

RBA take note! O'Malley tells how to regulate credit

In a legendary five-hour parliamentary speech on 30 September 1909, Tasmanian Labor MP King O'Malley presented a proposal for a National Postal Bank and a Commonwealth National Bank. Citing US Treasury Secretary Alexander Hamilton (George Washington administration), among the "cleverest financial men that American has ever produced", O'Malley began his intervention from two fundamental premises necessary to create a functioning financial system: One, that the Commonwealth is "supreme in regard to finance", as set down in black and white by the Constitution; and secondly, that claims "We are too poor" are nonsense. "Australia is the wealthiest country on the face of the earth in proportion to its population", he proclaimed. Our problems arose, he rallied, for "the want of a good banking system".

O'Malley proposed a system that combined national banking with postal banking, whereby "a State Government could go to the National Postal Bank in the State, and get a credit on the ledger", meaning they will no longer be forced to go to the money market again. With all the post offices on government-owned land and every outlet constituting a branch of the bank, "it would be a people's bank for all of Australia", he declared. "The National Postal Banking system will eventually become the clearing house for the Commonwealth, the States, and the municipalities of Australia."

Reading from prepared notes about the function of his Commonwealth National Bank, which would become reality in 1911,



King O'Malley laying a stone designating Canberra the national capital. Photo: National Archives of Australia

O'Malley told the house:

The supreme question in an industrial country is where should the control of the money volume rest? In whose hands can this omnipotent financial power be trusted? ...

At present, the managers and directors of the private banking corporations and other fiduciary institutions wield this power. They possess the yard measure, and can lengthen or shorten it as they please, and when they will. They control the pound-weight, and can make it heavier or lighter as they choose. This explains the puzzle so mysterious to ordinary people, why those who deal in money always get rich, while many of those who trade in other commodities go through the bankruptcy courts.

The great question now is, "Shall the Commonwealth establish its own national postal banking system and manage its own finances through the regulation of its own money volume, or continue under the benevolent guardianship of capitalists— lambs in the keeping of wolves?"

Bank managers and directors now possess this power.

The men who increase and diminish at their pleasure the currency (not bank-note currency merely, but discounts, cheques, credits, promissory notes, drafts, letters of credit, and coin), possess the power to change prices at their will.

"No one will deny", he continued, "that the managers of the banks can make or break a town. Honourable members must recollect how, during the crisis of 1893, small communities were made to suffer by the closing of banks. At the present time, a few men in the great cities could ear-mark every pound they lend, and have telegrams sent to the country banks, saying, 'Stop discounting for a few days', when the producers and traders of Australia would be crippled. They would be told by the branch managers, when they had obligations to meet, that money was tight; although there might be more money within the control of the banks than ever before in their history."

The MP documented extensive examples of how banks reining in credit contributed to financial panic. This is counterintuitive, he insisted, again referring to his prepared notes:

But the Commonwealth is big enough and strong enough to loan money to producers and business people in time of stringency, with the certainty of averting loss from itself, instead of bringing loss on itself.

He provided an example, showing the primacy of the real economy in his thinking: “When the crops are being planted there is always a scarcity of the medium of exchange, and when the crops are being harvested every business man knows that he must carry his customers, although that is the very time when he finds it difficult to finance his own business, because there is a scarcity of currency. If we had a national postal banking system, the National Bank would expand its currency on those occasions—”

The operation of the price average is principally influenced by the movements of money volumes, credits, and production. The easiest of these to control is the money volume, and the control of this confers the power to govern the movement of prices, because the influence of any change in credits or production can be overcome by sufficient expansion or contraction of the money volume.

This is a page from history which reveals how the Reserve Bank of Australia should be thinking about managing credit, which is not regulated by interest rates alone. O’Malley’s system, he explained, is “a system that will put us beyond the possibility of going as beggars to the shareholders of private banking corporations”. He continued reading from his notes:

The movement of the money volume is the vital monetary problem—the master-key to the financial situation. Through the control of this movement prices may be made to rise or fall or remain substantially steady. This means control of justice or injustice, prosperity or panic, wealth diffusion or wealth congestion. Power to dominate the operation of the money volume is power to do justice or injustice between debtors and creditors, employees and employers, purchasers and sellers, landlords and tenants, money-lenders and borrowers; power to increase the weight and value of every debt—public or private—in the Commonwealth, power to generate prosperity or panic, power to regulate industry and determine the distribution of wealth. Such power is an attribute of sovereignty, the prerogative of the King, and ought to belong to none but the sovereign people exercised through His Majesty’s Parliament and Government in the interests of the whole people. At present the vicissitudes of mining speculations, management of private banking corporations and the blind chance of monopoly determine the movements of money.

The private banking system of the Commonwealth is only a legalised monopoly for the gathering of wealth from the many, and its concentration in the hands of the privileged few.

The private banking corporation system rests on a credit given by usage to bank notes, for which the Australian people provide the security in their indorsed promissory notes, bonds, and mortgages. The legal representative possesses no value in itself; it is based on actual wealth, the land of the Commonwealth and its productions, and not upon the inherent value of its material. The question is why the Commonwealth and States cannot operate a banking system on a sounder security, and gather the profits for the public benefit, instead of empowering a special privileged few to become wealthy by private banking.

An understanding of this reality reveals the imperative for a people’s bank, O’Malley continued:

The largeness of the public debt, the enormous business transacted by each State, and the huge amount of interest that must be paid annually by all, appear sufficient to impress a full conviction of the utility of a Commonwealth banking system, operated in conjunction with the postal system, not only in relation to the administration of the national finances, but in the general system of political economy.

The Commonwealth banking system, linked with the Postal Savings Banks throughout Australia, will control the movement of the money volume, credits, and production, in the interest of all the people. All private profits on the circulation of bank notes will cease, and the postal banking system will be so safe and sound through the confidence reposed in Government institutions, that it will absorb as deposits all the money now hoarded.

This fact, together with loans at low interest, and the facilities and safety of transmitting money through an institution with an office in every village and town, and possessing the entire wealth and power of the Commonwealth back of it, would forever prevent panics.

King O’Malley tells how to create a nation of producers

The following excerpt from the 30 September 1909 five-hour speech of Labor MP (1901-17) King O’Malley features O’Malley reading from prepared notes, which he said had taken him “forty years to think out and write”!

“The National Postal Banking System”, said O’Malley, “will ... be guaranteed by the collective wealth of the whole of the Australian nation. ...

“Under the regime of the National Postal Bank, we shall possess a great financial system consisting of bank credits having the power, by authority of law, to pay debts all over the Commonwealth.”

The crucial capacity of a nation, observed O’Malley, is not money but commodities; but the money system, he continued, was preventing Australia from developing:

“However great the natural resources of a nation, however genial its climate, fertile its soil, ingenious and enterprising its citizens, or free its institutions, if its money volume is manipulated by private capitalists for selfish ends, its credit shrinks and prices fall. Its producers and businesspeople must be overwhelmed with bankruptcy, its industries will be paralysed, and destitution and poverty prevail.”

In words that foreshadowed the state of the nation today, O’Malley explained the impact of the vagaries of private financial control, including constantly changing interest rates:

The burdens of the producers increase with the scarcity of money and fall of prices. Their debts and taxes remain the same, while their labour and property decrease in value. Their property being at last exhausted, without liquidating their debts, they become the slaves of the money lenders. All incentive to energy is destroyed, agriculture decays, industry is paralysed, the producers reduced to miserable dependents on capitalists, while the ruling classes are enervated by idleness and luxury born of unearned wealth.



When O’Malley’s bank opened it was housed at post offices across the country. Here, Stones Corner Post Office, chemist and Commonwealth Bank branch, Brisbane, ca. 1928. Photo: State Library of Qld

The National Postal Banking System would prevent panics. A panic is the product of fear. Something makes businessmen suspect credit, and it shrinks. Cash instead of circulating more plentifully than usual to take the place of the departed credit, takes flight itself—to the vaults of the banks. ... The National Bank will stand ready at all times to prevent panics. ... The very knowledge that the Commonwealth will issue funds and lend money at a low rate of interest in any reasonable quantity on good security will prevent the fear and distrust of the future which forces men to rush into the market and outvie each other in selling goods at a loss. It will benefit all classes of the community except the wreckers and parasites. It will fulfil the constitutional mandate, annihilate a dangerous special privilege, and return to the sovereign people as a real possession one of the most important of sovereign powers—the power of issuing and regulating the money volume of the nation. It will be as ready to finance the Commonwealth in time of war as in peace, without demanding usurious rates of interest. ... Not only would we be safe from foreign panics and the vicissitudes of foreign mining speculators and markets, but the ups and downs of foreign legislation would affect us but slightly as compared with the present. It will operate as a beneficent influence in the regulation of industry and the distribution of wealth. Neither landlord nor tenant, labourer nor employer, capitalist nor magnate would be deceived nor

defrauded. ...

It would beget neither feverish excitement nor despair, but the calm serenity that comes with certainty of provision. The men of enterprise could invest their money, arrange for overdrafts, employ their workers, and make their contracts with an assurance that their calculations would not be brought to nought and their enterprises wrecked by an unforeseen change of the mind of the bank manager, influenced by the directors of competing monopolies.

The regulation of the rates of interest by the National Postal Banking System will determine what proportion of their earnings the country producers and businesspeople shall pay for the use of money.

Producers possess no means of resisting the overwhelming power of accumulation given to capital, except by the establishment of a National Postal Banking System, and the maintenance of a just rate of interest. Then the inequalities of birth and economic condition will be greatly diminished, and none of the agriculturists can be kept for any length of time the slaves of city capitalists.

It is not in the power of humanity to continue a more effectual form of concentrating property in the hands of the few than the high rates of interest charged by the present banking system. This method works rapidly and securely because it extorts consent as it operates. The wealth of the Commonwealth like the wealth of other countries is rapidly accumulating in the hands of a comparatively few people in the large cities. Still it is indisputable that cities are large consumers of wealth whilst very small producers. ...

In the Commonwealth the National Postal Banking System will so greatly reduce interest rates that useful productions will increase by leaps and bounds. Wealth, instead of accumulating in the hands of the few, will be distributed among producers. A large proportion employed on relief works, building up cities, will be expended in cultivating and beautifying the country. National improvements will be made to an extent, and in a perfection unexampled in the history of the world. Agriculture, manufactures, inventions, science, and the arts will flourish in every part of the nation. Those who are now non-producers will naturally become producers. Products will be owned by those who perform the labour, because the standard of distribution will nearly conform to the natural rights of humanity.

O'Malley: 'Finance is a government institution'

When O'Malley made his speech on 30 September 1909, Australia had banks, but it did not have a "banking system". We even had state banks, such as the State Savings Bank of Victoria, which had earned a reputation as "the people's bank", lending to workers and labourers for mortgages and construction. (["State premiers should unleash the power of state banking!"](#), AAS, 16 Sept. 2020)

It was only for lack of a "thoroughly organised national banking system", O'Malley told his fellow parliamentarians, that the nation wanted for anything. For, "Trade and commerce does not follow the [nation's] flag", he contended. "It follows the fortified credits of the world, and the fortified credits of the world follow the lines of banking."

It is ridiculous in the extreme if governments, which "use the national power for the benefit of the individual", do not command the power of banking: "How can a nation like Australia, which has no national banking system, and which, if it desires an overdraft, must, *like any private individual, obtain it from a banking corporation*, compete in the open markets of the world with the producers and traders of a nation like England, which can afford to lend as much as she owes?" (Emphasis added.) Contrast this to Reserve Bank of Australia Governor Philip Lowe telling Senator Gerard Rennick that the RBA— what is left of O'Malley's bank—could not provide credit to the government, because it would comprise a subsidy, and that the government has to go the market, like everyone else. (["Senators slam hypocritical 'high priests' at the RBA"](#), AAS, 30 Nov.)

What we need is not more capital or wealth, said O'Malley, but "a great financial centre".

"The great function of banking is to supply a power for the production and transportation and distribution of commodities of general utility, following them from the original producers to the ultimate consumers", he noted, stating that he was "speaking as a banker".

I have tried to impress upon honourable members the desirability of creating a national financial system that would enable the Commonwealth, the States, the municipalities, the shire councils, and various other public bodies, to finance themselves independently of floating loans in the open market in competitions like publicans and sinners.

Having worked with his uncle, a banker, O'Malley described how banks create a new deposit on the ledger every time they issue a loan, thus creating new

credit ("and this explains how my proposed national bank would secure its capital"). But, said O'Malley: "We have no public institution in Australia that can lend the people or the State credit, or can help the State in a time of trial. ..."

There will be no change in these matters until we have the courage to establish a financial system of our own. ...

We have not a real banking system in Australia. A banking system means a whole plan or scheme, consisting of many parts, and united in such a manner that it produces an endless cable of indestructible mutual dependencies, supplied by a financial reservoir of inexhaustible power. ...

When we have a national postal banking system in full operation in the Commonwealth, connected through the Post Offices, so that each branch will constitute a mutual dependency, each helping all, and all helping each, we shall never see another financial crisis in Australia, nor shall we ever again see the Commonwealth wanting £1,200,000, and not knowing where to get it. ...



King O'Malley

In my opinion, a national postal bank, suitable to the people of the Commonwealth, should have its head office in the Post Office of the chief commercial city, with all the other post-offices as branches, thus constituting the head and the backbone of the system. This central bank should hold the reserves of all other banks, and those reserves should constitute a credit on the ledger of the national bank; and under such an arrangement there never could be another crisis in the Commonwealth. The people of every village and town throughout the Commonwealth would enjoy, at a low rate of interest, the facilities of a strong sound national banking system. Farmers, producers, traders, and small businesspeople could go to the bank in their own towns and villages, and, if they had security, could have their credit entered on the ledger, stick a cheque-book in their pocket and go about their business—they need not carry any money at all. If one bank in Australia had an account opened with every businessman in the Commonwealth, the whole of the business of the country could be carried on without exchanging one penny of cash, because the banks are only clearing houses, clearing the business of the producers and traders by offsetting the indebtedness. *Banking is the fundamental essence of finance, and finance is a Government institution.* ¹ [Emphasis added.] Banks should be sympathetic co-workers with producers and traders. A banking system possessing the capacity to continue exercising the banking function during worldwide disturbances would make it impossible that we should ever have a crisis in Australia.

Footnote:

¹. O'Malley had used this phrase earlier: "I think it was the Prime Minister [Alfred Deakin] who said that finance is government, and government is finance, although men who lived hundreds of years before the Prime Minister existed said the same."

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[Click here to read the O'Malley's full speech](#)