding our having received some £800,000 extra capital and your having sent £850,000 cover to London two months ago, the estimated resources here at your disposal 120 days hence is some £500,000 less than at this time last year. This is due, to some extent, to the delay in shipping caused by the strike at the beginning of the produce season, but is more largely due to legitimate demands of your customers for telegraphic transfers, which have been exceedingly heavy and may possibly continue to be so. By the time this letter reaches you, you will be able to estimate to what extent your purchases on London during the season will provide for the drain on London Funds which takes place between seasons. The London market is still unfavourable for external loan operations and, failing large borrowings by Australia, the premium on London Funds is unlikely to become smaller. I understand that most of the Australasian Banks are now fairly supplied with funds in London and might be disposed to sell to you. I anticipate that before next produce season arrives, cover may be difficult to obtain at reasonable rates.

> Financial telegram recently received from you shewing the rapid expansion of your advances and that they are increasingly exceeding your total liabilities, make the Directors somewhat apprehensive whether progress has not become quicker than can be successfully maintained and whether it is prudent to allow advances to bear such a high percentage to liabilities. Your advances are now £2,900,000 higher than at this time last year, your liabilities being £2,000,000 higher. During the year, new capital issued has brought in £1,100,000, but this has already been absorbed. Between 1919 and 1925, eight new Branches were opened. Since the latter year, the number of Branches has increased by twenty-three and you have been authorised to open at some twelve other points. Further new capital cannot judiciously be issued in the near future and a doubt arises in the minds of the Directors whether we should not, for the present, seek to concentrate upon consolidating our position.

Despite a stream of private and official letters, Melbourne was unmoved; apparently because executives believed London was alarmist and because, with their eyes fixed on making good ground lost in the past, they were not prepared to turn away new business. By October 1929, the directors, reflecting general London opinion with which they were in daily contact, were seriously stirred and wrote in more forthright terms:

> Having regard to the very serious shrinkage in wool prices and the unfavourable outlook for Government borrowings on this market, which unless Australia is able and willing to make large gold shipments, point to a great shortage of funds available to the Australasian Banks in London for some time to come, the Directors are apprehensive and wish to know how you propose to replenish your resources here in order to abstain from overdrawing your account. They therefore authorised me to telegraph you today as follows:
>
>> 'Can you assure the Directors that you will have no difficulty in avoiding overdrawing your available resources here? Vide confidential No. 494 of 23/9/20. They consider curtailment of your advances essential.'
>
> The letter referred to and subsequent ones of that year explicitly laid down the Directors' instructions. They are aware that you have the option of obtaining London cover to the extent of 500,000 sovereigns lodged with the Commonwealth Bank. Whether you have to avail yourself of this means of replenishing your cash account here, or find other means, your liquid resources will be depleted and these are none too large, having regard to the general position and particularly to the ratio that your advances bear to your total liabilities. The total of your advances, advised in your financial telegram received yesterday, exceeds £35,000,000 as against liabilities £33,000,000, equalling 106%. Your

> confidential circular of 17th July last, notifying that restriction on advances must be exercised, has failed to effect a reduction and the total has, in fact, materially increased since that date, and it may now become necessary to call up advances. The Directors regard with apprehension the prospect of difficult times ahead, calling, in their opinion, for special caution.

By this time the Bank had been forced to realise nearly half its London security holdings of £4,000,000, and the general economic situation had deteriorated so far that, to contemplate substantial immediate reduction of Australian advances, was unrealistic. Healy was urged to transfer gold to the Commonwealth Bank in exchange for sterling, under the standing arrangement to that effect.

Healy was, by now, more fully aware of the exchange situation, although disposed to see only a temporary shortage of London funds which would be relieved as soon as the wool export season was well advanced. Australian banks were already rationing sales of sterling, and the English Scottish and Australian Bank had even publicly announced its practice. Healy was quick to respond to hints of government proposals to commandeer bank gold holdings, and succeeded in transferring to the Commonwealth Bank £1,400,000 in gold in exchange for rights to sterling, before legislation provided for the gold holdings of all banks to be taken over—in exchange for Australian currency—by the Commonwealth Bank. The Union was less quick to move, but also succeeded in transferring £750,000 in November 1929. Under an Act passed the following month, the Commonwealth Bank was empowered to take over bank gold; in the event, £6,000,000 was to be transferred to the note issue reserve, £6,000,000 was to be held by the banks as custodians, and the remainder, less than £6,000,000, was left with the banks. By September 1930 practically all private bank gold holdings had been transferred or exported, and gold disappeared permanently from the Australian trading bank system. (Indeed in 1959 the Melbourne office of A.N.Z. Bank found itself without any gold scales and had to secure a set to preserve its licence as a gold buyer.)

In purpose and effect this transfer of gold was not directed to the basic problem of a shortage of London funds; primarily it gave priority to the oversea payment needs of governments. The same was true of the next major action, the so-called exchange mobilisation agreement of August 1930. Under this each bank agreed to contribute, in proportion to its monthly sterling receipts, to a pool totalling £3,000,000 a month for government needs. This the Australasia and the Union supported from the beginning of discussions, although the

Australasia directors thought it did not go far enough. For months they had been urging on Healy the desirability of a general exchange pool based on licensing of all exports as a means of preventing depreciation of the exchange rate under pressure of 'outside' sellers of sterling. The Union gave rather lukewarm support, but all other banks were opposed on the grounds that this would mean complete Commonwealth Bank control of the exchange rate, probably permanently; indeed their support of the limited pool was inspired by the belief that it was the price of avoiding full pooling, which the Australasia advocated and the government was believed to be considering. In its attitude on this the Australasia, and to a lesser extent the Union, underlined the diverse attitudes and motives which went to make up the published policy of 'the banks'. Already in February the government had sought sterling advances from the banks to a total of £8,000,000, for a period of some months to meet urgent interest commitments. Agreement was reached, but whereas Healy and Leitch reported the proposal to London tentatively, reflecting the reservations of other banks, both boards promptly directed the offer of the full amount asked for, the Australasia in the expectation that the loan would have to be renewed.

These measures, while imperative to enable government commitments to be met, did not affect the general situation, and indeed forced the banks to ration buyers of sterling more severely. By April 1930 the Australasia was requiring branches to refer to Melbourne all drafts of £500 or more, and refusing all sales to other than its own regular customers. Two consequences of this were unwelcome. One was that a number of London firms with extensive business in Australia deferred remittance, holding funds on fixed deposit in Australia. This was the origin of the 'hot money' problem, the size of which is indicated by the identifiable amounts held by the Australasia and the total for all banks:

	Bank of Australasia	All banks
May 1930	800,000	
June 1930	1,294,000	4,030,985
October 1930	1,485,000	
December 1930	1,686,000	
February 1931	1,915,000	
June 1931	2,254,000	11,570,792
June 1932	2,442,000	12,281,472
February 1933	2,800,000	
June 1933	1,936,000	10,186,233

The willingness of banks to hold such amounts, which would have to be remitted eventually, arose from the second consequence of exchange rationing, the revival of an active 'outside' exchange market undercutting bank rates. The Australasia was in no doubt that at any time holders of these deposits might join the ranks of 'outside' sellers, and instructed Healy that such deposits were not to be regarded as available for ordinary business but invested in short-term Treasury bills. But such special deposits could only reduce, not eliminate the outside market. Many traders could not delay remittance and the 'outside' rate on sterling was consistently a higher premium on sterling than the 'official' rate.

The so-called emergency tariff of 1930 was a positive effort to restore the balance of London funds, but its effect could not be expected for months. Meanwhile the source of danger was the need to pay for commitments already made, and during 1930 the outside market became steadily more important, and its premium on sterling higher. A cleavage of opinion developed among banks faced by this loss of business. The Commonwealth Bank, despite firm public pronouncements, privately considered the desirability of devaluation, while Davidson of the New South Wales was steadily moving toward the view that the outside market should be defeated by competition in rates. These views were reinforced increasingly by the desire of exporters to secure full market price for sterling receipts; the argument that devaluation was a desirable depression measure to restore the incomes of primary producers was more frequently advanced as time went on. Against these views were the majority of banks, steeped in the tradition of fixed exchange rates, especially the Australasia and the Union. The Australasia returned to its urging of export licensing, without gaining support.

The arrival of Niemeyer in July closed the ranks, the more readily because the mobilisation agreement had just been concluded. 'Official' rates had moved to 6½ per cent premium on sterling in March, with the 'outside' rate at 8 per cent, and there was hope the situation would be held. Only Davidson disagreed, but all he achieved for the moment was an increase of the official rate to 8½ per cent premium, and a change in the method of quoting rates. Since 1788 rates had been expressed as so much (usually in £ s d rather than per cent) premium or discount on sterling, a form which became inconvenient and misleading when the margins were large; the new form was stated as so much per £100 sterling.

In the closing months of 1930 there was continuous debate among the banks, Davidson urging that the outside market be met, and other banks opposing; the government, under primary producer pressure, was supporting Davidson. The beginning of wool sales in January 1931 marked the end. The New South Wales faced such a heavy loss of exchange business that Davidson determined to act, alone if necessary. His rate became 115 on 6 January, and the Commonwealth and other banks followed this rate, which a week later was similarly forced to 118. Bank conferences, reluctantly but at last by agreement, then moved the rate to 125 and finally, on 29 January, to 130. Davidson had his way, and the outside market, after a brief fling, was forced into line; the banks had regained the major part of exchange business.

Towards the end of the year, indeed, conditions were reversed. London funds tended to accumulate and banks to restrict their purchases of sterling; the outside market revived, selling sterling below 130. After much contention, the Commonwealth Bank in December formally assumed responsibility for declaring exchange rates from time to time, accepting the obligation to buy and sell sterling freely at such rates, initially set at 125. At the time its 'control' of the rate was nominal rather than real, for its ability to implement rates out of line with market realities depended on its holdings of sterling and its willingness to allow them to vary widely. At the time the bank was reluctant to hold large London funds, so that its ability to maintain the rate for the next few years was largely the result of chance. Not until 1939 brought wartime controls, and acceptance of principles of control which were continued into peace, was the Commonwealth Bank's formal authority over the rate fully effective.

Yet the December 1931 declaration was in a real sense the end of of a century-old phenomenon. When, in December 1835, the Australasia began exchange business in Hobart and Sydney, a bank for the first time in Australia was an active exchange dealer, and when it was joined by the Union, foreign exchange became primarily a bank market, with a fringe of outside dealers. For ninety-six years the sterling-exchange standard, with its semi-automatic adjusting mechanism which the Anglos had devised, had worked well. Its supersession symbolised the new conditions to which all banks had to adjust themselves: the government pursuit of domestic political objectives which could be made consistent with stable exchange rates only by instruments beyond the power of private banks, which could be exercised only by governments.

Meanwhile months of plan and counterplan, of public controversy, of inter-government and bank-government negotiation had reached a climax in the 'Premiers' Plan' of June 1931, the core of which was agreement by Commonwealth and State governments to reduce expenditure by twenty per cent and to raise additional taxation; conversion of internal debt to reduce interest by 22½ per cent; reduction in bank interest rates; and relief for debtors. The complex and often acrimonious discussions which led to this agreement need not be traced here, especially as neither the Australasia nor the Union took a distinctive part in the process. In general the Commonwealth Bank acted as spokesman for all banks, the central issue, as has been noted, being the inevitable reluctance of banks to finance growing government deficits without the clearest evidence that governments were making serious efforts to reduce those deficits. It was equally inevitable that 'the banks' should appear to many Australians as the villains of the piece, open to the charge of dictating public policy and especially of compelling ruthless economies. The banks had a reasonable defence for their general attitude, but they were not very skilful at presenting it. The comment of L. F. Giblin on one phase of government-bank negotiations applied in fact to the whole period:

> Both sides agreed in principle that recovery depended on the combination of a reduction in government expenditure with positive measures to reduce costs and restore employment. But each side wanted the other to do its part first. Each party was suspicious that action on its side would be made an excuse for postponement or whittling down of action by the other. From a broad survey of the events at the time and subsequently, it would seem that with some personal exceptions, the suspicions on both sides were abundantly justified.

On the side of the banks their distrust had been increased by a series of proposals for monetary legislation which had been thrown up during 1930 and 1931. It must be remembered that, from their point of view, ever since 1911 the banks had had recurrent reason to be suspicious of government assurances in these fields: the circumstances surrounding the introduction of the Australian note issue, the vicissitudes of the wartime 'three-for-one' arrangement, and various events during the 'twenties had not encouraged confidence. The legislative proposals of E. G. Theodore, the Treasurer in the Federal Labour government, had to be considered by banks with ingrained suspicions. Theodore, by far the ablest member of the government, could, as events showed, win their confidence and could have done business with them. It was his, and Australia's misfortune, that his at times over-logical proposals could only be considered in an atmosphere of bitter political controversy, with various deep cleavages developing within his own party, with Federal and State governments

Alexander Turnbull Library

Hastings Street, Napier, New Zealand, opposite the Union Bank, and (below) the same scene after the earthquake which occurred at 11 a.m. on 3 February 1931. As can be seen, the Union's premises were totally destroyed, but the Australasia, out of sight on the left side of the street, gave the Union emergency accommodation.

Alexander Turnbull Library

The 1931 New Zealand earthquake caused extensive destruction in the town of Hastings. Four banks temporarily shared emergency accommodation in this corrugated-iron structure.

manoeuvring against each other, and a federal Opposition, in command of the Senate, increasingly using the situation with an eye to forcing and winning an election. Talk in sections of the Labour Party of debt repudiation, and the attempt of the Lang Labour government in New South Wales to pursue its own independent policy—including repudiation—ensured that no monetary proposals could be considered on their merits, and in any case were held up until the situation, both economic and political, had so far deteriorated that such proposals became election cards not plans for action.

First in point of time was revival of the plan for a reserve bank. Initially this was seen, when introduced into Parliament in April 1930, as a conservative implementing of ideas canvassed in the late 'twenties, and at first the omens were fair. Its main proposal was to transfer the central bank functions of the Commonwealth Bank to a reserve bank, leaving the Commonwealth Bank as a government trading bank. There was no great increase in central bank powers, and on that front it is unclear what contribution the new bank could make to urgent depression problems. But by the time the bill was introduced, the banks were convinced that the real purpose of the government—but not of Theodore—was to have at its disposal an aggressive trading bank. Theodore had seen the force of the trading bank fears on this score, and was prepared to meet them, but his party would not support him. The story of federal banking legislation in Australia contains a succession of reversals of attitudes, the most striking being that the legislation of 1959, by which, in changed conditions, a non-Labour government implemented the principles of the Labour proposals of 1930, was endorsed by the banks and opposed by Labour.

Theodore's reserve bank bill was held up in the Senate for six months, and then its rejection was ensured by its being joined by other proposals more directly aimed at immediate conditions. A 'fiduciary' notes bill contemplated a special issue to finance various forms of depression relief; a second bill proposed to control bank interest rates; a third would have freed the whole note issue reserve for export, substituting a fixed maximum for the note issue. If anything were wanting, in the feverish atmosphere of May 1931, to ensure Senate rejection of all these measures, it was provided by events in New South Wales where the government had defaulted on oversea interest and the Government Savings Bank had closed. Acceptance of the Premiers' Plan followed in June. It could appear, and was certainly made to appear, that this symbolised victory all along the line for 'the banks' who had, it seemed, defeated all legislation on monetary matters and enforced deflationary budget policies. Once again the banks failed to present their side of the case effectively.

The banks were indeed vulnerable on the question of interest rates. Late in 1929 Davidson had pressed hard for increases in both deposit and advance rates, but other banks resisted, the Australasia directors endorsing their view. But a few weeks later Davidson had his way, mainly because by then all banks were fearful of deposit loss and anxious to reduce advances. Reduction of rates as the crisis deepened was, however, a natural demand, not to be agreed to until it was embodied in the Premiers' Plan after legislative reduction had been defeated.

Deposit rates were reduced by one per cent within a few days of the adoption of the Plan, but advance rates did not follow immediately. The banks' attitude was that changes in deposit rates took months to reduce their costs—two-thirds of fixed deposits were for two years—while advance rate changes took immediate effect. The Commonwealth Bank, the major part of whose advances were to governments, and which had no shareholders, reduced its advance rate by one per cent at once. The public effect of these decisions might well have been foreseen. Hostile criticism was so immediate that within a month Healy was cabling London, asking for and receiving authority to reduce advance rates 'forthwith'. But other banks held him to the agreement of June, and not until September, under the threat of legislation by several State governments, were rates cut by all banks.

During 1932 London had repeated cause to be dissatisfied with Healy's failure to take the lead. Early in the year, with deposits growing uncomfortably, he had urged further rate reduction, but went no further when other banks disagreed; the New South Wales acted unilaterally, and grudgingly other banks came down. The sequence was repeated in September and again in November. The Court believed all these reductions were desirable and urged Healy more than once to seek agreement, but in default to act alone. Directors were concerned that each time he held off, and other banks secured public credit for reductions which all had to follow. There was a similar story with advance rates, movements in which culminated in a maximum overdraft rate of five per cent in 1934, with the Bank of New South Wales appearing as the initiator. Healy's position was difficult, since Davidson was actively expanding the New South Wales business at the expense of other banks, but London was quicker to see that passive resistance was not competition.

As has been seen, the economic situation in New Zealand was broadly similar to that in Australia, but the impact of crisis was somewhat less severe and came later; dealing with it was not hampered by the political complexities of Australia, and was eased by the prior Australian example.

New Zealand opinion was as firmly in favour of fixed exchange rates as Australian, and when pressure on London funds became acute late in 1931, there was ready acquiescence in a Bank of England proposal that New Zealand should copy Australian 'exchange mobilisation'. The banks agreed collectively to provide £1,000,000 a month during 1932 to meet government commitments in London; for its part, the government imposed an export licensing system designed to direct all sterling receipts into the banks. There was some haggling over the freedom of banks to ship gold, and Healy succeeded in getting £250,000 away, but on Bank of England advice the government would permit no more. Export licensing was, it will be remembered, a favourite with the Bank of Australasia, and was administratively easy in New Zealand because of the multiplicity of marketing boards exercising varying degrees of supervision over almost all exports.

It was, however, less welcome to farmers, who with the example of Australia before them, came to see in exchange depreciation a way of increasing money incomes. The banks too were not happy with the working of the scheme because the government paid for its sterling by issuing Treasury bills to the banks. Mainly because of farmer pressure export licensing was abandoned in July 1932.

Meanwhile Niemeyer had visited New Zealand, where he preached stern deflation, maintenance of exchange rates, and creation of a reserve bank. More realistic was the advice in February 1932 of an Economists' Committee, including D. B. Copland, which advised adoption of the Australian formula, seasoned with 'equal sacrifice': exchange depreciation; cuts in wages; reductions in interest; deficit finance by Treasury bills taken up by the banks, coupled with drastic government economies; debt revision. This programme was carried out.

Deposit interest was reduced in December 1932, and from May 1933 overdraft rates fell by one per cent. Wages had already been reduced by ten per cent in May 1931, by Arbitration Court decision. The exchange rate, under 'outside' pressure, had slipped to 110 before the mobilisation agreement. During 1932 only the influence of Niemeyer and resistance of most of the banks prevented the rate moving to the Australian level. When export licensing ended, the

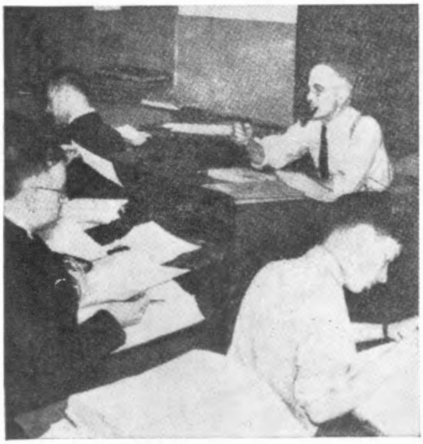
Bank of New South Wales proposed to adopt that rate unilaterally. But in New Zealand the Wales was vulnerable as it was not in Australia; the other banks made it plain that if the Wales acted alone they would collectively pay out all Wales notes they held, but refuse to accept them from depositors. Several of the banks urged on the government a bank loan of £6,000,000, secured by Treasury bills, to subsidise exports, but the government was unwilling and the banks not unanimous—both Healy and his directors were opposed.

By the end of the year pressure from primary producers was too strong for the government to resist any longer, and a deal was made with the banks. The rate became 125, and the government passed a Banks Indemnity Act, by which the government undertook to buy from the banks all sterling funds accumulated by them after the Act was passed.

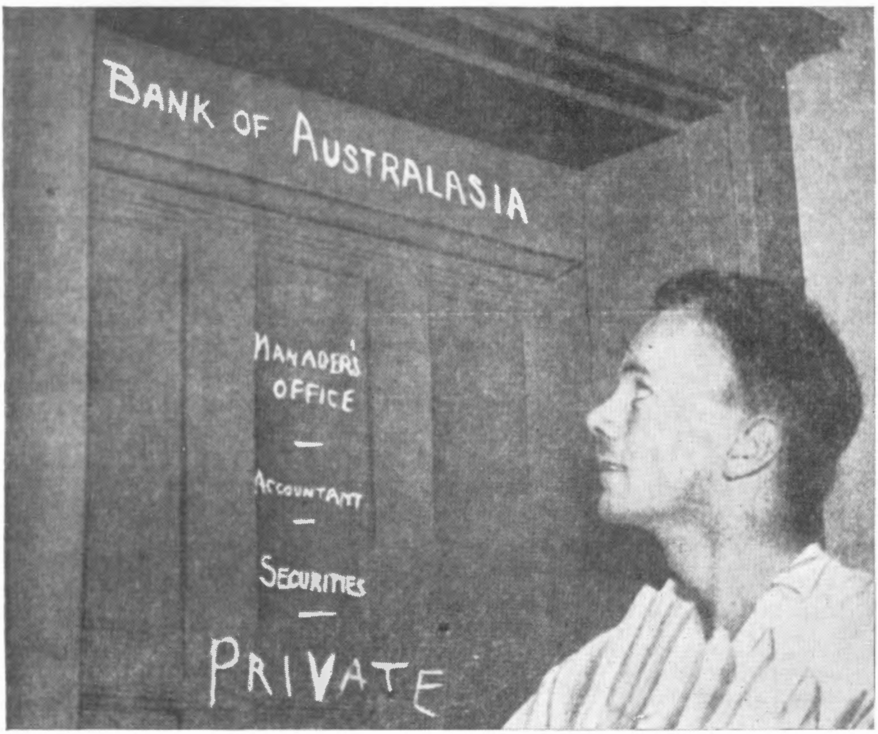
The banks were fearful of a slump in the rate, and events were soon to show that the government had made a bad bargain. As in Australia, devaluation, by the time it came, was more than adequate to reverse the movement in London funds, and over the next year and a half the banks sold to the government (for interest-bearing Treasury bills) some £23,000,000 sterling.

Meanwhile the government had returned to the reserve bank proposal. A bill drafted under Niemeyer's influence in 1932 had been abandoned (amongst its clauses was one providing by statute for virtual parity with sterling), but a new scheme was prepared in 1933 and became operative in 1934. This was an odd amalgam. Most of its proposals were orthodox. The reserve bank was to be the government's banker, and to monopolise note issue; it was to take over trading banks' gold reserves; and it was required to buy and sell sterling at rates it declared from time to time. But there was also fatuous copying from America. Capital was to be provided by private shareholding and trading banks were required to keep with the reserve bank minimum deposits equal to three per cent of time and seven per cent of demand liabilities. (Provision for variation of these made more sense, while in 1936 private shareholders were compulsorily bought out.)

The governor of the new institution was L. Lefeaux from the Bank of England, but local knowledge was secured by appointing as deputy-governor W. F. L. Ward, just retired as the Australasia's New Zealand Inspector, and to the next senior post of chief cashier, T. P. Hanna, the same bank's sub-inspector at Wellington. Operations began in August 1934.



In August 1939 the Union, the Australasia, the E. S. & A. Bank, and the Commonwealth Bank, and four large companies, moved some two-thirds of their London staff to Sandroyd Preparatory School, Cobham, Surrey, the remainder following when war broke out. A flying bomb at 1.40 a.m. on 22 July 1944 extensively damaged the buildings. (Photographs from London *News Chronicle* 30 August 1939.)



A.N.Z. Bank has developed mobile offices to provide banking service at factories and similar locations. The picture is of Bendigo Show in October 1960.

On two matters there was immediate friction with the trading banks. The government insisted that the banks' gold should be transferred at the old English mint price, although it was paid for in New Zealand currency. Protests were unavailing, although the banks had a legitimate grievance. The Australasia, for instance, had to transfer gold valued, at the old price, at £465,898; even the 25 per cent devaluation of New Zealand currency did not fully reflect the rise in market price for gold which, in the absence of government control, the Bank could have secured.

The other conflict related to the process of replacing trading bank notes. These were progressively withdrawn and replaced by Reserve Bank notes, but under 1936 amending legislation it was provided that that Bank should take over liability for all unredeemed trading bank notes, being paid immediately their full face value by the bank concerned. The Reserve Bank insisted on payment for all notes not shown to have been redeemed, irrespective of the time since they were first issued. Many Union and Australasia notes, issued far back in the nineteenth century, could be presumed to have been destroyed. The two banks offered a compromise: to omit from the demand notes which either bank had, more than twenty years earlier, written off as destroyed, but to pay for all notes either not written off or written off within the last twenty years. The Reserve Bank was adamant and the two banks had to pay in full for notes most of which were certain never to be presented; for the Australasia the amount involved was £41,000.

Although business conditions slowly improved after 1932, banking remained a subject of political controversy. No major changes in the monetary system had occurred either in Australia or in New Zealand. In the latter country, as has been seen, the creation of a reserve bank and extension of various forms of government finance for primary producers temporarily pacified critics and reformers. Within Australia three banks had disappeared. The small and ill-run Primary Producers' Bank had been wound up, the Australian Bank of Commerce had been absorbed by the Bank of New South Wales, the New South Wales Government Savings Bank had been absorbed by the Commonwealth Savings Bank, except that its Rural Department became the nucleus of the Rural Bank of New South Wales. Gold had disappeared from Australian banking. The Commonwealth Bank had largely displaced the trading banks in government loan operations. A new form of liquid asset for banks, the Treasury bill, had emerged, but it was to be some time before it could be seen as a valuable addition to the mechanism of banking. For the banks it offered, for the first time in Australia, a liquid income-earning asset, almost as good as cash because of rediscount facilities with the Commonwealth Bank, a useful complement to less liquid investments and advances. But for the Commonwealth Bank, concerned with restraint on government finance, the volume of Treasury bills built up in depression appeared as a danger, to be 'funded' by substituting conventional long-term bonds, and it was more exercised as to ways of doing this than with developing a new instrument of monetary control.

For the private banks the immediate post-depression problems which bulked large were those of relationships with the Commonwealth Bank, and of steering a wary course through the storms of controversy surrounding banking. For neither the Australasia nor the Union were the times propitious for major internal reforms or striking departures in policy.

Reduction of costs, other than deposit interest, was not easily achieved. In July 1931 the Commonwealth Arbitration Court applied to bank officers the ten per cent reduction determined in general principle early in the year. The Australasia found this unwelcome, although it felt bound to conform since all other banks did; however, it deferred until September applying the same scale of reduction to all officers, and then only because other banks had already done so. Dismissals of staff were few, mainly because, as Healy put it, 'we have not in the past carried any surplus staff'.

Closing of branches was considered in 1931, to reduce costs, and a few were in fact closed, where possible, by mutual arrangement with another bank. Thus the Australasia closed at Port Pirie by arrangement with the E. S. & A., which closed at Wirrabara. But in general the scope was small. If 1934 is compared with 1929, the Australasia closed in all at only ten points, three in New South Wales, two in South Australia, four in New Zealand, and also at Canberra; its total of branches in 1934 stood at 227. The Union total was then 212, only two less than in 1929; two had been closed in Victoria and three in New Zealand, but there were three new branches in Queensland.

Godward, the Australasia's London manager, made a special tour of Australia and New Zealand between December 1932 and May 1933. The diary he kept showed that he was interested in the efficiency of the Bank's operations, with an eye less to immediate economies than to future development. Everywhere, he noted his assessment of managers and other senior executives, with special regard to their fitness for more senior posts. (The man he picked 'unhesitatingly' as certain to go far, 'maybe in the running' for the Superintendent's chair, was A. R. L. Wiltshire, then newly appointed as manager, Perth.) On the whole he reported favourably on the efficiency with which the Bank was managed, the more convincingly as he had been very critical of Healy's early management:

> I was told repeatedly that discipline was better maintained than in other banks, and this seemed to be borne out by what I saw and heard . . . . I was satisfied that for years we have been working more economically as regards numbers than most of our competitors. Force of circumstances has recently caused a drastic cutting down of staff in some of the other banks, but I still think that, although similar reductions have not been made by us, we still compare favourably with the others. I put this down to a better system of control and distribution of work. I am not without some doubt, however, whether we do not carry on upon too small a margin of staff for thorough training, which necessitates a constant interchange of work, particularly in respect of the more promising younger men. We are certainly faced with the problem of having to find suitable material to replace managers retiring from our chief branches.

The Union had two opportunities to consider managerial changes at the highest level, but preferred the path of caution. The first came when W. A. Leitch, who had succeeded Chambers as general manager, retired in 1936. Leitch, born in 1870, had only two years service with the Bank of South Australia and was taken over by the Union. By 1919, after experience in most States and New Zealand, he attained inspector's rank. When he succeeded as general manager in 1928 he was 58, and his eight years' rule was mainly dominated by the problems of depression.

When Leitch retired he was succeeded by A. W. Broatch, who, however, suffered a breakdown in health and retired after only six months of nominal office. For his successor the directors followed seniority rule and chose A. W. McNicol, then almost 63. Originally with the City of Melbourne Bank until its final collapse in 1896, he served with the Union wholly in the inspectorial service, with experience in all States and New Zealand. This was a promising background for a general manager, but his age meant that he had only three and a half years before retirement, and he made little impact on the Bank's development.

His successor, appointed in January 1940, was A. E. B. Goode, who had started as a junior clerk, and after experience in branches in Victoria and in the inspector's office in Perth, became manager

Perth and later Sydney, and spent the remainder of his career in head office in Melbourne. He had some months' overseas experience and was 56 when appointed general manager. Under him the Union first began to move ahead, and on him fell the burden of the first amalgamation negotiations.

But in the 'thirties caution ruled, not only because opportunities for striking out on new lines seemed severely constricted, but also because it seemed important to avoid innovations which could give hostile critics new targets. Even the centenary of each bank was allowed to pass very quietly, celebrated in a form calculated to appease. Publicity was kept to a minimum. London, for instance, found twelve pages of historical notes on the Australasia sent by Healy more than adequate. The Australasia gave its shareholders in 1935 a two per cent bonus dividend, and gave all staff a centenary bonus of 7½ per cent of annual salaries. Three years later the Union followed a similar policy, with the same bonuses.

There was good reason for such tenderness. Banks were still, in Australia even more than in New Zealand, targets of bitter criticism, in which genuine and sober belief in the need to avoid or mitigate depression, in part by monetary measures which would require full development of central banking, was mixed with bitter resentment of the part allegedly played by the banks in the collapse of Labour governments in New South Wales and in the federal parliament, the hostility of every debtor who believed his fate could have been avoided with proper bank aid, and of every sufferer from depression who at least half-believed that, even if it had not been caused by the banks, its worst severity could have been averted but for their wickedness or stupidity. Labour during 1934 adopted nationalisation of banking as a major plank in its federal election campaign, and although it was defeated, the new non-Labour government found demands for monetary reform so insistent, even from its own supporters, that it was forced to appoint a Royal Commission in 1936.

That commission conducted a long and painstaking inquiry, more thorough than the government could have wished. Its main recommendation, somewhat unexpectedly, would have been far-reaching. Arguing that conventional central banking techniques had little application in Australian conditions, it proposed that trading banks might be required to hold on deposit with the Commonwealth Bank reserves of any declared proportion of their own deposits. Such a device went far beyond anything for which the Commonwealth Bank had asked, and the legislation, drafting of which the government could not avoid, contemplated a much less severe arrangement for reserve deposits variable between fixed limits. The commission had made many other recommendations of less importance, and a comprehensive bill, which would have been the uniform banking law of the federation debates, was planned. Such an undertaking, however, necessarily required much time and was not complete when war broke out in 1939 and it had to be shelved.

Meanwhile the banks were seeking to accommodate themselves to the policies of the Commonwealth Bank. That bank was mainly concerned with problems of government finance, in which its restraining conservatism was not unwelcome to the others, and with exchange problems. For the most part, however, even here the Commonwealth Bank saw its responsibility as that of ensuring that government commitments overseas were met. As part of that concern it pressed, early in 1938, for a renewal of the 'exchange mobilisation' agreement, spurred on by a worsening balance of payments. Discussions became extremely complicated because some banks were unwilling to make firm commitments, although both the Australasia and the Union directors stiffened the attitude of their chief executives in supporting the Commonwealth Bank. Agreement was finally attained only under the threat of legislation.

In relation to general monetary policy, the Commonwealth Bank's chief desire was that the trading banks should voluntarily increase the reserves they held as deposits with the central institution. Opinion among the banks was diverse and Healy, Leitch and McNicol were at times swayed by more vigorous opponents of central control and irritated by evidence of the Commonwealth Bank taking ordinary business from them while asking for co-operation. As had been so often the case, London took a more detached view. Repeatedly chief executives were instructed to give greater co-operation and to be less concerned with minor examples of 'unfair' competition. Healy was told in 1935, for instance: 'it is the directors' wish that you should work in harmony with the Commonwealth Bank and, regardless of some loss of profit, to try to carry out their wishes'.

But the combination in one institution of a central bank and a competitive trading bank was a recurrent stumbling block, and continued to be one for another quarter-century. At times London was as vulnerable as chief executives to resentment. Thus the Australasia London manager wrote in 1938:

> Directors are of opinion Commonwealth Bank should be advised that unless their managers are informed emphatically that the Bank's policy is against taking accounts from the Trading Banks by offering more

favourable terms, that institution will not be entitled in future to have the wholehearted support of this Bank, or the other Banks. Should this not have the desired effect we too may find ourselves impelled to resist strongly the granting of wider powers to the Commonwealth Bank who apparently would like to assume the role of a Central Bank and at the same time operate in competition with the Trading Banks.

New Zealand prospects caused both banks serious concern in 1936-38. Deposits, especially fixed deposits, showed a persistent tendency to increase, not matched by an expansion of advance business. In a significant degree, this arose from the impact on the banking system of government policy in aid of farmers. In 1935 a mortgage corporation, financed by a public bond issue, was formed to provide long-term low interest loans to farmers. The following year the Primary Products Marketing Act consolidated the various export marketing schemes, initially with the apparent intention of excluding the banks from the foreign exchange business associated with exports; in the event, they were allowed a share of the business, but only at the will of the government, and with no security as to the future. The two banks, moreover, shared the general suspicion engendered in investors by the whole pattern of social legislation in New Zealand, and became increasingly cautious about advances. The system of taxing bank profits made matters worse, for the tax paid no regard to profits actually earned in New Zealand, but assumed that New Zealand profits were an arbitrary percentage of total assets and liabilities in that country. In the circumstances of 1936-38, therefore, taxation liabilities did not fall, while fixed deposits rose and advances did not, with a consequent unprofitable accumulation of cash.

Meanwhile, despite some sagging of Australian business, prospects there were much brighter, and not unnaturally the Union and the Australasia transferred the funds to Australia. For this they had to suffer public criticism, which showed little regard to the fact that other investors, including New Zealanders themselves, were preferring Australia as a field of investment, on grounds of both profit and security. The drift of capital across the Tasman was to be a significant factor in compelling the introduction of exchange control in 1938.

The Australasia thought so poorly of its New Zealand prospects that in 1936 it was exploring extensive closing of small and unprofitable branches, but in the end decided to hang on. But it did transfer substantial sums of idle money. In the first four months of 1937 almost £1,000,000 was removed, £440,000 to London and £538,000 for use in Australia. Such movements were, however, symptomatic of more deep-seated trouble, persistently adverse trends in the New

Zealand balance of payments which, by the end of 1938, precipitated, as the only alternative to devaluation, comprehensive exchange control, including licensing of imports. This move was to simplify New Zealand's problems on the outbreak of war.

Overall the two banks had no reason to be satisfied with their relative positions at the end of the 'thirties. Comparison between 1933 and 1939 (second-quarter figures being used so that those for 1939 are unaffected by war) shows:

Percentage of all banks

	Deposits		Advances	
	Bank of Australasia	Union Bank	Bank of Australasia	Union Bank
		Australia		
1933 ..	11.4	9.0	11.1	9.8
1939 ..	10.4	8.2	10.7	9.0
		New Zealand		
1933 ..	8.3	10.8	8.4	9.1
1939 ..	9.7	12.6	8.0	11.8

For the Australasia the picture was particularly gloomy. It had increased its share of New Zealand deposits, but this was unwelcome since it meant an unprofitable accumulation of cash. In all other respects, it had lost more ground. Deposits over-all were down, and everywhere it had a smaller share of advance business. The Union was in somewhat better case, the first sign that it was to be ahead of the Australasia in reversing the trends which had been so marked for nearly forty years. In New Zealand it could be reasonably satisfied, since its recovery of a larger share of deposits was matched by increase in its proportion of advances. The position in Australia, however, was less good. Its share of deposits had fallen to the lowest levels in a century, and it had not maintained its place in advances.

These trends were to some extent masked by the movement of absolute figures. With the onset of depression, the Union's total advances rose sharply by more than £2,000,000, to fall back again in the next year; thereafter they fluctuated around £32,000,000, until there was a moderate rise over the two years immediately before the outbreak of war. The Australasia's showed very similar movements. The Union's deposits fell sharply in 1930, but over the next two years recovered fully, while those of the Australasia, after a small fall in 1930, rose steadily with minor fluctuations, until the war. But there was small comfort in the maintenance or modest increase in absolute figures in the face of the clear threat of further decline in relative position. In order of size the two banks were getting uncomfortably close to the bottom of the list.

The Union's moderate gains involved extensive opening of branches. Between 1929 and 1939 the Australasia's branches showed a net increase of only ten, to 247. The Union, on the other hand, raised its total to 268, a net increase of 54, with the attendant increase in salary costs and other expenses.

Dividends throughout the 'thirties were low. From its minimum of 7 per cent in 1932, the Australasia was able to move in small steps to 8 per cent in 1936, at which level the rate held until war forced a fall to 6 per cent in 1942. The Union shareholders fared less well. Their depression minimum was 4 per cent in 1932, with recovery to 7 per cent in 1937, maintained until, in 1942, 6 per cent was adopted for the duration of the war.

Shareholders, in general, took the lower dividends of the 'thirties resignedly, confining themselves to occasional mild grumbles at annual meetings. Once, in 1936, a Union shareholder urged that the directors consider amalgamation with another bank. This must have caused some flutters on the directors' side of the table, for some directors were very privately engaged in informal talks with a small group of the Australasia's in a very tentative discussion of just that move. The chairman rose to the occasion, leaving the grumbler with the impression that he had proposed an original idea which was not practicable. The actual discussions, in fact, came to nothing, not having gone beyond the most preliminary stage.

In other more sedate ways there were signs that the two Banks were bestirring themselves. The Union became active with the appointment of Goode. During 1936-38 Healy showed that acute depression and its troubles had not completely stifled his earlier promise as a builder. He was cautious in seeking advance expansion and London during these years prompted him repeatedly, advising him when he might draw funds from London and stressing that the directors wanted new business. In 1936, for example, they were prepared to see agricultural and pastoral business further increased—it had risen from 37 per cent in 1927 to 50 per cent in 1935. Healy when so authorised was ready to respond, but, perhaps with memories of the rebukes of 1929-31, unwilling to take the initiative.

He was ready to move in some ways. Suburban branches appeared in 1936-37 to be a means of recapturing deposit business. The Union moved first, but the Australasia quickly followed the lead, although for both the development was confined to Melbourne and Sydney.

In Melbourne the Union increased suburban branches from 9 in 1936 to 16 in 1940, the Australasia from 15 to 20; in Sydney the Union expanded from 7 to 15, the Australasia from 7 to 12. Thereafter war conditions called a halt.

Healy in 1937 proposed the introduction of 'personal loans', that is small advances for the purchase of durable consumer goods, payment of hospital bills and the like, arguing as one of its advantages that it might give the trading banks a better reputation among people of modest means. The directors were favourable but deferred action on hearing that a Commonwealth government committee had been appointed to report on small loans generally. Its conclusion was favourable, though it did not propose any major action to promote such lending. The Australasia accordingly went ahead in 1938, though at first cautiously, and experimentally. Loans were initially confined to Melbourne, in amounts of £50 to £100, with a total limit, imposed by London, of £10,000. Within a few months the limit was raised to £25,000 and then £50,000 and the scheme extended to other States. The civil servants of Canberra proved to be ready borrowers. The Bank was a genuine innovator; no other private trading bank followed the lead until after the war. In 1944 London authorised Healy to extend the practice to New Zealand, where until then no other bank had adopted such business. Again, in 1936, he secured approval for the issue of travellers' cheques, but in this he had been anticipated by three other Australian banks.

The Australasia in 1938 decided to 'modernise' its charter, by seeking a single document which would consolidate all the operative clauses of the original charter and the twelve supplementary charters which had been granted in the course of a century. At the same time it was hoped to clarify various minor provisions which were ill-adapted to the practice of banking in the middle of the twentieth century. Matters reached the stage of a draft presented to the British Treasury but war led to deferment, and, in the event, issue of the charter was delayed until 1943: the original and all supplementary charters were revoked, and replaced by a brief and simply worded document, the practical effect of which was to place the Bank legally in the same position as other companies. Some specific provisions cleared up doubts which had arisen in the past, but these made little actual change. Thus the Bank was formally empowered to engage in banking in the United Kingdom, to lend on the security of real estate, and its residual and inoperative note issue powers were freed of any time limit. More modern doubts were removed, for instance by authorising trustee and executor business.

At the beginning of 1939, the banking situation was clouded in both New Zealand and Australia. For New Zealand it was uncertain whether the balance of payments crisis, which had compelled the introduction of exchange control, presaged the onset of worse economic conditions, while the role of the Reserve Bank was unclear and its impact on the trading banks still to be determined. Australia was relatively less affected by external conditions but the domestic uncertainty was even greater. Banking legislation, intended to be comprehensive and definitive, was bogged down in involved negotiations and manoeuvring between the government, and the Commonwealth and trading banks. For individual banks the course which each should chart for itself must, it seemed, await clarification of these more general issues. For the Union and the Australasia especially, conscious as they were of their need to break from their prison, definition of the right course seemed elusive.

European war in September 1939 rudely dismissed these dilemmas. Initially it appeared that the role of both countries would be, as in 1914-18, the provision of partly equipped expeditionary forces for remote theatres of war and the supply of raw materials, mainly wool and food, which constituted their normal exports. External trade would, it seemed, be disrupted, and channelled through government agencies; there would be the sacrifices and restrictions inherent in participation in distant war. For New Zealand the broad picture remained basically valid, but for Australia the war was to prove very different. In part as a matter of policy, Australia developed a major munitions industry, including advanced engineering work such as aircraft production, which would not have been envisaged a few years earlier. Such participation demanded a much greater transfer of labour and materials to the war sector than was called for in New Zealand, and the restraints on civilian activities became correspondingly more severe.

In the latter months of 1941, expectation of war with Japan brought a new intensity to economic planning, while the reality of Pacific War, which opened with calamitous reversals for Britain and America and the crumbling of Allied defences to the north of Australia, brought Australia virtually into the frontline, and brought to New Zealand a new sense of approaching isolation. The Australian mainland was in February 1942, for the first time in its history, the object of enemy attack, and Australian territory in New Guinea became one of the main theatres of war. Invasion seemed, for some months, to be very near, and its success all too probable.

The response was urgent and comprehensive. There was a great and rapid expansion of the armed forces, a severe curtailment of civilian activities as the share of total resources devoted to war rose sharply, until, for Australia, the proportion exceeded that of most other belligerents and approached that of Britain. Extensive and at times severe rationing, elimination of many forms of peacetime production, severe taxation, partial conscription of labour, a vast network of controls providing for detailed regimentation of the economy—these at high speed transformed the more leisurely programmes of 1939-41. Additional strains were imposed as Australia, and to a lesser extent New Zealand, became the bases for large American forces. Indeed, by the end of 1942 Australian resources were over-committed and as the threat of invasion faded, there was, during 1943, some reversal of the 1942 headlong conversion to a full war economy.

The outbreak of war in 1939 brought increasingly severe restrictions on the freedom of operations of banks. In Britain the two head offices had to conduct operations within the framework of British exchange control, and with a heavy loss of trained staff. The Australasia, for instance, by May 1941 was adjusting itself to having a total head office staff of fourteen males only, supplemented by such women as could be recruited. Work had to be carried on in the conditions imposed by frequent bombing, in which, however, both head offices escaped with quite minor damage.

When war appeared inevitable in August 1939, the two banks shared in general plans for partial evacuation of London. The Australasia, the Union, the E. S. & A. and the Commonwealth Bank, and four other companies joined forces in transferring their London offices to Sandroyd School, at Cobham, Surrey, the school children having been moved to a location deeper inland. The main move was made in the final days of peace, and left only very slender activities in Threadneedle Street and Cornhill, where the head offices had windows barricaded against blast and basements strengthened as air-raid shelters. The Australasia's West End branch was gutted by incendiary bombs in May 1941 and a year later closed because of staff shortage.

Business was conducted from Sandroyd until the buildings were badly damaged by a flying bomb. The incident happened very early on Saturday, 22 July 1944, and there were fortunately no casualties, but the accommodation occupied by the Australasia and the Union was unusable. The Australasia was able to secure space in Warren House nearby, and to reopen on the Monday, but the Union was less fortunate. Preliminary arrangements were made for premises at

Wendover, but, as an emergency arrangement, some staff returned to work in the Cornhill basement with others in the Bank of Adelaide office. These arrangements proved preferable to another move, and the Union remained in London, to which the Australasia returned in June 1945.

Exchange control already existed in New Zealand, and was introduced in Australia as war began, except that import control was not fully implemented for some time. Both countries resorted to control of interest rates, and restricted bank subscriptions to government loans. Restraints on private investments multiplied, while wartime shortages of consumer goods were reinforced by a host of government measures to restrict private spending. Export income, especially from bulk sales by both countries to the United Kingdom, rose sharply, matched by a general rise in employment and incomes. In Australia, particularly, the Commonwealth Bank and the government took a large share in direct finance of war production.

Both banks were therefore soon facing a steady large rise of deposits, not matched by increased opportunities for investment. Goode wrote early in 1941:

> Our liquidity, as you know, is just wonderful at the moment and I am concerned to keep our profit earning capacity fully employed. The opportunity of taking up some of the wheat advances from the Commonwealth Bank was in the nature of a heaven-sent gift and we were glad to avail of it. Unfortunately, the extra 25% we are taking up can only apply to the harvest just completed as the Commonwealth Bank do not wish to disturb the comparatively small balance existing on account of the previous harvest.
>
> Various other ways, also, have been available although neglected in the past, such as underwriting, better investment of our funds in government and quasi-government Loans. This latter being rendered more possible than usual by collecting in the main account in Melbourne, surplus cash holdings at branches. I have always regarded it as totally unnecessary for individual branches to hold stipulated amount of cash because of some old-fashioned rule. These surpluses have aggregated well over half a million.

The position was no better in New Zealand, where in 1943 the Australasia was complaining of its 'large holding of idle funds' and negotiating with the Reserve Bank for some relaxation of restrictions to enable it to earn a profit.

Such rising levels of bank liquidity were a cause of concern to governments increasingly fearful of inflation as pre-war unemployment disappeared. In Australia during the early months of 1941, there were negotiations between banks and government in the course of which, as early as April, directors of both the Australasia and the Union instructed Melbourne that they were prepared to agree to an arrangement by which their wartime increases in deposits would be lent to the government at low rates, just sufficient to maintain pre-war profit levels. Later negotiations concentrated on this principle, although in the event, following a change of government, 'special deposits' were imposed by regulation in November 1941. These regulations provided that banks should comply with the advance policy prescribed by the Commonwealth Bank, and might purchase government or stock exchange securities only with the consent of that bank. A bank was required to lodge on special account with the Commonwealth Bank such of its 'surplus investable funds' as might be specified. Surplus investable funds were defined as the excess of Australian assets over the levels of August 1939. For the trading banks as a whole this amount was then £58,000,000, and immediately £20,000,000 was called into special account; thereafter successive calls were designed to immobilise the major part of each bank's progressive increase in resources. In June 1945 the total stood at £240,000,000.

Associated with 'special deposits' was the policy of restraining bank profits to pre-war levels, achieved largely by the Commonwealth Bank regulating each bank's purchases of government securities, or, for instance, its share of wheat advances. A broadly similar policy was followed in New Zealand, but there, in practice, both the Australasia and the Union found profits difficult to maintain. Both closed several profitless branches, while from the financial year 1941-42, the profit position was eased by abolition of the old arbitrary basis of taxing bank profits. The effect was to reduce income tax on banks by rather over half, although in the long run the government probably gained since the change removed a potent cause for banks, such as the Australasia and the Union, to keep funds in New Zealand at the lowest level consistent with the profitable business available.

Part of Australian government policy to reduce 'non-essential' activities was the 1942 'rationalisation' programme, in which the government sought the co-operation of trade and commercial associations in securing voluntary elimination or reduction of many peacetime activities. Behind the programme was the threat of compulsion, and most schemes evolved by hard bargaining within an industry required legal authority for their effectiveness. Loss of labour by military call-up or otherwise was in most cases the most potent force in compelling agreement to rationalisation, which became in practice largely a matter of reorganising industries depleted of labour.

As applied to banking, the policy concentrated on reduction of the number of competing branches in the same locality. To the Australasia and the Union this was neither a novel nor an unwelcome idea. In October 1941 the Australasia was directing Healy to seek reciprocal closings wherever possible, but he had little success. The Union was of like mind, but the scope for these two banks to act in concert apart from the other banks was limited, confined, indeed, to places in which they were both represented and from which one was happy to withdraw. These earlier moves made both banks receptive to government policy—Healy had even thought the two banks might merge, but his directors brushed this aside as impracticable in wartime. Both Healy and Goode were in March 1942 instructed by letter and cable to produce, promptly, proposals for reciprocal closings between the two banks, and as well to co-operate fully in seeking similar arrangements with others.

Not all banks took the same view. One or two were opposed to the whole scheme, and others proved hard bargainers among themselves. It was therefore late 1942 before the bank rationalisation scheme took shape as a whole. The Australasia's share, for instance, involved the closing of thirty-eight branches and twenty-five of these were closed by the end of the year, the majority by arrangement with the Union.

All banks, of course, had lost staff by voluntary enlistment from the outset, and from late 1941 after war began in the Pacific, by conscription. Wherever possible men who enlisted were replaced by women, although suitable appointees were becoming scarce before rationalisation was mooted. Within Australia the position of the Australasia and the Union had changed by the end of 1942 as shown:

Employees in Australia

	Males	Females	Total
Bank of Australasia			
Outbreak of war	1,108	116	1,224
31 December 1942	685	410	1,095
Union Bank			
Outbreak of war	1,191	89	1,280
31 December 1942	710	371	1,081

Partly in consequence of the rationalisation scheme, and partly as the most effective way of enforcing it, the Directorate of Manpower, in February 1943, prescribed that the total male staff of each bank must be reduced to 55 per cent of its pre-war total, and total staff, including women, to 90 per cent. The Australasia and the Union were already close to these figures. By the end of the year all banks, except the Queensland National, had complied; the Australasia for example, had 51.3 per cent of its pre-war male and 83.6 per cent of its total pre-war staff. Since nearly two-thirds (681 out of 1,108) of pre-war male staff were then in the Services, these figures meant that a substantial proportion of males, as well as most women employed by this time, were young and inexperienced.

New Zealand had no rationalisation scheme, and labour shortage was less acute. There, by way of illustration, the Australasia had, at the end of 1943, 61.7 per cent of its pre-war male and 91.1 per cent of its total pre-war staff. After this date pressure on labour supplies gradually eased.

Such extensive employment of women provoked, in 1943, demands for pension arrangements for them. The Union had had a limited contributory scheme from the mid-'thirties, but the Australasia had depended on pensions, decided in each individual case, paid wholly by the Bank. There was, not unnaturally, reluctance on the part of most banks in Australia and New Zealand to commit themselves to permanent schemes during a war in which it was assumed much employment of women was temporary. Yet one by one the banks had yielded—the Australasia last of all. In practice, for most women such pension arrangements proved to be a form of deferred pay. A high proportion did not wish to continue permanently in employment, while of necessity as permanent officers returned from the Services, girls occupying their posts temporarily were dismissed.

The severe constraints of war on the independent initiative of the banks both in Australia and New Zealand are reflected in broad balance sheet figures. For the Australasia total deposits rose from £40,900,000 in October 1939 to £69,400,000 in October 1945. But total advances fell from £36,500,000 to £27,500,000. On the other hand holdings of government securities had risen from £11,500,000 to £17,700,000, while special deposits with the Commonwealth Bank, non-existent in 1939, were £18,900,000. Cash (coin, notes and cash balances) had risen from £4,700,000 to £10,200,000. Not surprisingly, dividends for all but the first year of war were down to 6 per cent.

The Union's position was similar. Deposits, £38,700,000 in August 1939 were over £70,000,000 six years later, and cash had risen from £5,800,000 to £11,300,000. Advances had declined from £35,500,000 to £28,200,000. Government securities had risen from £4,000,000 to £13,000,000, and special deposits at the end of the war were

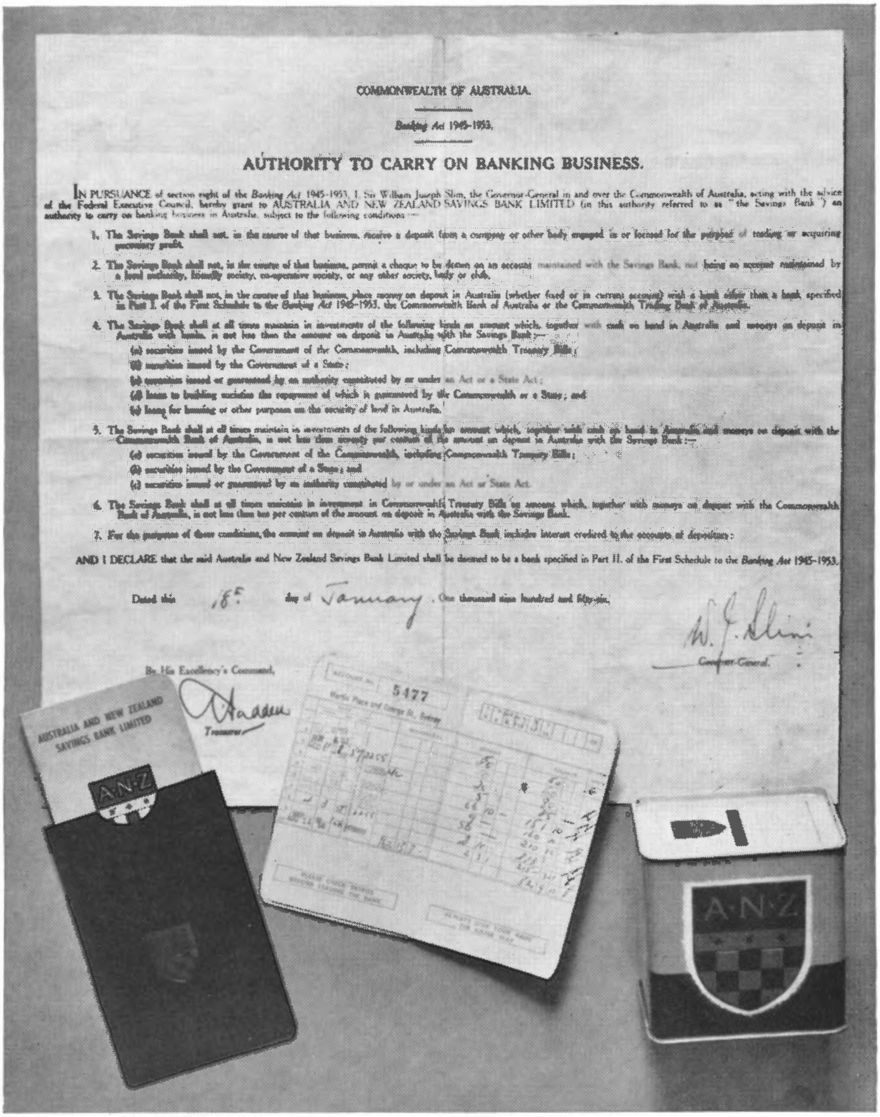
£19,400,000. Dividends were a little worse than the Australasia's, falling to 6 per cent for the years 1942-45. For both banks the figures show how great a proportion of resources were diverted to government purposes, the greater part as special deposits, as to the amount of which there was no choice and on which returns were low.

As the war drew to its close both banks were engaged in a scrutiny of their operations with a view to development when peace came. Loan policy was examined, and the Australasia, for instance, extended small loans to New Zealand, and determined, reversing a decision of 1937, that it would enter the finance of post-war housing by seeking the business of co-operative building societies.

There was an echo from the past when the Union finally wound up its note issue. By 1946 there still remained nominally in circulation £5,008 of Victorian issues and £2,460 of Western Australian. The former was treated as no longer in existence, but the latter was subject to a continuing 2 per cent a year Western Australian tax, and that government had to be persuaded to accept a lump sum, which it set at twenty-five years' tax. In other such ways action was taken to eliminate avoidable costs.

Both banks in 1944 decided to abandon the old procedure by which securities held by the bank on behalf of customers were registered in the names of senior executives. The volume of such business had expanded greatly, and the old method was cumbersome and costly when there were staff changes. The Union moved first to create Union Bank of Australia Nominees Limited, with a capital of one hundred £1 shares; the Australasia plan differed only in its capital being £500.

There was, too, anxious discussion of the evident risk that past caution and conservatism would prejudice the banks in relation to the flow of oversea capital into Australia after the war. But these reforms and examination of past errors were clearly of subordinate significance in relation to the looming problems of the future. Australia, by legislation in 1945, continued into peace wartime banking controls, while New Zealand nationalised the Bank of New Zealand. That these were part of the political climate of the time and not temporary products of local politics was indicated by the passing into public ownership, at the same time, of the Bank of France and the Bank of England. Australia had undergone a minor industrial revolution during the war, and beyond the immediate demands of 'reconstruction' it was clear that the financial needs of Australian industry would call both for enterprise and large resources. Both banks could hope to be free, as they had not been for sixteen years, to regain their



On 18 January 1956 Field Marshal Sir William Slim as Governor-General signed the authority which inaugurated the Australia and New Zealand Savings Bank Limited. The convenient small passbook is shown with the Bank's 'money-box', a time-honoured adjunct of the savings account.

The Bank of Australasia, corner of Queen and Collins Streets, Melbourne, floodlit in 1938, the centenary year of the Branch. Erected in 1876 and originally of two stories, the building was remodelled in 1931 and three floors were added. It is now the headquarters for Australia and New Zealand of A.N.Z. Bank.

A.N.Z.'s Canberra branch, completed in 1959, is a notable example of contemporary design.

places in the Australian and New Zealand banking structures. The freedom would be within new, primarily political, limits still to be defined and to claim its opportunities would demand far more than minor improvements and liberalising of policies within old frameworks. Already before the war ended, at the highest level in both banks, thinking was on similar lines: the situation required movement, at one stroke, from near the bottom rank in magnitude of resources to a position near the top, and that was only attainable by amalgamation.

CHAPTER 16

JOURNEY'S END — AND BEGINNING

As part of their general thinking about a post-war world whose shape was still unclear, several Australian banks were, during the latter part of the 1939-45 war, exploring possibilities of amalgamation. Indeed, for more than one, exploration of a tentative sort had occurred before the war; as has been seen, the Australasia and the Union had had some general discussion on the subject in the 'thirties, although those talks were of a very preliminary kind and restricted to a few directors on each side. With the outbreak of war amalgamations and mergers were necessarily put aside, but interest revived again after 1943. Both the Australasia and the Union were approached, but neither was prepared to consider transferring its business to an Australian bank, so that each almost automatically thought of the other as a possible partner.

Several interrelated factors explained this general interest in growth by amalgamation. Australian industry was growing rapidly, and major wartime developments would clearly continue in peacetime. Most of the banks were therefore facing the immediate prospect of a series of unwelcome choices: to embark an unduly high proportion of resources in the fortunes of a single customer, or to turn good business away. This issue was sharpened by the fact that the Bank of New South Wales had, during the previous twenty years, grown to more than double the size of its nearest competitors. The next seven banks in order of size showed no great variation in magnitude, but were all more or less keenly aware of the many advantages conferred by its size on the Bank of New South Wales, not only in ability to handle the very large accounts which the biggest of Australian business enterprises could now offer, but in capacity to carry the widening ranges of services and of oversea financial dealings which customers were certain to want when peace came.

A simple measure of relative size is balance sheet totals for 1944 (various balancing dates):

Bank	£m
Bank of New South Wales	201.7
Commercial Banking Company of Sydney	91.1
National Bank of Australasia	84.0

Union Bank of Australia	83.0
Bank of Australasia	79.7
Bank of New Zealand	71.0
English, Scottish & Australian Bank	70.2
Commercial Bank of Australia	69.5
Queensland National Bank	23.3
Bank of Adelaide	14.7

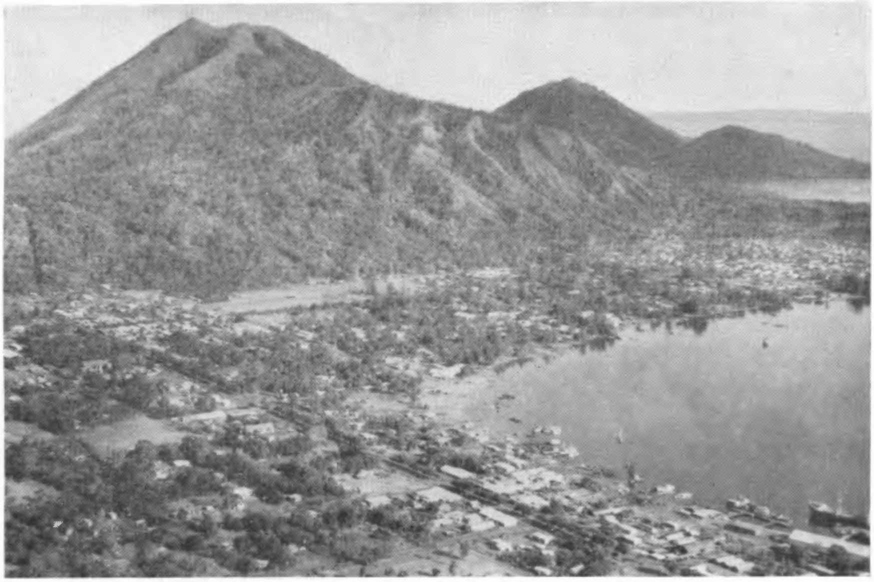
No banker considering such figures could fail to conclude that, for any other bank, to attain size comparable with that of the Bank of New South Wales by building from within would be a 'long haul' of a protracted and arduous kind; amalgamation was a quicker and surer road to the same end.

For the Australasia and the Union the moral was sharply clear. Each had recognised since the 'twenties that it had lost the leading place which had been its by right all through the nineteenth century. Some comfort might be taken in the fact that they were not a great way behind the second and third banks on the list, but it was also true that they were not far ahead of banks lower on the list, except for the Queensland National and the Adelaide, the size of each of which was explained by its geographical area of operations. With other amalgamations being canvassed, and recognising that other banks of similar size would be equally concerned to improve their relative positions, it was possible to imagine the worst—a somewhat reduced list of banks in which the Australasia and the Union might occupy the last places.

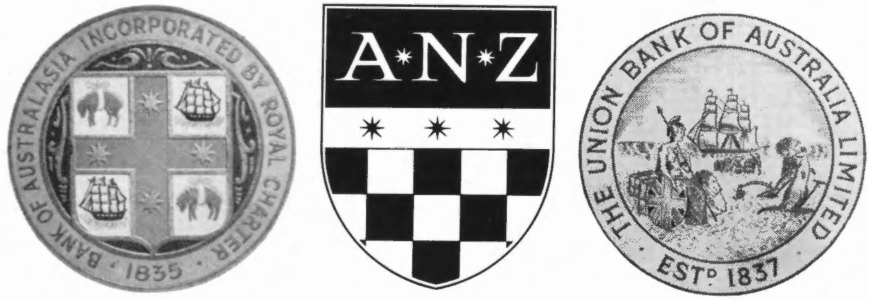
These considerations were emphasised by the banking legislation introduced in March 1945 by the Australian Labour government. One bill proposed to continue into peacetime the wartime banking controls, notably the special account system by which all or part of a bank's increase in resources might be 'frozen' in a special central bank deposit. However appropriate as an instrument of wartime finance, or as a weapon against post-war inflation, this device clearly suggested limitations on aggressive expansion by any bank. The other bill modified the constitution of the Commonwealth Bank, notably by abolishing the board which was generally regarded as a conservative influence. More important, the Commonwealth Bank's trading department was now to be charged with the duty of active competition with the private banks, by contrast with the long period during which, as a matter of government policy, the Bank had not actively sought business at the expense of the private banks. Evidently peace would bring another major competitor, with aggressive policies. (Banker critics of the legislation were not to know that nationalisation of the private banks was narrowly rejected as an alternative, and mainly by the influence of the man who was to appear their arch-enemy, the Australian Prime Minister, J. B. Chifley. His belief in the ultimate desirability of nationalisation was tempered by a conviction that it was too big a task to undertake lightly on the eve of peace.) The bills were certain to be passed (they became operative in August 1945) and their introduction was the immediate occasion for serious discussion of amalgamation in the following months by the Australasia and, to a lesser extent, the Union.

The legislation was, however, only the immediate occasion. As a possible course, amalgamation was not a new idea, and by 1945 clearly appeared as, in principle, the best practicable solution to the situation in which each bank found itself, the most efficient corrective to the trends which had been a matter of increasing concern for nearly twenty years. Final initiative came from the Australasia, after domestic discussions among directors and the Superintendent, A. R. L. Wiltshire, who had succeeded Healy in 1944. For the purpose of conferences on the future of the Bank, and of the amalgamation suggestion in particular, he visited London in mid-1945. Wiltshire was an enthusiastic supporter of the proposal, and it took the directors little time to adopt the recommendation of a sub-committee 'in the interests of the Bank that the Court should take active steps to arrange the fusion of this Bank and the Union Bank of Australia Limited'. The Union Board had been thinking along similar lines and responded favourably. Thereafter, though the way was craggy and the obstacles daunting, the story was that of the carrying through of the main decision.

There were good reasons why each Bank, accepting the need for amalgamation, should find the other the most welcome partner. Each was agreed on the need for an amalgamation; each was an English corporation, with a London head office and a majority of English shareholders. The scale of business was much the same in both banks, and conducted in broadly similar ways, but the Union's strength in pastoral business complemented the commercial and industrial emphasis of the Australasia. There was little overlap in branches—about seventy places out of a total of 420. There was, too, more than a century of friendly co-operation, within competition, behind the attraction of each towards the other. Indeed the remarkable similarity in size of the two institutions after more than a century was the product of their having, over that whole period, gone through much the same experiences and responded to them in much the same way,



Rabaul, New Guinea. The major peak is The Mother, with, to the right, one of the two Daughters. To the right again is the quiescent volcano Matupi. The branch of Australia and New Zealand Bank, near the centre of the picture, is not clearly identifiable, being, as the lower picture shows, a small building amid tropical growth.



The badges used by the Australasia, the Union and A.N.Z. Banks. The A.N.Z. Bank symbol is properly reproduced in blue and gold as shown on the cover of this book, the chequerboard being intended to symbolize the accounting functions of banking and the formalized gold stars to suggest the Southern Cross. The design is perpetuated in the Coat of Arms appearing as the frontispiece.

The seals of the three Banks show how that of A.N.Z. unites the essential features of those of the two old Banks.

so that, as has been seen here, the separate stories of each can be told most easily by telling them together.

Moreover each bank felt that the range of possible partners was limited. Under the projected 1945 legislation an amalgamation would require official consent in Australia, and if the proposed fusion were with a bank domiciled in Australia, it seemed virtually certain that consent would be refused unless domicile and control of the amalgamated institution were in Australia—that is the English bank was absorbed by the Australian. The English monetary authorities would not welcome this, and might, for instance through capital issues controls still in force, prevent it. Each Bank knew that the other was considering some form of amalgamation, and must therefore recognise that, if either found a partner in some third bank, the choices open to the other would be narrow indeed; further, since it was well known that several Australian banks were seeking partners, delay could only accentuate the difficulties. For each of the Australasia and the Union, therefore, it was clear that the other was the most suitable partner, and that negotiations could proceed on a basis of equality between the two institutions.

From the outset this equality was not questioned and its acceptance substantially simplified what, even so, remained an exceedingly complex problem. The total business of each bank was of much the same size. Shares in the Australasia were £5 paid, with £5 reserve liability per share; those of the Union were £5 paid, with £10 reserve liability. The difference in reserve liability was of small moment, since in each case the liability only became operative in the highly improbable event of the Bank being liquidated and a deficiency emerging. On a test of earning power, Union shares were slightly more valuable, but an assets-value test reversed this. The stock exchange values of the period were nearly the same. In short, whatever precise form amalgamation took, the shares in each Bank would be treated as of equal value; there would be no problems of convincing shareholders of one Bank of the justice of lower valuation of their shares.

At this stage (that is, until August 1947) however, all plans were based on the assumption that amalgamation would be achieved by the Australasia taking over the business of the Union. That was the form of the original initiative from the Australasia. The taking over of the business of one by the other seemed to be the simplest procedure, and considerable importance was attached to retaining the Australasia's Charter, although the reasons for this, other than prestige, do not seem to have been closely examined; nineteenth century criticisms of the Charter had been forgotten.

Given treaty on a basis of equality and acceptance of the Australasia absorbing the Union, it seemed that the main problems to be solved related to taxation and stamp duties. Any scheme had to be designed with an eye to the company law of Britain, the income tax laws of Britain, Australia and New Zealand, and the stamp duties of Britain, New Zealand and each of the six Australian States. Stamp duties would, in any event, be heavy, but purely formal differences in the transactions involved could make a great difference to amounts.

The structure and restrictions of company and tax law in any country are inevitably dictated both by the increasing complexity of corporate organisation and of business transactions, and by the need to control the unscrupulous, and such laws grow in complexity by accretions designed to checkmate the ingenuity of the dishonest, who devise ways of defeating the law while remaining technically within its letter. Even within a single country the result can at times impose the penalty of heavier taxation on even the most scrupulous, not because of the essential substance of a transaction, but because of an unwary adoption of one of several alternatives differing only in outward form. When there was involved an operation which had to comply with the requirements of nine different legal systems, which had to maintain, both in fact and in appearance, equality of treatment of shareholders in two institutions, in which the costs in taxes and stamp duties must not be too severe to outweigh the real benefits nor appear to shareholders as too high a price, and which had to be acceptable on other tests to three distinct monetary authorities and three national governments—then indeed, the task of devising the best method of amalgamation could seem, and was, formidable.

Clearly much expert scrutiny and legal investigation would be necessary, and impressive teams of British and Australian advisers were set to work. Much of their task was of an unexciting kind concerned with complex points of law, especially that relating to stamp duty. But there were moments when the tedious scrutiny of statutes and regulations had its human relief. On one occasion late in 1950, a large weekend conference of advisers and officers, gathered together in Sydney, was bogged down in an attempt to meet an Australian requirement. The justice of the requirement was not in dispute; the means for complying with it were elusive. Arrangements were being made to charter a plane to fly the whole group to Canberra for consultation with government officials. At the last moment one of the bank's legal advisers was located on the golf course and summoned to join the expedition; in a flash of inspiration he proposed a solution, unorthodox but effective, which satisfied everyone, and, by telephone, was accepted by government officials. The plane charter was cancelled, the conference resumed its tedious labour, and the future judge went back to his golf. On another occasion Australian taxation department views on a special point suddenly appeared to be needed urgently. It was Saturday afternoon, and use of the telephone disclosed that the official required was not in Canberra but in Melbourne. He was finally located at a cricket match, and there, in the sunshine placidly watching the play, interspersing nice points of law with comments on nice points of cricket, he and a bank representative reached a solution.

Prior to August 1947 discussion related to four plans, distinguished, like their successors and variants of them, by letters, all four concerned with different ways by which the Australasia might take over the Union. Full details of these, and of the various tax and other problems involved would be tedious, but the main points of each were clear enough. One contemplated that the Union would liquidate, and its liquidator would dispose of the whole undertaking of the Union in exchange for Australasia shares. Another plan was based on the idea that the Union should, temporarily, become a holding company, selling its assets to the Australasia for shares in that bank, prior to itself going into liquidation. A third was based on the possibility of the Australasia buying all the shares in the Union in exchange for Australasia shares, and subsequently taking over the Union's business. A fourth provided for the Union selling its business to the Australasia in exchange for shares, and continuing permanently as a holding company.

Each of these had its own difficulties. The last, for example, would have meant that the Union, as a company distinct from individual shareholders, would have held a large block, roughly half, of the total Australasia shares, and the votes carried by these shares would necessarily be cast on any occasion as a block. The Union, as a holding company, could conceivably have held effective control of the Australasia, although the general intention, at this stage, was that the Australasia should take over the Union. Again, in certain circumstances, under at least one of these plans, Union shareholders might be deemed to have received a 'notional' dividend in the course of the winding up of the Union Bank. As one counsel put it, with some exaggeration, an exchange of shares could conceivably lead to a century's accumulation of reserves being treated as taxable income of a single year. Whatever plan was adopted, stamp duties would be extremely heavy, but the exact form of amalgamation could make a great deal of difference to the duties payable on sales or transfers of shares, registration of changes in ownership of branch premises and of the multitude of securities involved.

For months, both in England and Australia, advisers explored such problems, and groups in each country exchanged views and educated each other as to the niceties of legal provisions and procedures in the nine jurisdictions involved. But long before any agreed solution to such problems was in sight it had emerged that, in the post-war world, official approval, in each of Britain, Australia and New Zealand, would be essential, and it would obviously be futile to proceed with difficult and expensive investigations if any one of those consents would be withheld. Hence, in late 1946, in the greatest secrecy, the participants sought to ascertain the attitude of the three monetary authorities concerned.

Secrecy had thus far been well maintained, and was not endangered by preliminary talks with the Governor of the Bank of England, who saw no difficulty in what was, from a British point of view, simply an amalgamation of two English banks. But the situation was far different in Australia and New Zealand. Amalgamations had been canvassed amongst various banks, and only a hint of this one would be sufficient. Any marked association of senior representatives of the two Banks was likely to start speculation. Hence, in the first approach to the Commonwealth Bank, separate interviews were arranged; while in Wellington, a smaller city, it was deemed unwise for the two general managers even to be in the city simultaneously.

The Governor of the Commonwealth Bank was discouraging; he warned that an amalgamation was likely to revive the issue of nationisation, which had recently been pressed by a strong section of the Labour Party. Anxious discussion and exchange of cables followed this interview, for it was possible to draw the conclusion that the Banks had been warned of refusal of consent. This was a complicated question. The Act of 1945 prescribed that the written consent of the Treasurer was required for any amalgamation or reconstruction of a bank operating in Australia, wherever its headquarters might be. The outcome of discussion was a determination to consult the Governor of the Reserve Bank of New Zealand. If his reaction was similar to that of the Commonwealth Bank, the matter could be reviewed. If he were favourable, all three central banks, English, Australian and New Zealand, should be asked formally for consents. A definite decision would be obtained, and if this were adverse it would at least be clear that other amalgamations could not place the two banks in a worse competitive position. (It does not seem that anyone was very seriously impressed by the suggestion that amalgamation would provoke nationalisation.)

The New Zealand report was entirely favourable, in part no doubt because recent elections had left Labour without a clear majority. Accordingly in December, formal applications were made in both Australia and New Zealand for approval of the amalgamation. The New Zealand reply was prompt, and favourable; the Australian was delayed for a month because Chifley felt it was necessary to consult the Cabinet (omitting the names of the banks concerned). In due course consent was given, subject to two conditions: that there would be no increase in subscribed capital, and that the restraints on bank profits operating in Australia would not be infringed.

These conditions were of little importance, except as reflecting the suspicion of financial institutions held by many Labour men. More important was the question of name of the proposed new bank. The one finally selected was Australasia and Union Bank, chosen mainly because it preserved the names of the two original institutions, and maintained equality between them. An obvious alternative, Union Bank of Australasia, would mean the Union overshadowed the Australasia. It took some time to convince Australian authorities that a new name for the Australasia did not legally require a new licence.

Matters had now reached a stage when some public announcement was likely to be inescapable. The total number of people in three countries who knew of the project was too large for secrecy to remain much longer. At the end of January 1947 active trading in shares of the two Banks developed in London. Without waiting to find explanations, the two Boards agreed that they must protect their shareholders by a public announcement of the scheme. This was made simultaneously in the three countries concerned, on 21 February.

It was a bold move, for much still remained to be done. Details of the way in which the Australasia would take over the Union were still to be worked out, and, in particular, legal advisers were still debating whether it was possible to avoid a heavy liability for income tax. Yet, in the event, the public announcement was of critical importance. When it was made, no one could have foreseen that four weary years of crisis, frustration and delay were to pass before the two banks merged. Many times those whose task it was to find solutions must have been ready to abandon the project. Two things made this impossible. One was the public announcement, the other the steadfast conviction of a key group of directors in each Bank that the merging of the two was essential.

Point was given to this belief by the news in March 1947 that the National Bank of Australasia was absorbing the Queensland National Bank. The latter was relatively small, but its absorption gave the National Bank great strength in Queensland. There were rumours, which had some solid foundation, of other amalgamation moves. Accordingly, examination of the various plans for merging, the original four and variants, was intensified, and some progress had been made when, in August 1947, Chifley as Prime Minister made the startling announcement that the Australian Government proposed to legislate immediately to nationalise all non-government banking in Australia. All thought of amalgamation had to be shelved.

Chifley's announcement had little to do with the proposed Australasia-Union merger, or the National Bank's absorption of the Queensland National (which was virtually completed). Whether accurately or not, he was reported as welcoming amalgamations on the grounds that they would simplify ultimate nationalisation; this would be a sensible view for one who favoured nationalisation. The nationalisation decision, however, had other roots, and a more rational explanation.

Bank nationalisation had been official Labour Party policy for many years, but not a live issue of current politics. The Royal Commission on Banking of 1936 had included Chifley as a member, and he had attached to the Report a dissenting memorandum in favour of nationalisation. During the war, under a Labour government in which Chifley was Treasurer, an effective system of banking control had been developed, and it was, in essentials, this system which the 1945 legislation continued on a permanent basis. A sector of the Labour Party had pressed for immediate nationalisation rather than the strong central bank control which the 1945 legislation was designed to implement, and had been close to success.

That legislation included a provision, to operate after proclamation, empowering the government to require that all government banking, including that of local authorities, should be conducted by the Commonwealth Bank, and in March 1947 new and intense controversy was touched off by announcement of the Government's intention to implement this policy. A test case relating to the City of Melbourne went to the Australian High Court which, in August, by majority declared the relevant section (number 48) of the Banking

Act to be invalid. Speculation as to the government's next step was cut short by a curt announcement by Chifley three days after the Court decision: immediate action would be taken to nationalise all private banking in Australia.

A major factor in this decision was the belief, widely held outside as well as inside the Labour Party, that the private banks planned a succession of challenges to the 1945 legislation. Whether this was so or not scarcely mattered—there was some bourbonism among a section of Australian banking whose less cautious statements lent support to the view—but what did matter was the patently genuine conviction of Chifley and other Labour men that no effective central banking control would be accepted by the trading banks. To Chifley, especially, after his strong stand against the left wing of his own party, attempting to persuade them to strong control rather than nationalisation, there seemed no further reason to compromise on a policy in the ultimate rightness of which he himself believed.

Legislation was rapidly drafted in the midst of a crescendo of intense controversy, in which of necessity all the banks took an active part. Throughout their careers the Australasia and the Union had always tended to take the view that they would co-operate with other banks in matters concerning the general interest of banking, but, unlike some Australian banks, sought to hold aloof from association with political parties. But nationalisation was an issue of life or death, and as the campaign developed such nice distinctions became somewhat academic. In any major political campaign those whose interests are primarily involved are apt to regret their inability to silence or disown some of their champions. In the event, the part of the banks in defending their own existence, and still more that of any one bank, was a part only of the torrent of rational argument and confused abuse poured on the government's proposal. In the political field the non-Labour parties were naturally in the van, as much by conviction and policy as because the issue offered an ideal opportunity to make the government's position untenable at the next election. Leading newspapers opened their editorial and correspondence columns—Labour controlled no newspaper of 'national' status, indeed no widely-read newspaper. The efforts of the banks themselves, individually and collectively, were reinforced by the formally separate but welcome campaign of the majority of bank officers who were vigorously hostile to legislation which clearly seemed to threaten their future prospects, or even continued employment, in the occupation of their choice. Public meetings, radio broadcasts, pamphlets, literature mailed to bank customers, 'information desks' in banking chambers—from all possible sources the campaign was conducted, probably the most intense and concentrated campaign ever experienced in Australia.

The government side was far less ably presented. Labour was handicapped in a variety of ways. It had not access to some of the main avenues for forming or informing public opinion, and it was not completely united on the political wisdom of the decision. Moreover, although bank nationalisation had long been officially party policy, there was little evidence that much thought had been devoted to the way in which a nationalised system would need to operate. Chifley's announcement, therefore, found the party unready, and it could not be said that it ever produced a convincing statement on some of the pertinent issues raised, such as the means for measuring and ensuring efficiency in a monolithic institution, or the principles which should control lending policy. Indeed, the best-reasoned analysis of such questions by supporters of the legislation came from outside the party, in a pamphlet from the small and shortlived Fabian Society of New South Wales. Labour argument tended to take the form of criticism of the record of the private banks, and especially of their resistance to the strengthening of the Commonwealth Bank as a central bank. The latter type of argument especially was prejudiced by the existence of high boom conditions, in which many even of those normally supporting Labour were not single-minded in their acceptance of the monetary and other measures which comprised Chifley's anti-inflation policy.

For the immediate purpose, it was less necessary for the government to argue its case in public, because Labour had a secure majority in both Houses, and the legislation was passed without a hitch. Only some of its main provisions need be summarized here. Trading banks with a majority of Australian shares were to be taken over by vesting the ownership of shares in the Commonwealth, while banks of non-Australian domicile were to have their Australian assets and liabilities taken over—which would, for example, have left the Australasia and the Union in existence, and retaining United Kingdom and New Zealand business. Provision was made for a bank to negotiate a voluntary sale of its business to the Commonwealth, on terms which appeared more generous than those which would obtain if compulsion were applied. To protect shareholders against a slump in share values, the Commonwealth Bank was authorised to buy any bank shares offered, at the price ruling when nationalisation was announced. This caused some anxious discussion in several banks who feared that if shareholders rushed to accept such prices a situ-

Photograph: Eric de Maré

The head office, Cornhill, London, of Australia and New Zealand Bank in 1960. That part of the frontage to the left of the Bank's name contains the banking chamber, and is the former head office of the Union Bank. Further to the left down Cornhill is Finch Lane, at the other end of which, where it runs into Threadneedle Street, was the head office of the Bank of Australasia.

ation might arise in which the Commonwealth Bank held a controlling interest. However the volume of shares sold proved small, and indeed, for some banks, market prices went above those the Commonwealth Bank was authorised to pay.

Both the Australasia and the Union considered the voluntary sale provisions which, it appeared, could have given very favourable treatment to the English banks who were in a strong position to negotiate; they had reason to believe that in a voluntary sale they could secure at least twenty per cent above the market value of their shares. But in both cases the temptation was summarily rejected, and both gave full support to the constitutional challenge which, from the outset, it was everywhere recognised that the legislation must face. Protracted hearings before the Australian High Court, in which the States of Victoria, South Australia and Western Australia joined the banks, culminated in judgments in August 1948, declaring vital sections of the legislation invalid. Judges of the High Court might, and normally did, exercise the right to give individual judgments, and the result in this case was an exceedingly complex set of judgments, with varying majorities against various sections, and often divergent reasons for the same conclusion. Some sections were upheld. It was at least plausible to argue that shrewd redrafting might have produced a new version meeting most of the objections, but the issue never arose, for the government promptly announced its intention to appeal to the Privy Council.

That body, in July 1949, gave an adverse decision, and with the defeat of the Government soon after, nationalisation was, for the time, a dead issue. (The judgments, of course, related to a specific form of nationalisation, not the principle, and indeed that of the Privy Council was, technically, limited to deciding that there was no right of appeal without a certificate from the High Court of Australia. The subsequent whittling away of important parts of the 1945 legislation probably ensures that the issue will revive in some future crisis.) For the Australasia and the Union the central fact was that, relieved of the threat of expropriation, they could proceed with amalgamation planning.

Discussions had, indeed, already been revived before the High Court decision was announced, and proceeded freely after that. But it was by now apparent that an entirely new basis must be sought. Hitherto absorption in some way of the Union by the Australasia had been accepted, partly because of the importance attached to the Charter, and partly because absorption of one by the other had been the normal form of British bank amalgamations. The initiative from the Australasia had proposed absorption and early explorations had been concerned with devising some form by which that result could be achieved economically. But it was apparent that any procedure so far considered would be expensive, and each particular proposal presented difficulties of its own. Most important, however, was the realisation of mounting resistance among Union staff to absorption by the Australasia.

That resistance was not to the amalgamation of the two Banks, but to the form which involved the Australasia taking over and the Union disappearing. The attitude of leading Union executives was understandable. The Union had experienced a period of stagnation, but under the leadership of A. E. B. Goode who became general manager in 1940, and others such as W. A. Kenny whose last post was assistant general manager, the Union was surging ahead. To such men a proposal to hand over a revitalised business must have seemed destruction of their own achievement.

What was unexpected was that the doubts and hesitations of senior executives were matched by unwillingness of even junior staff to see the Union disappear. Self interest had little to do with this feeling, for, from the outset, the staffs of both Banks had been given unqualified guarantees that no one would lose in pay, pension, security of employment or prospects of promotion. Indeed, for other than senior head office staff, the size of the amalgamated bank obviously suggested greater opportunity for advancement. It says much for an institution that even relatively junior staff should have so identified themselves with it that their loyalty should have been a major factor in complete recasting of the form of amalgamation.

Accordingly a joint committee of the two groups of directors turned to considering new approaches, which were based on the formation of a new bank into which both the Australasia and the Union would be merged on terms of both real and formal equality. From this time on, 'merger' replaced 'amalgamation' as the preferred word describing the objective, although it was not formally selected until near the end of planning. It was a development in detail of the schemes for a new bank, with liquidation of the Australasia and the Union, which became the merger.

During 1950 the details of this scheme were finally settled upon, after protracted examination of various technical legal and tax questions. By the beginning of December assurances of consents had been obtained from the British, Australian and New Zealand authorities, and in January 1951 the terms of the definite proposal were circulated to shareholders.

The scheme provided for the registration under the English Companies Act of a new company, Australia and New Zealand Bank Limited. Much thought had gone to this name, and to its substitution for the original 'Australasia and Union Bank'. It had the advantage of emphasising equality, in that no part of the name of either old bank appeared, and it did embody the names of the two countries in which operations were carried on. (This point was to prove valuable in Europe in relation to the great development of the Bank's foreign exchange operations after 1951.) The introduction of 'New Zealand' was recognition of the feeling in that country against the word 'Australasia'; when the Bank of Australasia was originally formed the word had a loose connotation, well-suited to the expansive original plans which contemplated some branches in Asia, but modern Australian usage, by which Australasia meant Australia and New Zealand, was unwelcome to New Zealanders as implying that their country was an unimportant appendage of Australia. There was point, too, in emphasising that New Zealand business had come to be a much larger part of the joint business than formerly, and intentions were to develop it further. The chosen title had incidental advantages. Alphabetical accident placed it at the head of any list of Australian banks, while the official abbreviation 'A. N. Z. Bank' was adapted to fluent spoken use. (The definite article is no part of the Bank's title, and the Bank has always insisted that, in the abbreviation, stops after the letters are essential; the purpose is to prevent any popular usage of 'Anzac Bank', Anzac being a word with emotional associations bound up with the war of 1914-18.)

The new Bank was to have a capital of £17,000,000 sterling, in shares of £2 each, issued at par as £1 paid. (The Australasia had a paid up capital of £4,500,000, the Union of £4,000,000; the capital arrangements preserved the total.) The uncalled capital was immediately to be converted into a reserve liability to be called only in the event of the Bank being wound up, thus preserving the reserve liability principle of the old Banks. Australasia shareholders, whose shares were £5 paid with £5 reserve liability, would receive for each share five shares in A. N. Z. Bank, while Union shareholders (shares also £5 paid) would similarly receive five shares for one. Completion of these share exchanges would leave A. N. Z. Bank as sole shareholder in the Australasia and the Union, which would cease to operate, transfer their assets and liabilities to the new Bank, and in due course be wound up. For the scheme to operate under the British Companies Act of 1948 it was necessary that it be approved in the case of each Bank by a numerical majority of shareholders and by holders of at least seventy-five per cent by value of the shares; it was also necessary that the Bank of Australasia should register under the Companies Act.

On 16 February 1951 shareholders' meetings to vote upon the scheme were held in London, with results that by then were a foregone conclusion. At the Australasia meeting one unimportant question was asked before the voting; it then appeared that, out of 4,958 shareholders holding 567,948 shares who voted, only 23 holders of 1,976 shares voted against the scheme. At the Union meeting there was no discussion, and the voting was similar: 4,334 holders of 496,850 shares voted, only 28 holders of 2,046 shares being opposed.

Thereafter the formal proceedings required to implement the scheme ran smoothly. An order of the English High Court sanctioning the scheme was essential, and the hearing was approached with some trepidation since any delay would have imperilled a highly complicated time-table; the judge might have wanted to hear argument on and to take time to consider some nice points of company law which could prove to be involved, and the case was set down for the last company day of the law term. But a brief hearing yielded the necessary orders, with no comment from the judge other than a compliment on the ingenuity with which British company law and the tax laws of nine jurisdictions were reconciled. The Australasia proceeded to register under the Companies Act, becoming, from May 1951, the Bank of Australasia Limited. For practical purposes this was the end of the Charter under which the Australasia had commenced business in 1835. Final liquidation of the two old banks was expected to occupy a number of years, which could have the advantage that no newly-created institution could exploit names which had accumulated so much goodwill. Complete abandonment of the Charter was, legally, part of the terminal stages of winding up.

Finally, on 29 September 1951, there was held in London a series of brief meetings the main purpose of which was to pass resolutions for the winding up of the two old banks, and to authorise Australia and New Zealand Bank to take possession of their assets. A senior officer, thinking back over the six years' hard work and anxious discussion of the great change now finally consummated by these brief proceedings, described them as 'extremely formal and rather hollow'. Their effect, however, was that at noon the A. N. Z. Bank Board could meet briefly, in full possession of the businesses of the two banks, and on the following Monday, 1 October, Australia and

New Zealand Bank Limited was in business under its own name throughout the world.

These steps were, however, formal legal ones, and legal ritual, however essential, did not fuse two previously separate and competing institutions into a single entity. A vast amount of work had been done and much remained to be done before one integrated Bank existed.

One director from each bank wished to retire; the first Board of A. N. Z. Bank was formed by combining the remainder of the two old Boards. The Australasia had, in 1947, abandoned the practice, observed since its foundation, of having the chair taken at its meetings by various directors in rotation, and had adopted the principle, half a century old in the Union, of a permanent chairman. The Hon. G. C. (later Sir Geoffrey) Gibbs became the first—and last—permanent chairman of the Australasia, and was chosen as chairman of the new Bank, while the Union's Colonel A. T. Maxwell became Deputy Chairman. For the most senior executive posts the device of joint appointments was devised. Thus A. R. L. Wiltshire, the Australasia's general manager (the century-old title of superintendent was dropped in 1949 in preparation for the merger) and W. H. Thomas, general manager of the Union, became joint general managers. This was explicitly a transitional device; when Thomas retired in 1952 he was succeeded by W. W. Riddington, also from the Union, and when he retired in turn in 1954 Wiltshire became the first sole general manager. He was followed in June of that year by H. D. T. Williamson.

For other staff the merger meant, in general, enhanced opportunities. From 1951 onwards the Bank expanded rapidly and opened many new branches; posts as manager and accountant were therefore available to provide opportunities for promotion. Moreover, since there were overlaps of Australasia and Union branches at only seventy points of a total (at the time of merger) of 500, there would have been no redundancy of branch staff even if there had been no expansion; expansion meant that there were increased opportunities for all. Expansion made easier the deliberate policy pursued of intermingling Union and Australasia staffs. Thus it would often have been simpler, and on a short-run view perhaps more efficient, to replace an Australasia manager or accountant by another Australasia man; but this was avoided, and many staff transfers were guided by the desirability of a thorough mixing of the two staffs.

Throughout, both boards had recognised the importance of ensuring that, in fact and in appearance, staff gained by the change, and especially that there should be no grounds for feeling that the staff of either old bank secured any advantage not based on individual merit. A directive to the two general managers in September 1950, given to guide detailed planning, read:

> The Staff is the life-blood of a Bank and it is therefore vital that the union of the two staffs should be accomplished with the minimum of friction. The Directors of both Banks consider it most desirable that all members of the two staffs should be aware that it is the determination of the Directors and the General Managers to ensure that the staffs shall be treated as equally as possible, that no preference shall be shown to the staff of either Bank, and that opportunities for advancement in the service of the new Bank shall be at least as great, and probably greater, than they would have been in the services of the two constituent Banks. The benefits of the merger have been viewed on a long term basis, and it is not expected that any substantial savings in administrative costs will be immediately attained. Means must be taken, however, for making the service of the new Bank attractive in every way, thus ensuring an efficient and happy staff and drawing to our service the best types of recruits. It follows, therefore, that at least some levelling up of salaries will be necessary in the early stages.

There were occasional grumbles. Thus the solution to the problem of pensions was, broadly, that for old staffs the pension schemes of each old Bank should continue, with a new scheme for new staff; and individuals under each scheme could be found to argue that the other scheme was better. Occasionally officers whose own position had improved would grumble that someone from the other Bank had advanced more. But these were grumbles, not serious grievances. Staff were generously treated and no one lost by the merger, except that probably a few individuals in each Bank had rather less prospect of getting to the top in the new than they would have had in the old, but it was even more probably true that lesser eminence in the much bigger institution could be just as satisfying. Already, by the time Wiltshire retired in mid-1954, it was evident that the staff at all levels thought of themselves as A. N. Z. Bank men, qualified only by an occasional reminiscent 'of course, I'm an old Union [Australasia] man'. Nowhere more than in the welding of a large staff into a single body who thought of themselves as such, was the completeness of the merger more conspicuously successful.

From the final decisions of December 1950 until the merger took operative effect in October 1951, a vast amount of detailed preparation had to be completed, and many individuals and joint committees were hard at work. For London headquarters the Union premises in Cornhill were chosen, in part because in 1950 it had been possible to secure an extension of its ground lease until the year 2021. Both head offices—they were separated by little more than the length of Finch Lane—were initially retained, but the old Australasia premises were to be vacated and sold in 1959. A uniform accounting system had to be agreed upon, together with a system of control and check of cash and securities, a planned system of correspondence files, and filing systems. New share registers had to be planned, Clearing House arrangements made in each Australian State and in New Zealand, and stock exchange listings arranged. Decisions had to be made about the currency in which various accounts would be kept, no small matter for an English bank operating in Australia and New Zealand, with three currencies with the same names. Methods of dealing with advance applications and renewals had to be determined. Where there were overlapping branches, distinguishing names had to be chosen; new cable and telegraphic addresses arranged; new name plates prepared for buildings; new telegraphic codes devised; and so on. Foreign agents had to be fully informed. Two new companies, A. N. Z. Pensions Limited and A. N. Z. Nominees Limited had to be formed. All customers had to be notified, and written assents of debtor customers to the transfer of accounts secured. A vast programme of designing and printing new forms had to be completed. Head office staff had to translate a host of such decisions into innumerable circulars instructing branch staffs, while in the branches was the harder task, perhaps, of maintaining until 29 September 1951 old practices and old rules, while interpreting and absorbing the shower of new instructions which would replace the old on 1 October. The smooth transition that was achieved was the reward of a remarkably efficient piece of organisation. Those who finally chose 'merger' as the word to describe the objective could not have foreseen how completely, still less how quickly, it would be the most accurate description of the fusion into a single integrated enterprise of the two old Banks.

When A. N. Z. Bank at last became an operating reality, the shape of the post-war world, which could be seen only dimly when the merger was planned in 1945, had been etched with some clarity. The immediate post-war boom had, for Australia and for New Zealand, matured into what was clearly a period of sustained and massive economic growth. Most of the controls of wartime had been dismantled, although exchange control remained and import licensing was to last until 1960. Government-sponsored migration was large, the level of output high, and unemployment, by all past standards, negligible. Sustained capital inflow supplemented high home-financed investment and gave a very large volume of capital accumulation, of which government and private construction was a major part. War-expanded secondary industries provided the basis for a great growth of industrial production.

These conditions were sustained through the following decade, little restrained by recurrent balance of payments difficulty, a falling back of wool prices from their highest levels, or the measures of government to check the accompanying inflation of prices, incomes and costs. The Australian economy showed a new insensitivity to economic fluctuations abroad, underlining the substantial and self-sustaining nature of the economic growth. Many elements of the Australian situation were absent in New Zealand, whose expansion included substantial though not comparable growth in industrial production, but which gained similarly from continued good markets for its primary exports.

Accompanying these general changes were important modifications in central banking, in Australia more than in New Zealand, and extensive developments in the monetary system as a whole. In both countries, during the six years following the end of the war, the primary objective of monetary policy was seen as restraint of inflation. Both central banks relied to a substantial degree on qualitative credit control, the Reserve Bank of New Zealand exercising a closer scrutiny of advances and a more positive limit on bank investment in government securities than did the Commonwealth Bank, which preferred to proceed by detailed directives on advance policy. Major reliance in Australia was, however, placed on special accounts, in which by May 1951, £578,000,000 of trading bank funds were impounded. To adapt an otherwise uniform system to the varying positions of individual banks, from 1947 central bank loans were available to trading banks who were prepared to pay the discouraging rate of interest.

The recession of 1951-52 led to substantial releases from special accounts, which were down to £158,000,000 in December 1952, and paved the way for the Commonwealth Bank's new policy, an attempt from 1953 to establish conventional reserve ratios. The objective was that trading banks should hold 25 per cent of their assets in liquid form (excluding special accounts) or government securities; the ratio was intended to be an average over the year, with variation in response to seasonal forces, but with more violent movements producing central bank action to vary special accounts. This first attempt to establish a liquidity convention was not successful, and was replaced from 1956 by a minimum rather than an average ratio as the target.

By that time there had been structural changes in the Commonwealth Bank. Association in a single institution of a trading competitor and a reserve bank, was unwelcome to the banks; it was also increasingly the target of criticism by business interests who resented the restraints of an anti-inflationary policy. Accordingly legislation in 1953 formally separated the central bank from the trading bank, while leaving both under the same final control, of a governor and of a restored board of directors (which had been eliminated in 1945). At the same time trading banks regained in form, as they had already largely in practice, freedom concerning investments in government securities. Nevertheless banking continued to be a lively subject in Australian politics, controversy being directed mainly towards the still ambiguous relationship between Commonwealth Trading Bank and Central Bank, and towards the principles governing special accounts. Legislation of 1959, which became operative in 1960, made two major changes. The former central bank, renamed Reserve Bank, was made a completely separate institution, and a Commonwealth Banking Corporation was created to supervise other units of the government banking family, including the Commonwealth Savings Bank. Special accounts were replaced by statutory reserve deposits, to which the Reserve Bank might call up to 25 per cent of a trading bank's deposits, with power to require larger amounts in special circumstances.

These changes have progressively given greater freedom to, and placed greater responsibility on, trading banks to maintain their own liquidity and to accept the need for initiative in lending policy. The response of A.N.Z. Bank, as of other banks, was heavily influenced by the rapid growth, in both countries, but especially in Australia, of a large and varied number of non-bank financial institutions, which have been described as a second banking system. These changes have included a great increase in hire-purchase finance; a large change in company financing towards heavy reliance on fixed-interest borrowing, by short-term notes, fixed deposits and debentures; institutions most conveniently described as development banks; a proliferation of unit trusts; land trusts reminiscent of the land banks and building societies of the 'eighties.

Such developments were in part a normal increase in specialisation accompanying the growth, and particularly the industrialisation, of the Australian economy, and were the normal accompaniments of boom conditions, paralleling not dissimilar developments in the 1880's and 1920's. But they were also, in Australia, strongly encouraged by the combination of central bank policies of restraint which, directly at least, could only affect trading banks, and of the constitutional freedom of the new-type institutions from Commonwealth control. Much of trading bank criticism of monetary policy was due to this anomalous situation.

In common with its chief competitors, A.N.Z. Bank responded to the new freedom acquired after 1953, by moving forward into new fields and re-occupying old fields denied to it under the requirements of wartime and early post-war restraints. Among the first major moves was the establishment of A.N.Z. Bank's own Savings Bank subsidiary, which commenced operations on 26 January 1956, on the same day as its chief competitor had begun operation of a similar institution. Its growth was so rapid that by September 1960 its total deposits were nearly £86,000,000.

Hire-purchase companies, though in direct competition with trading banking, were free of central bank control. To recapture part at least of this field, A.N.Z. Bank secured in 1957 a close association with Australia's largest hire-purchase organisation, Industrial Acceptance Holdings Limited, taking 14 per cent of the issued ordinary capital of that company. A further development came, in 1958, with the Bank's decision to become associated with the unit trust investment field, by then a firmly-established and growing part of the Australian capital market. In this case, however, unlike several other banks, A.N.Z. Bank elected not to acquire its own affiliate organisation but to operate as trustee and agent for established unit trust organisations. This method of participation was in line with the extension of the Bank's services as registrar and nominee. It undertook the maintenance of the share registers of a large number of public companies. The nominee role proved of great importance in the heavy inflow of oversea capital into Australia after the middle of the 1950's. The Bank's services were much used in facilitating the large transfers of shareholdings involved.

Such developments threw doubt on the forebodings of those who saw in the growth of non-bank financial institutions a permanent decline of trading banks. That view exaggerated the extent to which the new institutions were permanent independent additions to the monetary system and also underestimated the recuperative powers of trading banking, in the resurgence of which A.N.Z. Bank was a conspicuous leader.

The Bank has been as markedly a leader within the older traditional fields of banking, as illustrated for instance by the extension of the areas in which it provides service to customers. At the time of the merger the total of branches and associated agencies which it took over was just over 733, of which 578 were in Australia and 155 in New Zealand. During the following decade, in most of these places where each old bank had an office, the operations of the two were combined. But this merging of business in some 98 places meant no loss of representation in the areas concerned, although it did make somewhat misleading the total of branches and agencies in June 1960, namely 870. In the nine intervening years the Bank had opened almost 350 new offices, of which a high proportion were in small centres. Among the new offices was the re-establishment in 1951 of the old association with Fiji. Another interesting development was the introduction of mobile banks in New South Wales and Victoria to provide service at special times, such as pay-day at factories, or at activities such as country agricultural shows. One consequence of this great expansion has been that the Bank was involved in a vast building programme, which also included modernisation of old premises. Bank architecture has passed through many phases since the 1830's: the small entrances and sombre interiors of that period; acceptance of former shop premises in country towns in the long boom of the 'seventies and 'eighties, together with the fortress style favoured for buildings erected by the banks themselves at that time; the tall columns and patterned marble of the early twentieth century. Standards after 1945 tended to lightness and openness, with large glass areas, and internal layouts promoting informality between banker and customer. The new buildings which A.N.Z. Bank erected so extensively throughout Australia and New Zealand contributed in large measure to determining those standards.

Less obvious to the customer was the equally real role of the Bank as a leading innovator in improvements in methods and extension of mechanisation. From 1951 onwards, great stress was laid on the application of mechanical and electronic methods of handling the vast volume of routine transactions associated with modern banking. The methods department, outgrowing the high-value office space it had used in the central Melbourne area, was moved to the suburbs where premises were specially designed to house the extensive mechanical and electronic equipment required.

Few customers might understand the mysteries of the magnetic ink cheque, but they were aware of the extension of the travel departments already established by the Australasia and Union, and of various other services. These included the information activities of the economic and statistical department, which from the outset of the new Bank published a *Quarterly Survey* of economic conditions in both Australia and New Zealand, and produced a number of occasional publications, particularly those designed to inform the oversea investor and the migrant. One of these last appeared in five European languages. Among the more specialised and technical public services of the department (whose main role was naturally seen as serving the Bank itself) was the filling of a gap in official government statistics by construction of an index of Australian factory production.

Any institution with long traditions behind it acquires a personality of its own. The merger released great stores of pent-up energy, and a rejuvenated bank surged forward with new vigour, efficiency and initiative. Kinnear, McLaren, McArthur, McMullen, Sawers or Finlayson might have shared the nostalgic regrets of some of their successors in 1951 at the end of the separate existence of the two banks they had done so much to build. But they would have recognised that A.N.Z. Bank was a genuine merging of these banks. In a very real sense it was not a new bank but a continuation of predecessors with long and distinguished careers. These had not ended in 1951, for with its first decade A.N.Z. Bank had already written the opening chapter of the sequel.

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Brown, Prior, Anderson Pty. Ltd.