AUSTRALIAN ALMANAC Vol. 25 No. 37

The Genesis of Austerity (Part 8)

From Austria to Australia: Bank of England's Niemeyer dictates austerity

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Parts 1-7 of this series (available at citizensparty.org.au) recounted how London financiers crafted a new order after World War I—a dictatorship of bankers and their balance sheets, to the detriment of the sovereign economic development of nations and the welfare of their populations. The new regime's chief institutions were the Bank of England and the British Treasury, which ran economic policy for the new League of Nations (1920) and organised the Bank for International Settlements (1930) as a central bank of central banks. They mandated ever more power for "independent" central banks, meaning independent of governments that might attempt to prioritise their citizens' interests. The banking oligarchy also cultivated teams of experts, supposedly apolitical economists who would uphold the "orthodox financial practices" demanded by the financiers. A central doctrine of these experts and their bosses was ***austerity*** *in all areas of the economy: drastic limitations on government spending, high interest rates in the name of fighting inflation, and belt-tightening through the suppression of wages and living standards.*

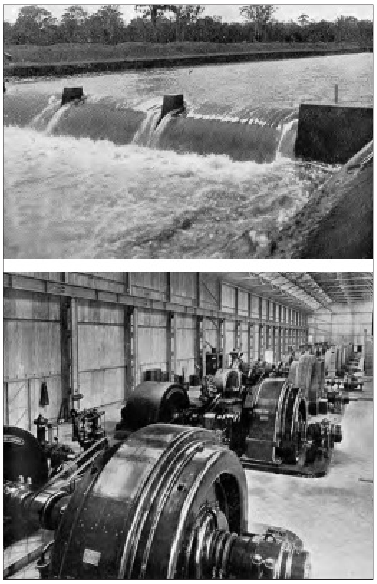
Parts 3 – 6 showed that these policies fed the emergence of fascism in Italy, Austria and Germany. Part 7 summarised how the Mont Pelerin Society and its offshoots carried the austerity doctrine forward after World War II, under the banner of the anti-government doctrine called "neoliberalism".

In the 1920s and 1930s, as now, the battle raging in Australia over the bankers' dictatorship and austerity policies was no mere footnote to processes in Europe. That Australian fight, which is the subject of the final two articles in this series, was of strategic importance. The perpetrators of austerity signalled as much in July 1930, by sending Sir Otto Niemeyer, right-hand man of Bank of England (BoE) Governor Sir Montagu Norman, to force austerity down the throats of Australia's federal and state governments.

The Australian outcome was strategic because the Australian republican movement, which had taken shape beginning in the 1830s, had always looked to the best of the United States as an example, including to the ideas and actions of Treasury Secretary Alexander Hamilton (1755-1804): creation of a national bank to issue public credit for manufactures, infrastructure, and other "internal improvements". Hamilton's policies, known in the 19th century as the American System, or National Economy, were a fearsome threat to the hegemony of the City of London and its junior partner, Wall Street, especially after the system's revival by Abraham Lincoln and its international spread after the US Civil War (1861-65). In the first half of the 20th century, the leadership of the Australian Hamiltonians was centred in the Labor Party—what today we remember as Old Labor.

By 1901, Hamiltonian ideas had largely been suppressed in the United States itself (pending their revival by Franklin Roosevelt in the 1930s), but they were very much alive in Australia. In 1908 the immigrant from America MP King O'Malley convinced the still young Australian Labor Party (ALP) to make a national bank a plank in its non-negotiable national Fighting Platform. O'Malley himself campaigned for the bank at street rallies around the country. In 1909 he proclaimed himself "the Alexander Hamilton of Australia", telling Parliament, "He was the greatest financial man who ever walked this earth, and his plans have never been improved upon."

This early history of the Commonwealth Bank—first its achievements as the realisation of O'Malley's dream of a sovereign, credit-creating bank, but then its disruption by London interests and Melbourne bankers—is told in depth in two Australian Citizens Party publications, which are available via our website: *The fight for an Australian Republic: From the First Fleet to the Year 2000* (1999) and "The Australian Precedents for a Hamiltonian Credit System", a presentation by Craig Isherwood included in *Time for Glass-Steagall Banking Separation and a National Bank!* (2018). The highlights of that history will take us into the political battles over banking, during the Great Depression of the 1930s.



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

Labor vs. the Money Power

At the time of Federation in 1901, leaders of the Australian Labor Party, which took the American spelling l-a-b-o-r for its name, knew that the primary battle was against what it called the "Money Power"—the City of London financial centre which dominated the British Empire and much of the globe. In 1911 O'Malley and his so-named Torpedo Brigade of allies in Parliament overcame intense opposition from the Melbourne banking establishment and from PM Andrew Fisher and Attorney General Billy Hughes—ALP members, but susceptible to the bankers' influence—to secure passage of the bill to establish the Commonwealth Bank. Denison Miller, from the Bank of New South Wales, was the banker O'Malley endorsed to become governor of the new bank. Betraying the hopes of the London-oriented banking establishment that he was one of their own, Miller acted on his commitment to fund the development of the nation. He even commenced operations without raising capital, saying, as the Commonwealth Bank opened its doors in 1913, "This bank is being started without capital, … but it is backed by the entire wealth and credit of the whole of the Commonwealth of Australia".

Pressure from the Melbourne bankers, through Fisher, prevented the Commonwealth Bank from being chartered as a complete national bank—the bank of "issue, reserve, exchange and deposit" O'Malley had envisioned. Yet it was able to stop a nationwide bank crash on the eve of World War I, finance participation in the war, and fund vital infrastructure construction. Indeed it funded the entire economy—from private agriculture, business ventures and home construction, to public works, as is detailed in Craig Isherwood's presentation cited above. The new national bank also forced the private banks to compete in retail banking, thanks to O'Malley and Miller's ingenious model of opening Commonwealth Bank savings branches in all the country's post offices. The result was lower interest rates, the abolition of charges, and expansion of the bank's deposit base, and therefore of its own lending capacity, while incurring no debt and few expenses apart from the interest paid to depositors.

Already in 1910, prior to establishment of the Commonwealth Bank, the government had taken control of the issue of paper currency (the note issue) away from the private banks and vested it in the Treasury. In August 1910 Melbourne MP Frank Anstey, one of O'Malley's closest collaborators, invoked the precedent of the paper currencies of the early American Colonies and President Lincoln's greenbacks as he spoke in favour of the 1910 Notes Bill, which gave this power to the government. "I am an advocate", he declared, "of a National Bank to utilise our national credit, free from the limitations and restrictions of any private corporations whatsoever." Rebutting critics who raised the spectre of inflation, Anstey added that a government note issue, properly wielded, would not "inflate the currency of the country by a single fraction".

J.T. (Jack) Lang of the ALP, twice premier of New South Wales in the 1920s and 1930s and a fervent opponent of the Money Power, looked back on the first decade of the Commonwealth Bank in his book *The Great Bust* (Angus & Robertson, 1962). He recalled that the bank's success in financing Australia's part in World War I had threatened London's power over the Australian economy and those of the rest of its overseas Dominions. When, at the end of the war, Denison Miller reported in London that his Commonwealth Bank had found £350 million for war purposes, and then, back home, added that his bank could raise an equivalent amount for productive purposes, "Such statements as these caused a near panic in the city of London", Lang observed. "If the Dominions were going to become independent of the City of London, then the entire financial structure would collapse. The urgent problem was to find ways and means of re-establishing the financial supremacy that had been lost during the war."

Lang continued, "Basically it was a problem of banking. Some formula had to be devised which would enable such institutions as the Commonwealth Bank of Australia to be drawn into the City of London's net." The City's solution was to force all banking in the Dominions, including Australia's Commonwealth Bank, "directly into the supervision of the Bank of England."

"The first step", wrote Lang, "was to take control of the Note Issue Department away from the Treasury and hand it to the Commonwealth Bank, as was the case in Britain."

Thus, as of 1920, both O'Malley's tendency within the ALP and the City of London with its Australian allies wanted control of issuing the currency to be put in the hands of the Commonwealth Bank, but their purposes were entirely different. The former wanted it to operate as a government-owned national bank like Hamilton's First Bank of the United States, which would finance real economic development, but the prospect of Australia proceeding with a full-fledged Hamiltonian bank was what terrified the City of London. The British therefore sought to turn the Commonwealth Bank into a central bank entirely independent of elected government, according to the model devised under the leadership of BoE chief Montagu Norman at the international conference in Genoa, Italy in 1922. British emissaries intervened repeatedly in the 1920s, and up through Niemeyer's 1930 visit, to make the Commonwealth Bank an enforcer of the tight-money austerity model worked up at Genoa and at the Brussels International Financial Conference two years earlier—the League of Nations-sponsored confab that had issued resolutions against "fresh expenditure" by governments, budget deficits, or price subsidies to assist the war-battered population. (See Part 2 of this series, on both conferences.)

First, as Lang said, in 1920 control of the notes issue was moved from Treasury to a new Australian Notes Board, administered by the Commonwealth Bank. This body was a creation of Joseph Cook, formerly a Liberal Party PM (1913-14), who in 1920 was acting treasurer in the Billy Hughes government. Hughes, the former Labor attorney general who had opposed O'Malley's national bank concept within the ALP, had left the party in 1916 and formed his own Nationalist Party, with Cook. Citing demands for budget cuts contained in the report of a 1919 Royal Commission on public expenditure, chaired by businessman Sir Robert Gibson, Cook in September 1920 vowed to "keep expenditure down to the lowest possible point". In faulting "the flood of paper money" printed during the war, Cook was backed up by the "expert opinion" of James Collins, his Treasury secretary, who had just been schooled in monetary policy at the Brussels conference.

In 1920-21 the Notes Board did restrict the supply of bank notes, citing the need to curb inflation. The result was to stifle Australian manufacturing by impeding bank lending.

The Cambridge-educated Anglophile (later Lord) Stanley Melbourne Bruce, likewise of Hughes's Nationalist Party, came to power as PM in February 1923. Commonwealth Bank Governor Denison Miller, the biggest defender of the bank's original Hamiltonian design, died in June of that year. London escalated its drive to neuter the bank Miller had believed would become "the most powerful in the southern hemisphere". Bruce went to London for the Imperial Conference of October-November 1923, which resolved that all British Dominion countries would establish central banks entirely independent of elected governments, as prescribed at the Genoa conference.

In 1924 the Bruce government instigated amendments to the *Commonwealth Bank Act of 1911*, to make it the type of central bank Norman demanded. A bank board was introduced, which included the governor, the secretary of the Treasury, and six members of the business community. Labor Party leader Matt Charlton told the House that the bill was "nothing less than an attempt to kill the Bank". City of London toady Sir Robert Gibson, the 1919 "public expenditure" Royal Commission chair, joined the new board in 1924 and soon became its chairman (1926-34). He set about gutting the Commonwealth Bank's capabilities.

The 1928 London mission

These institutional changes were not enough for the City of London. At the next Imperial Conference, in 1926, Prime Minister Bruce agreed with British PM Stanley Baldwin that a delegation representing His Majesty's Government should visit Australia and lay down strictures on how to handle Australia's finances, under the pretext of fighting inflation. In Jack Lang's account, PM Bruce was wined and dined by London's financial elite and given an earful on the Commonwealth Bank still being out of line. Lang recalled that "On [Bruce's] return from London, he was under an obligation to do something about the Commonwealth Bank. The Economic Conference had decided to bring the Dominion banks under the control of the Bank of England. The idea of a world-wide system of central banks was the core of the plan."

Back home, Bruce set up an advisory commission of economists, a type of institution pioneered in Europe since 1922, when the British Treasury/Bank of England-controlled League of Nations had sent technocrats to Austria to dictate that country's economic policy (Part 3). Bruce's commission included economists such as D. B. Copland, a New Zealand-born young economist who moved in the international circles that devised the austerity regime in Europe, and would later be a delegate to the League of Nations.

The British Economic Mission arrived at the port of Fremantle on 25 September 1928. The four envoys—big business leaders accompanied by civil servants—soon became known as "The Big Four". "Mr Bruce", wrote Lang, "had already had a visit [in early 1927] from Sir Ernest Harvey, deputy governor of the BoE, who had given him much advice on how to run the Commonwealth Bank and how he should deal with the States and other matters of finance. Australia was still a borrower nation. London was still regarded as the sole source of loan money." Harvey had insisted that the Commonwealth Savings Bank division, which competed with private banks in retail banking, did not fit with Norman's mould for a central bank, but his effort to split off the savings bank from the central bank would not be fully realised until 1959.

Lang described the task of the 1928 Economic Mission as essentially an audit of the British Crown's possessions: "They were arriving to undertake a stocktaking of assets and liabilities in that section of the portfolio of the Dominions Office filed under 'Commonwealth of Australia'."

The British team was in the country for three months, submitting its report in January 1929. According to Lang, their report condemned "examples of unprofitable expenditure and improperly planned development", such as the Murrumbidgee Irrigation Scheme and Hume Reservoir (for which they recommended suspension), and the proposed £4 million development of the Murray River scheme. Thus, projects for the common good financed by the government-owned bank were in violation of the austerity doctrine. They advocated privately owned rather than publicly funded and owned infrastructure, and recommended radical deflation, which would result, Lang correctly forecast, in hundreds of thousands of unemployed Australians. They demanded that "the costs of production must fall", meaning primarily a savage reduction of wages. The Mission objected to the ALP's push to fix a basic wage, impose tariffs, and develop manufacturing, pushing instead for greater British trade and investment opportunities, i.e. colonial looting of Australia's economy. They endorsed BoE Deputy Governor Harvey's proposal to strip the Commonwealth Bank of its savings-bank function. The Mission produced a policy handbook to dictate rules the Australian government should follow. It proposed regular visits to Australia by British civil servants. "It was the perfect blueprint for Imperial repossession", wrote Lang.

The Great Depression and great financial squeeze

In the lead-up to the full-force arrival of the Great Depression in 1929-30, the City of London interests were in the process of seizing control of Australia's banking, away from elected government. The economy was tanking. Prices for our major exports plummeted and government receipts fell around 50 per cent; customs receipts comprised 40 per cent of federal government income in 1929-30.

With reduced revenue, the government had immense difficulty meeting interest obligations on the debt it had incurred on the London market, which started being closed intermittently to Australian long-term borrowing. In 1925 Australia turned to borrowing in New York. Jack Lang pioneered the New York borrowing, as well as the more momentous policy of generating credit internally. In *The Great Bust*, he reflected on his first stint as NSW premier (1925-27): "I had almost upset the apple cart when I had floated internal loans and put forward the highly dangerous doctrine that this country could finance its own needs. I had also obtained money on the New York loan market. But I was no longer in office, and the business was back again with Morgan, Grenfell, and the House of Nivison in London."

An October 1929 federal election brought Labor back to power for the first time in 13 years. Prime Minister James Scullin, a member of O'Malley's original Torpedo Brigade, commenced governing only a few days before the great Wall Street crash. Scullin faced a shut-off of the tap for London credit, already stingy. To negotiate new loans or renegotiate old ones, Australia already had to go through Nivison & Co. in London, one of the Big Five financial firms of the Empire. Now, as Australia struggled to refinance its existing debt, the BoE clamped down on new Australian bond flotations in the London market, to force compliance with its demands for austerity. Histories of the period are flush with references to the "rigid application of sound financial principles" and the need for "sound banking"—the Brussels/Genoa financial "orthodoxy" again.

In early 1929 Montagu Norman had personally attempted to suppress a new Australian government bond, without success on that occasion, but in the course of negotiations he reinforced his authority in Australia, including via extensive meetings with two Australians: J.S. Scott, the manager of the London office of the Commonwealth Bank, and Raymond Kershaw, a member of the Secretariat of the League of Nations and Bank of England liaison with banks in the British Crown Dominions. Norman noted in his diary that when Kershaw returned to the "League at Geneva" (League of Nations) after a trip to Australia, he (Norman) had asked him to "call here in June in case he + we might agree that he should become a Central Banker—to assist in developing a Central Bankers' Club on lines of the Genoa Resolutions."

With the price of wheat, one of our major exports, continuing to fall, finances in Australia were tightening, and interest payments on the foreign debt had to be paid in gold. As more gold flowed out of the country for debt-servicing in London, the note issue stagnated because our currency was on the gold standard: 25 per cent of the value of notes on issue (currency in circulation) had to be held in gold at all times. In response to this situation and in defiance of London's anathema on political control of the currency, the government in December 1929 legislated to control the gold holdings of private banks, in a way that effectively took Australia off the gold standard. In a blow to British interests, the Commonwealth Bank acquired the bulk of the trading banks' gold and the import and export of gold was regulated. But Treasurer Ted Theodore, after this partial victory, still lamented the "lack of means for the mobilisation of our credit resources".

In April 1930 Theodore presented a Central Reserve Bank Bill to restore government control over the note issue, the gold reserve and private bank reserves (mandating that banks keep 10 per cent of their current accounts and three per cent of their reserves with the Commonwealth Bank), and to establish a "people's bank"—a public bank that would compete with the private banks in retail banking. It also aimed to eliminate the six-person business-community board in favour of a single governor. The banking fraternity hit back. Commonwealth Bank board member Alfred C. Davidson, a Bank of New South Wales executive well versed in the "new art of central banking" (economic historian C.B. Schedvin's words), complained that Labor MPs "wish to make of the Reserve Bank a machine for manufacturing notes and credit, regardless of the consequence". Backed by an increasingly vocal group of "expert" economists including the above-mentioned Copland, Davidson insisted that the central bank be at least *semi*-private. With Davidson's help, the private banks, which feared competition from a new public bank, pushed for a Senate Select Committee, where the financier-dominated Nationalist Party killed the proposed bill.

When the government, with Australia at risk of default, sought a deferment of overseas obligations, the BoE intervened. Deputy BoE Governor Harvey wrote to Commonwealth Bank Chairman Gibson that the BoE could send an intermediary to Australia "if he would be taken into full confidence", meaning he would have full access to Australia's financial operations and records. The BoE wanted the note issue suppressed, and feared ALP attempts to regain control of the Commonwealth Bank. Gibson issued an invitation to BoE Governor Norman's advisor Otto Niemeyer, the BoE's chosen emissary.

Scullin, lacking control of the Senate and bludgeoned by the BoE interventions and financial pressures, fell into the BoE trap. In mid-1930 he reappointed Gibson as Commonwealth Bank chair and endorsed the plan for a BoE visit. Anticipating an eruption of protests in Australia, he deliberately withheld announcement of the trip until Niemeyer was en route from London. The financial situation became even more precarious as credit arrangements for Australia were suspended pending conclusion of the Niemeyer mission.

Furthermore, by early July Scullin was without his finance man: Ted Theodore was forced temporarily to relinquish the post of Treasurer due to the Mungana Affair, a trumped-up scandal over the sale of mining properties to the Queensland government. Theodore himself said that he had "been the victim of a hired assassin", Lang reported.

With the national banking alternative effectively blocked and overseas financing still up in the air, in June 1930 Gibson threatened that without a "clear and definite financial scheme" the Commonwealth Bank would stop funding the government. Gibson warned that the board would not "continue to accept further obligations" and insisted on austerity—"that reductions of expenditure should be made".

The bailiff arrives

Enter Otto Niemeyer. Dubbed by Jack Lang the "Liquidator in Chief", Niemeyer was preparing to foreclose on a bankrupt nation on behalf of British bondholders. Fittingly enough, prior to his government appointments Niemeyer had worked as a bailiff, pursuing bankrupt estates.

Niemeyer was a central player in the post-World War I project to use austerity as a means of financial and political control. He had been recruited to the Bank of England by Norman in 1927, having worked at the UK Treasury since 1906. In both posts he worked with a band of technocrats to protect City of London banking interests, stealing from the poor to give to the rich, in the pilot project of the new austerity doctrine conducted in Britain (Part 2) and in subsequent experiments.

Niemeyer had represented the BoE in the League of Nations Economic and Financial Organisation, scripting the economic subversion of war-torn and bankrupt Austria, which handed over control of its financial and economic policy to an externally directed League of Nations commissioner. In country after country, Niemeyer shifted control of economic policy decisions to external, unelected bodies. His draconian austerity model was implemented across Europe, including to enforce German reparations payments, which paved the pathway for the Nazi takeover. Knighted in 1924, Niemeyer went on to hold top jobs at the Bank for International Settlements in 1931-46. He was BIS chairman when the supranational bank facilitated German sequestration of Czechoslovakia's gold (Part 6), a move that assisted the Nazi war machine. "So they were not sending out any minor official to Australia", observed Lang. "He was a key man."

Sir Otto Niemeyer in Australia in 1930. Bank of England Governor Montagu Norman had ordered him to distrust "all Australian Governments and Ministers".

Norman assigned Raymond Kershaw to accompany Niemeyer to Australia. Kershaw was the Aussie on the BoE staff who had been feeding information on Australia to Niemeyer and Norman. Also travelling with Niemeyer was Theodore Gregory, a professor of banking from the University of London. Gregory gave a stunning lecture at Adelaide University soon after his arrival, in which he claimed that the "real world" was not "farmhouses, and human beings, and buildings, and equipment"; rather, "The real world … is the balance sheet, which those physical structures actually represent"!

Upon arrival in Australia on 14 July 1930, Niemeyer was immediately provided the "full confidence" demanded by the BoE: Gibson and his board handed him a dossier of financial statistics. Within three weeks he had determined his position and within a month he convened a meeting of federal and state governments to balance all budgets—i.e., to impose brutal austerity.

"[C]osts must come down…", Niemeyer blared at the first of these "Premiers' Conferences", in August. "Australian [living] standards have been pushed too high". In what became known as the Melbourne Agreement, Australia's state premiers unanimously resolved to balance their budgets, not seek further overseas loans, limit new expenditure, service debt only from revenue, and make monthly statistics available for foreign examination. Niemeyer's advice brought "the house of English orthodox economics down on Australia's head", wrote economic historian Alex Millmow.

Next: Australia risks fascism for austerity

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