

A Credit System for Australia:

King O'Malley and Australia's National Bank

Part 2 of 2

by Robert Barwick

The following is the conclusion 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.

O'Malley's 1909 five-hour speech

Following are excerpts from King O'Malley's five-hour 1909 speech to the Commonwealth Parliament, in which he took the time to educate his fellow MPs about his national banking proposal, and about banking in general. Following are key excerpts from the speech:

"The fundamental principle of the importance of controlling the operations of the money volume in the public interest, is admitted by all recognised economic thinkers. The way to prevent a speculative disaster or shrinkage of credit from developing into widespread distress called panic, is to expand the money volume by easy loans or otherwise. That expansion is the proper medicine for the prevention and cure of panics, is recognised by the Bullion Committee, Bagehot, Sumner, Professor Walker, and all the other financial doctors. But the private banking corporations refuse to administer the prescription because it is dangerous to their monopoly. For an ordinary bank to increase its loans to its customers in the face of a panic would be regarded by other bankers as midnight madness. But the Commonwealth is big enough and strong enough to loan money to producers and business people in time of stringency, with the certainty of averting loss from itself, instead of bringing loss on itself. A moderate increase of the money volume when the movement of crops creates a special pressure on financial facilities would be extending justice to the agriculturists.

"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. This means control of justice or injustice, prosperity or panic, wealth diffusion or wealth congestion. Power to dominate the operation of the money volume is power to do justice or injustice between debtors and creditors, employees and employers, purchasers and sellers, landlords and tenants, money-lenders and borrowers; power to increase the weight and value of every debt—public or private—in the Commonwealth, power to generate prosperity or panic, power to regulate industry and determine the distribution of wealth. Such power is an attribute of sovereignty, the prerogative of the King, and ought to belong to none but the sovereign people exercised through His Majesty's Parliament and Government in the interests of the whole people. At present the vicissitudes of mining speculations, management of private banking corporations and the blind chance of monopoly determine the movements of money. The private banking system of the Commonwealth is only a legalized monopoly for the gathering of wealth from the



Andrew Fisher ALP Cabinet 1910. O'Malley 2nd from left, back row; William Hughes centre row left; Andrew Fisher seated centre.

many, and its concentration in the hands of the privileged few.

"The Commonwealth banking system, linked with the Postal Savings Banks throughout Australia, will control the movement of the money volume, credits, and production, in the interest of all the people. All private profits on the circulation of bank notes will cease, and the postal banking system will be so safe and sound through the confidence reposed in Government institutions, that it will absorb as deposits all the money now hoarded. This fact, together with loans at low interest, and the facilities and safety of transmitting money through an institution with an office in every village and town, and possessing the entire wealth and power of the Commonwealth back of it, would forever prevent panics.

"However great the natural resources of a nation, however genial its climate, fertile its soil, ingenious and enterprising its citizens, or free its institutions, if its money volume is manipulated by private capitalists for selfish ends, its credit shrinks and prices fall. Its producers and business people must be overwhelmed with bankruptcy, its industries will be paralysed, and destitution and poverty prevail. A few great failures from wild speculation, a contraction of the money volume, an adverse balance of trade, a foreign financial crisis, large sale of Australian securities held in foreign hands, heavy purchase of gold by foreign governments or banks, any drain of gold to foreign nations, a corner on gold in America, or a rapid withdrawal of loans by concerted action of great banking corporations and unscrupulous capitalists, destroy confidence, produce financial stringency, and bring the producing and commercial classes face to face with ruin.

"The burdens of the producers increase with the scarcity of money and fall of prices. Their debts and taxes remain the same, while their labour and property decrease in value.

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Their property being at last exhausted, without liquidating their debts, they become the slaves of the money lenders. All incentive to energy is destroyed, agriculture decays, industry is paralysed, the producers reduced to miserable dependents on capitalists, while the ruling classes are enervated by idleness and luxury born of unearned wealth.

"The regulation of the rates of interest by the National Postal Banking System will determine what proportion of their earnings the country producers and business people shall pay for the use of money.

"A moderate amount of work readily produces an abundant supply of human necessities, but the present system of the distribution of these products is such that a large number of the hardest worked producers receive a very small share of the products, whilst the big share goes to those who never do an honest day's work.

"Money earns for its owner by an accumulative power, by a power to secure commodities already produced and not by a natural power of growth like that contained in the germ of grain. Where this power to accumulate by interest is made greater and more rapid than the natural production by labour this law of interest becomes a gigantic engine of evil. It gathers into the hands of a few capitalists the productions of labour and often deprives the producers of the necessaries of life. It is absolutely impossible for the producers and business people of the Commonwealth to continue to pay high rates of interest for the use of money, and also supply themselves with the comforts and conveniences of life.

"In the Commonwealth the National Postal Banking System will so greatly reduce interest rates that useful productions will increase by leaps and bounds. Wealth, instead of accumulating in the hands of the few, will be distributed among producers. A large proportion employed on relief works, building up cities, will be expended in cultivating and beautifying the country. National improvements will be made to an extent, and in a perfection unexampled in the history of the world. Agriculture, manufactures, inventions, science, and the arts will flourish in every part of the nation. Those who are now non-producers will naturally become producers. Products will be owned by those who perform the labour, because the standard of distribution will nearly conform to the natural rights of humanity.

"1. That the necessary effect of the high rate of interest maintained by the present banking system, is to accumulate wealth into large cities and property in the hands of a few capitalists.



The Governor in the first office of the Commonwealth Bank, Melbourne. Sir Denison Miller is personally checking the envelopes in which copies of the first balance sheet were sent out.



First meeting of the Australian Notes Board, December 17, 1920. From the left Mr C.J. Cerutti, Mr. J.J. Garvan, Sir Denison Miller (Chairman), Mr. H.T. Armitage (Secretary), Mr. G. Swinburne.

"2. That the present rates of interest greatly exceed the increase of wealth by natural production, and consequently call for production beyond the ability of producers to supply.

"3. That the rate of interest determines what proportion of products shall be awarded to capital and what to the workers

"4. That in proportion as the rate of interest on money is increased, the value of property and labour is decreased.

"What would be the functions of a national postal banking system in connexion with the proposals I have been making this afternoon? First of all, the medium of exchange is the most potent force in the progress of production, trade, and commerce. The ultimate object of all trade and commerce is to exchange commodities for commodities—and what, may I ask, is Australia but a great trading concern? When commodities are exchanged for money, the process of trade and commerce is only half completed. The great function of banking is to supply a power for the production and transportation and distribution of commodities of general utility, following them from the original producers to the ultimate consumers. If, then, the Commonwealth and the people of Australia are entrenched within the great ramifications of finance—if they must depend upon banking institutions to increase their power of production and exportation, and so to increase the balances which will come back ultimately to Australia to meet their obligations—is it not advisable to consider whether we should not be justified in establishing a national banking system instead of the Council of Finance proposed in connexion with this scheme?

Mr. WILKS.—That is why the debtor classes are always in slavery.

Mr. KING O'MALLEY.—Yes; and it is a more subtle slavery than that of the negroes in the South. Permanent wealth is produced by a slow and laborious process of industry, with skilful manipulation of capital; while fog wealth is produced by the rapid process of placing one piece of paper in the possession, of a fiduciary institution as collateral security for four or five other pieces of paper, which are well watered, and passed off to a credulous public. Some of this fog wealth will sooner or later collapse, and then there will be consternation in the Commonwealth. If we had a national postal banking system, which would enable us to maintain the legitimate credits of the Commonwealth, there never could be a return to the awful crises we went through a few years ago."

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The Commonwealth Bank

Note issue: The Fisher Labor government took office in 1910, but O'Malley was instantly disappointed when Fisher introduced the *Australian Notes Bill*, which placed the note issue in the Treasury, as opposed to O'Malley's vision of the note issue constituting the capital of the national bank. But he remained quiet, out of deference to Cabinet solidarity.

Bankers move to head O'Malley off: However, then a confidential meeting of senior bankers in Melbourne invited the government to be represented. O'Malley was desperate to attend, and was most qualified, as the only banker in parliament, but Fisher went behind his back and took O'Malley's fierce opponent Billy Hughes instead. When news of the meeting leaked, the 23 July 1910 *International Socialist* reported: "Andrew Fisher had a secret meeting with the bankers the other day and entered into a compact with the representatives of usury not to let the public know anything about the proposals they made to him or the promises he made to them."

The bankers obviously persuaded/threatened Fisher and Hughes to back away from the national bank plank in Labor's platform, because at the following caucus meeting Fisher declared: "The time is not yet ripe to start the Bank. The meeting with Australia's leading bankers has convinced me of that fact."

Torpedo Brigade: It was this announcement by Fisher that pushed O'Malley to organise his Torpedo Brigade to ram the banking policy through the caucus. This was a sub-group of the ALP caucus, united to build support in the caucus for the national bank idea. It included Australian Workers Union founder William Guthrie Spence and future PM John Curtin's mentor, Frank Anstey. The Torpedo Brigade successfully organised majority support in the caucus; the majority did not include Andrew Fisher and Billy Hughes.

Caucus voted up Commonwealth Bank on 5 October 1911.

PM Fisher took charge of the process from then on, and sent a draft of the Bill to a senior banker, Queensland National Bank General Manager H.V. Ralston, on 14 October, who wrote back to the PM a few weeks later: "With further reference to your letter of the 14th inst. I have gone carefully through the Commonwealth Bank Act and it appears to me to cover everything necessary..."

The Bill was tabled on 15 November 1911. The Opposition dubbed it "O'Malley pasteurised", but in doing so they fully credited O'Malley with the idea—destroying later attempts to deny O'Malley's role.

The resulting bank was merely a bank of deposit and exchange, a general banking business distinguished only by its public ownership. It did include O'Malley's idea of incorporating a savings bank to operate through post offices.

Achievements of the Commonwealth Bank

Despite these limitations, the performance of the Commonwealth Bank in its first decade of operation demonstrated what a powerful tool public credit was able to be, when exercised with a clear intention for the public good.

First, the man appointed to run the bank, Dennison Miller, proved to be exceptional. He had recently travelled to the U.S. and Europe studying banking practices.

Miller's first act was to decide the bank could do without any start-up capital. The first official history of the Commonwealth Bank recorded: "[T]hough the Commonwealth Bank Act provided for a capital of £1,000,000, the Governor had already formed a plan to do without it. The Act provided that the security of the whole Commonwealth should be behind the Bank, and the Governor perceived that with this security the cash capital provided need not be called up. Such capital as might be necessary would become available simply by setting the machinery of the Savings Bank in motion."

The history also recorded the first ten savings bank accounts, starting with the PM, Andrew Fisher, as first. O'Malley was number three, and his close friend and fellow member of the Torpedo Brigade, Dr William Maloney, was number seven.

The Commonwealth and Tasmanian governments initially transferred their bank deposits to the Commonwealth Bank, as eventually did South Australia, Western Australia and Queensland; the state savings banks of Tasmania and Queensland also merged their operations with the Commonwealth Bank, injecting even more deposits.

Some myths: the Commonwealth Bank did not fund the Transcontinental Railway. It was funded from 1910 out of general revenue, but O'Malley as Home Affairs Minister oversaw its construction. The Commonwealth Bank provided savings bank services to the isolated men who constructed the line. It did not fund WWI, so that Australia was debt-free. As with the Railway, the Bank provided banking services to the soldiers on the front. Otherwise, given its limitations, its efforts in WWI were amazing.



Numbered 'M000001', this was known to be the first note printed in 1913, and given as a gift to Judith Denman, the daughter of then Governor-General of Australia, Lord Denman. Please pay attention to the water project embedded in the design to reflect one of the Commonwealth Bank principles: "Not purely making profits but Nation Building".

WWI

The early days of the Commonwealth Bank coincided with World War I. A bank panic broke out at the beginning of the war, as Brits rushed to withdraw their deposits in gold. The English banks would only pay in notes, and directed their customers to the Bank of England for gold. The BoE only paid limited amounts. The private banks requested and received from the Chancellor a four-day moratorium on withdrawals in the form of a bank holiday, during which time a large quantity of £1 notes was distributed among the banks. During the four days, commerce was thrown into chaos. Apart from the BoE, the only bank to remain open in London was the Commonwealth Bank of Australia.

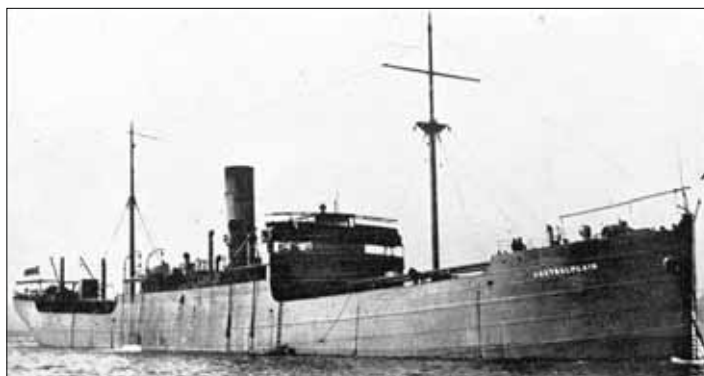
Back in Australia, Miller displayed the Commonwealth Bank's strength by stopping a run on the private banks. He devised a plan, of instructing tellers of all branches to process withdrawals as promptly as possible. When worried customers rushed to the bank to withdraw their deposits, they were paid so speedily that there was no time for a crowd to collect and spark panic. With calmness maintained, the public announcement that the Commonwealth Bank stood behind all the banks satisfied the public, and there was no further fear of a bank run.

On 14 April 1915 Prime Minister Fisher paid tribute to the Commonwealth Bank in Parliament:

"The Commonwealth Bank has been of great service to the Commonwealth during the war crisis. It granted to the Government an overdraft in London, during August last, of £100,000, and during September, of £130,000, at a time when all the banks in England except the Bank of England and the Commonwealth Bank of Australia were observing the moratorium. At the request of the Minister for Defence the Bank also arranged to provide funds to pay for the purchase of horses for the Expeditionary Forces throughout Australia, pending the passing of a Supply Bill, which arrangement enabled the Departmental officers to proceed immediately to purchase and pay for horses without waiting for Supply to be passed. At the same time the Commonwealth Bank agreed to assist the State Governments in London with their financial arrangements... At a time when the other banks in London were strictly observing the moratorium, the Commonwealth Bank did not do so. It assisted a large number of Australians resident in England and



Sir Denison Miller lays the foundation stone of the first War Service Home for Driver Baxter and Mrs. Baxter, Canterbury, New South Wales.



The Australplain—one of the fifteen purchased by Mr. W. M. Hughes on behalf of Australia.

visiting there. Passengers who have since returned are loud in their praise of the action of the Bank during the crisis. It need hardly be added that the prestige of the institution has thus been considerably strengthened. The Bank continued uninterruptedly to negotiate in London bills on Australia, and many merchants in this country were glad of its assistance in transferring funds to London. The Bank has, on behalf of the Treasury, continued to redeem Australian notes and silver in London, and, owing to the despatch of the Expeditionary Forces, this phase of its transactions has assumed comparatively large proportions. It has, during the war, helped stranded Australians at almost all places outside the actual theatre of war... I am glad to pay tribute to the excellent work of the Bank's Governor in the crisis..."

In WWI, the Commonwealth Bank:

- financed the emergency purchase of ships for the Commonwealth Shipping Line to keep trade alive during the war;
- financed "pools" of agricultural commodities, including wheat, wool, meat, butter and cheese, sugar, fruit and even rabbits, to keep farmers in an income while their commodities were distributed for the war effort;
- administered the raising of £250 million in ten war loans from the public during the war's duration, which saved the Commonwealth £10 million in fees it would otherwise have paid to London banks.

At war's end the Commonwealth Bank financed the construction of housing for returned soldiers, and made home loans at 5 per cent for their purchase.

It also actively financed local councils to build infrastructure—often for electricity—to improve the conditions of production that the Bank recognised was the source of the nation's wealth. In its first decade the Bank advanced credit of almost £10 million to local councils for roads, bridges, drainage, gas and electricity, tramways, sanitation, harbour improvements and buildings.

Conclusion

The Commonwealth Bank's success demonstrated that the key to national banking is *intention*. Despite not having the powers O'Malley wanted, under Miller, and in the context of war, it demonstrated the power of public credit.

In 1920 the Commonwealth Bank was given control of the notes issue, as O'Malley had proposed.

The Bank's success is evident in the reaction of the private banks and the City of London—as Jack Lang emphasised—but they had to wait until Miller's death before they could move to neutralise it.

Craig Isherwood will go through the next stage of the fight, but suffice to say, despite the Money Power's best efforts to crush public credit, the genie was out of the bottle.