The Australian Precedents for a Hamiltonian Credit System

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Few countries in the world have established a true Hamiltonian national bank. The first, of course, was the United States under Treasury Secretary Alexander Hamilton; a second was our Commonwealth Bank, brought into being through the early Australian Labor Party by the colourful, very determined and tirelessly working former American immigrant and federal politician King O'Malley (1854-1953).

The Commonwealth Bank of Australia functioned as a government-owned national bank, and was used as a vital tool for the Labor Government of the time, in 1912-23, to develop our country, and then later in WWII. As a national bank, it scared the hell out of the City of London and the Crown!

On 20 January 1913, when the Commonwealth Bank first opened for business, the bank's first governor Denison Miller proclaimed, "This bank is being started without capital, as none is required at the present time, but it is backed by the entire wealth and credit of the whole of Australia."

Those words, "backed by the entire wealth and credit of the whole of Australia", became almost a creed or charter of the Commonwealth Bank, for Miller. This was the power behind the Commonwealth Bank: a power the government could use to protect and develop the nation, and to protect the nation and its citizens against the ravages of the private banks.

At a big bankers' dinner in London in the 1920s, former New South Wales Premier Jack Lang reported in his 1962 book *The Great Bust*, Miller reaffirmed this creed, causing a great fright amongst the bankers.

Craig Isherwood addresses the CEC's international conference, 28 March 2015.

At this dinner, he calmly told them that the wealth of Australia represented six times the amount that had been borrowed, and that the Bank could meet every demand because it had the entire capital of the country behind it.

This was in stark opposition to the prevailing British ideas on banking.

In 1852 British Chancellor of the Exchequer and future Prime Minister William Gladstone had recounted his experience with the City of London: "The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned."

Denison Miller

The Commonwealth Bank, Martin Place, Sydney.

This is no different to the idea expressed by Treasurer Joe Hockey to the Federal Parliament a year or so before the global financial crisis. He stated emphatically: "If there have been any lessons learnt, Mr Speaker, over the last 30 years in Australia, it is that government should not be involved in banking."

The original Commonwealth Bank was created in order to provide the mechanism to develop our national basic economic infrastructure, but also as a way of protecting workers' money from the ravages of the private banking system—especially after the 1893 Great Bank Crash. At one point during that crash, only nine of the 22 banks of the time in New South Wales remained open; depositors in those banks lost millions of pounds sterling. When they closed their doors, just seven of those larger banks owed their depositors £76 million. That was compared to the GDP of NSW, at the time, of £56.9 million.

The 1890s depression and following bank crashes destroyed the illusion of the infallibility of the banking institutions, and in 1891 led to the formation of the NSW Labor party (Labor Electoral League). Later that year in the NSW elections, no fewer than 35 Labor members were returned in the NSW Parliament of 141 seats, out of the 52 who ran on the Labor Party ticket. These new Labor members were elected as the immediate effect of the discontent caused by that depression.

The workers who supported the Labor Party wanted a bank to protect them from the ravages they had just witnessed from the private banks.

At the first Annual Conference of the Australian Labor Party in 1893, the ALP adopted a fighting platform, within which its sixth point was: "Establishment of a National Bank—to secure State control of currency and transact all ordinary banking business." This last point was to remain in the fighting platform *for more than sixty years*.

King O'Malley

After federation came in 1901, banking, and specifically national banking, was still high on the list of goals for the Labor Party. Under the newly adopted Australian Constitution, the new Commonwealth Government was given all the control over banking—except state banking.

The chief advocate of a national bank, namely the Commonwealth Bank, was King O'Malley. He was an American with a very colourful personality, but who also had a deep knowledge of banking from working with his uncle's small New York bank.[1]

In 1908, O'Malley convinced the federal Labor Party conference held in Brisbane to adopt a detailed national banking proposal in its fighting platform. King O'Malley moved a large number of resolutions, setting out the plan for his bank in full details. The bank was to have the *power to issue bank notes*, which would be legal tender. It was to be responsible for all government banking. It was also to have the power to grant advances to government and the local governing bodies. There was to be a board, comprising the chairman elected by the Commonwealth Government, and one director nominated by each state. It was to be a reserve bank, holding reserve funds of the private banks. The Commonwealth treasurer was to have the right to attend all meetings of the board. The bank was to sell government bonds. The General

King O'Malley

Post Office in each capital would be the head office of the bank in that state, and any post office within the Commonwealth carrying on the business of a money-order office might be constituted a branch of the bank.

On 30 September 1909, in a five-hour speech in Federal Parliament, O'Malley emphasised the importance of a national bank for Australia's sovereignty:

> We are legislating for the countless multitudes of future generations, who may either bless or curse us. … We are in favour of protecting, not only the manufacturer, but also the man who works for him. .. I propose the institution of a government national bank for managing the finances of the Commonwealth and the States. … Cannot honourable members see how important it is that we should have a national banking system …—a system that will put us beyond the possibility of going as beggars to the shareholders of private banking corporations?.. 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. … Such power is an attribute of sovereignty … and ought to belong to none but the sovereign people exercised through … Parliament and Government in the interests of the whole people.

O'Malley triumphantly proclaimed the precedent for his proposed new national bank. "I am the Hamilton of Australia", he declared. "He was the greatest financial man who ever walked this earth, and his plans have never been improved upon. … The American experience should determine us to establish a national banking system which cannot be attacked."

When the federal Labor Party won the election in 1910, O'Malley expected to be the treasurer. But his

1. Robert Barwick, "A Credit System for Australia: King O'Malley and Australia's National Bank", a presentation at the May 2013 conference of the CEC, is posted at www.cecaust.com.au/credit/.

fellow Labor Party members preferred to listen to the private bankers, and Prime Minister Andrew Fisher always preferred not to upset the private banks. Instead, O'Malley was made minister for home affairs, and, as it turned out, that gave us Canberra on the Washington, District of Columbia, USA plan. Fisher made himself treasurer and prime minister, no doubt to counter O'Malley's unorthodox methods.

At this point, the private banks stepped up their organising against the idea of a Commonwealth Bank, by wooing Fisher and Deputy Prime Minister Billy Hughes at private functions. They told them that there was *no profit in banking.* They persuaded Fisher and Hughes to give up the Commonwealth Bank idea.

To force the ALP caucus to implement their own national banking policy, O'Malley formed what he called the "Torpedo Brigade" among Labor MPs, which for eleven months secretly conspired to force a resolution through the Labor caucus, instructing Fisher to establish the Commonwealth Bank.

Fisher had to relent, and introduced into Parliament the Commonwealth Bank Bill, drafted by the Treasury, not O'Malley, on 1 November 1911. The bill made *no provision for the Commonwealth Bank to issue its own printed notes*, and O'Malley believed the bank would be vulnerable without that power. After eight weeks of debate, eventually on 22 December 1911, the *Commonwealth Bank Act* became law. In June 1912, Denison Miller, a prominent official of the Bank of New South Wales, resigned his position and was appointed governor of the Commonwealth Bank.

Miller himself was ambitious, and once he left the Bank of NSW, he had determined to fight for "his bank", to make it one of the greatest financial institutions in the country—and for the 11 short years until his untimely death, he succeeded in doing so. Six weeks after accepting the position, on 15 July 1912, with a small advance from the Commonwealth Treasury of £10,000, the Commonwealth Bank commenced savings-bank operations from a branch in Collins St, Melbourne, and through 489 agencies in money-order post offices throughout Victoria. By January 1913 he had opened a bank in each state of the Commonwealth, and also an agency in London, and had established the head office of the bank in Sydney.

Although Miller was authorised to raise £2 million through long-term bonds or debts to start the bank, he chose instead to open savings banks throughout Australia, at post offices and elsewhere, and use the money (deposits) obtained this way as capital, thus only being indebted and paying interest to his depositors.

Later that year, 1913, the Commonwealth Bank gave one of the first demonstrations that it was going to act like a national bank, when the Melbourne Board of Works went into the market to redeem old loans, and also raise new money. Governments at that time were heavily reliant on overseas loans from London. The Victorians got their quote from London. In addition to stiff underwriting charges, the best they could do was £1 million at 4½ per cent interest. They then decided to approach Denison Miller, who had promised to provide special loans for government bodies. He immediately offered them £3 million at 4 per cent interest. When asked where the very juvenile bank had raised all the money from, Miller replied, "On the credit of the nation. It is unlimited."

Over the next ten years, the Commonwealth Bank functioned as a national bank, albeit through standard banking activities, and without the power of the note issue, which I will discuss later.

Funding World War I

In August 1914, World War I broke out in Europe. Major economic problems were experienced at the outset of the war. There was widespread concern about the future of Australia's all-important overseas trade and her access to British capital. For a short time, this aroused acute fears, such that there were some temporary suspensions of stock exchange operations and foreign exchange dealings. Several savings banks experienced mild runs on their deposits. Some of the trading banks also suffered minor difficulties. They still had memories of 1893 and the Great Bank Crash.

Denison Miller stepped in, saying that the Commonwealth Bank, on behalf of the Commonwealth, would support any bank in difficulty. In fact, he had already issued the order at the Commonwealth Bank to put on more tellers, obviously to demonstrate that there was nothing to fear. That was the end to any panic.

At this point there was a double dissolution federal election, and Fisher was brought into power again, with Billy Hughes. Miller, as head of the Commonwealth Bank, was now in control of financing the war, at the request of Fisher and his government.

In order to meet the immediate financial needs of the Fisher war Government and its Treasury, Miller took the bold move of giving the government an overdraft of £230,000. The Army wanted money to buy horses to equip the Light Horse Brigade. Miller found it without any objection or reluctance. Given that it was being funded from deposits, he also made sure that wherever the troops went, there was an agency of the Commonwealth Bank, and he handed out passbooks to all the troops. Their surplus pay went into the Commonwealth Bank!

In 1915 the Fisher Government launched its first war loan and gave the Commonwealth Bank the responsibility to handle it. According to Jack Lang again, “Instead of the old semi-secret methods of borrowing money, Denison Miller conducted his War Loan campaigns with ballyhoo. There were rallies in Martin Place with brass bands, actresses, V.C. heroes and politician speakers. The money came flowing in.”

The Commonwealth Bank coordinated with the private banks the flotation of seven war loans, and three peace loans, totalling £250 million of loans with the support of all the private banks, for a charge of 5/7- per £100 (28c per $100). Traditional loans floated in London cost the equivalent of $3 for every $100 raised. The Commonwealth Bank saved Australians some £6 million in bank charges, alone. All of these loans were oversubscribed, by 834,000 people. With the assets of the nation behind the Commonwealth Bank, it was able to take idle credit from the general population in the form of these loans, and use that credit to defend the nation. All of the loans were paid back to the subscribers by 15 December 1930, with interest rates from 4½ per cent to 6 per cent. The services that the Commonwealth Bank rendered to the people of the Commonwealth were immense.

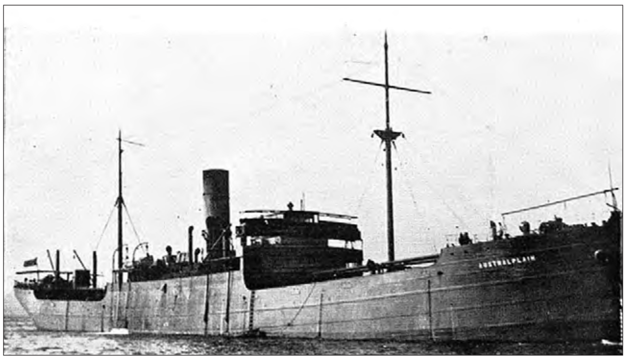
Launching the 1918 seventh war loan with great ceremony outside the Commonwealth Bank in Martin Place.

Saving and Developing the Primary Producer

The Commonwealth Bank saved the Australian primary producer from stark ruin during the war years by financing, with and without the assistance of the private banks, pools of wheat, wool, meat, butter, cheese, rabbits, sugar, jam and fruit, to a staggering total of £457.5 million.

The war interrupted the normal overseas commodity transportation and payment arrangements. Rural producers were faced with chaos unless a coordinated market effort were made. This led to the establishment of a number of commodity pools, including the 1915-16 wheat pool to handle the biggest wheat crop on record at that time. The farmers were immediately paid the basic war-time price, with further payments made when produce was sold at higher than the basic price. After the first wheat pool, the Commonwealth Bank assumed general control for all commodities taken over by the government. It allocated business to certain private banks. Through its London branch, it coordinated collection of payments for produce exported, and distributed the funds to the various banks involved.

Pooled wheat stack at Ganmain, New South Wales.



The *Australplain*, one of the 15 ships purchased in London by W. M. Hughes on behalf of Australia.

Establishment of the Commonwealth Steamship Lines

One of the most dramatic illustrations of the power of the young Commonwealth Bank came in 1916. Billy Hughes was in London, and the government was having trouble with overseas British shipping interests. Australia, as an island nation, was beholden to British shipping interests. Once war broke out, the shipping companies raised their prices from 47/6 or $4.75 to 105/- or $10.50, despite the fact that the imperial government took the war risk on the vessels. Appeals to the British-run shipping companies had no effect. One account of how bad the freight costs got was cited in Parliament: “While the value of the cargo (maize) was £18,826 ($37,652) the cost of the freight was £50,433 or 260 % higher than the value of the cargo.”[2]

It was the Fisher/Hughes Government’s policy, from the 1914 election, to combat the exploitation of people through high freight and fares, by establishing the Commonwealth Line of Steamers. Whilst Hughes was in London he discovered a fleet of 15 cargo vessels for sale. He acted upon his own, secretly, and bought these

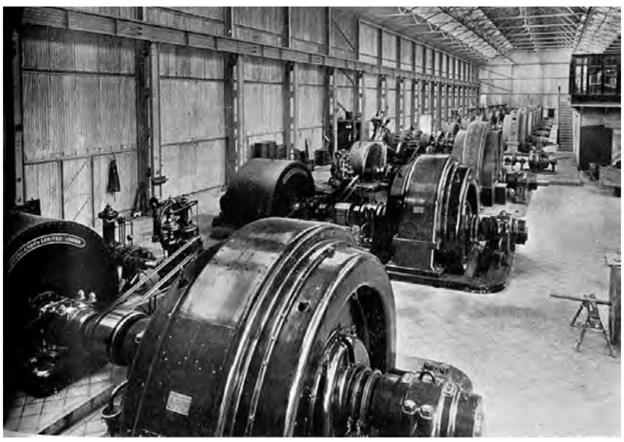
2. Hansard, Vol. 88, p. 11098.

ships. He had a very short time to clinch the deal, as the established shipping combine would have shut the deal down. Hughes wired Treasurer W. G. Higgs, "Make available in London tomorrow morning at 10am, £2 million." Higgs called Miller, and Miller wired the Commonwealth Bank in London to have the money ready by morning. As stated later, the intention was to use the profits from the freight of Australian produce to pay off the overdraft that Miller had set up to buy this initial fleet of ships. The fleet was expanded to over 36 ships, with the augmentation of surrendered enemy ships, and the cost of freight to Australian producers was reduced to half that of the British-controlled shipping lines, at around £3 per ton. The profits from the shipping line went back to government to pay off the overdraft.

Commonwealth Bank Runs Papua New Guinea

The Commonwealth Bank was given some unusual assignments. For example, shortly after the war started, on 6 August 1914, instructions came for Australia to take Papua New Guinea from the Germans. On 11 September, 1,500 officers and men captured a wireless station at Rabaul. After some further fighting, the German governor surrendered; he was a long way from home.

The Commonwealth Bank established a bank that began to trade in German reichsmarks, as it enabled the military authorities to exercise control of trade by enemy subjects there. Whilst trade to Germany was cut off, of course, the local economy was maintained internally. The only currency among Europeans in the territory was the German mark; notes and silver marks were the regular means of exchange, and the Australian troops were paid in marks. Savings passbooks were kept in marks. The administration in PNG found that by continuing to use the German currency, the expense and trouble of obtaining coinage from Australia could be avoided. Also, the first shipment of Australian gold sovereign coins, amounting to £5,000, literally disappeared within two days. Apparently the Chinese living there paid a premium four marks for every pound, and then on-shipped the gold coins to China, where they were sold for a profit.



The Commonwealth Bank granted loans to more than 60 local councils for important development works like building hydro-electric dams, building canals (top) and providing the generators (bottom) for reliable power generation and the electrification of industries in their municipalities.

Payment of Troops

During the war, the Commonwealth Bank enabled Australia to transfer abroad, with maximum efficiency and the minimum of expense, some £3.56 million for the payment of 330,000 of her soldiers serving overseas, of whom more than 60,000 lost their lives and 165,000 came back wounded or invalided. It also established Commonwealth Bank savings agencies everywhere the soldiers were, and provided them with their own Commonwealth Bank passbooks.

Homes for Returned Soldiers

For five or more years, Australia had an enormous number of able-bodied workers engaged in the war effort overseas, and when they returned there was a shortage of houses. To deal with this, the Commonwealth Bank built 1,777 houses at a cost of £1,155,119 and purchased another 5,179 houses on behalf of soldiers at a cost of £2,874,502. Loans were advanced by the Commonwealth Bank at 5 per cent, fixed for 22 years in the case of weather-board homes, and 37 years in the case of brick homes.

Support for Local Councils

The Commonwealth Bank was also to become the natural bank for local councils. Its policy was, "Primary products are the main source of Australia's wealth, and the Bank, realising that to ensure the proper development of the country assistance must be given to those who are winning wealth from the soil, has sympathetically considered applications from local governing bodies for loans to improve the conditions of the primary producer. … [T]he Bank has granted loans to sixty councils in country districts to assist in developments and improvements."[3]

This development included electrification, providing reliable electric current for the establishment of butter

3. C.C. Faulkner, *The Commonwealth Bank of Australia*, p. 250.

factories, flour mills, saw mills and similar industries dealing with local products.

All of this activity was performed by the Commonwealth Bank, acting as a national bank in the interests of the general welfare. **Fig. 1** is a table from C. C. Faulkner's book *The Commonwealth Bank of Australia*, showing Commonwealth Bank lending to local councils as at June 1923.

FIGURE 1

Purpose.	Loans to June 30th, 1923.
Permanent Improvements (Road Construction, Bridges, Drainage, etc.)	£2,830,000
Gas and Electric Light	1,260,000
Tramways	400,000
Council Chambers, Town Halls, etc.	280,000
Sanitary Purposes	360,000
Harbour Improvements	800,000
Repayment of Loans	2,700,000
Miscellaneous	730,000
Total	£9,360,000

In a 1921 interview Miller was asked if he, through the Commonwealth Bank, had financed Australia during the war for £350 million. He replied, "Such was the case; and I could have financed the country for a further like sum had the war continued".[4] Again, asked if that amount were available for productive purposes in peace time, he answered in the affirmative.

All of this support was done without the important note issue function, which O'Malley had demanded. It was not until 1920 that the Commonwealth Bank was given the note issue power, but only, again, to protect the private bankers.

The Trans-Australian Railway and Fisher's Note Issue, 1910

At this point I want to step back to 1910, before the Commonwealth Bank was founded, to explain why King O'Malley regarded the control of the note issue as so important. The ability of the Australian government Treasury to print notes is the clearest example of real national credit creation, using the sovereign power of government.

Back in 1910, with the population still distrustful of the private banking system, largely owing to the crash of 1893, Fisher passed the *Australian Bank Notes Act*, giving the Commonwealth treasurer sole power to issue Australian notes, which were "payable in gold coin on demand at the Commonwealth Treasury which was in Melbourne".

According to historian and author David Day, "Fisher was Prime Minister at a time when people were still conflicted about their identity. And Fisher was saying to them, 'you have an Australian identity and that's the identity you need to embrace'. Fisher created a psychological sense about being Australian—with the Commonwealth of Australia banknotes, the postage and the Coat of Arms. The banknotes epitomised his sense of Australian attitude to the core."[5]

At the same time, the Commonwealth government passed a *Bank Notes Tax Act,* imposing a 10 per cent tax on all bank notes that had been issued by private banks and not redeemed. That meant that the old pound sterling notes, issued by the private banks, immediately lost 10 per cent of their value. They were very quickly returned, so that the new notes were legal tender.

The *Australian Bank Notes Act* of 1910, amended in 1911, also mandated that the treasurer was required only to hold, in gold coin, an amount not less than 25 per cent of the total amount of Australian notes issued.

I think that today there is common confusion, in the belief that the Commonwealth Bank financed the Trans-Australian Railway. (The Trans-Australian Railway was the long railway, which was to be built to link up to the existing railway system, joining Kalgoorlie in the west to Port Augusta in South Australia. It made up the trans-Continental Railway **(Fig. 2)**.) This is not correct. Whilst the Commonwealth Bank provided the banking facilities for the railway and established branches for the workers right along the railway as it was being built, the Trans-Australian Railway was in fact paid for by the profits made by the government from its Australian note issue.

The building of the Trans-Australian Railway was a promise made to entice Western Australians to join the Federation. It was to be their link to the eastern states, from the west.

At a 1905 Labor Party conference in Melbourne, O'Malley called for support for a continent-spanning railway; but he said that it should run up through central Australia to Darwin, for, "It was to be in the interests of developing Central Australia".

When Labor was swept into power in 1910, and O'Malley became the minister for home affairs, building this railway (but not up to Darwin) became his portfolio. In Parliament he said: "[E]xamine the map on the wall. See that the territory which this gigantic national enterprise will traverse, linking up the east and the west with bands of steel and lightning-like express trains, constitutes the precise territorial strength of the whole Commonwealth." The first sod of earth was turned by the governor-general at Port Augusta in South Australia in September 1912,

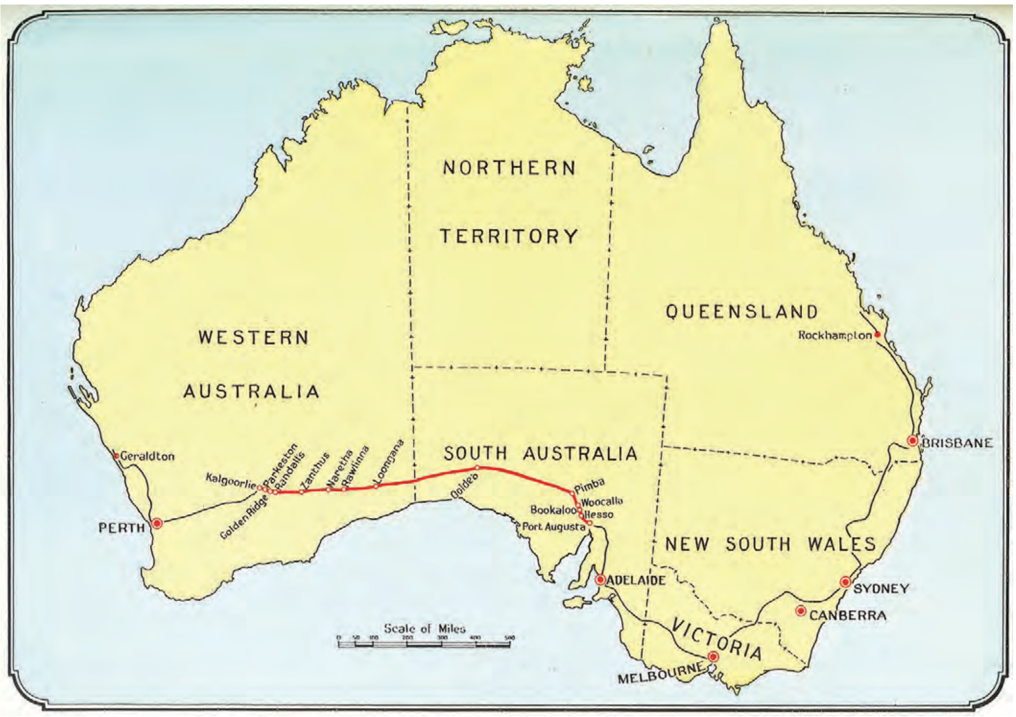
4. L.C. Jauncey, *Australia's Government Bank*, p. 275. See also Treasurer Percy Spender's speech in Hansard, Vol. 161, p. 976-7.

5. www.coinworks.com.au/Interview-with-David-Day-award-winning-historian

just three months after the Commonwealth Bank was established in Melbourne.

Progress was slow for the first twelve months, but O'Malley imported two huge track layers from Chicago to speed things up. These track layers were preceded on the job by an Australian-developed steam shovel, so some of the latest technology was being employed here. It took just over five years and £7 million to build the Trans-Australian Railway.

FIGURE 2



The Trans-Australian Railway was built by King O'Malley from Kalgoorlie in Western Australia to Port Augusta in South Australia, with extensions westward and eastward to the coasts. It took five years and £7 million to build.

How was it paid for? Between the years of 1914 and 1920, the government increased the note issue by approximately £50 million, and these notes were put into circulation in various ways**:**

(a) Some were given to the banks in exchange for gold;

(b) Some were lent at interest to state governments;

(c) Some were placed on fixed deposit with various banks at different rates of interest;

(d) More than half the notes were invested in interest-bearing securities.

The last two items, (c) and (d), represented the Australian Notes Account at the Treasury.

The money for the Commonwealth's Trans-Australian Railway was paid in the following manner:

(1) From revenue (taxation)	£1,205,651
(2) From "profits" on the Australian Notes Account	£3,428,519
(3) From sale of some of the securities held by the Australian Notes Account	£2,335,372

	£6,969,542[6]

According to the Commonwealth Year Books, the amounts of (2) and (3) were treated as loans from the Australian Notes Account to the Commonwealth Railways for building the Trans-Australian Railway, but in reality this was just a transfer of funds from one government department to another. If it were not for the increase in the note issue, there would have been no money to transfer.

Therefore, as you can see, most of the money used to pay for the construction of the railway was obtained by printing notes, and none of it involved the people of Australia in debt or interest, directly. The government literally created this credit.

By 1920, the true power of issuing credit through the note issue was obviously noted by the private banks, and it had also become evident that the Australian notes were likely to remain the principal form of currency. The private banking cartels sought to regain control over them.

With the power of the Commonwealth to create credit for the nation through the note issue, the private banks always feared that if the Australian note issue remained under the political control of the Treasury, then the government might use it to solve problems of the nation. The private banks feared that there would be too much power in the treasurer (or the government), to issue legal-tender money.

In 1920 the Billy Hughes Nationalist Government passed the *Commonwealth Bank Act* of 1920, which repealed the 1910 *Australian Bank Notes Act*, but at the same time transferred control of the note issue from the Treasury to the Commonwealth Bank. It also provided that "there shall be a Note Issue Department of the Bank which shall be kept distinct from all other departments of the Bank." The Note

6. Hansard, Vol. 129, p. 1930.

Issue Department was to be placed under a board, and not just under the control of one man like Denison Miller. The Note Issue Board consisted of the governor of the Bank (Miller) and three members appointed by the governor-general, including a representative of the Treasury.

Even though the new Note Issue Department paid the Commonwealth nearly £3 million from its note issue in December 1920-June 1923, the Note Issue Board was regarded as being disconnected from the rest of the Bank, and this became the excuse for another change. In 1924, the Bruce-Page Government brought in an amendment of the *Commonwealth Bank Act*, to place the bank under the control of a directorate made up principally of financial magnates associated with the private bankers, and other acolytes.

First meeting of the Australian Notes Board on 17 December 1920. Denison Miller is seated in the centre, as its chairman.

From the date of the appointment of this directorate, the Commonwealth Bank ceased to function as the people's bank, or a valuable asset to the government. It became a bankers' bank, run for their special benefit, until its revival in the World War II years under John Curtin and Ben Chifley. None of the great undertakings I listed before were taken on by the bank for many years.

Later, in the late 1920s and early 1930s, the second Great Depression hit. Labor Federal Treasurer Ted Theodore, at that point, proposed exactly what the private bankers feared: that the Commonwealth Bank make a special fiduciary notes issue of £18 million. The issue was to be done through the Commonwealth Bank, not backed or constrained by gold, to provide immediate aid to the wheat growers and work for the unemployed, by funding desperately needed public works programs. It was to stimulate demand, and reverse the deflation of the depression years. The economy was deflating from lack of credit.

The proposal was rejected by the chairman of the Commonwealth Bank Board, Sir Robert Gibson, who had replaced Denison Miller upon his death in 1923. Gibson denounced the move as inflationary—which, of course, it was. In a deflationary spiral, you need to create demand, i.e., some inflation.

This mean-spirited, London-directed policy was responsible for crippling unemployment of up to 30 per cent, and the destruction wrought by the Great Depression of the 1930 years. It was totally unnecessary!

He Who Owns the Gold Makes the Rules

It was not until World War II that things changed dramatically. Jack Lang wrote in *The Great Bust*:

> Wars do not collapse because either side runs out of money. An army can run out of men or ammunition. But not out of money. It is a strange paradox that times of great human destruction are invariably times of great prosperity. While the war continues, the purse-strings are wide open. Inflation is a counterpart of war. There is unlimited finance to keep mankind in the most unproductive of all human enterprises.
>
> Depression comes in peace-time. They are the aftermath of war. Governments regard the sky as the limit when it comes to borrowing for war, then a few short years later they quibble about a few millions to keep men employed. The money machine breaks down. Families starve. Businesses go bankrupt. Farm lands are stricken with a money drought. A strange paralysis creeps into every form of economic activity. They call it Depression.

When World War II broke out, this is exactly what happened. The expansion of credit to fund the war effort meant that unemployment disappeared almost overnight.

Over the period from 1928 to 1938, however, annual government expenditure only rose by a mere £2.6 million pounds, from £78 million to £80.6 million **(Fig. 3)**. This corresponded with the marginal increase in Treasury Bills issued by the government.

Jim Cairns recorded in his book *Oil in Troubled Waters*, that "whereas borrowing from the central bank through Treasury Bills—by which the Bank creates a credit to the Treasury, on the government's authority, in exchange for a Bill, against which the Bank then lends money to other banks—were not used prior to 1933, and in the nine years to 1941 only to the extent of a net £5 million [**Fig. 4**], in 1942 Treasury Bills increased massively, and continued all through the war."

Then Curtin-Chifley took over the government in 1941. Immediately they used their war-time powers to give the Commonwealth Bank the powers and

FIGURE 3

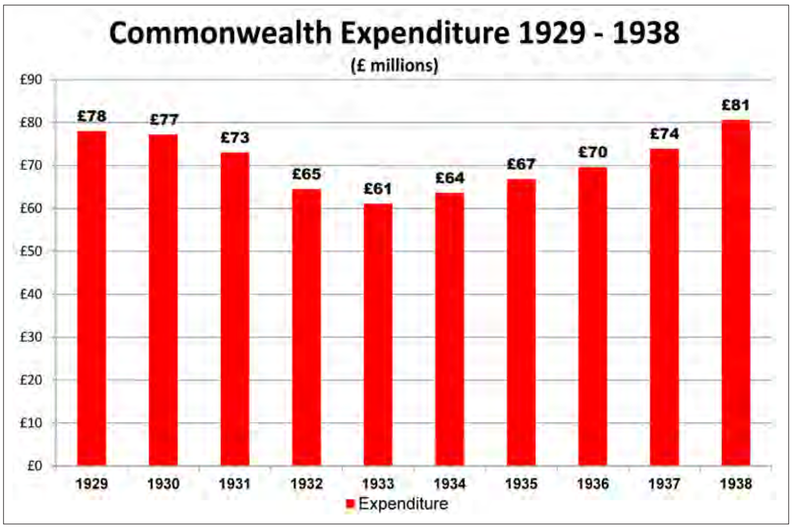


FIGURE 4

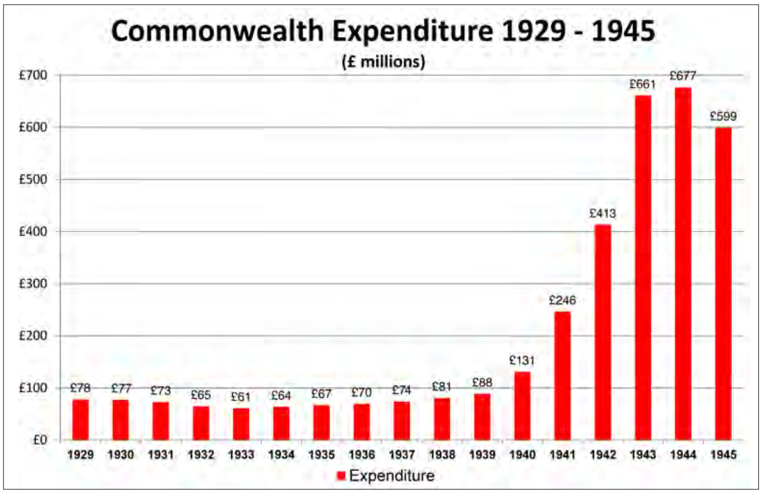
Treasury Bills

£ Million Yearly Change

Pre- and early war		War-time under ALP	
1933	+ 4	1942	+ 59
1934	0	1943	+ 173
1935	- 4	1944	+ 77
1936	+ 2	1945	+ 68
1937	- 1	**Total**	**+ 367**
1938	+ 4		
1939	+ 3		
1940	- 4		
1941	+ 1		
Total	**+ 5**		

Source: *The Australian Trading Banks* by HW Arndt

FIGURE 5



functions that O'Malley had originally envisaged it would have, as a national bank of deposit, issue, exchange and reserve. The Commonwealth Bank took control of the private banks, and financed the war mobilisation.

Whilst lending directly to the government for the war mobilisation, and brokering war loans, the Commonwealth Bank also took charge of the private banks. The private banks were made to deposit substantial reserves with the Commonwealth Bank, so that they couldn't increase the money supply by excessive lending, which would have driven up the prices of rationed commodities and products, and caused inflation.

Instantly, the Commonwealth Bank started creating credit on an unprecedented scale, through the government's issuance of Treasury Bills or government IOUs. These were issued specifically for the nation to mobilise its physical economic resources to fight the war. The increase in government spending was huge **(Fig. 5)**. The government would issue the T-bills, which were then used as an asset by the Commonwealth Bank to create those funds that would then fund the government's expenditures.

Within just months of the war economy being mobilised, as **Fig. 6** shows, Australia's unemployment rate dropped to zero!

D.P. Mellor reports in *The Role of Science and Industry*, "The years 1942 and 1943 witnessed an astonishing increase in the number and variety of locally-made machine tools. … At the peak of production in 1943 some 200 manufacturers employed 12,000 persons for an annual output of 14,000 machine tools. By the middle of 1944 what had been Australia's greatest single technological weakness had become a major source of strength."

The economic mobilisation of the war was also notable for the fact that there was virtually no war-time inflation, thanks largely to the strict banking controls overseen by the Commonwealth Bank.

On 9 March 1945, Treasurer Chifley moved the *Commonwealth Bank Bill* of 1945, to make the successful war-time banking structure permanent. He said, "The legislation that I am proposing today is based on the conviction that the Government must accept responsibility for the economic condition of the nation. … Accordingly, the Government has decided to assume the powers which are necessary over banking policy to assist it in maintaining national economic health and prosperity." His bill aimed to:

- strengthen the central banking functions of the Commonwealth Bank [mandatory special accounts];
- ensure that monetary and banking policy of the Commonwealth Bank shall be in harmony with the main decisions of government policy and in the interests of the people of Australia;
- ensure the development and expansion of its general banking business by active competition with the trading banks;
- return the control of the Commonwealth Bank to the governor, who will be assisted by an advisory council;

FIGURE 6

• assist in developing small industries and in enabling the people to secure homes;

• abolish the Board control of the note issue;

• abolish the currency reserve requirement of 25 per cent in gold/silver.

Chifley said, "Reduced to its simplest terms, one of the main responsibilities of a central bank is to control the issue of bank credit by all the banks in such a manner as to *avoid expansion of credit in times of boom,* and *contraction of credit in times of depression*." Or, you could say in short: the government has a central role in the nation's banking.

Chifley's banking reforms horrified the private banks, and today, as a result, we no longer have a Commonwealth Bank. From 1945 until 1996, the Commonwealth Bank was completely destroyed by the desires of London- and Wall Street-directed banks. Between 1991 and 1996, the Hawke-Keating years, these two Labor prime ministers and the Australian government oversaw the sell-off of the Commonwealth Bank.

After World War II

There were only two other attempts to use national credit to develop our nation. The first was the Snowy Mountains Hydro-Electric Scheme. Chifley's great legacy was his agenda for post-war reconstruction, notably the Snowy Mountains Scheme; the second was the Australian Industry Development Corporation.

The legislation instigating the Snowy Mountains Scheme clearly provided for its construction to be financed with national credit. The three sub-clauses relating to funding stated:

1. "The Authority shall have power to borrow money on overdraft from the Commonwealth Bank of Australia upon the guarantee of the Treasurer.

2. "The Treasurer may, out of moneys appropriated by the Parliament for the purposes of this Act, make advances to the Authority of such amounts and upon such terms as he thinks fit.

3. "Except with the consent of the Treasurer, the Authority shall not have power to borrow money otherwise than in accordance with this section."

In a 1949 parliamentary debate on the funding, Kim Beazley Snr for the ALP Government made it clear that sub-clauses 2 and 3 reinforced 1, and that all funding was to come from Commonwealth Bank credit. This intention was one that fell victim to Chifley's losing office, because it never happened. Prime Minister Robert Menzies and his successors ended up funding the entirety of the 25-year spending on the Snowy out of consolidated revenue.

In a 1952 parliamentary debate, the ALP's Charles Morgan argued: "If a factory owner wishes to extend his factory, a farmer to erect new farm buildings, or a worker to raise a home, he does not do so from current income; he raises a loan and pledges his future to repay the capital so raised. Surely the same principle can be applied to national construction, particularly in relation to such important developmental works as the Snowy Mountains hydro-electric scheme, which is of paramount importance to Australia. Surely that scheme could be financed by national credit and the resources of the Commonwealth Bank, without recourse to current revenue. Work on the project could be speeded up considerably if such a project were adopted. We have been able to raise millions, and even billions, of pounds for war purposes. Why cannot we also raise money for peaceful purposes?"

The Australian Industry Development Corporation

There was one last interesting development towards the end of the Liberal Party's rule, when the John Gorton-John McEwen Government established a new public credit institution, the Australian Industry Development Corporation (AIDC), which was to be a vehicle for investing in value-adding industries. It was a reaction to the growth in raw-materials looting, led by Rio Tinto in Western Australia (an area also targeted for heavy financial speculation).

A paper presented to the Cabinet calculated the value difference in exporting bauxite vs. processed aluminium, in 1970 dollars:

• 1 million tonnes of bauxite, exported as the raw material, earned $5 million;

• processed one step into alumina, it earned $27 million;

• processed again into aluminium—$125 million;

• and processed finally into aluminium products—$600 million!

Gorton's critics in his own party warned that he was creating a tool for Jim Cairns to use when in government, to socialise Australia. Cairns said: "Money is created by the Reserve Bank and by the Trading Banks and for their own requirements; the Australian government may borrow from this created money, as it did during the Second World War. The Australian government in 1974 and 1975 could have used Treasury Bills to borrow from the Reserve Bank to help finance the building of pipelines, the operations of the AIDC and for other purposes and this, as far as possible, I was determined to bring about."

The AIDC was a vehicle created to express sovereignty, and, interestingly, Malcolm Fraser as defence minister, speaking on ABC radio about the AIDC, said: "Its role, broadly, is to assist Australian interests in marshalling financial resources, particularly from overseas, for major industrial development. It will direct itself to giving assistance in ways which will help Australian companies to gain or preserve a greater Australian participation that otherwise would be the case."

Cairns, as treasurer in the Whitlam Government, sought to make full use of the AIDC, but it was ill-equipped, not empowered to operate like a national bank.

From what I have elaborated, you can see the rich history we have had with national banking in our country.

The Commonwealth National Credit Bank

Today, we, the CEC, have written the legislation for a new national bank called the Commonwealth National Credit Bank (**page 84**). Its essential points are diagrammed in **Figs. 7 and 8**. It creates a true national bank, which draws upon the best features and ideas of King O'Malley. The torch of national banking and national credit has been handed to us, to implement in our country with Glass-Steagall and other necessary actions.

FIGURE 7

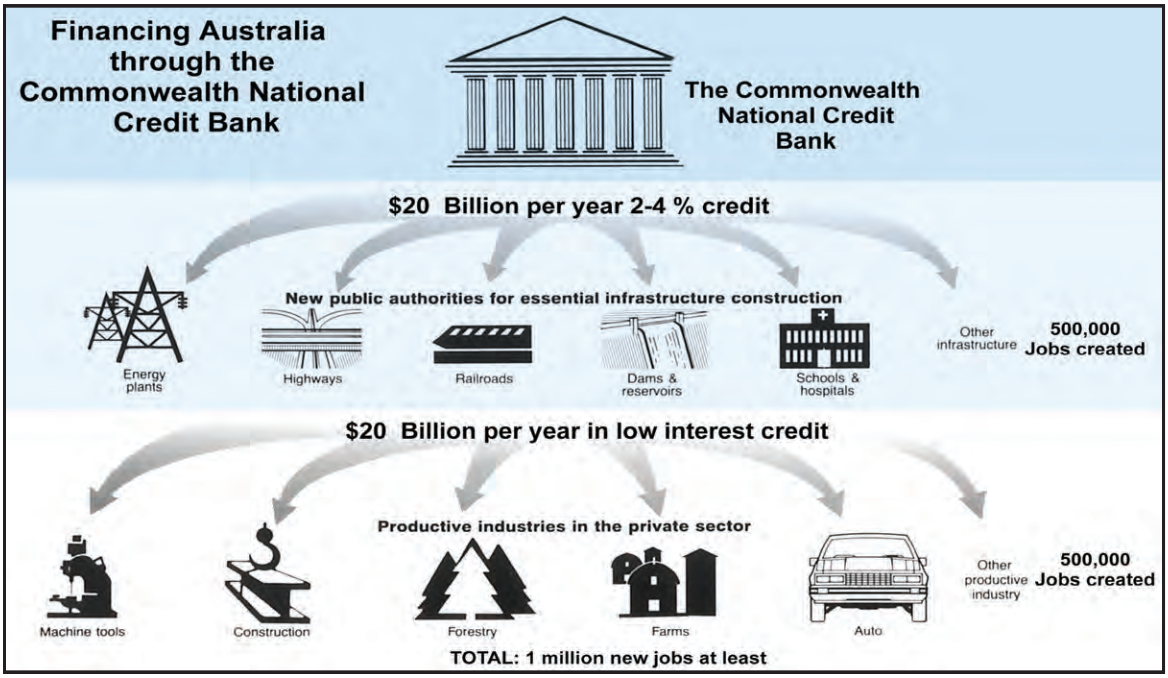


FIGURE 8