

## Ted Theodore's fight for a national bank

*Excerpted from "Defeat the Synarchists—Fight for a National Bank", The New Citizen, April 2004.*

By early 1929, prices paid in England for Australia's agricultural and mineral exports began to plummet, and the nation had great difficulty meeting its huge interest payments. In October, Australians voted the Labor Party into government under Prime Minister James Scullin, a former member of King O'Malley's Torpedo Brigade [which had succeeded in getting the Andrew Fisher Labor government to enact the Commonwealth Bank in 1911]. The City of London responded by cutting off credit to Australia, and the now private banker-controlled Commonwealth Bank began to call in advances and overdrafts.

From the day it took office, 22 October 1929, the Scullin Government was between a rock and a hard place. The Senate was controlled by the financier-dominated Nationalist Party, while City of London toady Sir Robert Gibson was Chairman of the Commonwealth Bank. No significant legislation to deal with the Depression was likely to be passed, nor would Gibson cooperate with Labor.

Frank Anstey, Member of Parliament for the Melbourne electorate of Bourke and a minister in Scullin's government, posed the only way out. Since Labor had just overwhelmingly defeated the previous Nationalist Government of the arch-Anglophile Stanley Melbourne "Spats" Bruce, Anstey urged that Labor should force a double dissolution, before its "tide ran out." Almost certain to win, Labor would gain control of the Senate, as well as the lower house, and would be able to pass the required national banking and related measures to deal with the Depression. Due to cowardice and various petty concerns, including pressures on the Cabinet by the trade unions, Scullin did not muster the will to act as Anstey outlined. From that moment on, the Government's tide was running out, as Anstey had warned.

Nonetheless, some important things were attempted. On 2 April 1930, Scullin's treasurer, Ted Theodore, introduced the Central Reserve Bank Bill to establish a new reserve bank, which would control the paper note issue and the gold reserve, and mandate all other banks to keep 10 per cent of their current accounts and 3 per cent of their reserves with the new bank. This would have given the Government crucial tools. An accompanying piece of legislation was the Commonwealth Bank Act Amending Bill, which would have replaced the six-person big business-dominated board with a single governor. At first, it looked as if both the Commonwealth Bank Board and the Senate might even agree to these measures. But, after arm-twisting by the private trading banks, especially the British-owned ones based in Melbourne, both bills were killed in the Senate.

Commonwealth Bank chairman Gibson adamantly refused to issue £18 million in notes for financing public works, which the Government sought in order to provide work for men whose families were starving. Gibson stormed, "Mr Prime Minister and Members of the Cabinet, you ask me to inflate the currency. My answer is that I bloody well won't." His excuse of not "inflating the currency" was a lie: Australia's currency supply had dropped from £57 million in 1924 to £42 million in 1929.

With the typical behaviour of an "independent central banker", Gibson dominated the government. Veteran journalist Warren Denning, whose beat was the Parliament,



Treasurer Ted Theodore (left) and Commonwealth Bank chairman Sir Robert Gibson (right).

Painted this picture: "The relationships between the Ministry and the late Sir Robert Gibson, then Chairman of the Commonwealth Bank Board and the most powerful figure in Australian 'depression finance', illustrate vividly the real status of the Government itself. This cautious old Scotsman was more definitely Prime Minister of Australia, than Mr Scullin was at any time... He maintained throughout the independence of the Commonwealth Bank Board, refusing to submit to anything that savoured of political domination... Sir Robert Gibson stood as the representative of the financial interests of Australia, to whom all Ministers and all governments should come and genuflect."

Backing up Sir Robert was the bank's legal advisor, Robert Menzies.

Scullin was a weak figure, who bowed to Gibson. Denning observed that, in contrast, "Mr Theodore was shaping himself for a struggle with Sir Robert Gibson", which would have "settled once and for all whether that Board, or the elected representatives of the people, were to determine the course of national financial policy; whether Parliament or the Bank Board was supreme." Behind the back of his Cabinet, however, Scullin not only reappointed the hated Gibson as chairman of the Commonwealth Bank Board (his term was up in July 1930), but he also agreed to a Bank of England proposal-cum-demand (organised through Gibson) to dispatch its representative to Australia to "straighten out" Australia's finances. This resulted in the infamous Niemeyer visit of 19 July 1930: the Bank of England's number two man, Sir Otto Niemeyer, would visit, as ex-Premier Stanley Melbourne Bruce put it in a letter from London, "to convey the message that British help was conditional on policy changes, without appearing to dictate to Australia." Niemeyer was the person who had put Britain (and, therefore, much of the world) back on the disastrously restrictive gold standard in 1925.

On 2 July Scullin, in poor health due to the strain of office, announced he would soon leave for London to attend the Imperial Conference of Dominion Prime Ministers, and that Theodore would be Acting Prime Minister during his several-months absence. Though Theodore was "ascendant in the party" and tipped to have a "certain future" as Scullin's successor (Denning's observations), on 4 July the so-called Mungana Affair scandal was launched against him. A Royal Commission in Queensland—appointed by a conservative state government with the clear intention of

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taking Theodore out of Federal politics—implicated Theodore in a financial scandal, the Mungana Affair, dating from some years earlier, when he had been Queensland Premier. Scullin requested Theodore's resignation the very next day.

With Theodore out of the way, Niemeyer arrived to tell Australians that their standard of living was far too high, their Arbitration and Conciliation Board must be abolished, and their tariffs had to be cut. The issues were political, as well as economic: The British intended to keep Australia as a supplier of cheap raw materials, having little or no manufacturing—just as they had attempted to do with the American colonies in the 18th Century. They would not tolerate Australian industrialisation. "Australia must", intoned Niemeyer, "reassure the world as to the direction in which she is going."

On 21 August 1930, the Commonwealth government and the state premiers signed the Melbourne Agreement, acquiescing to Niemeyer's demands. The following year, after some token interest rate cuts that were supposed to represent "equal sacrifice" on the part of the financiers, the pact was called the Premiers' Plan. It cut public service salaries, pensions and other "adjustable government expenditure" by 20 per cent (but reduced already inadequate old age pensions by "only" 12.5 per cent), made 22.5 per cent reductions in the interest rates paid on government bonds held inside the country and in

bank interest rates, reduced private mortgage payments and raised taxes.

*End note: **Sir Otto Niemeyer** became the UK's representative on the Bank for International Settlements (BIS), which should have been shut down after WWII for collaborating with the Nazis (and the Bank of England), but was saved by the intervention of bankers from London and Wall Street; today, the BIS is known as the "central bank of central banks", and is pushing "bail-in" and effectively a central bank dictatorship. Although **Ted Theodore** failed in his plans to use the Commonwealth Bank to revive Australia in the Great Depression, a decade later John Curtin's government was able to put Theodore's ideas into action in WWII, to finance a miraculous wartime economic mobilisation that saved Australia and laid the foundation for post-war industrial success.*



Sir Otto Niemeyer. Photo: National Library of NZ