

The Genesis of Austerity (Part 9)

The 1930s: Australia risks fascism for austerity

The Australian Labor Party (ALP) had been routed at every pass in its push for sovereign control of banking (Part 8), but it would not give up fighting against the drive to impose a bankers' dictatorship in Australia. A Hamiltonian national bank, as conceived by King O'Malley and soon to be approximated by Ted Theodore's attempted Fiduciary Note Issue, would crush the power of the private banks over the economy. Therefore, mirroring the London financial elite's post-WWI campaign to control banking in Europe, priority number one of the Bank of England and its Australian junior partner, the banking network in Melbourne and Sydney, was to defeat the pro-national banking faction of the Labor Party. The Money Power employed political thugery, with the threat of physical violence by fascist paramilitary forces. It is a battle crucial for Australians today to understand.

The Melbourne Agreement and Labor brawls

The course of austerity defined by the August 1930 Melbourne Agreement, dictated to ALP Prime Minister James Scullin's federal government and the state premiers by Bank of England (BoE) emissary Otto Niemeyer (Part 8), meant squeezing ordinary working people. The labour movement rebelled against the Agreement, while Labor greats including Jack Lang, Frank Anstey and Ted Theodore presented alternative plans. A rival ALP faction, firmly in support of banker-dictated austerity, coalesced around acting Treasurer Joe Lyons.

John Curtin, at the time an MP from Western Australia, wrote a pamphlet entitled *Australia's economic crisis and the £55,000,000 interest bill: How the years of Money Power extortion have brought misery to the nation*. He demanded national banking to fund a recovery, instead of austerity.

As an election campaign was under way in NSW, the Political and Industrial Committee of that state's ALP passed a motion for all NSW members of Federal Caucus (ALP members in the national Parliament) to repudiate the Melbourne Agreement, fight for a cancellation of war debts, declare a five-year moratorium on other overseas debts, mobilise credit for public works, and maintain award wages. Lang, heading up the ALP's electoral slate, denounced Niemeyer and his team as the "bloodsuckers of Britain". The 25 October 1930 poll would bring a landslide victory for Lang and NSW Labor.

But in August, Scullin had left for the latest London Imperial Conference before the end of the premiers' confab that adopted the Melbourne Agreement. The trumped-up scandal that temporarily ousted Theodore as treasurer had erupted in July. Thus, both Scullin and Theodore were out of the picture when the Melbourne Agreement was finalised and accepted on 21 August, and for some months thereafter. In early September Lyons went to Caucus with a deflationary plan to back the decisions of the conference, including government spending cuts, tax increases and wage cuts.

Again the labour movement intervened. In mid-September at a conference of unions, the Australian Council of Trade Unions (ACTU), which had already rejected the Melbourne Agreement, called for an injection of £20 million of credit for public works. It also proposed, according to the Melbourne daily *The Argus* (20 Sept. 1930), that the Federal Cabinet "should immediately nationalise banking and the means of exchange, so that all the export commodities, wheat, wool, butter, coal, lead, and others, should be used as a means of credit in other countries. The consolidation of the means of exchange would save millions of pounds a year."

While the Commonwealth Bank, now under control of the business-community board installed in 1924, insisted in its official reports that there was no alternative to "a very lean

time" ahead for Australia, the ALP in Victoria and Sydney and the Federal Labor Executive demanded "utilisation of the nation's credit" to solve the crisis. At the end of September,

when the Cabinet resolved by a small majority to cut public service wages, it also demanded an increase in public works expenditure. The broader party rejected the wage reductions. A conference between the cabinet and Commonwealth Bank boss Sir Robert Gibson followed on 3 October, to discuss the ALP's proposal for "financing of industry to absorb unemployment". The fight over private versus public (elected) power reached its zenith when Gibson, though head of the government bank, refused to obey the government's command to boost public spending. According to *Smith's Weekly* on 4 October 1930, "[W]hen Prime Minister Scullin pressed him to meet the situation by issuing Twenty Millions of new Commonwealth Notes, Sir Robert flung aside his customary restraint of speech, and replied, to the assembled Federal Ministers: 'Mr Prime Minister and members of the Cabinet, you ask me to inflate the currency by issuing another Twenty Millions of notes. My answer is, that I BLOODY WELL WON'T!' And that was the end of that project." According to contemporary assessments, by this time Gibson was considered "more definitely Prime Minister of Australia than Mr Scullin".

With Scullin overseas, Lyons, with acting PM James Fenton, convened a special economic session of parliament in October, to which they invited Gibson, to push for reduction of government deficits, salaries and social services, in line with the Melbourne Agreement. What they were proposing, Anstey wrote, was to "Cut everything and everybody except the bankers and the bondholders. By these means, we are told, our financial credits and conditions will be improved." Anstey and his allies in Caucus argued along the lines of Commonwealth Bank founders O'Malley and Denison Miller, that bank credit was not limited by the balance sheets of individual banks, because the assets of the entire nation stood behind this credit.



A Labor movement cartoon identifying the crushing hand of the Money Power.

Theodore had returned to Parliament when it resumed in October and immediately attacked Lyons's austerity proposals. Three days after Jack Lang's election victory in NSW, at a 28 October Caucus meeting Theodore's ally George Gibbons, member for Clare (NSW), put up the proposal of Theodore to instruct the Commonwealth Bank to create funds for public works, with the suggested £20 million expansion of credit. In addition to the £20 million State and Commonwealth loan works program, the proposal included a mandate for the Commonwealth Bank to create sufficient credit to finance all requirements of government; to meet Commonwealth loan servicing; and finance primary and secondary industries. The motion, in direct breach of the Melbourne Agreement, was carried after a rowdy debate but Gibson again rejected it.

In early November Anstey and Curtain amplified this broadside against the new economic orthodoxy London demanded, by calling for a 12-month deferral of repayments of loans from Britain. That same month, just when in London the BoE was once more denying funds to Scullin, Fenton and Lyons, at the insistence of the ALP's Federal Caucus, again put to Gibson the proposal for credit expansion. In a 16 December letter, Gibson wrote that approving it would result in inflation, plunging the country towards "final disaster". He denied that "the Bank Board was attempting to dictate the policy of the Government", claiming that they were merely insisting on the maxims of "a sound financial and monetary system".

MPs Ben Chifley and John Curtin continued to push hard for asserting financial independence from the private and central banking fraternity. By the end of November 1930, the Labor Party had split over the austerity plans. Many Labor MPs who opposed the Melbourne Agreement now sat on the Opposition benches. In early 1931 Joe Lyons and five other MPs would defect from the Labor Party to form the United Australia Party, which merged with the pro-bank Nationalist opposition. As far as Gibson was concerned, the Melbourne Agreement had done its job, wrecking the ALP government's ability to defy the Commonwealth Bank he controlled.

Theodore's fiduciary note issue

By January 1931, Scullin was back in the country. He quickly reinstated Theodore as treasurer, prompting the resignation of Fenton and Lyons from the cabinet. With austerity policy now all but locked in, however, the fight took the form of ensuring "equality of sacrifice" across various sectors of the nation. A series of premiers' conferences, following from the inaugural one with Niemeyer in August 1930, fashioned the soon-to-be infamous Premiers' Plan for austerity.

Also in January, the Commonwealth Court of Arbitration ruled in favour of a ten per cent cut to the award wage, saying no recovery would be possible "until the Governments are able to meet their expenditure out of revenue". (The basic wage had already fallen steeply; the court decision brought the drop to 20 per cent since 1928.) For the first time in Australia, a court decision on an economic policy matter was influenced by "professional economists" invited to testify; this was the European model of having "expert", ostensibly non-partisan economists call the shots. Stanley Bruce, the Nationalist PM in the 1920s, had been enthralled with this model. The Australian group now included Cambridge-trained L.F. Giblin (a close friend of Lyons), League of Nations operative D.B. Copland (introduced in Part 8), L.G. Melville, J.B. Brigden and E.O.G. Shann—most of them involved with British Round Table efforts to keep Britain and its Dominions closely tied.

At a 6 February 1931 meeting of Premiers, Treasurer Theodore declared it was time to abandon traditional thinking and direct credit into the economy, a plan immediately

branded "inflationist". The private banks declared it was "not on sound banking and economic lines". Theodore proposed an £18 million fiduciary note issue (paper currency not backed by gold), with £12m directed into works projects (£1m a month for one year) to provide employment, and £6m in assistance for wheat-growers. NSW Premier Lang proposed suspension of external interest payments, drastic reduction of internal interest rates on government borrowings, and replacement of the gold standard with a "goods standard". "[O]ur only standard", declared Lang, should be "the real wealth of the community, the production of the brains and hands of the people".



Ted Theodore and James Scullin. Photo: Wikipedia

After spirited debate the conference put Theodore's proposal to the Commonwealth Bank, which promptly rejected it, in line with private banks' wishes. Backed into a corner by Gibson's refusal "to continue financing Government deficits by means of inflation", Theodore resolved to prepare legislation to allow the government to regain control of finance.

Meanwhile, against the backdrop of a March federal by-election in NSW, Lang's state government defaulted on interest payments to the Commonwealth. He rejected an offer of Commonwealth assistance to pay overseas interest, unless the money could be spent on relieving unemployment, and NSW was soon in default on its foreign loans as well.

On 5 March Theodore introduced his Fiduciary Notes Bill to allow for the planned credit expansion, and on 24 March the Commonwealth Bank Bill (No. 2) 1931, to amend the *Commonwealth Bank Act* to free the currency from the restrictions of the gold standard and allow for fiduciary issues. ALP MP Earl Page affirmed in Parliament that the "set up [of] a purely paper currency" would ensure that "banking, shall, in future, be under political control". The bill eventually passed the House with amendments, but was stopped in the Senate.

In his 24 March parliamentary speech, Theodore pointed out that in countries like Austria and Hungary (Part 3) that had accepted revival of the credit-blocking gold standard, as recommended by the 1922 Genoa Conference and pushed by the League of Nations, "It has not preserved their prosperity, and it has not prevented violent oscillations of price levels. It has not avoided the depression which has overtaken the world, and is causing more disturbance, loss, unrest, and suffering than any other depression in history. The gold standard, therefore, is losing its supporters; it has proved an illusion and a snare."

On the other hand, Theodore said of his fiduciary note issue, in a March speech in Brisbane: "It will create employment for 40,000 or 50,000 men, and their employment and their spending power will create opportunities for the employment of another 40,000 men. In that way purchasing power will be increased. The vanished money will come into circulation."

Additionally, the government presented a Bank Interest Bill, to give the government the power to determine interest rates, as well as a bill to control foreign exchange. Lyons and other former Labor MPs opposed the package. The Senate, still dominated by the Nationalist Party, rejected the Fiduciary Bill in April; the other bills were defeated or withdrawn.

When Theodore pressed the Commonwealth Bank at least

to provide relief for wheat farmers, the bank not only refused, but threatened that it would soon *refuse to finance the government itself*. Theodore replied that the bank had “arrogate[d] to itself a supremacy over the government in the determination of the financial policy of the Commonwealth, a supremacy which, I am sure, was never contemplated by the framers of the Australian Constitution, and has never been sanctioned by the Australian people.” Blindly following the overseas example of contractionary financial policy (suppressing the money supply), he said, would neither balance budgets nor bring prosperity.

The Premiers’ Plan

In April, Gibson delivered on his long-threatened ultimatum, restricting new government borrowings to just £25 million in Australia and the same in London, which would be exhausted within a few weeks. Jack Lang recalled, in his book *The Turbulent Years*, Gibson’s warning that unless all federal and state budgets were balanced, “the banks would no longer be prepared to provide the finance necessary to carry on the governments. They were told that they would have to deal with the evils of default and that those evils were much greater than any hardship the nation would have to face to restore Australia to a sound position. Panic conditions would be produced in financial circles, involving banks and saving banks; business would be paralysed; insolvencies would be the order of the day; unemployment would be general.” The scene was set for a pitched battle at the next Premiers’ Conference on 25 May 1931.

This time the conference had a committee of leading economists play a formal role—the same Copland, Gibling, Shann and Melville mentioned above. Their job was to prepare recommendations on slashing government spending to achieve budget equilibrium by the end of June 1934. The pro-bank Nationalist premiers declared in advance their unequivocal support for the experts’ proposals. Other committees, of banks, insurance companies, the stock exchange, and lawyers, were established to provide technical information to back in the plan. Economic historian C.B. Schedvin observed that “the appearance of expertise and objectivity” smoothed the way for adoption of the austerity proposal. In reality, the financial elite was dictating terms.

The final plan, released on 10 June after three weeks of daily meetings, determined that the government’s “adjustable expenses” would be reduced by 20 per cent; Commonwealth income and sales taxes plus duties would be increased; interest rates would be lowered, including on government bonds, to reduce the interest bill. This was the Premiers’ Plan, to be supervised by the Commonwealth Bank.

Government salaries, social services and pensions were reduced. Some concessions were made (war pensioners and disabled soldiers, for example, were reduced by “only” 12.5 per cent), but as Theodore said, there was no stimulus to the real economy, no unemployment relief.

In the face of the Premiers’ Plan, Curtin and others urged the government to resign and force an election; other ALP members argued that Labor’s implementing the Plan would, at least, be less harsh than implementation under a different government. A special federal conference of the ALP later denounced the Plan. A South Australian conference voted to expel all 22 MPs who supported it. The Victorian branch of the party threatened with expulsion any MP supporting the extension of wage cuts. In the end, on the promise of lower interest payments on mortgage debt and limited credit expansion, even NSW Premier Lang and Treasurer Theodore accepted the Plan, Theodore hoping it would ensure supply

(financing to keep the government running) and buy “twelve months’ breathing space” to get Labor’s alternatives enacted. In return, the Senate passed a watered-down Commonwealth Bank Bill.

When successive premiers’ conferences attempted to raise money for promised relief works, Gibson held firm against any new, large-scale projects. It would present a “danger of exceeding the limits provided under present legislation for Note Issue”, he warned. By 1931 all states had enacted debt and foreclosure moratoria to assist homeowners and farmers, but Australian families were on lower wages, and other forms of social assistance were being slashed. According to the 1933 Census, the size of the average family fell.

Stormtroopers in the wings

Of course, in true Imperial tradition, there was a Plan B in case the government could not be reined in politically. Behind the scenes the same bankers, working with the nation’s elite class descended from the original colonial patrician families, fostered “citizens leagues”, the most extreme of which had fascist paramilitary organisations attached. Typical of the banker-league relationship, the National Mutual Life Assurance Co., on whose board sat Gibson, sponsored the flagship All For Australia League (AFAL). Overseas, austerity had always been enforced with the threat of fascist violence and dictatorial control, whether it eventuated, as in Austria, Italy and Germany (Parts 3-6), or not.

In Australia, the “stormtrooper” enforcers were the Melbourne-based League of National Security, and the Old Guard and New Guard, based in Sydney. Combined, these three groups comprised over 100,000 well-armed and highly organised militants. The best known of the three was the New Guard, led by Mussolini- and Hitler-worshipper Eric Campbell. The New Guard achieved notoriety on 19 March 1932, when New Guardsman Col. Francis DeGroot jumped ahead of Premier Lang to pre-empt him, with a sword, at the ribbon-cutting for the Sydney Harbour Bridge.

These armed fascist brigades were modelled explicitly on the blackshirts and brownshirts of Mussolini and Hitler. Like them, the paramilitaries had their front organisations—the mass citizens leagues, which shared the same philosophies, and whose members often did double duty as both league activists and members of the armed detachments. Both the armed brigades and their “citizen” fronts were created, staffed and run at the highest levels, by the country’s leading financial organisations and big business. “The 1930’s Synarchist Assault on Australia”, a special report in the *New Citizen* of April 2004, relates this sordid piece of Australian history.

But the Scullin government was defeated politically, rather than through violent clashes, at the December 1931 election. Thanks to the Money Power’s use of all its resources, former ALP member Joe Lyons won the election at the head of the United Australia Party, a coalition of ex-Labor MPs and the Nationalist Party, supported by the networks behind the fascist leagues. Lyons had campaigned for “sound finance” on a nationwide tour in April 1931 sponsored by the citizens leagues, many of which were eventually rolled into the UAP. Leaders of the Old Guard took up key positions in the party; twenty or so New Guardsmen were elected as UAP MPs.

Newspaper baron Sir Keith Murdoch (Rupert’s father) promoted Lyons to draw support away from Labor. Backing for Murdoch came from the City of London-linked Melbourne banking network, which included Lord Glendyne, the chairman of Nivison’s, and Sir Staniforth Ricketson, chairman of the Melbourne firm J.B. Were and Son, biggest underwriter of Australian government loans. Ricketson was the hand behind

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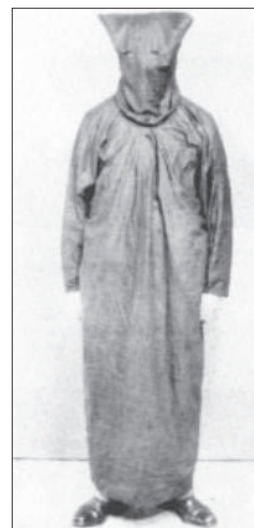
future Liberal Prime Minister Robert Menzies. A firm supporter of austerity who had been the Commonwealth Bank's legal advisor, Menzies as a Victoria state MP spoke out against rent reductions for the poor. In the face of Lang's 1931 default, he coldly opined that "it would be far better for Australia that every citizen within her boundaries should die of starvation during the next sixth months" than to take the "traitorous" way out by refusing to pay our debts. National banking and associated solutions were slandered as Communism.

In the event that Scullin and Lang weren't driven from power by political means, the League of National Security (also known as the White Army), whose leadership greatly overlapped that of the Australian Imperial Force (the regular army), was prepared to stage a military coup to assume "control of all strategic points and machinery of government".¹ This was no vain threat. As historian Andrew Moore summarised, "By the end of 1931 [the Old Guard] was a colossus, possessing many times the combined manpower of the New South Wales police and Commonwealth armed forces."² The New Guard boasted 30,000 members and included an elite strike force, the Fascist Legion, which dressed in black Ku Klux Klan-style hoods and robes to terrorise political opponents. Evidence of a plan to kidnap Premier Lang was discovered during a May 1932 raid on New Guard headquarters. At the federal level, members of AFAL, which had close ties with both the Old Guard and the New Guard front, had approached (unsuccessfully) WWI hero General Sir John Monash to take over as dictator.

Even with Lyons in power and strictly adhering to the Premiers' Plan, economic problems were not resolved. The premiers' conferences continued, and Gibson continued to threaten to stop financing the government. The bankers' threats were made good in May 1932, when King George V directed Governor General Sir Philip Game to sack Premier Lang after the latter's refusal to make interest payments on debt held by British bondholders. The fascist armies were days or hours from marching on Sydney, an eventuality avoided only by the removal of Lang. It forestalled an overt fascist takeover, but at the sacrifice of Australia's best leaders and policies to deal with the economic crisis. Australians knew it: Some 300-500,000 people, the largest protest in Australia's history at that time, gathered in support of Lang in Sydney's Moore Park.

The Commonwealth Bank was now close to being a full-fledged independent central bank per BoE Governor Montagu Norman's design. It controlled the exchange rate, credit policy, bank liquidity and interest rates, all with the aim "to preserve the stability of the monetary system free from political influence", not the wellbeing of the people. But the fight was far from over. The 1937 Royal Commission on Banking, convened by the Lyons government to settle who should have authority over banking—the government, or the Commonwealth Bank board—ruled that "The Federal Parliament is ultimately responsible for monetary policy". This ruling, giving the government the power to override the private banks, remains in banking legislation to this day.³

Lyons did not act on the royal commission's decision, but when Curtin and Chifley came to power as PM and treasurer during World War II, they used their war-time powers to restore crucial functions of the Commonwealth Bank, which immediately began to extend credit to the government through the issue of Treasury Bonds. There was a huge leap in government spending, but, contrary to the bankers' warnings, it was not inflationary, because it contributed to the real economic development of the country. Commonwealth Bank control over the private banks ensured credit was directed into the productive sector. Within months the unemployment rate dropped to zero!⁴



A New Guard "Fascist Legion" member.

As the war drew to a close, Prime Minister Curtin moved to make permanent the bank's restored powers, starting with the *Commonwealth Bank Bill* of 1945. Curtin declared, "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." This was a declaration of war against the agenda of Montagu Norman and his Bank of England, a mortal challenge to the supremacy of bankers and their hired economists over governments.

The bill soon became law, but Curtin's and Chifley's plans were interrupted by Australia's banking establishment, which challenged them in the High Court. A scare campaign by the banks caused Chifley to lose power in the 1949 election.

The bankers who had organised and funded the fascist paramilitaries of the 1930s continued their battle against national banking and the common good, by sponsoring the Australian wing of the worldwide Mont Pelerin Society network of think tanks ([Part 7](#))—the Institute of Public Affairs, the Centre for Independent Studies, the HR Nicholls Society and Tasman Institute—to make the neoliberal austerity agenda permanent. In place of armed fascist mobs came mass brainwashing of policy-makers and the population on the theme that government should not interfere in the economy, but let the free market rule all—the disastrous dogma embodied in the deregulation policies which the Hawke-Keating Labor government (1983-96) installed, and which both Labor and Liberal governments have continued ever since.

The banker-dictatorship regime of permanent austerity can be defeated through a revival of Australia's strong tradition of national banking.

Research and assistance for this series was contributed by Robert Barwick, Robert Butler, Anton Chaitkin, Allen Douglas, Rachel Douglas, the late Kelvin Heslop, Craig Isherwood and Gabrielle Peut.

4. Craig Isherwood, "The Australian Precedents for a Hamiltonian Credit System", *Time for Glass-Steagall Banking Separation and a National Bank!* (ACP, 2018).

1. Keith Amos, *The New Guard Movement 1931-1935* (Melbourne U. Press, 1976).

2. Andrew Moore, *The Secret Army and the Premier. Conservative Paramilitary Organisations in New South Wales 1930-32* (New South Wales U. Press, 1984).

3. "Upcoming RBA legislation: Don't hand power to private bankers!", AAS, 15 Nov. 2023; the government is currently pushing to eliminate these powers.