

# Should Banking be Left to the Bankers? A Comparison of the Great Depression and the Great Financial Crisis

Elisabeth Kirkby

*G.K. Chesterton wrote 'The Secret People' in 1915, but his words also express the despair felt by the unemployed in the 1930s, struggling against events outside their control.*

*They fight us by shuffling papers; they have bright dead alien eyes;  
And they look on our labour and laughter as a tired man looks at flies.  
And the load of their loveless pity is worse than the ancient wrongs,  
Their doors are shut in the evening: and they know no songs.*

*Unfeeling central bankers and economic theorists dictated monetary policy in the 1930s, confident in their belief that 'the market is always right'. Any attempt to control financial markets or fiscal policy was anathema, as wild speculation on Wall Street went unchecked. This paper examines the events of the 1930s in Australia, and the way in which bankers in Australia were manipulated by British financial interests in general and the Bank of England in particular. In 2007 and 2008, the Great Financial Crisis (GFC) was a reminder of the Great Depression and the years of unemployment and social unrest; the policies of the econocrats who had boasted that the Great Crash of 1929 could never happen again were proved wrong. It is the aim of this paper to show that history can't be ignored, that the interests of powerful financial institutions need to be controlled. It is an attempt to understand the mistakes made in Australia in the 1930s, in order to ensure that prudent management and effective regulation will be the way of the future.*

In the opening chapter of her book, *The March of Folly*, Barbara Tuchman posed the question: 'Why do holders of high office so often act contrary to the way reason points and enlightened self interest suggests? Why does intelligent mental process seem so often not to function?'<sup>1</sup> That question might well have been asked of American bankers and financiers in the years leading up to the financial meltdown of 2007 and 2008. The history of the Great Depression of the 1930s should have ensured that a thing never happened again. Yet in 2008, the leading figures in Wall Street appeared unaware of the lesson that they should have learnt from their fathers and grandfathers. Where was the corporate memory?

I say this because as many commentators are warning that the crisis may not be over, even though in Australia, the impact of the Great Financial Crisis (GFC) is not as severe as was feared twelve months ago. It was the events of 2007 and 2008 that persuaded me to attempt a thesis based on the impact of the 1930s depression in Australia. After the idea had been accepted by the Department of Business and Organisational Studies at Sydney University, the sponsors of this conference and this new association, I started to research the period, I have now spent nearly twelve months reading about the personalities involved, trying to assess their motivation and studying archival material to discover why so many, presumably highly intelligent men, got things so wrong in the 1930s, and how could their errors be repeated seventy five years later? Yet recently financial commentators in both Britain and the United States have compared the meltdown of 1930 with the GFC, and are asking the question 'What went wrong?'

David Blanchflower, Professor of Economics at Dartmouth College, New Hampshire, and a past member of the Bank of England's Monetary Policy Committee (MPC) states that 'economic theories failed just when we needed them most'. Describing

the Bank of England as ‘The Bank of Economic Theory’, he admits ‘that the bank needed the advice of experienced bankers, lawyers, businessmen and market regulators’, and asserts:

There were too few regulators on the staff. Instead the Bank was stocked full of mathematical modellers who had never seen the inside of a commercial bank or a hedge fund – and the models they used failed to pick up on the greatest financial crisis in a century.<sup>2</sup>

The Bank of England had learnt little over the past seventy five years and it was the Bank of England that attempted to control Australia’s fiscal policy in the 1930s, allowing the ‘mathematical modelers’ of that era to manage the impact of the Great Depression in Australia.

In 1930, R.H. Tawney, a leading Labour intellectual and a contemporary of G.D.H. Cole and Harold Laski, stated ‘the British Government did not fall with a crash, in a tornado from the blue. But crawled slowly to its doom’.<sup>3</sup> He could have been describing the Australian Labor Party led by J. H. Scullin when it was attempting to reconcile the views of Labor firebrands such as Billy Hughes and Jack Lang with those of the bankers, Sir Montagu Norman, Chairman of the Bank of England, and Sir Robert Gibson, Chairman of the Commonwealth Bank of Australia. According to Schedvin, ‘Gibson thrived on his position of power ... [he] knew little of the intricacies of banking and nothing of central banking ... his influence over major decisions was complex and it even extended to the detailed running of the Bank’.<sup>4</sup>

When Scullin became Prime Minister within weeks of the Stock Market Crash on Wall Street, he was placed in the unenviable position of trying to stabilise the Australian economy at a time when the Chairman of the Bank of England was ‘anxious’ to advise Australia on economic matters, and the Chairman of the Commonwealth Bank of Australia was an inexperienced financier at loggerheads with the Governor of the Bank, E.C. Riddle. To make matters worse, Gibson would not accept expert advice: ‘He would listen to no view that did not conform with his own narrow orthodoxy and would brook no compromise with the sacred principles of sound finance.’<sup>5</sup>

The new Labor Administration was confronted with a world depression, an overwhelming national debt inherited from the Bruce/Page Government, when the Chairman of the Commonwealth Bank distrusted experts and was convinced of his own infallibility. The complex relationship between the Australian Government and the Bank of England should be understood against this background.

Schedvin’s history of the Great Depression is based on archival sources, but he states that his research was limited by what he describes as ‘a wilderness of printed Parliamentary Papers and Commonwealth Parliamentary Debates’. He also comments on the fact that in the preparation of his book, both the Reserve Bank of Australia and the Commonwealth Bank Archives Office ‘declined permission to document in the customary fashion. The Treasury also required some deletions and amendments of direct quotations from a few files’.<sup>6</sup>

It would be interesting to discover why. Personal research at the Bank of England suggests that during the Depression, the Australian Government was skilfully controlled by Britain for her own advantage. The interests of the British Government were paramount and Australian interests were disregarded. Whether this would have occurred if someone other than Sir Robert Gibson had been Chairman of the Bank is a matter for debate, but there is no doubt that the visit of Sir Otto Niemeyer to Australia in 1930 was the result of ‘behind the scenes’ negotiations between Sir Robert Gibson and senior Bank of England officials with the knowledge of Sir Montagu Norman.

It could be suggested they felt confident that they were acting correctly, as the visit to Australia in 1927 of Sir Ernest Harvey, Comptroller of the Bank of England, had been a great success. According to Sayers, Harvey ‘was a tactful and diplomatic messenger and laid the foundations for excellent relations between the two banks’.<sup>7</sup>

But in 1927, Stanley Bruce was Prime Minister with business contacts in London, and there was no thought of a world financial crisis. By 1930, Scullin was the new Labor Prime Minister, Wall Street had collapsed and Sir Otto Niemeyer proved to be far from ‘a tactful and diplomatic messenger’.

The genesis of his visit was a confidential letter written by Sir Ernest Harvey, as deputy Governor of the Bank of England, to Sir Ernest Clark who was a prominent business man in London, a director of Martin’s Bank and the Pacific Steam Navigation Company. He had been part of Harvey’s earlier mission to Australia as a member of the Joint Exchequer Board of Great Britain and Northern Ireland. Clark was the type of man that bank bureaucrats would turn to, after Australia had elected a Labor Government. Harvey requested a meeting to ‘learn more of conditions in Australia’ saying that the matter was urgent as ‘S.M. Bruce is coming to see the Governor of the Bank of England tomorrow, 1 April 1<sup>st</sup>, 1930’.<sup>8</sup>

Although after his defeat in the 1929 election, Bruce had returned to his business interests in London, he held no official position. According to his biographer, Heather Radi, he was conferring with Bank of England officials ‘in order to provide some relief on the acute problems of Australian government overdrafts’.<sup>9</sup> She also suggests that he was determined to return to politics, and perhaps this is why he took this ‘duty’ upon himself. In 1930, Australia’s High Commissioner in London was Sir Granville Ryrie, appointed by Bruce in 1927 for reasons that were spelt out in a letter from the Governor-General, Lord Stonehaven, in a letter to Lord Salisbury.

Ryrie is a quite different type from previous High Commissioners ... a typical Australian country gentleman – the third generation in a family of squatters – Bruce chose him because he wanted to have a man representing Australia in London who would become persona grata, not only in official circles but in others not much frequented by High Commissioners hitherto, possibly through lack of opportunity or inclination.<sup>10</sup>

It is interesting speculate if Ryrie was aware that Bruce approached the Bank of England personally in 1930, or whether Ryrie would have disapproved of negotiations with the Bank of England that he had not been asked to conduct as High Commissioner? Whatever the reason, Bruce started negotiations with the Bank that were not revealed to the Commonwealth Parliament.

After the initial approach by Bruce, matters moved swiftly. On 6 May a confidential cable was sent by Sir Ernest Harvey to Sir Robert Gibson, as Chairman of the Commonwealth Bank, outlining ways in which the Bank of England might assist Australia to overcome the economic crisis:

- a) We could stand aside altogether and await developments.
- b) We could confer with a special intermediary sent here privately by the Commonwealth Government.
- c) We could perhaps send privately ourselves if invited to do so and if he would be taken into full confidence.<sup>11</sup>

The cable was acknowledged on 12 May and a reply in code was sent on 16 May. Gibson rejected option A with the words, ‘Sincerely hope you will not adopt this policy without

further efforts to assist in solving our problems'. He said option B was 'not practicable. Selection of unbiased intermediary capable of providing true picture unlikely'. But he could HEARTILY APPROVE the third option and revealed that 'the relationship between the Board and the Government harmonious but no real confidence and cooperation exists'. Gibson added that if the Governor of the Bank of England was conferring with S. M. Bruce:

suggest you inform him not prepared to negotiate further without clear understanding position and assurances as to future but you are prepared to send your own intermediary if invited by the government to do so on the understanding that he will be taken into full confidence, have full facilities to investigate and freedom to confer with present Commonwealth Bank Board and such other sources as wisdom may dictate and you will be guided in your future activities by result of such investigation.<sup>12</sup>

Schedvin refers to this correspondence in his book, *Australia and the Great Depression*, and offers his opinion that for Australia to send another intermediary to London was

an extraordinary proposal for the government was already well represented in London ... the Commonwealth and Loan Council representative, J.R. Collins, knew all the facts and was an experienced and tough negotiator. The Commonwealth Bank's London manager, J. Scott was also an able representative who knew all the facts.<sup>13</sup>

It was Schedvin's view that the Bank of England was angling for an invitation to send an intermediary to visit Australia, 'without appearing to intrude into domestic affairs'.<sup>14</sup>

Sayers suggests that the way the Bank of England operated was governed by 'habitual secretiveness: when anything did come to the public eye, the darkness before and after meant that there was little chance of understanding'.<sup>15</sup> In this case, the secrecy surrounding the discussions between the Bank of England and the Commonwealth Bank suited Gibson very well as he states at the end of the cable of 16 May, 'you will appreciate self and colleagues Bank Board difficult positioning view of tenure of appointment, proposed banking legislation and uncertainty any future connection with the Bank in any form'. This decoded cable is marked in red ink to denote comments of prime importance, and refers to the fact that Theodore, as Treasurer, had introduced a Central Reserve Bank Bill on 2 May which (if it passed) would mean there would be a new chairman of a new board. The arrival in Australia of a delegation from the Bank of England would delay the legislation and Gibson might find powerful allies in his fight against the change.

Between 16 and 31 May, after further cables between Gibson and Harvey, it was agreed that the Bank of England would send an adviser to Australia, and the 'Approach should be made through Bank of England to High Commissioner to the Prime Minister of Australia ... It would be the Bank's wish to avoid publicity so far and so long as possible'.<sup>16</sup>

On 6 June, the letter of invitation was sent from Prime Minister Scullin to the Bank of England through J.R. Collins at Australia House. It was addressed to Sir Ernest Harvey as Comptroller of the Bank of England. On 11 June, Harvey cabled Gibson that the chosen adviser, Sir Otto Niemeyer, would sail for Australia aboard the 'Cathay' on 18 June. Only six weeks had elapsed since Bruce went to talk with Sir Montagu Norman, and it took only a week after the invitation was accepted for Sir Otto Niemeyer to be on his way. It seems obvious that the Bank of England was very anxious to be in a position where it could control events in Australia.

Scullin announced the arrival of a Bank of England representative to the House after Question Time on 17 June.

The Commonwealth Government is determined that all necessary steps shall be taken to meet promptly all Australia's obligations, and as the Bank of England has expressed a willingness to assist Australia to find a solution to the present difficulties, the Government and the Bank have mutually agreed there should be a consultation in Australia between representatives of the Bank of England, the Commonwealth Government and the Commonwealth Bank Board. A representative of the Bank of England will accordingly visit Australia. He left London yesterday accompanied by an economist and an officer of the Bank of England.<sup>17</sup>

There was no debate and no parliamentary approval was sought. Just the bald announcement which Lang believed treated Australia 'as if it were a bankrupt nation and Sir Otto was to fulfil the role of Liquidator in Chief'.<sup>18</sup> Lang also queried the fact that messages passing between London and Canberra had never been divulged; he also objected to the opinions of Professor Gregory, the Bank of England economist:

the real world, the world which matters in modern business is not the actual physical structure at all. The real world which matters in business as in economics is the balance sheet which those physical structures actually represent ... in other words, whether we like it or not, in every state of society in which money is used, all these concrete phenomena, farms and farmhouses, and human beings and buildings, and equipment of one kind or another are in the final analysis plotted down on a balance sheet.<sup>19</sup>

Lang was astute enough to realise that Niemeyer and Gregory had come to Australia with only one purpose: 'They were going to draw up the balance sheet. They were going to value the assets at knock-down prices.'<sup>20</sup> The unemployed would appear as liabilities, those in work by their earning capacity. Yet in 1930, J.G. Latham, as leader of the Opposition, rose to congratulate Scullin, and stated his belief that 'the gentlemen who are coming from England will be of great benefit to Australia'.<sup>21</sup>

It is clear that the Federal Parliament had no understanding of the impact of the growing Depression. By 1930, there were over ten million people unemployed world-wide, and eventually over 700,000 would be unemployed in Australia, over 40,000 working for no wages, and 21,000 youths who had yet to experience employment.<sup>22</sup> But as far as Niemeyer and Gregory were concerned, the most important issue was to ensure that Australia paid its creditors on time, whatever the cost in terms of human suffering. The balance sheet had to be balanced.

After only a month in Australia, Niemeyer reported directly to Sir Montagu Norman:

August 14<sup>th</sup> 1930.

Australia is a poor country probably overpopulated with a higher percentage of unemployed than the U.K. Settlement has hitherto been very costly and further development at the moment seems to me to be insane.

September 1<sup>st</sup> 1930.

It is almost impossible to convey an adequate notion of the jarring elements at all times in this country. The petty feuds on every conceivable subject are unlimited both in number and bitterness. The ignorance of different sections of the population

of one another's real feelings, problems and objects, the jealousies between political parties and between different wings of the same political party and between the States *inter se*, and as a body with the Commonwealth could hardly be equalled in a small cathedral town. With endless scrapping, there is an extraordinary absence of constructive criticism.<sup>23</sup>

It is obvious that Niemeyer had not read the history of Federation before he arrived. He may have seen bank managers at half hour intervals but he does not appear to have visited factories, mines or dockyards. People came to him, he did not go to them, unless it was to go to the races or to visit their country estates. Of course some of his informants may have been as financially illiterate as the business man quoted by Shann:

One applicant named Bernstein, who had applied for an increase of 20 per cent on duties already at 40 and 30 percent was unable to give any information as to manufacturing costs. He said 'I am not aware of our profits for the past three years, I do not know anything about finance'.<sup>24</sup>

Niemeyer became increasingly unpopular, which is easy to understand if his attitude reflected the views he expressed to Sir Montagu Norman: 'The personnel all round, political, administrative and banking – is, with rare exceptions lamentable, a circumstance which is accentuated by marooning the Commonwealth Government and administration on a sheep station two hundred miles from anywhere.'<sup>25</sup> He was probably not the first financier who believed Canberra was too far away from the Melbourne Club, where Niemeyer stayed when he was in Melbourne.

Giblin described Niemeyer as 'the freak child of the ill-conditioned Anglo-Australian embrace of the interwar years'. The authors of *Giblin's Platoon* were even more critical: '[D]uring a four month tour of port drinking and golfing, he floated a series of stringent judgements about his host country which ranged from the dubious to the asinine.'<sup>26</sup> But it didn't take Niemeyer four months to tell the 'lamentable' politicians what they had to do. By August, he was ready to give 'the political leaders [who] were listless and frightened and generally unable to give a lead' their instructions. Commonwealth and State representatives were summoned to Melbourne for a Premier's Conference, where Niemeyer, with Gibson at his side, told them that there could be no recovery unless primary producers reduced their costs and no relief unless the country's finances were put in order.<sup>27</sup> Niemeyer was emphatic: 'Australia is off Budget equilibrium, off exchange equilibrium and forced by considerable unfunded and maturing debts, both internally and externally ... Australia must reassure the world as to the direction in which she is going.'<sup>28</sup>

The Premier's Conference was held in camera; due to illness Scullin was not present and was represented by Deputy Prime Minister Fenton. Lyons attended as acting Treasurer in the absence of Theodore.<sup>29</sup> The decisions were being made by deputies and not by those responsible for the implementation of those decisions.

Although by 21 August, Scullin had recovered sufficiently to be present when the official statement was issued at the end of the Conference, it was signed by H. J. Sheehan, Secretary to the Conference; yet in theory it was binding on all State Governments as well as the Federal Government. It was a statement that reflected the views of the conservative financiers and economists, leaving Scullin's supporters too confused to take a stand against the draconian cuts in wages and working conditions; in fact, it had been drawn up by Niemeyer based on a draft letter sent to Scullin on 3 August (when Niemeyer had been in Australia for all of three weeks). A letter that Niemeyer stated he 'would find of use if signed by the Representatives of Commonwealth and states'. Clause One reads: 'It is the fixed intention and determination of the several governments to balance their respective

Budgets for the financial years 1930/31, and to maintain similar budget equilibrium in future.<sup>30</sup> The Federal Government and the State Governments had been told what they had to do, but they had not been told how they were to do it.

The crisis atmosphere engendered by Niemeyer's demands was reflected in the media describing those who did not support deflationary policies as 'extremists' or 'repudiationists'. The Opposition condemned 'irresponsible elements in Australia – the menacing tones issuing from their extreme followers'.<sup>31</sup> The editorial of the *Sun* warned that 'three English banks – the Bank of Australasia, Union Bank and E.S.A. Bank – could make Australia bankrupt and would do so unless Australia balanced her budget'.<sup>32</sup> Robert Menzies, then legal adviser to the Commonwealth Bank, declared that 'he would rather see every Australian die of starvation than fail to honour contractual debts in their entirety'.<sup>33</sup> An extravagant statement that reflected the views of big business and right wing financiers.

In the 1930s, when most economists believed that 'deflation and a balanced budget' would restore prosperity, the politicians of the day were not even united on party lines. At each election between 1922 and 1938, party allegiances changed and long established principles of social justice were abandoned for short-term political gain. Macintyre states:

Lacking any clear vision of national purpose, unable to sustain altruistic ideals of duty and service, and unwilling to repudiate the ethic of competitive self-satisfaction, caught between loyalty to Empire and national interest when they threatened to fly apart, the ruling class fell back on symbols.<sup>34</sup>

One of the most cherished symbols was the need to maintain a *laissez faire* economy. There is also no doubt that the impact of the financial crisis and the remedies that were being imposed on the Labor Government were reinforced by fears of communism, the view held by many conservative Australians. Samuel Girling, NSW Agent and Attorney wrote to the Bank of England: 'NSW Government entirely indifferent as regards English interests and take instructions only from Trades Hall who are definitely opposed to Empire interests, thinking only of self and Red elements'.<sup>35</sup> The same stance was taken by the Australian Industries Protection League, according to the secretary, A. Hume Cook: 'By reason of political inequality, the Commonwealth of Australia is practically in the hands of the masses ... as production costs are very largely made up of wages paid to labour, the position is very serious'.<sup>36</sup> A view that Niemeyer would have endorsed, as Professor Gregory did on 29 August: '[W]ages here were too high in relation to population and must fall. Interest rates could not be forcibly reduced without danger. (Lower rates would deter investment)'.<sup>37</sup>

On 8 August, two weeks before the Melbourne Agreement was signed, Niemeyer wrote a sixteen page letter to Harvey at the Bank of England; starting 'Dear Mr. Deputy', he describes Australian Commonwealth Treasury officials as

a nice paralytic, a cunning rogue and an unknown quantity (Scotch) ... Scullin is a very decent little man ... The last thing that is good for Australia at the moment is to be told that everyone has faith in her and that she will undoubtedly pull through ... *I do not doubt this myself* ... I think it would do no harm for you to appear if anything more dubious and stony-hearted than I am.

In handwriting at the bottom of the letter, are the words, 'Give an Australian half a mile and he's off to Eldorado straight away'.<sup>38</sup> David Clark has shrewdly assessed Niemeyer's advice: 'Niemeyer's report ruled out any talk of 'Keynesian' stimulation but his emphasis on wage earners taking the brunt was not politically feasible'.<sup>39</sup>

The controversy that occurred after the Melbourne Agreement became public increased after Niemeyer had sailed for England in November 1930. Bankers and financiers wrote to him deploring the fact that the Agreement was already being disregarded. The Labor Party, with Scullin away in London at an Imperial Conference, was divided on how they could carry out the proposed economic reforms. They faced ‘a political exercise in making a pious declaration of the Melbourne Agreement palatable to the party membership’.<sup>40</sup>

It was a task that proved impossible as influential members of the Labor Party, Frank Anstey, Jack Lang and Billy Hughes, believed that the Agreement should be repudiated. The *Financial News* reported comments made by Billy Hughes in the *Sydney Gazette*: ‘the advice of Sir Otto, a policy of stagnation and despair to stampede and drive us into a compound where the financial interests that he represents want us’.<sup>41</sup> According to Macintyre,

the radical members of the caucus denounced the Melbourne Agreement and called on the ministers to overcome the opposition of the bankers and resist any cuts; they were encouraged by Labor’s victory in the New South Wales election in October 1930 which Lang fought on that basis.<sup>42</sup>

The secrecy that had surrounded the invitation to Sir Otto Niemeyer now came back to haunt Scullin. The *Sydney Morning Herald* reported on 28 October that Theodore had attacked Scullin for inviting Niemeyer, and offered their opinion that Theodore had invited Niemeyer. Hughes was to state that ‘even if the Government issued the invitation, outside elements inspired it’.<sup>43</sup>

Both Hughes and Lang attempted to persuade their colleagues that the views expressed by Niemeyer did not reflect the views of all economists. Hughes quoted Beaumont Pease, the President of Lloyds Bank, who didn’t support cutting wages, he cited financiers in the United States ‘who have agreed together to avoid any fall in wages’. But in Australia, orthodox deflationary policy was accepted by the right wing of the Labor Party. The critics of such policy were considered dangerous revolutionaries, at least in the eyes of some members of the public; one was Alfred Waley, who wrote to the Bank of England, ‘Australia is rapidly approaching the Russian revolutionary ideas and will be fortunate if it escapes violence and rioting on a large scale’.<sup>44</sup> To do him justice, when asked to reply to this comment, Raymond Kershaw, Australian-born Bank of England adviser to Niemeyer, dismissed such paranoia: ‘I do not believe that Australia is ‘moving on Russian lines! I do not believe that they know what Russian lines are and I do not believe they would like them if they did.’<sup>45</sup>

Yet the fears expressed by Alfred Waley had persuaded many Australians to join the New Guard in New South Wales and the White Army in Victoria. It was fear of communism that fuelled the hysteria when a rumour circulated the Mallee town of Ouyen that ‘the communists had seized Sydney and their counterparts were even now advancing on Melbourne from Mildura’.<sup>46</sup> The retiring Governor-General, Lord Stonehaven, also believed that the financial crisis in Australia was caused by ‘imported agitators from Maynooth and Moscow’.<sup>47</sup>

Such opinions made ‘orthodox’ economic theory palatable, and when Niemeyer’s advice was disputed, Scullin turned to Australian economists in an attempt to find less drastic solutions. Yet in spite of the confusion in the Labor Party, Niemeyer had supporters, many who wrote to him after he left Australia. In a handwritten letter to Niemeyer on Commonwealth Treasury letterhead, Professor Jackson apologised because the Labor Government was not following his advice:



If we had only ‘played the game’ I feel sure that we would have secured the sympathy of one whose influence on our side on the future would have been of material help.

In shame and sorrow,  
Yours truly, H.E. Jackson.<sup>48</sup>

The Constitutional Club in Adelaide regretted the abuse and insinuations hurled at Sir Otto: ‘this is not a true indication of the attitude of the majority of Australians. The link between Australia and the ‘Mother Country’ must not be broken’.<sup>49</sup> The New South Wales Constitutional Association sent a letter to the Bank of England, ‘for discourtesy shown to Sir Otto Niemeyer by certain newspapers and politicians’. *The Sydney Morning Herald* insisted that ‘Niemeyer’s visit was the subject of “gross misrepresentation”’. Sir Otto did not come to Australia at the instance of the British Government or British Banking interests. The allegation that he is a sort of bailiff inspecting the assets is grotesquely false’.<sup>50</sup>

Such letters received a reply from Sir Montagu Norman with what can only be described as ‘warm’ hypocrisy conveying ‘the appreciation of the Bank, in allowing Sir Otto to visit Australia, the Bank was solely influenced by the desire to assist the Government and the people of Australia’.<sup>51</sup>

Of course, Niemeyer’s supporters were conservative financiers and businessmen who were uneasy with a Labor Government. Their views were supported by Sir Alfred Davidson, the General Manager of the Bank of New South Wales, and by Melville, Professor of Economics at Adelaide University, who was on loan to the Commonwealth Bank as an adviser. It was in a letter to Melville that Niemeyer described Australians as ‘gutless’, and strongly criticised Copland and Gibling. Even after his return to England, Niemeyer received regular ‘up dates’ concerning events in Australia. A letter from Young of Elders in Adelaide is indicative of the gulf that divided Labor politicians, and conservative business men. Young describes Scullin as ‘without capacity’, and both Scullin and Theodore as ‘evil’. He continues:

Gibson is splendidly firm ... You will be glad to hear that Melville is still doing famously ... Copland has discarded any former weakness he may have had and he and Melville are working loyally together also Shann from Perth who is helping the Bank of New South Wales.<sup>52</sup>

Perhaps it was the support that Niemeyer received from Collins Street and like-minded Australians in financial institutions that encouraged him to involve himself in the Royal Commission into Banking and Monetary Systems established by Prime Minister Lyons in 1934. The proposal to convert the Commonwealth Bank of Australia into two institutions had been brought to the attention of the Bank of England in March 1930, by Tritton, the Chairman of the London Board of the Bank of New South Wales. Together with Campbell of the Sydney office, Tritton was concerned that the Government intended to 1) Create a Central Bank, 2) undertake the business of a trading bank in aggressive competition with other trading banks. He suggested to the Bank of England that differences of opinion between the Bank and the Government might ‘lead to the resignation of the present board or the supersession of the present board by some new body’.<sup>53</sup> Leaving aside the propriety of a trading bank in New South Wales trying to discover from the Bank of England what the Government of Australia might be planning, their approach gave Sir Montagu Norman the opportunity to assure Niemeyer that ‘We should welcome effective control of London office [of the proposed new bank] by Strakosch and yourself’.<sup>54</sup>

The Bank of England was already aware of the draft bill that had been introduced by Theodore as Treasurer in May 1930, and that the Federal Government intended to form a

new Central Reserve Bank with capital of £2,000,000 taken from the Commonwealth Bank. It was to have a board of nine members to be appointed for seven years by the Governor-General representing banking, commerce, labour, manufacturing and primary production. The salaries of the Governor and Deputy Governor would be fixed by the Governor-General and the bank would have the power to issue notes. A detailed critique of this proposal was sent to the Commonwealth Bank of Australia by Sir Ernest Harvey in his capacity as Comptroller of the Bank of England as Sir Robert Gibson had appeared before Senate Select Committee established to assess the legislation in 1931.

In 1934, a Royal Commission was established to look into *Banking and Monetary Matters*, comprising J.P. Abbott, President of the Graziers Association of New South Wales; H.A. Pitt, Financial Director, Victoria; Ben Chifley, MHR; R.C. Mills, Professor of Economics at Sydney University; and Mr. Justice Napier of South Australia.

Although the Bank of England had previously supported 'central banks', Niemeyer advised Sir Claude Reading (who had taken over as Chairman of the Commonwealth Bank of Australia), that Australia did not need a central bank. In 1935, Niemeyer went even further, advising Reading in a personal letter:

For instance let the other banks give evidence before you, yourself appear ... I suppose you could inspire the other banks as to what they had better say if they are asked about a central bank and I imagine you could square the Chairman of the Commission as to the moment at which you yourself are interviewed. *In any case I should have thought that the more you can draw other people's fire the better.*<sup>55</sup>

This first 'advice' was followed later by an instruction to the Overseas and Foreign Department of the Bank of England, 16 May 1936.

Sir Otto Niemeyer would like notes prepared for Sir Claude Reading  
a) Post Office interference with Commonwealth Bank's operations;  
b) Fixed rates for 'Banker' deposits with Bank of England.

Instructions were then issued daily from Niemeyer to Reading between 15 and 19 May 1936; Niemeyer comments on Readings' figures and suggests the total is expressed in '*less terrifying form*'. These letters are four and five pages long, commenting on Reading's proposed evidence, revising it and circulating it for further expert approval. A memorandum dated 20 May 1936 states:

Sir Otto Niemeyer, Professor Clay and I have been in almost daily consultation with Reading regarding the C.B.A's Deferred Answers to the Royal Commission questionnaire. Assistance was also offered to A.F. Bell, Acting Chairman of the Board of Directors of the Commonwealth Bank and a critical letter from Niemeyer to Reading disputing Australia's legal opinions.<sup>56</sup>

It is signed G.E.J; Professor Jackson was an adviser to the Bank of England.

In September 1936, the Royal Commission asked to see some of the communications between the Commonwealth Bank and the Bank of England: '[A.F. Bell] saw the Commission in camera ... pointed out that such a request would be against the national interest. The Commission withdrew their request which was a distinct relief.'<sup>57</sup>

There can be no doubt that the Bank of England was 'advising' two Commonwealth Bank Chairmen, Sir Robert Gibson and Sir Claude Reading from 1930 to 1936, and that the way they communicated was secret, and was only revealed to the Australian Government,

and the economists who were working for Treasury and for Australian banks, at the discretion of Sir Montagu Norman and Sir Otto Niemeyer.

Yet when Gibson was called before a Senate Select Committee in 1931, he was asked by Senator Foll: 'Has there been at any time, any attempt on the part of the Bank of England to dictate the policy of the Commonwealth Bank?'

Gibson replied: 'Absolutely on no occasion. Further the Commonwealth Bank would not accept such dictation.'

Pitt: 'That is still the present position?'

Gibson: Yes,

Pitt: 'It is stated occasionally that our banking policy is dictated overseas, either London or Geneva, and you say "Absolutely on no occasion", that is not the case?'

Gibson: 'It is not the case.'

Pitt: 'Are there any grounds whatsoever for that statement?'

Gibson: 'None whatsoever.'<sup>58</sup>

It would appear that Gibson had the same poor opinion of Senate Select Committees as Niemeyer, who held them 'in contempt'. It is also clear that conservative bankers ignored all opinions other than their own or those of their conservative advisers; that the Labor Government of the 1930s was too weak to challenge them, and the United Australia Party (UAP) Government led by Lyons meekly followed deflationary policies that resulted in high unemployment. The views of concerned citizens such as Dr. M.C. De Garis were ignored:

Unemployment is a major social and national problem. It entails under-nourishment of men, women and children, it saps their physical energies and their self respect, because they are useless and not wanted in the world ... It has already raised our maternal and infant death rates, and lowered the birth rate, and our rate of natural increase, also wiping out all increase by migration. These dire results demand enquiry into its causes. Bankers, therefore perforce ignore unemployment; it is impossible for them (under accepted theory) to deal with unemployed men individually. Governments, however, cannot take this attitude.<sup>59</sup>

It is unusual to find a medical man entering into the debate on banking and linking the plight of the unemployed with the financial policy dictated by the banks. Dr De Garis may have believed that 'governments cannot take this attitude'. Unfortunately, during the Great Depression, governments in Australia as in Britain did 'take this attitude'. Schedvin wrote of the 'many other economic, political, institutional and social changes that flowed directly or indirectly, from the searing experience of mass unemployment, widespread bankruptcy, disastrous commodity prices, political turmoil and social upheaval'.<sup>60</sup> He was also honest enough to admit that 'the modicum of relief expenditure that was sanctioned was not only totally inadequate but was also distorted by an unrealistic insistence that expenditure be confined to 'reproductive' works'.<sup>61</sup>

If history is to teach us anything, then we must look carefully at the Depression of the 1930s, and the inadequate measures that were undertaken to relieve the poverty and

distress that resulted. There was no equality of sacrifice then, just as there is no equality of sacrifice today. Bankers and financiers are still resisting attempts at regulation. They still defend obscene salaries, according to the *New Statesman*, there is now a new buzzword in the City – ‘BAB’, or ‘bonuses are back’.<sup>62</sup> We must ensure that this time we do not follow the dictates of corporate governors. Australia can introduce regulation even if Wall Street and Threadneedle Street do not.

In the foreword to his epic work on Primitive Mythology, Joseph Campbell wrote: ‘I can see no reason why anyone should suppose that in the future the same motifs already heard will not be sounding still ... put to use by reasonable men to reasonable ends or by madmen to nonsense and disaster.’<sup>63</sup> We have the opportunity to prove we are ‘reasonable men’, and as ‘reasonable men’, we should remember that Ross Garnaut ascribed the failure of HIH to ‘weak regulatory arrangements, incentive structures that encourage senior executives to risk their businesses for personal gain, advisers who were compromised by conflicts of interest’.<sup>64</sup> Garnaut also states that ‘Australian banks engaged in their own dramatic expansion of shadow banking activities in the form of a vast increase in offshore borrowing which fuelled an explosion of lending for housing and consumption’.<sup>65</sup>

We can remember the hardship of the 1930s as part of history, but as we do so, we must remember that the same hardship could still be repeated, even if for different reasons, as Paul Kennedy points out:

Today the daily volume of foreign exchange trading is several hundred times larger than the value of graded goods ... Across the world, millions of overseas investors, companies and banks speculate in currencies, many of them automatically following computer-generated indicators that reveal (say) whether the dollar is increasing or decreasing in value relative to other currencies.<sup>66</sup>

Today the Australian dollar is strong and the American dollar is weak, and financial commentators describe the situation as a lottery; but we must learn from history. We cannot go back to the *laissez faire* attitude of the 1930s that caused such social distress. We must not be lulled into a state of false security, believing the worst is over. The worst is not over in the U.S.A., or in Britain or in Japan; and we join with them as part of the global economy. In this new high-tech world that wheels and deals twenty four hours a day, seven days a week, regulation or ‘prudential supervision’ to use the term coined by Ross Gittins, is now more important than ever.<sup>67</sup> The ‘libertarians’ must not be allowed to persuade governments otherwise.

*Elisabeth Kirkby is currently working on a PhD thesis on the Social Impact of the Great Depression in Australia. From 1981 to 1998, she was a member of the Legislative Council in New South Wales as leader of the Australian Democrats. <liskirkby@skymesh.com.au>*

## Endnotes

1. B. Tuchmann, *The March of Folly*, Michael Joseph, 1984, p. 4.
2. D. Blanchflower, ‘The Story from the Inside’, *New Statesman*, 14 September, 2009, p. 16.
3. R.H. Tawney, *The Choice before the Labor Party, 1932*, quoted by J. Cruddas, *New Statesman*, 7 September 2009, p. 25.
4. C.H. Schedvin, *Australia and the Great Depression*, University of Sydney Press, 1970, p. 84.
5. Schedvin, *Australia and the Great Depression*, p. 85.
6. *Ibid.*, p. 396.
7. R.S. Sayers, *The Bank of England, 1891-1944*, Cambridge, 1976, pp. 201-10.
8. Bank of England Archives, Australia, Sir Otto Niemeyer’s Visit, G1/291.

9. H. Radi, 'Bruce, Stanley Melbourne (Viscount Bruce), 1883-1967', *Australian Dictionary of Biography, Volume 7*, Melbourne University Press, 1979, pp. 453-59.
10. Governor General Stonehaven to Lord Salisbury, Hatfield House Library, MSS,4AM/121/May 1927.
11. Bank of England Archives, G1/291.
12. *Ibid.*, G1/291.
13. C.B. Schedvin, *Australia and the Great Depression*, University of Sydney Press, 1970, p. 134.
14. *Ibid.*
15. R.S. Sayers, *The Bank of England: 1891-1944*, Cambridge, 1976, pp. 201-10.
16. Bank of England Archives. Cable from Sir Ernest Harvey to Sir Robert Gibson. G1/291
17. The officers were Professor T.F. Gregory and the 'officer' R.N. Kershaw.
18. J.T. Lang, *The Great Bust: The Depression of the Thirties*, Angus and Robertson, 1962, p. 216.
19. *Ibid.*, p. 219.
20. *Ibid.*, p. 218.
21. *Ibid.*
22. D. Clark, 'Fools and Madmen', in J. Mackinolty (ed.), *The Wasted Years*, George Allen and Unwin, Sydney, 1981, p. 191.
23. Bank of England Archives, Niemeyer to Bank of England, N.15.
24. E. Shann, *An Economic History of Australia*, 1930, p. 412.
25. Bank of England Archives, N.15.
26. W. Coleman, S. Cornish & A. Hagger, *Giblin's Platoon*, Australian National University E.Press, 2006, p. 113.
27. S. Macintyre, *The Succeeding Age 1901-1942*, Oxford University Press, 1986, p. 259.
28. *Ibid.*
29. P. Love, 'Niemeyer's Australian Diary and other English Records of his Mission', *Historical Studies*, vol. 20, no. 79, 1982, p. 261.
30. Bank of England Archives, Access Number 171, file 13/48.
31. Lang, *The Great Bust*, p. 239.
32. *Ibid.*, p. 235.
33. Macintyre, *The Succeeding Age*, p. 271.
34. *Ibid.*
35. Bank of England Archives.
36. *Ibid.*
37. *Ibid.*, *Daily Guardian* 29 August 1930.
38. Bank of England Archives.
39. D. Clark, 'Fools and Madmen', p. 183.
40. S. Macintyre, *The Succeeding Age*, p. 260.
41. Bank of England Archives, OV 9/287.
42. S. Macintyre, *The Succeeding Age*, p. 260.
43. Bank of England Archives, 019/287.
44. *Ibid.*, Alfred J. Waley in a letter to Sir Montagu Norman, 19 February 1931.
45. Bank of England Archives.
46. Macintyre, *The Succeeding Age*, p. 265. This was the rumour that caused the farmers and business men of Ouyen to obtain fire arms, dig trenches and lay sandbags. They lay in wait all night for the 'communists' to arrive before coming to their senses.
47. *Ibid.*, p. 260. Lord Stonehaven was the Governor-General who was followed by Sir Isaac Isaacs as a result of Scullin's confrontation with George V.
48. Bank of England Archives, OV 13/48.
49. *Ibid.*
50. Bank of England Archives, OV9/289.
51. *Ibid.*
52. Bank of England Archives, Letter dated 23 March 1931.
53. Bank of England Archives, A.N.171. This is the matter that was concerning Gibson when he was corresponding with Harvey and organizing Niemeyer's visit.
54. Bank of England Archives, Cable 15.10.30.
55. Bank of England Archives, Personal letter from Niemeyer to Reading, 11 October 1935. Memo 8.10.35. Folio 9.
56. Bank of England Archives, Folio 78.
57. *Ibid.* There is a letter also to the Deputy Governor of the Bank of England, quoting Bell and stating 'Original in Private File'. A. F. Bell was then acting Chairman of the Board of Directors of the Commonwealth Bank of Australia.
58. *Hansard*, p. 1627.

59. M.C. De Garis. M.D., *Banking and our Social Problems*, Series 3, Np 330.1. DEG, pp. 114-15.
60. Schedvin, *Australia and the Great Depression*, p. 378.
61. *Ibid.*, p. 373.
62. *New Statesman*, 14 September 2009, p. 4.
63. J. Campbell, 'Foreword', *The Masks of God: Primitive Mythology*, 1969.
64. R. Garnaut, & D. Llewellyn Smith, *The Great Crash of 2008*, Melbourne University Press, 2008, p. 144.
65. *Ibid.*, p. 145.
66. P. Kennedy, *Preparing for the Twenty First Century*, Harper Collins, 1993, p. 55.
67. R. Gittins, 'Banking Regulation Can Work', *Sydney Morning Herald*, p. 9.