

A Credit System for Australia:

King O'Malley and Australia's National Bank

Part 1 of 2

by Robert Barwick

The following is the first part of CEC Research Director Robert Barwick's presentation to the CEC's May 2013 National Conference, which followed Joanne McAndrews presentation on the USA's Hamiltonian credit system, also printed in recent editions of the Australian Almanac.

“No well-informed man can cast a retrospective eye over the progress of the United States, from their infancy to the present period, without being convinced that they owe, in a great degree, to the fostering influence of credit, their present mature growth. This credit has been of a mixed nature, mercantile and public, foreign and domestic. Credit abroad was the trunk of our mercantile credit, from which issued ramifications that nourished all the parts of domestic labor and industry. The bills of credit emitted, from time to time, by the different local governments, which passed current as money, co-operated with that resource. Their united force, quickening the energies and bringing into action the capacities for improvement of a new country, was highly instrumental in accelerating its growth.”

—Alexander Hamilton, 1795 *Report On Public Credit*.

Joanne McAndrews has just demonstrated how America's founding fathers developed their credit system, to deliver on the promise of the Declaration of Independence, i.e. unalienable right to life, liberty and the pursuit of happiness. Hamilton's public credit system was central to the viability of the nation-state republic. The American System broke the power of the Venetian system of monetary control.



St Marks Basilica, Venice, for centuries the world's greatest depository of financial loot.

Venetian monetary control

The Venetian oligarchy organised the crusades to loot Europe of silver and take control of the trade routes to Persia, India and China.

Up to 1000 A.D. Western Europe used only silver; the Byzantine and Islamic empires used only gold. Venice created a bi-metallic money system they could manipulate.

In 1260 the Mongols forced China off gold on to paper currency, enabling Venice to shift enormous quantities of gold to Europe.

Venice looted huge profits through arbitrage, exploiting differences in value: silver was valued higher in China, one mark gold to 4 marks silver, than Europe, one mark gold to 12 marks silver. Venice's East-West arbitrage of gold and silver bullion was an early, rigged system of currency speculation.

The shift to a bi-metallic monetary system in Europe gave Venice unlimited opportunities for the speculative looting of the physical economy.

Venetian doge Mocenigo in the early 1420s boasted the Venice's control of gold and silver gave it annual profits of 40 per cent!



British Chancellor of the Exchequer and future prime minister William Gladstone, 1852.

British Empire

By the time of the American Revolution, London was the headquarters of the Venetian monetary empire. In 1852 British Chancellor of the Exchequer and future Prime Minister William Gladstone admitted from his experience that the City of London was a higher power than the government: "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."

This struggle between national governments trying to harness the financial resources that they need to govern, and the private Money Power, aka financial oligarchy, determined to maintain its control over money, has defined every nation in the world. Australia is one nation outside of the U.S. where the authority of the nation-state prevailed over the Money Power, for a time, and it was thanks to the vision and tireless organising of an American, King O'Malley.

King O'Malley and Australia's National Bank

King O'Malley:

- Worked as a young man in his uncle's bank in New York City, for a number of years, before extensively travelling the U.S. selling insurance.
- Campaigned for Republican James Blaine in 1884 Presidential election, and claimed to his 1940s correspondent L. Jauncey that if Blaine, one of the last champions of the American System and a bitter opponent of Wall Street, had won, he expected to be appointed ambassador to Chile, a British beachhead into South America. Historian Anton Chaitkin identifies this is a clue that O'Malley was in fact an American agent, in the tradition of E.A. Poe.
- Travelled abroad, according to Bob Ellis, the playwright behind *The Legend of King O'Malley*: "to Ireland, whose ancestral spirits stirred him; to Wales, whose miners' slave-like conditions enflamed his radicalism; to Scotland, where he studied banking; to Russia, where he traced the snow-bound retreat of his hero Napoleon; to Germany and England, where he studied banking. He became obsessed with banking..."
- Moved to Australia in 1888; parts of the story are hard to confirm, but is known to have travelled between Melbourne, Hobart, Launceston and surrounds, Kalgoorlie, and Adelaide, selling insurance.
- First recorded publicly advocating for a national bank in a letter to the *Adelaide Register* in 1893, in the wake of the 1892 banking crisis, when state governments were struggling with banking laws to clean up the mess. NSW Premier George Dibbs had enacted a measure O'Malley supported, to alleviate the shortage of currency for ordinary people stemming from the bank collapses. He guaranteed bank notes as legal tender which the government would honour in gold, and issued state Treasury notes as legal tender to cover 50% of deposits up to £300. Other state premiers opposed Dibbs' approach as unorthodox, and they also opposed the early ALP push for state banks, because they didn't think governments should be involved in banking. O'Malley's letter advocated the American national banking system.
- Won election to the SA Legislative Assembly in 1896, representing Encounter Bay. He refused to swear an oath of allegiance to the Crown, and would only make an affirmation. He was defeated by anti-temperance forces in the 1899 election.
- In 1900 returned to Tasmania and campaigned for the new federal parliament for the seat of Darwin on the west coast. His platform was for an aged pension and a government bank of issue.
- In 1901 represented the seat of Darwin in the first federal parliament, as an independent, and in 1902 joined the ALP caucus.
- Relentlessly advocated a national banking system at every opportunity, especially in the context of the fraught issue of sorting out federal-state financial relations.
- Often demonstrated his deep understanding of the American System; eg. he started his lifelong feud with Billy Hughes on 22 May 1901 when Hughes was, unusually for a Labor man, arguing for free trade. Hughes challenged protectionist members to name one economist of note—of European and world-wide standing—who supported their theory, to which O'Malley instantly interjected, "Carey, of the United States." [Henry Carey was Lincoln's economics advisor and James Blaine's mentor.] Hughes was completely ignorant: "I understand that there is a man named Carey, but no one ever pays him the compliment of regarding him as an economist of world-wide standing." Hughes speech on free trade degenerated into an argument with O'Malley, which was completely out of order.



King & Amy O'Malley.

King O'Malley and Australia's National Bank

O'Malley's proposed National Postal Banking system

From the beginning, O'Malley ruthlessly attacked the cornerstone of the Venetian/British monetary system, which was the limiting of currency to *specie*, i.e. gold and silver:

"...the international system of exchange is an international method of fraud, and the reason is that the capitalists of the world have made gold the basis of the world's credit... If ever there was a time in the history of the world when someone should have the courage to change the whole of the ramifications and fabric of the system of finance it is the present..." (Hansard 25 August 1915.)

He insisted that credit, or fortified credit, is the best medium of exchange in the financial system:

"I consider that notes are only a subsidiary power. Notes are only the capital of a national bank. We hear too much about notes in Australia. A cheque currency is infinitely superior to notes. An acceptance currency is infinitely superior to notes... A deposit currency is infinitely superior to notes... I do not know that I would issue notes at all...it is only in little transactions that you use money. The true medium of exchange is fortified credit... We hear constantly that trade and commerce follow the flag. It does not. It follows fortified credits, which follow the lines of banking operations. The flag makes no difference to the bankers of the world." (Ibid.)

He explained that the medium of exchange went between the producers and consumers, with a time-lag in between, but if control of that medium was left in the hands of private bankers, they would extort profits by increasing and decreasing the medium for their profit, to the detriment of producers:

"The development of credits has reference to production and their payment to consumption. There must always be an indefinite period between production and consumption.

Consumption cannot be definitely accelerated, and the power to purchase once having been issued, cannot be withdrawn until the products of the producers have been demanded for consumption. Under such conditions there must always be a mighty Armada of credit floating in the sea of trade and commerce. As production and consumption are perpetual processes, as is also the banking function, the institutions which refuse to exchange their credits with the producers and traders during the interregnum between production and consumption inflict irreparable injury on the community, and neglect their sacred function. We have seen the wrecks of Australian financial crises tramping the roads with their swags on their backs." (Hansard 1909.)

O'Malley prepared a comprehensive proposal for a national bank, for the 1908 ALP conference, which was adopted in its Fighting Platform. It was essentially a national bank to manage the finances of the federal and state governments, so they didn't have to go cap-in-hand to the private bankers.

"Fancy a nation of 4,000,000 people, and possessing an income of £40,000,000 annually, having no corporate national institution whereby it can utilise one penny of that power. ... I want to have a bank which will be a department in itself, set apart by the law of the Commonwealth, to act in conjunction with the States... I do not desire to have a national bank to lend millions of pounds helter skelter, but I want a banking system which can limit the issue, or, in other words, the amount of the overdraft... The principal function of the bank would be to carry on operations with the States, the Commonwealth, the municipalities, the Road Trusts, in fact, all institutions which have taxable property... Under my scheme the bank will lend only credit... We should not borrow capital, but should create it, using the income from the Customs House and the railways, to be operated by means of our great national banking system." (Hoyle, p. 105)



An old photograph of railway station building in Ooldea, South Australia, that represented King O'Malley's idea of a Postal Bank.

Specifically, he proposed a Bank of:

Deposit: accept deposits from governments and individuals alike;

Exchange: accept, discount and re-discount bills of exchange;

Issue: issue bank notes that would be the currency of the nation (and the capital of the bank); &

Reserve: hold the capital of the private banks in reserve, to regulate and stabilise the banking system.

His proposal read:

(iii.) The establishment of a National Bank of Deposit, Issue, Exchange, and Reserve, for "the purpose of carrying out with facility and economy the financial transactions of the Commonwealth and States Governments.

IV.—THE NATIONAL POSTAL BANK.

1. In order to facilitate and economize the carrying out of the financial transactions of the Commonwealth and the States, and especially those connected with the conversion, redemption, renewal, and issue of loans, it is proposed to establish a National Bank of Deposit, Issue, Exchange, and Reserve.

2. It is proposed :—

(i.) That this bank shall be conducted purely as a Government Department, absolutely free from political control.

(ii.) That it shall be so constituted as to possess all the powers and immunities requisite to its security, to the recovery of its debts, and to the disposal of its property,

(iii.) That its capital shall be represented by 12,000 shares, of £100 each, of which at least 6,000 shall be in the hands of the Commonwealth Government, and that of the balance no State Government shall hold more than 1,000 shares.

(iv.) That the shares of the bank shall be transferable only to the Governments of the Commonwealth and the States; that the failure of any or all of the States Governments to subscribe shall not prevent the bank from commencing operations; and that in the event of a State Government desiring to dispose of shares in the bank, the Commonwealth Government shall have the first option of purchasing.

(v.) That the Commonwealth and State Governments holding shares shall be jointly and severally liable in respect of all transactions of the bank.

(vi.) That the bank shall act as the agent for the Mint in the purchase of raw gold and silver and the issue of coin.

(vii.) That the bank shall be empowered to issue notes which shall, throughout the Commonwealth, be legal tender at all places except the head office of the bank in each State; and that at such head offices payment of the value of notes presented may be made in gold or Commonwealth Consols, at the option of the Comptroller-General of the bank.

(viii.) That the bank shall become the repository for the payments from time to time in respect of the Consolidated Revenue, Loan, and Trust Funds of the Commonwealth and State Governments, and the funds of municipal bodies, and shall

pay interest on the daily balances thereof.

(ix.) That the bank shall provide for temporary advances by way of overdraft to Commonwealth and State Governments and municipal bodies.

(x.) That the bank shall, in other respects, carry on an ordinary banking business, receiving from the public moneys on current account or fixed deposit, and making advances on good security.

(xi.) That the bank shall carry out the inscription of all Commonwealth and State Inscribed Stock, and make all arrangements necessary for the conversion, redemption, renewal or issue of Commonwealth, State, and Municipal Loans.

(xii.) That the Board of Management of the bank shall consist of a Comptroller-General, representing the Commonwealth, and one representative from each of the subscribing States.

(xiv.) That the Treasurer of the Commonwealth shall be entitled to attend all meetings, and inspect all proceedings of the Board of Management,

(xv.) That all payments to be made in London by Commonwealth or State Governments shall be made through the medium of the bank.

(xvi.) That the General Post Office in each capital shall be the head office of the bank in that State, and that any post office within the Commonwealth carrying on the business of a

money-order office may be constituted a branch of the bank.

(xvii.) That the bank shall be a bank of reserve for the deposit of reserves of the banking companies operating in the Commonwealth,

(xviii.) That the regulations requisite for controlling the bank reserves shall be drawn up by the Board of Management of the bank and the Council of the Associated Banks of Australia, and approved by the Governor-General in Council.

(xix.) That a branch of the bank shall be established in London.

(xx.) That at the London office, and at the head office of the bank in each State, Commonwealth Consols shall be obtainable in sums of £10 and upwards.

O'Malley told the 1908 Brisbane conference that the enormous brokerage cost of floating loans would disappear:

"If Queensland wanted a million to build railways, Tasmania half a million, or Western Australia or any other State, they would under his system be at once given credit for the amount required in the national ledger, for they had their national credit to depend on. The great question was, to his mind, whether the Commonwealth should establish its own National Postal Banking system and manage its own finances through the regulation of its own money scheme, or continue under the benevolent guardianship of capitalists—lambs in the keeping of wolves. It was the duty of the Labor Party to grapple with the question, towards the solution of which he would promise his best energies and knowledge."

To be continued...