COMMONWEALTH BANK BILL

SPEECH

DELIVERED BY

THE HON. EARLE PAGE, M.P.,

Commonwealth Treasurer,

IN THE

HOUSE OF REPRESENTATIVES

ON

13TH JUNE, 1924

By Authority:
ALBERT J. MULLETT, GOVERNMENT PRINTER, MELBOURNE.

C.9191.

AMENDMENT OF COMMONWEALTH BANK ACT.

INTRODUCTORY.

When the question of a Commonwealth Bank was first mooted, it was generally expected that a truly national bank would be established—a bank of deposit, issue, discount, exchange and reserve. When the Bill was introduced, however, expectations were not realized, and when the bank began to function, it became perfectly clear that a national bank had not been established, but merely a Governmental institution in competition with the private banks. The Bill the Government now brings forward is designed to carry out the original expectation. As has been generally anticipated, the Government proposes to substitute the management of a Board for one-man control, but the Bill will do much more than that. It places the Note issue under the control of the general board of the bank and aims at making the Commonwealth Bank the keystone of the financial arch of Australia.

The need for a central bank was sufficiently clear before the war, and its necessity has been emphasized by war experience. The disorganization of the world's finances brought about by the war should warn us of the grave dangers resulting from faulty management.

The automatic check of gold payments which was the prop to the pre-war financial systems having been removed, the way was clear for all kinds of interference with sound practice. The world was now subject to conditions of which the existing generation had no experience, and even the teachings of the past were found difficult of application, because there never had been an upheaval of such magnitude and complication before. The finances of every country in the world have been disarranged, some of them hopelessly so, and though Australia has been spared the extreme difficulties of many other countries, we, too, have experienced periods of monetary stress.

THE CRISIS OF 1920.

In 1920, money within Australia was not tight, but Australians had large commitments to meet in Britain. They found, not merely that an excessive rate had to be paid to remit money to that country, but also that, in many cases, it was impossible to effect any remittance at all. That was serious, because there were a very great number of old commitments which simply could not be met, and doubts arose in Britain as to the financial position of many well-established and prosperous Australian businesses.

PRESENT DIFFICULTIES.

In 1922, the exchange position entirely reversed, and for many months past it has been impossible to transfer to Australia either all the moneys realized by the sale of Australian products overseas, or the moneys which are being raised abroad for Australian development.

Not only has the exchange difficulty become acute, but money is so tight that it is hard to get advances from the banks for most desirable purposes. Even moneys in the hands of private persons are not available for ordinary investments to the same extent as usual, because the State Governments have been forced to borrow on the Australian market for necessary developmental purposes, instead of going on the London market, as they would have done under normal conditions. Incidentally there has been a great increase in the rate of interest payable for Government loans.

NEED FOR CENTRAL BANK.

In troubles such as these, one would naturally look to banking authorities to find a way out or at least to advise as to the remedies to be applied. But in fact there is no banking body which can be considered representative. Instead, we have a number of banks which, though loosely associated for some purposes, scarcely can express a corporate opinion. Chiefly mindful of their

own interests, which is but natural, they can have no such regard for the public welfare as is undoubtedly required. It must not be understood that I think Australian banks inefficient. On the contrary, as individual banks, acting without the guidance and assistance of a central bank, they have done well. During the war, both individually and collectively, they greatly assisted public finance. It ought to be put on record, too, that in the crisis of 1920, when credit facilities in Britain were very difficult to obtain, and remittances were nearly impossible, the restrictive action taken by the banks to prevent the placing of additional orders for goods overseas served a most useful purpose The conditions under which they work, however, are not suitable for full control. Their individual outlook and interests render them unsuitable for the exercise of that prevision which is absolutely necessary for the construction of a sound public policy and its wise application during a long period. Banking policy aimed at the maintenance of the interests of the community often requires sacrifice of or abstention from profit, and, without any reflection upon individual banks, I submit it is too much to ask that the ordinary banker shall exercise the self-denial which is involved.

The important functions of banking can properly be performed only with the guidance and control of a central bank. Decision and settled policy are essential. Divided counsel and clashing interests of individual bankers must in the end be fatal to good credit management, and banking can be raised to its greatest perfection only by the action of a central bank working always for the good of all. This is obvious. So much so, that central banking is recognised as a necessity by the leading nations.

The excellent banking material which we have already should be strengthened and co-ordinated in order that Australia shall have a symmetrical and well-balanced system of central banking. To this end, the Government proposes that the Commonwealth Bank of Australia shall become the pivot of Australian banking—a bank of issue, deposit, discount, exchange, and reserve.

MATTERS TO BE DEALT WITH.

In view of the importance of the issues involved, and the relevance of our past actions to our present difficulties, it will be convenient to honorable members if I give some details regarding banking practice in Australia, including a brief history of the Commonwealth Bank, and show what has been done with our paper currency. Then I will deal with proposals made for overcoming our currency and exchange difficulties. Also I shall set out some particulars of central banking in other countries, and, finally, from the general survey made, shall demonstrate the advisability of the proposals which the Government now submits to the House.

BANKING IN AUSTRALIA.

NATURE OF AUSTRALIAN BANKS.

Australian business is carried on by 14 principal banks, which have a paid-up capital of £29,000,000. In addition, they have reserved profits of £26,000,000, or a total of £55,000,000. Nine of the banks are registered under the State laws relating to limited liability companies, three have been incorporated by special Acts of the State Legislatures, one has been incorporated by Royal Charter, and one (the Commonwealth Bank of Australia) is the creation of an Act of this Parliament.

LEGAL TENDER RESERVES.

The keeping of adequate reserves of legal tender against liabilities is of the greatest importance, and it is interesting to note the experience of Australian banks in this regard. For the purpose I shall use figures relating to the June quarter of years which may be regarded as typical. My starting point will be 1886; then 1888, which was the year of culmination of the land boom; then 1892, the year before the banking crisis; 1894, the year after that crisis; 1901, when the Commonwealth was established; 1913 and 1914, before the war had disarranged our banking business; 1915, the first full year of war; and the years subsequent to the Armistice.

The figures relate to assets and liabilities in Australia, excluding particulars of the business of the banks outside Australia. The term liabilities is to be understood as meaning all the Australian liabilities, as included in the sworn quarterly averages, after deducting the sums due by the banks to each other. The legal tender holdings of the banks amounted to the following percentages of their liabilities :—

In 1886	15·1 per cent.
In 1888	17·7 ,,
In 1892	17·2 ,,
In 1894	23 ,,
In 1901	20·7 ,,
In 1913	24·2 ,,
In 1914	25·5 ,,
In 1915	32·5 ,,
In 1919	24·7 ,,
In 1920	22·3 ,,
In 1921	22·4 ,,
In 1922	20·5 ,,
In 1923	18·5 ,,

A comparison of legal tender with total liabilities, however, is not altogether satisfactory, because the nature of the liabilities is an important consideration. The published figures do not divide legal tender holdings into so much for current accounts and so much for fixed deposits. We may, however, compare the total holdings of legal tender with liabilities not bearing interest. We find the percentages of total legal tender as compared with liabilities not bearing interest have been :—

In 1886	46·2 per cent.
In 1888	48·4 ,,
In 1892	61·1 ,,
In 1894	81·9 ,,
In 1901	45·6 ,,
In 1913	56·8 ,,
In 1914	55·8 ,,
In 1915	70 ,,
In 1919	47·2 ,,
In 1920	40·7 ,,
In 1921	43·4 ,,
In 1922	40·8 ,,
In 1923	38·7 ,,

The notable feature of the foregoing tables is that, since the first year of war, there has been a steady decrease in the percentage of legal tender held against liabilities. Though the percentages of cash resources really have been reduced, the diminution is not so great as would appear from the published figures, which I have just quoted. The explanation is that the Government adopted the practice, in connexion with war finance, of giving to the banks rights to demand notes, in consideration of facilities granted by the banks. These rights were equivalent to reserves of notes actually held and have been used by the banks as such for the purpose of building credit. The amount of currency thus at the command of the banks is not disclosed in the published statements. I have not any figures representing these rights of the banks for the years 1915 to 1922, but I shall show later that, on 30th June, 1923, the legal tender holdings and the value of the rights amounted, together, to 21·4 per cent. of the total liabilities.

AUSTRALIAN NOTES.

These rights it is now necessary to explain, and, as the subject is interwoven with that of the increase in the paper money of the Commonwealth, the explanation must include a short history of the issue of Australian Notes.

BANK AND STATE NOTES FORBIDDEN.

A tax of 10 per cent. per annum was imposed in 1910, upon all bank notes in circulation. The tax has always been prohibitory, as was intended. In the same year, the banks were forbidden

by law to circulate any paper currency issued by a State, and thus the issue of Treasury Notes in Queensland also came to an end. In place of the bank notes and the State paper, the Commonwealth issued Australian Notes, and ever since that was done there has been no other paper currency in Australia.

HOW GOLD RESERVE ESTABLISHED.

To get the new notes which were needed for banking business, the banks necessarily had to present sovereigns at the Treasury, and, in that way, a gold reserve was established. The law required that the gold coin should amount to not less than a fourth of the issue, and there was added a provision, since repealed, that gold coin, pound for pound, had to be held in respect of notes issued in excess of seven million pounds. The circulation almost immediately sprang to more than seven millions, and the Government was in a position to invest a sum of money equal to three-fourths of seven millions. It at once proceeded to make some investments. Newly-printed notes were paid into the banks. Out of the current accounts established by that means, the cost of Commonwealth public works was met, and moneys were lent to the State Governments, also for works.

In respect of the moneys used for public works, formal public debt securities were issued by the Commonwealth and the States, and placed among the assets of the Notes Fund. On 30th June, 1914, the accounts stood as follows :—

Circulation	£9,611,551
Profits	495,650
Total	£10,107,201

Those moneys had been disposed of in the following way :—

In exchange for gold coin	£4,144,581
In purchase of Commonwealth securities, bearing interest at 3½ per cent. ..	3,076,000
In purchase of State securities, bearing interest at 3½ and 3¾ per cent. ..	2,634,000
Balance in banks	252,620
Total	£10,107,201

INCREASE OF CIRCULATION.

The pre-war issue of £9,600,000 seems almost insignificant, when compared with the present circulation of about £57,000,000. It must be remembered, however, that in 1914 the people carried gold as well as paper in their pockets, that large sums formerly held by the banks in gold are now held in notes, and that there is now no gold outside of the banks. A reliable estimate of the amount of gold coin in use before the war has not been made.

EFFECT OF OUTBREAK OF WAR.

Immediately upon the outbreak of war, the banks brought large sums of gold to the Treasury to be exchanged for equivalent sums in notes. Their action was quite voluntary, and the result of a natural desire to stock their numerous branches with the more convenient paper money. Thus began a strengthening of the gold reserves of the Treasury.

NOTES ISSUED FOR STATE PUBLIC WORKS.

Not only was money urgently needed for expenses of war, but also funds had now to be found to continue public works in progress. Borrowing in Australia to any considerable extent seemed impracticable. Therefore, plans were formed for meeting the expenses of war, at least for a time, by increasing the issue of paper money, and for meeting the cost of public works by borrowing in London. Later it was found, however, that money could not be obtained in England for any purpose other than the prosecution of the war. Plans were then changed, and the expenses of the war during a considerable period were paid out of loans granted to the Commonwealth by Great Britain, while the note issue was increased by the amount of £18,000,000, which was lent to the States for public

works. This great addition to the note issue could not have been faced without a breach of the Australian Notes Act, which requires a gold backing of at least 25 per cent., had arrangements not been made to place more gold in the Treasury strong-room. The necessary addition to the metallic reserve was obtained by inducing the banks to send 10,000,000 sovereigns to the Treasury and to take, in exchange, paper money of equivalent amount. Thus a total of £28,000,000 was paid in notes into the Banks, and out of the banks came £10,000,000 in gold coin. These arrangements would have been futile to maintain the legal reserve of gold if restrictions had not been placed upon the use of gold. Therefore, export of gold was forbidden, except by consent of the Treasurer, and the banks promised they would not, during the war, present notes at the Treasury for the purpose of getting gold. In these circumstances, the banks ceased to cash cheques in gold. They used paper money instead, and gold no longer was carried by the general public. Thus large numbers of the additional notes paid into the banks, for the purposes already explained, found their way into the pockets of the people, and did not remain in the cash reserves of the banks. At various later dates, further notes moneys were lent to the States for works, and the amount now due by the States on that account is £22,138,000.

FURTHER NOTES TO STATES—FOUR TO ONE.

For a short period, the States were given the right to get advances of notes on depositing 25 sovereigns in respect of every £100 of notes. On three-fourths of the amount of notes, the States were charged interest at 4 per cent. The right was exercised to a comparatively small extent, the amount on which the States paid interest not exceeding £486,750 at any time, and the whole of the amount was repaid in 1915.

RIGHTS OF BANKS TO GET NOTES—THREE TO ONE.

At this early stage of war finance, a step was taken which never has been explained fully. I refer to the fact that the Government gave to the banks the right to get three pounds in notes for every sovereign presented by the banks at the Treasury. Two out of every three pounds of notes so issued were treated as a loan to the banks, which were required to pay interest at the rate of 4 per cent. per annum, and to repay the principal not later than twelve months after the end of the war. The reasons for granting these rights to the banks are not recorded, and no good purpose would now be served by surmising what the reasons were. Without being unduly critical of action taken during a period of great anxiety, however, I am permitted to say that this three to one arrangement was more doubtful in character than any other act of war finance. The grant by banks of accommodation by way of overdraft or otherwise makes money available for credit to current accounts and fixed deposits in banks. That is to say, increase of advances entails increase of liabilities. Banks usually keep on lending money until their liabilities are four or five times as much as their cash reserves, but here we see that the banks were given the power, first to multiply their gold reserves by three, and then to keep on lending until the multiplied reserves formed the base of liabilities equal to twelve or fifteen times as much as the original holdings of gold.

To the lasting credit of the banks, I am glad to add, however, that they used their power sparingly —so much so, that the loans made to them in accordance with this arrangement never reached as much as two million pounds.

ISSUE OF SOVEREIGNS FROM MINTS.

Very early in the war period, also, the practice of issuing sovereigns from the Mints to the persons who had deposited the raw gold was discontinued. Thereafter, the Mints paid for raw gold out of credits established by the issue of notes, and the sovereigns, as soon as coined, were transferred to the Australian Notes Reserve.

FURTHER RIGHT OF BANKS TO GET NOTES—EXPORT OF GOLD.

By the several processes indicated, large stocks of gold were accumulated by the Commonwealth Treasury, but these were not considered sufficient for making gold payments rendered necessary by the war. The banks were, therefore, induced to part with a further 5,000,000 sovereigns for the purpose of export. In exchange, they were given notes of equal amount, and, in addition, were

conceded the right to get loans in notes, up to the amount of gold parted with, provided they deposited war bonds as security. The interest payable by the banks for these loans was at the rate of 4½ per cent. per annum.

MORE RIGHTS—PRIMARY PRODUCTS.

The time soon came when the primary products of Australia could not be disposed of readily, and it was necessary to make advances to the producers in anticipation of realization. The banks undertook to make the advances, and were given rights to get paper money by way of loans from the Treasury, up to the amounts of the advances, at the rate of 4 per cent. Similarly, at later dates, arrangements were made separately for advances in relation to wool and wheat, and the interest payable by the banks on the loans of notes varied from 4 to 5½ per cent. per annum.

ADDITIONAL RIGHTS—WAR LOANS.

The assistance of the banks, according to a new plan, was invoked in connexion with the Sixth War Loan. The banks, to enable their customers to subscribe to the war loan, agreed to offer overdrafts up to 90 per cent. of the subscriptions, the rate of interest on the overdrafts to be 4 per cent. per annum. As the war loan carried interest at 4½ or 5 per cent., the acceptance of the overdraft proposal was attractive, and the war loan proved most successful. On its part the Treasury undertook to make to any bank a loan of notes, if needed, up to the amount of overdrafts granted to customers and still outstanding. The interest to be paid by the bank for these loans was fixed at 3 per cent. Any bank making a direct investment in the war loan also acquired the right to notes up to the amount of its subscription, the rate of interest to be paid for this accommodation being the same as that payable on the war loan.

Similar arrangements, but with different rates of interest, applied to the four subsequent War and Peace Loans raised in Australia. This system of assisted subscriptions was last operated in September, 1920, and the Commonwealth Conversion Loans of 1923 and 1924 were placed without giving to the banks any rights to get advances.

ANOTHER RIGHT—WAR GRATUITIES.

As is within the recollection of all, the Commonwealth Parliament in 1920 granted war gratuities. The huge sum required was not immediately available. Bonds were issued in the majority of cases, payable in the present year, but cash was needed for immediate payment to widows and to other classes of grantees. The banks agreed to lend £6,000,000 for the purpose, at 5¼ per cent. per annum, and they were given the right to get notes on demand, at 5¼ per cent., up to the full amount lent.

PEAK ISSUE.

The Peak Issue of £59,676,000 was reached on 30th October, 1918. At the present time the total issue is £56,900,000. Here it may be noted that the Bank of England notes and the English Treasury notes amounted to £512,000,000 in December, 1920, and to £437,000,000 in April, 1924.

INFLATION.

The flotation of big war loans in Australia, as in other countries, was rendered possible by the continual inflation of our Note Issue from £9,600,000 to £59,000,000. With inflation, price levels rose, as was to be expected, from 100, in 1913, to 247, in 1920. Inflation was spasmodic without any definite plan, simply being prompted by the exigencies of the moment. The question facing Australia to-day is how to rehabilitate the national finances with the least dislocation of trade and employment. A central system of banking which insures the continuous association of currency control with the banking position must undoubtedly prove of great assistance to that end.

CONTROL OF ISSUE.

In December, 1920, a first step towards a central banking system for Australia was made by handing over the control of the issue of Australian Notes to a new Department of the Commonwealth Bank, for which a separate Board of Directors was provided. These Directors are usually known as the Notes Board. They were appointed for terms of years and are quite independent of Government control. A new provision was now enacted giving power to invest note moneys in trade bills with a currency of not more than 120 days. This provision contains the germ of a rediscounting authority, which is the essential function of a central bank. The failure to associate the Notes Board with the direct management of the Bank, however, has hitherto prevented the exercise of the function.

The Government proposes to correct this weakness by placing the control of the Note Issue in the hands of the general Board of the Bank, thus directly associating currency and banking.

WITHDRAWAL OF RIGHTS TO GET NOTES.

Since the Notes Board has been in charge of the issue, many of the rights of the banks to get advances of notes have expired, because the circumstances in which they were entitled to the advances have ceased to exist. The Notes Board, however, has not only shown itself opposed to the grant of new rights, but has withdrawn privileges under the three to one arrangement, to which some of the banks still contend they are entitled. Quite recently the Board terminated the rights under the war gratuity arrangements, by actually issuing the notes which the banks could demand. The Board was convinced that the banks had built credits on their rights to get notes, just as freely as they would have done if the notes actually had been in their own possession, and that the issue in these circumstances did not constitute an act of inflation. Unpublished reserves of the nature indicated are certainly not in the best interests of the community. From a return recently supplied by the banks, it appears that the rights to get additional notes are now limited to a total of £3,119,000, being the amount they are entitled to in respect of war bonds acquired by direct investment.

REDUCTION IN LEGAL TENDER.

At 30th June last, the banks had the right to get notes from the Note Issue Department up to about £8,000,000. If we add that sum to the actual holdings of legal tender, we find that the cash resources were 21·4 per cent. of the total liabilities, instead of 18·5 per cent., as indicated by the published figures. The 1923 figure of 21·4 per cent., as corrected, may be compared with the legal tender of 25·5 per cent. held in 1914.

The changing attitude of the banks with regard to the percentages of cash which they consider desirable in relation to their liabilities is evidenced by their holding 22·4 per cent. of cash in 1921, 20·5 per cent. in 1922, and only 18·5 per cent. in 1923. These percentages represent the actual holdings and have not been corrected so as to include the rights to get notes from the Note Issue Department. As those rights did not increase in that period, but somewhat diminished, the uncorrected figures may without unfairness be compared with each other.

A study of the figures shows that the views of the various banks differ widely as to the percentages thought safe. No doubt reasons can be given for their differing views, also for the reduction of the aggregate percentages, and it should be pointed out that Australian banking practice during the last thirty years has leaned towards caution, but the marked changes which have occurred suggest that there is need for a settled policy in regard to holdings of cash. A very great power is exercised by banks in the creation of credit, in their control over business, and in the effect of their policy upon wages, as well as upon other conditions. Changes in banking policy disturb the whole community and, under the divided control of banking which exists now, changes may be made which are not in the best interests of the community. The remedy is to be found in the co-ordination of banking effort by means of a central bank.

QUESTIONS OF USE OF PAPER CURRENCY.

We may now turn to questions as to the amount of currency which is necessary for Australian trade and development.

SO-CALLED LEGITIMATE REQUIREMENTS OF TRADE.

Some persons hold that currency should be supplied in unlimited quantities as long as it is desired for the "legitimate requirements of trade." These overlook the fact that one essential of a currency system is limitation of quantity. An increase of currency not redeemable in gold permits an increase of bank credits up to (say) four or five times the amount of the additional currency; and, unless production has meantime increased to a corresponding extent, the result is an increase of prices in terms of that currency. The result of such increase in prices is that more currency is required to carry on the same business, and there is at once a call for further issues of currency still honestly stated to be for "legitimate requirements." Further issues lead to higher prices and further demands. It soon appears that the "requirements of trade" are infinite, and to

regard this factor as the sole index in regulating currency means entering into a " vicious circle." All countries have at some period in their history had experience of this sort; the assignats of France and the greenbacks of America have been the classic examples, and recently we have had the example of Russia and Germany. In all these cases the experience was that, even after over-issue had reduced the currency unit to a minute fraction of its original value, the call was for more currency for the requirements of trade.

INFLATION DISEASE IN AUSTRALIA.

So far the inflation disease has infected us in Australia but slightly. The value of our pound in gold is ascertainable by reference to the amounts received by the Australian Gold Producers Association on the sale of sovereigns which they export from time to time. Recent sales show that a sovereign in the world's markets is worth roughly one-ninth more than our paper pound. Compared with the depreciation in most European countries, the depreciation of our paper currency is slight. Still it is unsatisfactory that any depreciation at all should exist; and the danger of further depreciation not only exists, but is not so slight as some think.

OVERSEA EXCHANGE.

As many have expressed the view that Notes should be issued in connexion with the present position of oversea exchange, and, as I propose to demonstrate the importance of the Government's present proposal with regard both to the value of our pound, as compared with the English pound, and to the difference between the buying and selling rates of exchange, it will be worth while to deal with the question of exchange in general.

Exchange phenomena follow the operation of the universal laws of supply and demand. No miracles can be expected from Government intervention, either by the issue of notes or in any other way, and stabilization of exchanges generally may not occur until the restoration of the gold standard has been brought about, but a Central Bank in Australia will help to provide the machinery for an exchange which will modify the two difficulties to which I have just referred.

IMPORTS AND EXPORTS MUST BALANCE.

When both the buyer and the seller of goods or services are in one country, no difficulty usually arises in providing for payment, because every modern community has some form of legal-tender money. Where the buyer is in one country, however, and the seller is in another, payment must be made by a process which, stripped of detail, means simply that goods or services supplied by a seller in one country to a buyer in another are paid for by other goods or services passing between the countries in the reverse direction. Thus, in the long run, the imports and the exports of a country must be of equal value. Wit of man has never yet devised any other method for the settlement of moneys owing to, and moneys owing by, the people of any country.

VISIBLE AND INVISIBLE TRADE.

To have a proper understanding of exchange, we must know what imports and exports consist of. They are of two classes—visible and invisible. We shall not dwell upon the nature of visible imports and exports, because the words are self-explanatory, covering all kinds of things which have physical existence. Invisible exports include loans raised abroad by the Government or the private people of the country. Such loans are deemed to be " exports " because, like visible exports from the borrowing country, they make moneys available, in the lending country, to the exchange dealers. What is an invisible export in one country is, of course, an invisible import in the other. Some other invisible exports and imports are earnings of ships, premiums on marine insurance, interest on loans, banker's commissions, and expenditure of tourists. Some countries, such as Italy, greatly gain by the expenditure of visitors, but a very large amount of money is spent by Australians abroad, and the cost of very long sea passages represents an immense sum which, though often paid here, is ultimately transferred to other countries.

BUYING AND SELLING RATES OF EXCHANGE.

Sir Charles Addis, at the Imperial Economic Conference, said that differences made by the banks between the buying and selling rates of exchange had been considered by the Committee, of which he was Chairman, and the Committee had taken an opportunity of discussing the matter with the

managers of the banks concerned, who explained that the charges included various services. There was, for example, the action taken by the banks to prevent undue fluctuations in exchange caused by differences in seasonal demands; the expense incurred by the accumulation of bank balances, alternately at Home and alternately in the Dominions, arising out of these seasonal demands; and the advantages given to the merchant in enabling him through the relative stability of exchange to enter more fully than he otherwise could have done into contracts for forward delivery.

GOVERNMENT BORROWINGS.

An alteration, in cost of exchange, in favour of the importer may be prevented, in whole or in part, by a reduction in the amount of Government borrowing abroad, if such borrowing has been going on; also, that alteration may be prevented if a loan is raised in the country and used for redeeming Government debt abroad. Action by the Government in one or both of these directions, however, may not be practicable.

MONEY TIGHT.

Because Australian exports (visible and invisible) have been in excess, the Australian banks have accumulated in London much more money than they need there, and, consequently, exchange rates are favorable to the importer and unfavorable to the exporter. Money in London can be transferred to Australia only at considerable cost, and that has induced Governments and others locally to borrow moneys which might have been obtained in London. Both because so much of the assets of the banks are in London and because Governments are forced to borrow in Australia, money here is very tight.

PROPOSED REMEDIES.

We may now turn to the remedies which have been proposed.

CESSATION OF NEW OVERSEA BORROWING AND PAYING OFF OVERSEA DEBTS.

First, it has been suggested that there should be a cessation of loans abroad, except for renewal and conversion purposes; also, that there should be an adjustment of credits due to Australia in London by the liquidation of Government securities there, in lieu of importing goods. I do not think the time has arrived when this young country can depend on local loans for its development. We are only a handful of people and we have a continent to develop. Our savings are small in comparison with the great work to be done, and development would be carried on at a painful pace if it depended only on our own additions to wealth. As to the suggestion that existing London credits should be adjusted by the liquidation of Government debts there, it is necessary to point out that the money at credit in London is private money, and its owners are not willing to hand it over to the Government as an investment. Indeed, in view of the peremptory demands of current business, they cannot afford to do so. The only alternative would lie in the raising of a loan in Australia, giving the proceeds to the banks here in exchange for their London money, and then redeeming Australian Government securities by purchase in the London market. This alternative, too, is impracticable, because already public borrowing in Australia has proceeded rather too far, and great difficulty is being experienced in finding money here even for necessary development.

Any attempt to carry out these suggestions would raise interest in Australia to a prohibitive rate, stagnation would be apparent everywhere, and the remedy would be worse than the disease.

The Government recognizes, however, that both internal and external borrowing should be arranged as judiciously as possible, keeping in view the interests of our export business and the need for development of our industries. The establishment of a Central Bank on the lines proposed will place independent expert advice at the disposal of the various Governments and will assist in harmonizing and, if necessary, in curtailing their loan operations. The Board, owing to its intimate knowledge of exchange and of local conditions, will be in the best possible position to advise as to rates of interest, amounts to be raised, place of raising, and other terms of loans. Thus diversion of an undue amount of local money from industrial enterprises to Government loans may be avoided, and economic borrowing for public purposes satisfactorily arranged.

PURCHASE OF GOLD BY ADDITIONAL NOTES.

It has been proposed that the difficulties be met by issuing notes for the purchase of the current production of our gold mines. Those who have put forward this proposal seem to think that it does not matter how much in notes is issued, so long as gold is held. The reply is that, while gold is out of action, as it is at present, it can have no effect whatever in restraining any increase of price-levels which would result from watered currency or over-issue. Of course, if additional notes were issued in exchange for gold, and the amount happened to coincide with that which was required to meet natural increase of production, there would be no inflation.

ISSUE OF NOTES IN EXCHANGE FOR LONDON CREDIT.

The next proposal to be noticed is that notes should be issued to the Banks in Australia by the Notes Board, and that the Board should take from the banks, in exchange, an equivalent amount of credit in London. Now, this proposal is usually put forward in Australia in a somewhat loose manner. For example, we are not told how long the Notes Board is to hold its credit, and whether or not the Notes Board is to take the initiative in the disposal of its London money. No one has said, even, how much is to be dealt with in this way.

RESOLUTIONS OF IMPERIAL ECONOMIC CONFERENCE.

I shall assume, however, that the suggestions made in Australia are identical with the resolutions passed by the Imperial Economic Conference, which decided that the difficulties of exchange could be ameliorated if the note-issuing authorities were to accumulate sterling assets and to undertake to exchange their local currency for sterling, and vice versa. This measure, it was added, might be further developed and assisted by the creation of a central bank.

GOVERNMENT CONCURS IN THOSE RESOLUTIONS.

The Government concurs in that finding of the Imperial Economic Conference. There is no reason why the resources of the new Commonwealth Bank should not be distributed between London and Australia, and be put to active service to assist the general financial position, instead of lying dead, which is the present condition of a large portion of the resources of the Notes Board. Thus, the Commonwealth Bank would be in a position to conform fully to the resolution of the Conference.

ENGLISH TREASURY MEMORANDUM.

The Government thinks, however, that the position as put before the Conference in a memorandum prepared by the English Treasury requires some modification. The following are extracts from that memorandum :—

"The banks carrying on business in the Dominions had ultimately to rely on the Bank of "England for their reserve of cash, and accordingly they used to maintain reserves in the form of "sterling bills on London, or sterling credits in London, and it was especially to the state of those "reserves that they had regard in regulating the accommodation they gave to trade in the Dominions. ". . . . If the banks found their sterling resources falling too low, they proceeded to restrict "credit till the balance was redressed. The Gold currency in circulation was at best there in the "background, ready to move if the regulation of credit failed to work.

"Since the war, the same system has been in operation, but with two important modifications. "In the first place, the gold currency has dropped out, and there is no longer an automatic remedy if "credit regulation does not keep the currencies at par. Secondly, the purchasing power of the pound "sterling has fluctuated more violently than ever before, and has subjected the exchanges to a propor-"tionate strain. . . . . The prices of commodities in Great Britain rose by one-third in a year, "and then fell in one year more by one-half. To keep their currencies at par, the Dominions would "have had to bring about equally violent changes in their own price levels. They were not prepared "to do so, and that is why the pre-war system, by which the British and Dominion currencies were

"linked together, broke down. . . . Under the present conditions, when the sterling resources of "the Australasian banks are inconveniently enlarged or diminished, they need not restore them (as they "had to with a gold standard) by expanding or contracting credit; they have the alternative of quoting "sterling at a discount or at a premium. The problem is simply to avoid resorting to this alternative. "The best method is to rely on a central bank of issue. A central bank of issue can effect the exchange "in either or both of two ways. It may undertake to issue its notes against sterling and convert them "back into sterling at a fixed rate, and/or it may itself take measures for expanding and contracting "credit as the state of the exchanges may require. The former method, which is that of the exchange "standard, is the more directly effective. So long as it is operative, the sterling resources of the banks "and their cash resources in the Dominions, being convertible into one another, form a single whole. "A shortage of sterling and a shortage of cash are, from their point of view, the same thing, and "equally compel a contraction of credit. But if the central bank, besides buying and selling sterling "for notes, makes a practice of rediscounting for the other banks, these latter can replenish their "cash by this means. If they are enabled to do so on easy terms the contraction of credit will "be avoided. The ultimate effect of excessive rediscounts will be to deplete the central bank's "own sterling reserves. Therefore, if there is a rediscounting central bank, both methods of "regulating the exchanges must be followed."

CENTRAL BANK MUST HAVE DISCRETION.

From the Memorandum which I have just quoted, it is clear that the English Treasury advocates the keeping of the exchanges between Britain and Australia at par. There are, of course, obvious advantages to be derived from the maintenance of a par rate of exchange. Yet, notwithstanding the views expressed in that memorandum, circumstances may arise under which some considerable deviation from par may become necessary. In the first place, it would not be proper to tack the Australian pound to the English pound if the latter were depreciated by a policy of inflation. This was made clear on behalf of South Africa by Mr. Burton, Finance Minister of the Union, who said, "We purpose to stick to sterling so long as the British policy is a gradual approximation towards the restoration of the gold standard, but we certainly should not stick to sterling if there were a change of policy in this respect." Secondly, care must be taken to protect Australian industry from the excess of imports which might be induced by manufacture of credit. Suppose that the method outlined were in operation now, English and Australian money being exchangeable for each other at par, without limitation as to amount, and the banks demanded notes from the Central Bank in exchange for £10,000,000 of London credit. In such a case, it can scarcely be doubted that the banks would build credit on those notes. The result would be, not merely that £10,000,000 had been added to the local currency, but cheque money manufactured by the banks would further add to the means of payment in Australia. Certainly some of the banks, at least, would be restrained by the knowledge that there would be a reaction. Nevertheless, we shall be taking only a moderate view of the possibilities if we suppose that the means of payment in Australia were added to by £20,000,000 or £25,000,000. Undoubtedly an increase to that extent would have an appreciable effect upon prices, including the cost of labour. Then our secondary industries would receive a set-back, because it would be cheaper to import than to produce locally. In this illustration I have supposed that the London credit transferred would amount to £10,000,000, but in reality no one could safely forecast what would be the amount. Even if it were less, the tendency towards increase of imports would be just what I have described.

Eventually, the exchange would turn the other way round, owing to increased imports, but, in the meantime, damage would have been done to our industries, with consequential unemployment.

Consideration of these possibilities will show that the Central Bank must not be directed to provide exchange at any particular rate or to issue notes for English money, and vice versa, up to any amount which the banks or the public may apply for. Unfettered discretion must be given to the Central Bank, in order that disturbances shall be avoided as far as possible.

BANK OF ENGLAND NOTES.

Here I may notice the suggestion that Bank of England Notes be imported and used as currency in Australia. This could be done only if those Notes were made legal tender in Australia because, otherwise, the Banks would not dare to hold them as part of their cash reserves. To make Bank of England Notes legal tender here would have the same effect upon conditions in Australia as would an issue of Australian Notes against London credits, according to the plan indicated in the English Treasury Memorandum. As I have already dealt with the proposals made for such an issue of Australian Notes (and for their conversion back into sterling at a fixed rate) no further comment is necessary on the question of using English Notes.

CURRENCY AND CREDIT MUST BE ASSOCIATED.

The Notes Board could in the past have dealt satisfactorily in exchange, only if it had been given control of credit and had possessed full liberty to buy and sell London money in accordance with the ordinary course of exchange. Fully equipped as a central bank, having adequate reserves in London and in Australia, it could have undertaken exchange business with the banks, or with the public, or with both. Thus it would have been able to modify fluctuations in exchange. In this connexion, it is interesting to note that at the Imperial Economic Conference, Colonel Guinness, Financial Secretary of the English Treasury, said that "control of currency cannot operate satisfactorily unless, at the same time, you have control of credit."

CURRENCY AND EXCHANGE—MOST DIFFICULT AND DELICATE.

The Government is of opinion that the difficulties of exchange and the alleged shortage of paper money cannot directly be remedied by an Act of this Parliament. The real cure, both of exchange troubles and of currency shortage, if it exists, lies in a return to the gold standard. That most desirable end, however, is not yet in sight, and the best that can be done in the meantime with the exchange matter is to place it in the hands of a central bank, which will have ample resources, including control of currency, and which will work for the good of the whole community. I do not overlook the remedial influence of reduced borrowing, and I commend this to all Australian authorities as the one direct effort which may at present be made towards relief. Apart from that, the situation tends to correct itself, but a central bank can do much to ease the strain while the natural process of adjustment is in operation. As to the alleged shortage of currency, I should say the Government believes that, until definite steps can safely be taken towards resumption of gold payments, the proper policy is to aim at issuing just enough paper to maintain stability of the general price-level. As this is an extremely difficult and delicate matter, and moreover is one of great public importance, the Government proposes to entrust the whole subject to the remodelled Commonwealth Bank.

The Board of Directors of the Central Bank in controlling the Note Issue will decide how far they shall safely go in the issue of notes for additional growth of trade requirements.

SEASONAL TRADE.

Before leaving this subject, and in justice to the present Notes Board, which has had a most difficult task and a great responsibility, I should like to correct the impression that exists in some quarters that the Board will not under any circumstances permit an increase in the circulation. The Notes Board, of course, was made by this Parliament quite independent of the Government, and, therefore, I am not called upon to justify its actions, but I think it is only fair that the point of view of the Notes Board and the facts associated with the issue of Notes should be known.

The Board showed its willingness to increase the amount of circulation by giving to the banks the right to get temporary advances of additional notes up to £3,000,000 to assist in handling the exports of the 1922–1923 season. It is true that the Board declined to issue more notes for the 1923–1924 season. The Commonwealth Bank, however, gave assistance to the other banks in respect of seasonal demands by making advances out of existing credits. This was made possible through the co-ordination of the resources of the Treasury with those of the Bank. Indeed, all the money offered was not accepted by the banks. Our experience on this occasion shows how important it is that the Treasury, which controls huge financial operations,

shall work in full co-operation and in perfect harmony with the Commonwealth Bank, and you will note later in this connexion that the Secretary to the Treasury is being placed on the Board. I have had in the happenings of the last few months a very practical illustration of the manner in which a Central Bank is necessary to assist all the banking and commercial interests of the country. This has strengthened my conviction that the Commonwealth Bank should be put in the position of being a Central Bank as early as possible, as the Government is doing in this Bill.

STRINGENCY NOT DUE TO SCARCITY OF NOTES.

In considering whether additional notes should have been provided by the Note Issue Department, it has to be remembered that, without any assistance by way of additional currency, the banks were able, in 1923, to increase their advances and investments by £22,000,000, as compared with an increase in 1922 of only £9,000,000. In 1923, the advances and investments made by the banks increased from £206,000,000 to £228,000,000, or more than 10 per cent. That does not look like stagnation. Insufficient currency might be expected to find expression in lowered prices, but the index-number of wholesale prices in December, 1922, was 1,832 (compared with 1,000 in 1911), and in December, 1923, it was 1,982. It is true that, in the intervening months, prices rose until in July, 1923, the index-number reached 2,052, and that the number then began to fall, but the numbers for October, November, and December were, respectively, 1,946, 1,969, and 1,982. Prices, therefore, up to that time, at least, did not disclose any stringency in respect of currency. In January, 1924, the number was 1,984, but it fell to 1,956 in February, to 1,899 in March, and to 1,893 in April. These figures still are higher than the index-number of December, 1922, which was 1,832. Whether the recent reduction indicates shortage of currency is a matter to be decided by experts. If it does, the new general Board of the bank will take due action. While I have an open mind on the subject, and while I certainly favour elasticity as one of the essential conditions of a note issue, I do not think that those who have advocated an increase of currency have shown that the refusal of the Notes Board to issue more notes was unjustifiable, and undoubtedly we should avoid an over-issue of notes as a devouring pestilence. Savings bank depositors, life assurance policy holders, pensioners and others entitled to payments in money would be helpless victims, and wage-earners would suffer acutely until adjustment of wages could be arranged.

It is far better to ensure that the paper money shall be handled by a Central Bank of issue and rediscount in order that currency resources may be elastic and used to the fullest possible extent, and increased only with the expansion of national production and wealth.

In concluding this review, it may be pointed out that the means which have been suggested for overcoming the present position—the use of the Notes Board's resources for sterling backing in London—would be ineffective unless the resources of the Notes Board were operated by a Central Bank established as the Government is establishing this.

THE COMMONWEALTH BANK OF AUSTRALIA.

ESTABLISHMENT.

The Commonwealth Bank of Australia was established by an Act passed by the Commonwealth Parliament in 1911. Generally speaking, the Bank was authorized—

(*a*) to receive money on fixed deposit or current account ;

(*b*) to make advances by way of overdraft or loan ;

(*c*) to discount bills and drafts ;

(*d*) to carry on the business of a Savings Bank—this, however, to be kept in a separate department.

PECULIAR FEATURES.

A peculiar provision was included, making the Commonwealth responsible for the payment of all moneys due by the Bank, and another clause placed the management of the Bank in the hands of one man, who was to be appointed for a period of seven years and to be entirely beyond political control, except in some routine details of no real importance.

DEBENTURES.

According to the original Act, the capital of the Bank was to be provided by the issue of debentures up to £1,000,000. By an Act passed in 1914, the amount was increased to £10,000,000, but the Bank has not yet issued any debentures.

TAKING OVER OTHER BANKS.

The Act of 1914 authorized the Commonwealth Bank to purchase the business of any other Bank ; also to take over any State Savings Bank. In both these matters the approval of the Commonwealth Treasurer had first to be obtained. No Bank has been purchased by the Commonwealth Bank. Two States have handed over their Savings Bank business to the Commonwealth Bank, namely, Queensland and Tasmania, the terms including, in each case, a provision that the State is to have the right to borrow from the Bank 70 per cent. of the increase of deposits.

BANK NOW HAS A CAPITAL.

Though the original Act provided that half the profits of the Bank might be used towards the redemption of Commonwealth or State Public Debts, no portion was devoted to that purpose, and the whole, amounting, at 30th June, 1923, to £4,403,987, has been used in the business of the Bank. Indeed, it cannot now be said that the Commonwealth Bank has no capital, because the accumulation of profits has furnished it with a sum for that purpose.

NATIONAL DEBT SINKING FUND.

Under the National Debt Sinking Fund Act passed last session, one-half of the profits must be paid into the Sinking Fund, and the first instalment of £61,672, representing half of the profits for the six months ended 31st December, 1923, has already been paid over by the Bank to the National Debt Commission.

NOTES PLACED UNDER BANK'S CONTROL.

At the time of the establishment of the Bank, the paper currency of Australia was under the management of the Treasury, but the experience of the war showed the desirability of placing the issue entirely beyond political control. An Act was therefore passed in 1920 establishing a Note Issue Department of the Commonwealth Bank, and placing it in the hands of the Governor and three other Directors, the Governor being given a casting vote in case of equality of voting.

STILL OBLIGATION OF TREASURER.

Although the management passed over to the Commonwealth Bank, the notes remained an obligation of the Treasurer, as before, and in case of emergency the issue may be brought back to the Treasury by the issue of a proclamation, for such period as may be specified. The profits of the note issue, under the new management, are payable into the Consolidated Revenue of the Commonwealth.

HOW PROFITS OF GENERAL BANK DERIVED.

The making of a profit of over £4,500,000 by an institution which was established twelve years ago is a notable performance, particularly when it is remembered that the Bank has never had a capital, except that which was created out of its own earnings. It will be interesting, therefore, to look into the source of those profits.

The Commonwealth Bank's deposits included, at 31st December, 1923, a total of £9,540,378 standing at the credit of private depositors, £5,882,846 deposited by other Banks, and £14,044,349 at the credit of Commonwealth and State Governments. The Savings Bank deposits at the same date amounted to £40,330,455. These figures give a bird's-eye view of the sources of the funds used by the Commonwealth Bank. It will be noticed that, at the date named, the Commonwealth Bank's general deposits were derived chiefly from the Governments.

On the assets side of the account are to be found the following :—Coin, cash balances, and Australian Notes, £11,352,193 ; money at short call in London, £6,805,000 ; Government securities, £39,632,198 ; deposited in other banks, £954,000 ; Bills receivable in London and remittances in transit, £1,476,116 ; Bills discounted, loans and advances to customers, and other sums due to the Bank, £16,839,694 ; Bank premises, £862,204. Here it will be noticed what a very large proportion of the assets is held in the form of Government securities.

DIMINUTION OF PROFITS.

The profits of the Bank, amounting to over £4,500,000 (which does not include the earnings of the Note Issue), have clearly been earned very largely out of funds deposited by Governments and out of transactions undertaken by the Bank during the war. During the first 2½ years of the Bank's working, up to 31st December, 1914, there was no profit. In the next three years, up to December, 1917, the profits amounted to £758,952. In the next three years, up to December, 1920, the profits were £2,289,372. Then further profits, up to 31st December, 1923, amounted to £1,479,008. The average annual profits in these triennial periods were, respectively, £252,000, £763,000 and £493,000. The decline in the profits is more pronounced when we look at the business of the last half-year, which showed a profit at the annual rate of £246,000, or about 5½ per cent. per annum on accumulated capital. This reduction was quite to be expected, because the abnormal conditions of the war have passed away. As showing the fine opportunity which the Bank had, the following examples of Commonwealth Treasury moneys standing at the credit of current account in the Bank may be given :—

	£
30th June, 1915	789,000
30th June, 1916	16,513,000
30th June, 1917	19,135,000
30th June, 1918	18,852,000
30th June, 1919	20,548,000
30th June, 1920	10,128,000
30th June, 1921	7,323,000
30th June, 1922	9,045,000
30th June, 1923	5,576,000

At times the balances were very much larger. On one occasion the current account of the Treasury reached £40,000,000. The bank did not pay the Treasury any interest on these immense sums.

NOT A SERIOUS COMPETITOR.

On the whole, it will be recognised that the Commonwealth Bank has not been a serious competitor of the other banks. Indeed, it is understood that the policy of the management up to the present has been not to enter into active rivalry with the trading banks, and in pursuance of this policy the interest payable on Commonwealth Savings Bank deposits is, and has always been, lower than the interest paid by the State institutions. It is fortunate the policy has been such as has been described, because by reason of that policy the conversion of the Commonwealth Bank into a Central Bank has been rendered easier.

CENTRAL BANKS OF OTHER COUNTRIES.

Before detailing the changes contemplated in the Commonwealth Bank and to enable their significance to be appreciated, it will be found useful now to glance at the central banking systems of other countries. Usually they are private institutions, but whatever their nature, the association of all of them with the Governments is of the closest possible kind, and the Governments appoint managing *personnel* in all cases except that of the Bank of England. An intimate relationship with the Government universally exists, because a central banking system exercises an important control over money and credit, thereby holding the power of depressing or invigorating the business of the merchant, the manufacturer, the agriculturalist, and all others in the community.

BANKING IN ENGLAND.

GENERAL DESCRIPTION.

The Bank of England is a private bank, altogether independent of the State. Its capital is £14,553,000, and it has a Rest or Reserve of more than £3,000,000. It is governed by a Board of Directors, composed of a Governor, a Deputy-Governor, and 24 other directors. In addition to its head office in Threadneedle-street, it has two branches in London, and eight in the provinces. Its Governor must hold a qualification of £4,000 in the stock of the bank. The Deputy-Governor's qualification is £3,000 of that stock, and each director must hold £2,000. Every stock-holder above £500 has one vote only. In 1912–13 the bank paid a dividend at the rate of 9 per cent. on the capital of £14,553,000. In every year afterwards up to 1920–21 the dividend was 10 per cent. In 1921–22 it was 11½ per cent., and 12 per cent. in 1922–23.

The Bank of England was the first joint-stock bank ever established, its first charter dating from 1694. The original subscription to the capital of the bank was £1,200,000, which was raised for a loan to the Government at 8 per cent. This debt of the Government was subsequently increased by various amounts and, since 1834, has stood at £11,015,100, on which the bank receives interest at the rate of 2½ per cent. per annum. The bank has almost a monopoly of the right of issuing bank notes, but since the outbreak of war large numbers of Treasury notes have been in circulation in England. The authority under which some other banks still issue notes is unimportant and is a relic of old privileges. The English Treasury keeps its funds with the Bank of England, which also transacts all the loan business of the Government. One curious fact is that the bank does not publish a balance-sheet or any other accounts, except the weekly statements of its position.

NOTE ISSUE DEPARTMENT.

The Bank Act of 1844 directed that the notes business of the bank be separated and kept wholly distinct from the general banking business. The Act further authorized notes to be issued against securities up to £14,000,000, whereof the Government securities, amounting to £11,015,100, were deemed to be a part. Permission was also given to increase the amount of those securities beyond the the total sum of £14,000,000 in every case in which any banker ceased to issue his own bank notes. The increase of notes to be issued against securities was limited to two-thirds of the amount of bank notes which a banker had ceased to issue. The total amount of the securities against which notes are now issued is £19,750,000. Above the total of £19,750,000, the notes of the Bank of England are covered pound for pound in gold. On 1st March, 1924, the total of the notes outside of the note issue department was £146,022,000, of which an amount of £20,443,000 was held by the banking department.

ELASTICITY OF ISSUE.

The provision which requires gold to be kept as a backing for all notes issued beyond a certain point has been much criticised, it being held that the element of elasticity, so much to be desired, was not arranged for. In other important note issues, the circulation is regulated by fixing a certain proportion (say one-third) between the amount of the metallic reserve and that of the notes in circulation. Here again, in a time of stress, the legal limitation may become a serious difficulty. The system of bank credits operated on by cheque has developed to such an extent in England, however, that the want of elasticity in the note issue has not, during many years past, been so important as it formerly was.

NOTES FOR GOLD.

The Act of 1844 provides that all persons shall be entitled to demand notes from the issue department in exchange for gold bullion, at the rate of £3 17s. 9d. per ounce of standard gold, but the bank is entitled to require the gold bullion to be melted and assayed at the expense of the persons tendering the bullion. This is part of the legal machinery which makes gold a standard of value, but, during the suspension of gold payments, this particular provision is inoperative.

TREASURY NOTES.

In 1914, two days after the outbreak of war, an Act was passed authorizing the Treasury of the United Kingdom to issue currency notes for £1 and for 10s., such notes to be legal tender for the payment of any amount. By the same Act, the Bank of England, the Scottish banks and the Irish banks were authorized to issue notes in excess of any limit previously fixed by law, provided that the issue did not exceed an amount which might temporarily be authorized by the Treasury. Subject to a proclamation of the King, which might be revoked at any time, the bank notes issued by banks in Scotland and in Ireland were made legal tender, except at the head office of the bank, and the bank might pay its notes, if it thought fit, in the currency notes issued by the Treasury. The Treasury notes issued under the new provisions of the law amounted, on the 9th January 1924, to £286,353,319. The assets held against the total issue comprised :—

Government Securities	£243,683,514
Gold Coin	27,000,000
Bank of England Notes	22,450,000
Silver Coin	7,000,000
Deposit, Bank of England	166,977
Total Assets	£300,300,491

A CENTRAL BANK SYSTEM.

During the last century, the joint-stock banks have greatly developed. So much so, that more than one hundred small banks have passed out of existence, and now the banking in England and Wales is conducted by the Bank of England, nine clearing banks and seven country banks. The Bank of England is the centre of the whole banking system, and is, in the proper sense of the term a banker's bank. Its decisions affect a very large portion of the banking transactions of the world and are not without their influence upon the other great banking systems, such as those of the United States of America, and of France.

BANK CONTROL.

A short reference to the manner in which the Bank of England controls money will now be found useful. First we shall deal with the case on the supposition that no restriction has been placed on the import and export of gold. The ordinary banks in England hold little or no gold, and their reserves of paper currency are only sufficient to meet the daily demands of their customers. The balance of the reserves is kept on deposit with the Bank of England, from which they may get legal tender, up to the amount of the deposits, merely by drawing cheques. By transfers between accounts kept at the Bank of England, the other banks settle the daily balances arising as between themselves in consequence of the passing of cheques and bills through the Clearing House. Practically the whole of the gold of the country is in the vaults of the Bank of England.

LEGAL TENDER RESERVES.

Now it is a fact that, in all banking business, the protection of the reserves of legal tender money is a matter of prime importance. For if the reserves are allowed to run low, even a slight increase of demand for payment above that which is normal and expected may exhaust the reserves and leave the bank broken and helpless. The bank which is not able instantly to satisfy demands legitimately made upon it for cash meets its doom. Therefore the rise or fall of the reserves is watched with the utmost care, and subjected to the closest investigation. That being so in the case of an ordinary bank, which is concerned chiefly with its own affairs, it easily can be seen how grave is the responsibility of a central bank which holds the gold reserve of the nation. In the creation of a difficulty which threatens the gold reserve, the central bank may have had no part, and mere restriction or calling in of its own loans may be quite ineffective. The only action likely to succeed is one which will simultaneously affect all the banks and will induce them to work for the common good. The necessary operation is one of extreme delicacy in the case of the Bank of England, because the other banks are not compelled by law to follow its direction. Yet the prestige of the bank and the sagacity of its management have long been such that the fixing by the bank of its rate of interest has led finance in safety, and has maintained London as the greatest money market in the world.

BANK RATE.

The bank is willing in its discretion to do business at a stated rate of interest, or, to speak technically and more correctly, it is prepared to discount bills at the stated rate. The rate chosen by the bank is to be regarded more as an expression of opinion as to the real value of money than as an attempt arbitrarily to fix a rate, because it is evident that even the Bank of England cannot for long maintain a false or a purely artificial rate. Indeed, the bank has to face the competition of the other banks, which have control of immense funds. In the use of those funds, a market rate is established, which is usually lower than the bank rate. The market rate, however, is itself dependent on the rate of interest which those other banks allow on short deposits, and, as the banks fix the rate for short deposits in a more or less definite relationship to the bank rate, there is not much danger that the discount rates of the banks will stray very far from the bank rate of discount.

HOW IT WORKS.

It may be that gold is leaving the country in consequence of an adverse balance of financial and commercial transactions. In that case, the bank increases its rate of discount, and all other financial institutions follow the lead. The effect is to retain money which otherwise would have been exported, because the interest now obtainable is more attractive than that which can be earned abroad; also, for the sake of the higher interest, money is attracted from abroad. At the same time the internal business of the country is affected. As the higher interest makes it less profitable to hold stocks which are being carried on borrowed money, and as an increase in the bank rate brings forth doubts as to the future, sales are accelerated, general prices fall, and business or enterprise which was in contemplation is abandoned, at least temporarily. Manufacture also may be affected, employment diminished, and consumption of goods reduced. These conditions culminate in an increase of the bank holdings of currency, exports are encouraged, imports are checked, and the necessary gold reserve of the nation is maintained, or perhaps increased. Even when there is no immediate danger of an export of gold, the internal business of the country may show signs of a dangerous expansion of credit, and, similarly, normal conditions are restored by raising the bank rate. If, however, the condition and prospects of the gold reserve are satisfactory, but business is dull and employment droops, the circumstances are suitable for a lowering of the rate. In such a case, credit is likely to expand, prices to rise, profits to increase, and employment to extend.

OTHER METHODS OF CONTROL.

It should be explained that in bringing about the results which have been described, reliance is not reposed only in the fixing of the bank rate. For example, securities may be sold in the market in order to get control of legal tender money, and the attitude of the banks generally in encouraging or discouraging loans is an important factor.

RESTRICTIONS ON USE OF GOLD.

Such was the position before the pressing necessities of the war brought restrictions upon the use of gold. That commodity can now be exported only with the consent of the Government, and the contrivances by which the money of the country was automatically brought into proper relation to the general price levels of the world have for the time being been put out of action.

The removal of the automatic check enabled huge credits to be built upon the war currency and the short-dated securities issued by the Government. Then was seen abnormal increase in available purchasing units, without an increase in available commodities. Prices rose, and, though wages were frequently raised, the pay of the workmen usually lagged behind the cost of living. During this period of inflation, trade was wonderfully active because merchants and dealers continually acquired large stocks in the fond belief that, in consequence of a world shortage of goods, prices would go higher still. In the wild scramble dealers bought from each other and ever prices rose. This speculative business could not go on indefinitely, however, and at length reaction set in. This approximately synchronised with an alteration of the bank rate, which, having been 6 per cent. since 6th November, 1919, was raised to 7 per cent. on 15th April, 1920.

FALL IN PRICES.

It is often held that prices would have fallen without the added effect of the higher bank rate, and without the pressure which bankers generally then began to exercise with a view to the retraction of credit. However that may be, the fact is that the index-number of wholesale prices fell from 352 in April, 1920, to 155 in July, 1923.

This huge slump in prices was quite without precedent, and brought great suffering upon millions of workers, who lost their employment. This is an example of the frightful oscillations which may be brought about while gold payments are suspended.

PRESENT COMPLEX CONDITIONS.

Though the need to maintain gold reserves is for the time dormant, a great responsibility, greater even than that which formerly existed, has now to be carried by the Bank of England, because, without the mechanical indication of danger as formerly betokened by movements of gold, the bank must now carry on a control similar to that which it exercised before the war. The new state of affairs is of a most complex nature, and great problems more or less new to the world have to be faced. Difficulties of exchange, of price levels, of production, and of employment have to be solved by the nation, and in these regards the decisions of the bank are of the first importance. Its great work is carried on in daily touch with the Treasury, which, too, is closely concerned in the control of credit, because of its own issues of paper money, and because of its immense loan operations.

FEDERAL RESERVE BANKS OF THE UNITED STATES OF AMERICA.

LARGE NUMBER OF BANKS.

The American banking and currency system is of an exceedingly complicated nature, and is governed both by Federal and by State laws. Generally speaking, the banks are not permitted to have branches. The result is a surprising number of separate banks, of which altogether there are more than 27,000. It is not our purpose to follow all the intricacies of the system, but it is desirable briefly to set out the chief features of the Federal Reserve Banking, by which the credit arrangements of the United States are controlled and directed.

RESERVE ACT PASSED.

On the 23rd December, 1913, just a few months before the outbreak of the war, the Federal Reserve Act of the United States of America was approved. The Act was designed to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking, and for other purposes.

RESERVE CITIES.

Provision was made for designating not less than eight nor more than twelve cities, to be known as federal reserve cities, and to divide the continental United States into districts, each district to contain one of such cities.

CAPITAL OF RESERVE BANKS.

Every bank established under what is known as the National Bank Act was required, and certain other banks and trust companies were authorized, to become members of the reserve system. Banks established under the National Bank Act are purely private institutions, subject, however, to close supervision by the Treasury. Every national bank was directed to subscribe, within thirty days after notice to be given by an organization committee to the capital stock of the Federal Reserve Bank of the district in which it was located, a sum equal to 6 per cent. of the paid-up capital and surplus of the bank.

COMPELLED TO COME INTO SYSTEM.

Should any national bank fail, within one year after the passage of the Act, to become a member bank, all of the rights, privileges, and franchises granted to it under the National Bank Act were to be forfeited.

TREASURY MIGHT HAVE TO SUBSCRIBE.

If the subscriptions of banks to the stock of any Federal reserve bank were insufficient, in the judgment of the committee referred to, to provide necessary capital, then the committee might offer stock in the said bank to public for subscription at par; but no individual, co-partnership, or corporation, other than a member bank of its district, was permitted to subscribe for or to hold at any one time more than twenty-five thousand dollars par value of stock in the Reserve Bank. Should the total subscriptions by banks and the public be insufficient to provide the capital necessary, then the United States Government was directed to subscribe an amount out of the funds of the Treasury. Stock not held by member banks was not to be entitled to voting power.

MINIMUM CAPITAL.

No Federal Reserve Bank was allowed to commence business with a capital of less than four million dollars.

BRANCHES.

Authority was given to the Federal Reserve Board (the constitution of which will be described presently) to permit any Federal Reserve Bank to establish branch banks, and the branches were to be operated under the supervision of a board of directors of not more than seven nor less than three, of whom a majority of one was to be appointed by the Federal Reserve Bank, and the remaining directors by the Federal Reserve Board.

DIVIDENDS.

Stock-holders of Federal Reserve Banks are entitled to receive an annual cumulative dividend of 6 per cent. After dividend claims have been met, all the net earnings are payable into the United States Treasury, except that one-half of such net earnings are to be paid into a surplus fund until it shall amount to 40 per cent. of the paid-up capital of the bank. The net earnings derived by the United States from Federal Reserve Banks are to be used to supplement the gold reserve held against outstanding Government currency notes, or are to be applied to the reduction of the national debt of the United States.

EXEMPTION FROM TAX.

Federal Reserve Banks are exempt from Federal, State and local taxation, except taxes upon real estate.

BOARDS OF DIRECTORS.

Every Federal Reserve Bank was placed under the control of a board of directors. The directors were required to extend to every member bank such discounts, advances and accommodation as might be safely and reasonably made, with due regard for the claims and demands of other member banks.

The board of directors for each Federal Reserve Bank consists of nine members, divided into three classes—A, B and C.

Class A consists of three members chosen by, and representative of, the stock-holding banks.

Class B consists of three members also elected by the stock-holding banks. At the time of their election they must be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C must be composed of three members designated by the Federal Reserve Board. The directors of this class must have been, for at least two years, residents of the districts for which they are appointed. The Federal Reserve Board designates one of them as Chairman. He must be a person of tested banking experience.

No Senator or Representative in Congress is allowed to be a member of a Federal Reserve Board, or an officer or a director of a Federal Reserve Bank. No director of Class B or Class C can be an officer, director, or employee, or stock-holder of any other bank; but this provision, under certain conditions, does not apply to any Class A director.

Of the directors first appointed to each of the Classes A, B and C, one was to be retired at the end of one year, one at the end of two years, and one at the end of three years. Thereafter, every director was to hold office for three years, any vacancy occurring before the end of the time to be filled by an appointment for the unexpired term of the predecessor.

STATE BANKS.

Subject to some special conditions, banks operated under State laws (these also are private institutions) are permitted to become stock-holding members of the Federal Reserve Banks.

FEDERAL RESERVE BOARD.

The Act created a Federal Reserve Board of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who are *ex officio* members, and five members appointed by the President of the United States. In selecting the five appointive members, not more than one of whom can be selected from any one Federal Reserve District, the President was directed to have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country. The five members appointed by the President devote their entire time to the business of the Board. The members of the Board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency, are ineligible during the time they are in office, and for two years afterwards, to hold any position in any member bank. Of the five members thus appointed by the President, at least two must be persons experienced in banking or finance. In making the first appointments of members, one of them was to be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years. Thereafter each member so appointed is to serve for a term of ten years, unless sooner removed for cause by the President. When an appointment is made to a vacancy caused other than by effluxion of time, the new member is appointed for the unexpired period of his predecessor.

Some of the powers of the Federal Reserve Board are as follow :—

(*a*) To review and determine the rates of discount to be charged by the Federal Reserve Banks for each class of paper.

(*b*) To examine the books and affairs of each Federal Reserve Bank and of each member bank, and to require such statements and returns as it may deem necessary. The Board is required to publish once each week a statement showing the condition of each Federal Reserve Bank, and a consolidated statement of all Federal Reserve Banks. The statement must show in detail the assets and liabilities of the Federal Reserve Banks, single and combined.

(*c*) To permit or require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve Banks, at rates of interest fixed by the Federal Reserve Board.

(*d*) To suspend any reserve requirement of the law ; provided that the Board must establish a graduated tax upon the amount by which the reserve requirements may be permitted to fall below certain levels. When the gold reserve held against Federal Reserve notes falls below 40 per cent., the Board must establish a graduated tax of not more than 1 per cent. per annum upon the deficiency. When the reserve falls below 32½ per cent., the tax must be at a rate increasingly of not less than 1½ per cent. per annum upon each 2½ per cent. that the reserve falls below the 32½ per cent. The tax must be paid by the Reserve Bank, but it is required to add an amount equal to the tax to the rates of interest and discount fixed by the Federal Reserve Board.

(*e*) To suspend or remove any director of a Federal Reserve Bank.

(*f*) To require the writing off of doubtful or worthless assets of Federal Reserve Banks.

(*g*) To suspend the operations of any Federal Reserve Bank for violation of the provisions of the Act, and to take possession and, when deemed advisable, to liquidate or re-organize the bank.

(*h*) To exercise general supervision over the Federal Reserve Banks.

(*i*) To grant by special permit to National Banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds.

FEDERAL ADVISORY COUNCIL.

There is also a Federal Advisory Council, the members of which are appointed by the Federal Reserve Banks, one member for each bank. The Council meets at least four times in each year. The Council has power to confer directly with the Federal Reserve Board on general business conditions; to make oral or written representations concerning matters coming within the jurisdiction of the Board; and to call for information and to make recommendations in regard to discount rates, rediscount rates, the purchase and sale of gold or securities by Reserve Banks, market operations by the said banks, and the general affairs of the reserve banking system.

FEDERAL RESERVE NOTES.

The Act provides that Federal Reserve notes may be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal Reserve Banks and for any other purposes. The notes are obligations of the United States, and are redeemable in gold on demand at the Treasury in Washington, or in gold or lawful money at any Federal Reserve Bank.

Any Federal Reserve Bank desiring to receive Federal Reserve notes must tender with its application an amount of collateral equal to the sum of the Federal Reserve notes applied for. The collateral must be notes, drafts, bills of exchange, or acceptances, or may be gold or gold certificates.

GOLD OR LAWFUL MONEY RESERVES.

Every Federal Reserve Bank shall maintain reserves in gold or lawful money of not less than 35 per cent. against its deposits, and reserves in gold of not less than 40 per cent. against its Federal Reserve notes in actual circulation. The notes so paid out must bear upon their faces the descriptive letter and serial number, which are assigned by the Federal Reserve Board to each Federal Reserve Bank.

RIGHT TO NOTES.

Each Federal Reserve Bank had conferred on it the right, on depositing Government Bonds with the Treasury, to receive from that Department currency notes equal to the par value of the bonds. This privilege is similar to that granted to National Banks under the previously existing law. Indeed, the Federal Reserve Banks were placed in exactly the same position, in this regard, as the National Banks, except that the issue of notes was not to be limited to the capital of the Federal Reserve Banks.

RESERVE AGAINST DEPOSITS.

Every bank, if not in a Reserve or Central Reserve City, must maintain with the Federal Reserve Bank of its district an annual net balance equal to not less than 7 per cent. of the amount of its demand deposits and 3 per cent. of its time deposits. If in a Reserve City it shall maintain with the Federal Reserve Bank of its district at least 10 per cent. of its demand deposits and 3 per cent. of its time deposits. If in a Central Reserve City it shall so maintain 13 per cent. of its demand deposits and 3 per cent. of its time deposits.

The required balance carried by a member bank with the Federal Reserve Bank may, under regulations prescribed by the Federal Reserve Board, be checked against and withdrawn by the member bank for the purpose of meeting existing liabilities; but no bank is permitted at any time to make new loans or pay any dividends until the total balance required by law is fully restored.

BANKS TO BE EXAMINED.

The Comptroller of the currency, with the approval of the Secretary of the Treasury, must appoint examiners to examine every member bank at least twice in each calendar year. In addition every Federal Reserve Bank may, with the approval of Federal Reserve Board, provide for special examination of member banks within its district.

PROCESS OF REDISCOUNT.

The Federal Reserve Act was designed chiefly to facilitate the process of rediscount. It provides for the discount of notes, drafts, and bills of exchange, growing out of commercial, industrial, or agricultural transactions, and also bankers' acceptances. Bankers' acceptances which can be discounted are limited to those based upon the importation or exportation of goods.

The Statute contains most elaborate provisions defining the classes of paper which can be handled, and generally the aim has been to confine the transactions of the banks to the use of paper which has only a short time to run. The principle has been recognised that bank assets should not be tied up for long periods, and should be employed in commercial processes which will more or less automatically secure the return of the money within a short period.

EXTENT OF ORGANIZATION.

A practically continuous increase in the number of the banks which have become members of the Federal Reserve has taken place since the organization of the system. In June, 1923, approximately 33 per cent. of all the banks, representing over 70 per cent. of the total banking resources of the United States, were members. These member banks number 9,856 in all, and their resources amount to 33,796,000,000 dollars.

BANKING IN FRANCE.

The banking of France is conducted by the Bank of France, six other great banks, and a large number of credit institutions of various kinds.

The Bank of France is an entirely private concern, and although, in the way of advice and in practical assistance at low rates of interest, or even no interest at all, it has always been most intimately concerned with national finance, it has maintained complete independence so far as political bias or control is concerned. Nevertheless, the Government of France has wide powers in relation to the bank, for it appoints the Governor and two sub-Governors, and has power to remove them. It has never exercised that power. In case of dispute regarding internal administration or regarding the application of statutes, the Council of State has power of decision. Here it may be noted, too, that in 1857, when the Government determined to double the capital of the bank, raising it to 182,500,000 francs, at which it now stands, this increase of capital was used as an opportunity of placing a Government loan, to which the market happened to be unfavorable. The bank, upon raising its 91,250,000 francs of fresh capital, was required to invest 100,000,000 francs in new Government 3 per cents., issued for the reduction of the floating debt, which had risen to an awkward amount.

The capital is divided among upwards of 33,000 shareholders. Each share is of the nominal value of 1,000 francs, but, in 1921, the market value was about 5,500 francs, or a little more than £100 in our money. At that time there were 12,000 shareholders, each holding only one share, and altogether there were about 27,000 persons who held only five shares or less. The average is about five and a half shares for each shareholder.

The profits go to the shareholders, as in every other company.

The Governor and each sub-Governor must hold respectively 100 shares and 50 shares. They are appointed for indefinite periods. They are assisted by fifteen Regents and three Censors, elected by the General Assembly of the bank, which is composed of 200 of the largest stockholders. Five of the Regents must be chosen from among manufacturers or merchants who are shareholders, and three must be officials of the Government Treasury Department. Regents must own at least 30

shares, and their duties do not differ much from those of any other director of an ordinary corporation. The special mission of the Censors is to supervise all the bank's transactions, and they are entitled ot examine all the records. Censors have not the right to vote, but no action in regard to the issue of bank notes can be taken without their unanimous approval. The Censors attend meetings of the Board, and there are permitted to discuss any business of the bank.

The Board, composed of Governor, sub-Governors, and Regents, decides all questions relating to the general management and to the discount rate.

It will be noticed that the government of the bank consists of two distinct elements—one portion chosen by the State, the other by the 200 largest shareholders. It would seem that the Governmental appointees have a peculiar responsibility to see that the business of the bank is carried on in the interests of trade, commerce, and public requirements generally. It is said that, in practical working, the members of the Board, who are elected by the shareholders and who therefore may be regarded as interested parties, are not permitted to dominate the affairs of the bank. Decisions of the Board are subject to veto by the Governor. He cannot by himself make decisions, but can unmake them.

The Board is divided into five committees, namely, discount, bank notes, funds, securities-portfolios, and public treasury.

The French banks derive their profits chiefly from short-term discount operations, and a very important part of the business of the Bank of France comes from re-discounts from the other banks. Though the Bank of France discounts for any corporation, firm, or individual, and thus engages in the general business of banking, the other banks have an excellent opportunity for doing business, because the Bank of France maintains a low rate of discount, and requires three signatures on bills presented for discount. The other banks, therefore, get most of the discount business, and, by adding their own signature to make the third, have means at hand for re-discounting the paper at the Bank of France. The smallest sums are obtainable by way of loan from the banks, and it is said that even the trifling sum of five francs may be borrowed.

The bulk of the French banking deposits take the form of current accounts, and fixed deposits are comparatively of small volume. The cheque system is not well developed, and this accounts for the large issue of the notes of the Bank of France.

In view of the facilities for re-discount at the Bank of France, which is a central bank in the true sense of the term, the other banks, with their numerous branches and tremendous volume of business, are able to carry on with small cash reserves. It is because of this large business of re-discount that the Bank of France, by giving or withholding credit, as well as by fixing the rate of discount, can control banking affairs. The rate of discount at the Bank of France has been remarkably uniform, and usually lower than that of other central banks. This has proved a great boon to French business. The Bank of France makes no charge for transferring money for customers from one branch to another in any part of France, and the other banks take advantage of these arrangements. It may here be stated that, when the Australian note issue was under the control of the Treasury, free exchange was given to the banks, which were permitted to lodge notes at any State capital and to withdraw a corresponding amount of notes at any other State capital without charge. This gratuitous facility has been continued by the Note Issue Department of the Commonwealth Bank.

The Bank of France has no immunity from taxation. It has the exclusive privilege of issuing the fiduciary currency of the nation, and holds the national specie reserve. There is no fixed amount at which the reserve is to be maintained, that being left to the discretion of the management. The specie is both of gold and silver, in either of which the bank has the right to redeem its notes. The right to pay in silver would be exercised, however, only to prevent the large outflow of gold which might be threatened in abnormal circumstances.

The joint-stock banks of France are incorporated under the general laws relating to companies. The banks are not examined by public officials, and, because there is no machinery for consolidating statistics of banking business under uniform heads, it is not possible readily to compile statements showing the banking position as a whole.

The outstanding features of French banking are the liquid condition in which the great banks keep their business, and the facilities granted to the banks for the re-discount of their paper at the Bank of France. It may be said that the real reserve of French banking is the authority given to the Bank of France to issue notes, and its willingness to discount paper for the other banks.

BANKING IN GERMANY.

The following are some details of the German banking system as it existed before the war. The great disturbances of the last few years have caused modifications necessitated by abnormal conditions, and it is thought that, for our present purposes, the pre-war system is that to which we should look :—

Though a considerable number of joint stock banks, which were originally established chiefly to facilitate the organization and development of large corporate enterprises and the sale of their shares to the public, have developed the business of banking upon a great scale, the cheque system has not extended so widely as in England, and therefore notes are used to a greater extent. These banks occupy to the Reichsbank (the central bank) a relationship in some respects analogous to that of the English banks in relation to the Bank of England. It is true the German deposit banks do not maintain large reserve balances with the central bank, but they resort to it for re-discounts. The Reichsbank holds the only available store of specie in the country, from which any extraordinary demand of banking can be met. The policy of that Bank is therefore primarily determined by the necessity of guarding its reserve, not so much because it issues notes, as because the credit system of the country is built upon the foundation of the specie in its vaults.

Like other central banks, the Reichsbank resorts to the variable rate of discount to protect its reserve, raising its rate in times of danger in order to restrain the expansion of credit and check the outflow of specie.

The Reichsbank is not a joint stock bank, but has been founded in accordance with special Imperial laws. Its capital has been privately subscribed. The Government, though having neither supplied capital nor assumed any financial liability for the Bank, is, nevertheless, entitled to a considerable share in the profits, and to the full control of the administration and management. A committee of fifteen, elected annually at the general meeting of the shareholders, has power only to examine the Bank's operations, and to offer advice to the authorities. The governing body for the supervision of the Bank consists of the Imperial Chancellor as President, and four members, of whom one is appointed by the Emperor and three by the Federal Council. The last-named body meets once a quarter in order to receive a full report. The active management of the Bank is in the hands of a Directorate, consisting of the President and a number of members who, on the recommendation of the Council, are appointed for life by the Emperor. The rights of the shareholders are extremely limited. At the annual meeting accounts are submitted and members of a committee are elected.

The shareholders are entitled to a first dividend of 3½ per cent., and, after 10 per cent. has been transferred to the reserve, to one-quarter of the balance, whilst the Government receives the remaining three-quarters.

The Reichsbank is privileged to issue notes, and its notes, but not the notes of other banks, are legal tender.

As cover for the notes in circulation, the Reichsbank must hold at least one-third in gold and notes issued by the Government. The remaining two-thirds are to be held in discounted bills or cheques of a specific description.

In Germany there are, besides the Reichsbank, four other Banks of Issue. These four German Banks have no fixed maximum issues, but their issue of notes is regulated as is that of the Reichsbank.

Germany imposes on the Reichsbank no absolute maximum, but provides a tax-free "Kontingent." This "Kontingent," before the war, stood at 550,000,000 marks. The sum of the tax-free "Kontingent" and the actual cash in reserves are deducted from the total outstanding circulation, and the balance is subject to a tax of 5 per cent. per annum.

The combined "Kontingent" of the other four Banks of Issue amounted at the outbreak of the Great War to only 68,771,000 marks—about one-tenth of the circulation of the Reichsbank.

The banking business of Germany is carried on by the four Banks referred to and many other banks, which do not issue notes.

The officials of the Reichsbank are provided for, both as to number and salaries, in the Imperial Budget, and they are subject to the same obligations and enjoy the same privileges as other employees of the Empire.

The German Government before the war had a note issue, but its volume was comparatively small.

BANKING IN SOUTH AFRICA.

The South African Currency and Banking Act of 1920 has provided the most recent example of central banking.

The Act establishes at Pretoria a corporate body called "The South African Reserve Bank."

The Bank is managed by a Board of eleven Directors, as follows :—

Six Directors, who are described as commercial and industrial representatives, and who must be or have been actively engaged, three in commerce or finance, one in agriculture, and two in other industrial pursuits, are elected by the stockholders ;

Three Directors, who are described as the Government representatives, are appointed by the Governor-General ; and

Two Directors (styled the Governor and the Deputy Governor) are also appointed by the Governor-General.

The Governor and Deputy Governor hold office for five years, and devote their whole time to the Bank.

The first appointments of Directors, other than the Governor and Deputy Governor, were to be made for differing periods. After the expiry of the period of office of any first Director, other than the Governor or Deputy Governor, his successor is to be appointed for a period of three years.

No person can be a Director, if he is a director, officer, or employee of another bank, or if he is a member of either House of Parliament or of a Provincial Council.

The original capital of the Bank is £1,000,000, of which not more than 50 per cent. was to be subscribed at par by the six banks specified in the schedule to the Act, in proportion to their paid-up capital and reserve funds. The amount remaining after that allotment to the banks was to be offered to the public at par. In the event of the full amount offered to the public not being fully subscribed the Treasury was required to take up the remainder at par.

No stockholder, other than a subscribing bank and the Treasury, may hold more than £10,000 of capital stock.

A cumulative dividend at the rate of 6 per cent. per annum is payable on the paid-up capital, and any additional profits are allocated to the reserve fund, until such fund is equal to 25 per cent. of the paid-up capital. Thereafter, until the reserve fund is equal to the paid-up capital, one-half of the surplus is allocated to reserve fund, one quarter to the Government, and the remaining quarter, not exceeding 4 per cent. of the paid-up capital, to stock-holders. If that remaining quarter exceeds 4 per cent. of the paid-up capital, the excess is payable to the Government.

When the reserve fund is equal to the paid-up capital of the Bank, the net profits, after payment of a dividend of 10 per cent. to stock-holders, are payable to the Government.

Provided that, while there are restrictions on the export of gold or on the convertibility of gold certificates, a dividend in excess of 6 per cent. in all shall not be paid, and any profits after paying a dividend of 6 per cent. are to be placed to a special fund for strengthening the gold reserve of the Bank.

The Bank must fix and publish from time to time the rates at which it will discount the various classes of bills.

The Bank may engage in :—

1. Issue of notes.
2. The business of current account deposits.
3. Buying, selling or re-discounting bills of exchange, promissory notes, or other commercial paper bearing two or more good signatures, and having a maturity not exceeding 90 days.
4. Buying, selling, or re-discounting, to an amount not exceeding 20 per cent. of the Bank's total discounts, bills and promissory notes, bearing two or more good signatures, and drawn or issued for agricultural purposes or based on live stock, and having a maturity not exceeding six months.
5. Buying, selling, or re-discounting bills of exchange and promissory notes with a maturity not exceeding 90 days, bearing the endorsement of a Bank, issued or drawn for the purpose of carrying or trading in Union Government securities.
6. Buying, selling, or re-discounting bills of the Union or a local authority having not more than six months to run.
7. Making loans or advance on current account against security of :—
   (*a*) Stock, debentures or bills having not more than six months to run of the Union Government or of a local authority.
   (*b*) Gold coin and bullion or the documents relating to the shipment or storage thereof.
   (*c*) Such notes, drafts, bills of exchange, and banker's acceptances as are eligible for purchase by the Bank.
   (*d*) Remittance to and exchange with places abroad.
8. Buying and selling securities of the Union Government or of a local authority, having not more than six months to run.
9. Investing a sum not exceeding its paid-up capital and reserve in securities, having not more than two years to run, of the Union Government or other Governments.

The Bank is forbidden to :—

1. Have a direct interest in any commercial, industrial, or other undertaking.
2. Advance money on mortgage.
3. Draw or accept bills payable otherwise than on demand.
4. Accept money on deposit for a fixed term, or allow interest on credit balances on current account.

The Bank has the sole right to issue notes in the Union.

The notes issued by the Bank must be secured to an amount of not less than 40 per cent. in gold in the Bank's custody, and as to the remainder in commercial paper or trade bills. The Bank may, with the consent of the Treasurer, hold gold balances outside the Union. In addition to the gold reserve against notes the Bank must hold in gold a reserve of at least 40 per cent. of its deposits and bills payable. Provided that until 30th June, 1928, the notes may be secured in Treasury Bills of the Union or the British Government of a currency not exceeding 90 days, up to an amount which shall not exceed—

(*a*) 35 per cent. of the total note issue ; or

(*b*) 140 per cent. of the total amount of commercial paper or trade bills held by the Bank.

The Treasury is empowered at any time to make an inspection of the books of the Bank.

The Directors, officers, and employees are obliged to maintain secrecy, subject to penalty.

Every Bank in the Union is required to maintain balances in the South African Reserve Bank, equal to at least 10 per cent. of its demand liabilities in the Union and 3 per cent. of its time liabilities to the public in the Union.

BANKING IN CANADA.

Though Canada has not a central banking system, the provisions of its law relating to banking have been referred to in Australia of late, and therefore it is desirable to set out some details here.

The banking law of Canada is contained in an Act which was assented to on 30th June, 1923.

Every bank must hold in Dominion notes not less than 40 per cent. of the cash reserves which it has in Canada. The Minister must make arrangements for ensuring the delivery of Dominion notes to any bank in exchange for an equivalent amount of gold coin.

Every bank may issue and re-issue its notes payable to bearer on demand and intended for circulation. No such note shall be for a less sum than 5 dollars. Except as hereinafter provided, the total amount of the notes of a bank in circulation at any time shall not exceed the aggregate of—

(*a*) the amount of the unimpaired paid-up capital of the bank; and

(*b*) the amount of current gold coin and of Dominion notes held for the bank in the central gold reserves hereinafter mentioned.

During the usual season of moving the crops, that is to say, from 1st September in any year to the last day of February next ensuing, a bank may issue an additional amount of notes not exceeding 15 per cent. of the combined unimpaired paid-up capital and rest or reserve fund of the bank. On the amount of these additional notes, the bank must pay interest to the Treasury at such rate not exceeding 5 per cent. per annum as is fixed by the Governor in Council.

Every bank is responsible for keeping with the Treasury a deposit equal to 5 per cent. of its average circulation of notes, and is entitled to receive interest on that deposit at the rate of 3 per cent. per annum. The deposit is held by the Treasury for the sole purpose of payment of the notes in the event of the suspension of the bank.

When making any payment every bank must, on the request of the person to whom the payment is to be made, make the payment not exceeding 100 dollars in Dominion notes for 1, 2, or 5 dollars each.

The Minister of Finance may appoint any auditor whom he may select to examine and inquire specially into any of the affairs or business of the bank, and the auditor shall report fully to the Minister the result thereof.

Every bank may stipulate for, take, reserve, or exact any rate of interest or discount not exceeding 7 per cent. per annum, and no higher rate of interest shall be recoverable by the bank.

The banks shall not charge any discount or commission for the cashing of any official cheque of the Government of Canada or any Department thereof, whether drawn on the bank cashing the cheque or on any other bank nor upon any cheque drawn in favour of the Government.

The issue of Dominion notes in Canada is governed by an Act assented to on 22nd August, 1914. Dominion notes may be issued to any amount, and such notes have the quality of legal tender.

Dominion notes are (in normal times) redeemable in gold.

The Minister of Finance shall always hold, as security for the redemption of Dominion notes up to and including 50,000,000 dollars, an amount in gold equal to not less than 25 per centum of the amount of such notes. As security for the redemption of Dominion notes issued in excess of 50,000,000 dollars, the Minister shall hold an amount in gold equal to such excess.

PROPOSED AMENDMENTS OF THE COMMONWEALTH BANK ACT.

With the examples of central banking in our minds, we may now proceed to a consideration of the amendments which are proposed for improving the efficiency of the Commonwealth Bank, and making it a Central Bank. Five main amendments are proposed, viz. :—

(1) Appointment of a Board of Directors, to control not only the general business, but also that of the Note Issue.

(2) Strengthening Bank by provision of further capital.

(3) Board to fix and publish its discount rate.

(4) Banks to settle their exchanges through the Commonwealth Bank.

(5) Statistics.

(1) APPOINTMENT OF BOARD OF DIRECTORS, ETC.

It is proposed that the Bank shall be managed by a Board of eight Directors, consisting of the Governor and seven others. There is now a consensus of opinion that one-man control is inadvisable for an institution whose policy may affect production, employment, and prices. The choice of the first Governor proved to be a happy one, and the late Sir Denison Miller will be remembered not only as the first Governor of the Bank, but also as one who with great ability carried on its huge business with success.

Nevertheless, it is now widely recognized that the government of a central banking institution should include all that varied experience and mature judgment can supply. It is too much to expect that all the necessary qualifications can be found in one man.

It is proposed that there shall be two officials on the Board, viz., the Governor and the Secretary to the Treasury, the last named being included in order to ensure proper liaison between the Treasury and its Bank, so as to keep the Board of Directors *au fait* with the national financial position. The Secretary to the Treasury is already a Director of the Note Issue Department of the Bank. The Commonwealth Treasury handles a very large business, and there is a necessity for co-ordinating the work of the Treasury with that of the Bank. Already we have had experience showing how the resources of the Treasury can be made available for the support of banking operations generally, and there can be no doubt that the linking of the operations of the Treasury with those of the Bank will strengthen the system of central banking. There is precedent for this proposal, because the Secretary to the Treasury in the United States is the Chairman of the Federal Reserve Board, which governs the whole of the central banking system. The Comptroller of the Currency (a Treasury officer) is also a member of the Federal Reserve Board of the United States. It may be stated, too, that of the fifteen regents or directors of the Bank of France, three must be officials of the Government Treasury Department. In considering the qualifications required in the six other Directors the Government has been impressed by the fact that in the two most recently created central banking systems, those of the United States of America and of South Africa, particular care was taken to have commerce, agriculture, and industry represented on the governing boards. It has been decided that four of the Directors of the Commonwealth Bank shall be persons who are or have been associated with manufacture, agriculture, pastoral pursuits, other primary industries, or commerce. The intention is that these four Directors will have special and intimate knowledge of these businesses or industries, as well as knowledge of finance.

In order that the requirements of every part of the Commonwealth shall be kept in view in the management of the Bank, a clause has been inserted in the Bill requiring that fair representation of the geographical divisions of the Commonwealth shall, as far as possible, be arranged in the making of appointments to the Board of Directors. A similar provision exists in the Federal Reserve banking law of the United States of America.

The remaining two Directors are to be appointed because of their knowledge of currency matters. This is necessary because the appointment of the present Directors of the Note Issue Department of the Commonwealth Bank are terminated by the Bill, and the control of that Department will pass to the General Board.

The importance of determining the exact amount of paper currency is so very great, and the complexities are so formidable in relation to the effect upon the community, that the Government believes it absolutely necessary to place currency experience upon the General Board of the Bank.

For the same reason the Board, although permitted to decide all other questions by a majority of votes, will not be allowed to determine questions relating to the Note Issue unless the determining majority includes two of the following, namely :—

> The Governor, the Secretary to the Treasury, and the two Directors appointed because of their knowledge of currency.

Here again there is a valuable precedent, because the management of the Bank of France includes three Censors, whose unanimous approval is required in connexion with any decision relating to the issue of the notes of the Bank.

The proposal is that the Chairman of the new Board shall be elected by the Directors themselves. It is thought that the Governor should not be Chairman, because he will be the chief executive officer of the Board. In conferences which Ministers have had with the General Managers of the private banks, there has been found an astonishing unanimity of opinion that the chief executive officer should not be Chairman. The official view will at all times be thoroughly well expressed at Board meetings by reason of the fact that the Governor is to be a Director.

As already stated, the geographical divisions of the Commonwealth will be kept in view in the making of appointments to the Board of Directors, but, in order to enable the Board to be supplied with full information of local character, the Government proposes that there shall be a Board of Advice in such principal cities of the Commonwealth as may be specified by the Governor-General by notice published in the *Gazette*. The number of members of any Board of Advice will not be more than three, and, as far as practicable, Directors of the Bank will act also on Boards of Advice. Each Board of Advice will be required to submit to the Board of Directors, at least once a month, a report in writing concerning the affairs of the Bank in the district in which the Board of Advice exercises its powers.

The following persons are not eligible for appointment as Directors or members of Boards of Advice, namely :—

A Director or officer of any corporation other than the Commonwealth Bank, carrying on business which is wholly or mainly that of banking.

The Board may appoint from among its members an Executive Committee of not less than three Directors to carry on the business of the Bank between the meetings of the Board.

The merging of the management of the Note Issue with that of the general management should be of great advantage to the Banks and the business community, because there can be no doubt that the power of issuing notes is a most valuable banking reserve. The new Board will have the power, just as the present Notes Board has, of issuing notes, both in case of emergency and for ordinary business expansion.

Critics of the Note Issue Board have held that it did not function as it should. The Government has perfect confidence in the present personnel of that Board, but recognizes that its powers were scarcely wide enough to enable it properly to handle the banking and exchange difficulties which have arisen during the last few months. The transfer of the Note Issue to the control of the general management of the Bank should inspire confidence on the part of the other Banks and the business community generally, and should place the whole matter of the currency upon a satisfactory footing.

The Government will still retain the existing power of bringing the Note Issue back to the Treasury in case of national emergency, and the profits of the Note Issue will still come into the general revenue.

(2) PROVISION OF FURTHER CAPITAL.

The bank which is to perform the functions of a central bank should have a substantial capital in order to give it due standing and power. The Commonwealth Bank started without any capital, and has accumulated profits amounting to about £4,500,000. It is proposed to capitalize £4,000,000 of these profits, to authorize the Treasurer to raise by way of loan sums aggregating £6,000,000, and to hand over the proceeds to the Commonwealth Bank as additional capital. When the whole sum has been raised, the Commonwealth Bank will have a total capital of £10,000,000. The Government does not propose to interfere with the authority already included in the Commonwealth Bank Act, under which the Bank may issue debentures up to £10,000,000. It is not expected that the whole of the authorized funds will be raised in the near future, but the Government thinks that legal authority should be given for adding to the strength of the Bank as and when the management finds additional capital necessary. The Bank, of course, will pay the interest on any loan raised by the Treasurer for the purpose indicated.

The Bank of Australasia has total capital and reserves amounting to £7,746,000, and the Bank of New South Wales has similar resources amounting to £10,055,000.

No alteration is proposed as to the distribution of the profits of the Bank. As at present, one-half of the profits, not including the net earnings of the Note Issue which, as already stated, are payable into the revenue of the Commonwealth, will be placed to the credit of the Bank Reserve Fund, and the other half paid into the National Debt Sinking Fund.

(3) BOARD TO FIX AND PUBLISH ITS DISCOUNT RATE.

One of the most important functions of a Central Bank is that of re-discounting, by means of which, under all ordinary circumstances, every other bank is able to convert its bills of exchange into legal tender money. During discussions which I recently have had with bankers, they made it clear that the right to get cash in case of need is of the greatest value to banking. Though some of them urged that more legal tender notes be issued, they said over and over again that all they really wanted was the right to get notes in case of need. Their attitude is quite understandable, because unexpected demands may reduce the cash reserves of the most prudent banker to an uncomfortable level. More over, whenever a slight monetary stringency manifests itself, there is a tendency for bankers to make every effort towards increase of cash reserves. Thus the stringency is aggravated, unless there is a Central Bank, and the business world is placed under more restrictions than the case really warrants. There can be no doubt that a strong re-discounting Central Bank exerts a steadying influence in this direction, because confidence is inspired by a knowledge that help is at hand, if needed.

Of course the right to get cash from a Central Bank must be given with caution. Otherwise there might be undue expansion, followed by inevitable collapse. The safeguard lies in the power of the Central Bank to increase its rate of discount and the responsibility of the Central Bank management in this regard is very great, because the whole of the business of the country is more or less under the influence of that rate.

The Govermnent believes that it is proposing all that can be done by legislation towards bringing about a true system of central banking, but recognizes that the success of the Commonwealth Bank, acting as a Central Bank, will depend on the skill and foresight of the new Board of Directors. Our bankers are not used to central banking, and the bill system is not yet highly developed in Australia.

The whole matter must be left to the new Board, which will be required to publish its discount rate only when it finds itself in a position to take up that usual function of a Central Bank. In the meantime, there will be nothing to prevent the making of advances to any bank on such terms and conditions as the Board thinks fit. The Government is satisfied, however, that from the outset the newly-constituted Commonwealth Bank cannot fail both to support and to co-ordinate the banking of Australia.

Nothing in the Bill has direct reference to the handling of exchange difficulties. All that can be done in this direction is dependent upon the power of the central bank to give assistance to the other banks, and to arrange, with proper safeguards, for the seasonal fluctuation of the amount of currency. These are matters, not for legislation, but for continuous management by an expert board, which will from time to time take all necessary action after full consideration of all the circumstances, and which will be continuously studying the situation from the point of view of the public interest, rather than from the point of view of profit making. The Bill proposes that the Commonwealth Bank shall be placed in a position of such strength as will enable its Board of Directors appropriately to handle all banking and exchange questions as a Central Bank should.

4. BANKS TO SETTLE THEIR EXCHANGES THROUGH THE COMMONWEALTH BANK.

A provision has been inserted in the Bill, requiring the Banks to settle balances as between themselves by cheques drawn on the Commonwealth Bank. This will necessitate the keeping by each Bank of some funds with the Commonwealth Bank, and will tend to strengthen the central system. There is to be no compulsion as to the amount to be kept by any Bank at credit with the Commonwealth Bank, but it is hoped that confidence in the new management will bring about voluntary placing of considerable credits with the Commonwealth Bank, just as is the case with the Bank of England, which holds practically all the cash reserves of the ordinary banks and which, in the true sense of the term is a bankers' bank.

5. STATISTICS.

It is desired that the Banks shall be required to furnish statistics to a Commonwealth authority. The proposal is that the details shall be arranged on a basis similar to that which has been used in the past for statistics furnished to State authorities.

CONCLUSION.

I have now placed before honorable Members the proposals of the Government for the complete transformation of the Commonwealth Bank and the Notes Board into a Central Bank—a Bank of Banks—a Bank of Issue, Deposit, Discount, Exchange, and Reserve. I trust that I have shown the wisdom and the necessity for the changes, in order to keep pace with the most modern systems of banking in other countries, and to enable our present difficulties of currency and of exchange to be overcome. I feel sure that this change is calculated to facilitate the national production and trade as far as that may be done by banking, and, though the proposed new Act will not work miracles, it will permit the ordinary laws of finance and economics to work as smoothly as possible, and without harshness, towards meeting the growing needs of this great Commonwealth. The changes have not been proposed because the Government has any feeling of dissatisfaction with or any lack of confidence in the present management. The Government believes that the interests of the community have, within the circumscribed powers granted, been well served by the management, both of the General Bank and of the Note Issue Department. But the time has come to place the Commonwealth Bank in the commanding position which, in the interests of the whole community, a Central Bank should occupy, and I trust that honorable Members will give the Bill a quick and easy passage through the House.

Printed and Published for the GOVERNMENT of the COMMONWEALTH of AUSTRALIA by ALBERT J. MULLETT
Government Printer for the State of Victoria.

August 20, 1924.

My dear Sir:

I would greadly appreciate your courtesy if you find it possible to send me, say, six copies of the speech delivered by the Honorable Earle Page, M. P., on the subject of the amendment of the Commonwealth Bank Act. This speech I believe was delivered in the House of Representatives on the 13th of June last.

Thanking you in anticipation, I beg to remain,

Yours very truly,

Benj. Strong
Governor

Honorable James Kell
Acting Governor, Commonwealth Bank of Australia,
Sydney, Australia.

BS.MM

THE COMMONWEALTH OF AUSTRALIA.

COMMONWEALTH BANK.

No. 15 of 1924.

An Act to amend the *Commonwealth Bank Act* 1911–1920 and for other purposes.

[Assented to 20th August, 1924.]

BE it enacted by the King's Most Excellent Majesty, the Senate, and the House of Representatives of the Commonwealth of Australia, as follows :—

1.—(1.) This Act may be cited as the *Commonwealth Bank Act* 1924. Short title and citation.

(2.) The *Commonwealth Bank Act* 1911–1920 is in this Act referred to as the Principal Act.

(3.) The Principal Act, as amended by this Act, may be cited as the *Commonwealth Bank Act* 1911–1924.

2. This Act shall commence on a date to be fixed by Proclamation. Commencement.

3. The Principal Act is amended as set out in the Schedule. Minor amendments of Principal Act.

F.13199.—PRICE 5D.

4. Section

Definitions.

4. Section four of the Principal Act is amended—

(*a*) by inserting after the word "appears—" the following definition:—

"'Director' means a Director of the Bank, and includes the Governor;" and

(*b*) by adding at the end of the section the following definition:—

"'the Board' means the Board of Directors appointed in pursuance of this Act.".

5. Section nine of the Principal Act is repealed and the following sections inserted in its stead:—

Capital of Bank.

"9.—(1.) The capital of the Bank shall be Twenty million pounds, consisting of the following:—

(*a*) The sum of Four million pounds transferred to the Capital Fund from the Bank Reserve Fund and the Redemption Fund in accordance with the next succeeding section;

(*b*) Such sum not exceeding Six million pounds as is granted to the Bank by the Commonwealth from moneys borrowed by the Commonwealth in pursuance of this Act; and

(*c*) Such sum (if any) as is raised by the sale and issue of debentures in pursuance of Part VI. of this Act.

"(2.) The capital of the Bank shall be available for all the purposes of the Bank.

Transfer from Bank Reserve and Redemption Funds to Capital Account.

"9A.—(1.) Of the amount standing to the credit of the fund known as the Bank Reserve Fund on the thirty-first day of December One thousand nine hundred and twenty-three the sum of Two million pounds shall be transferred to the Capital Account, and of the amount standing to the credit of the fund known as the Redemption Fund on that date the sum of Two million pounds shall be so transferred.

"(2.) Any amount standing to the credit of the Redemption Fund after the transfer directed by the last preceding sub-section has been made shall be transferred to the Bank Reserve Fund.".

6. Section ten of the Principal Act is repealed and the following section inserted in its stead:—

Power of Commonwealth to borrow moneys to grant to Bank.

"10.—(1.) The Treasurer may, from time to time, under the provisions of the *Commonwealth Inscribed Stock Act* 1911–1918, or under the provisions of any Act authorizing the issue of Treasury Bills, borrow moneys not exceeding in the whole the amount which it is necessary to borrow in order to grant to the Bank the sum of Six million pounds.

"(2.) The amount borrowed shall be issued and applied only for the expenses of borrowing and for the purposes of the appropriation made by the next succeeding sub-section.

"(3.) There

"(3.) There may be issued and applied out of the proceeds of any loan raised under the authority of this section the sum of Six million pounds for the purpose of a grant to the Bank.

"(4.) The Bank shall pay to the Treasurer, half-yearly, interest on the grants made in pursuance of this section.

"(5.) The rate of interest payable by the Bank shall be the rate equivalent to the effective rate of interest payable by the Commonwealth on the loan raised for the purpose.

"(6.) For the purposes of the last preceding sub-section, the effective rate of interest payable by the Commonwealth on any loan raised for the purpose of this section shall be such rate as is certified in writing by the Auditor General as being the effective rate of interest payable by the Commonwealth on that loan.".

7. Sections eleven to fifteen, both inclusive, of the Principal Act are repealed, and the following sections inserted in their stead :—

Management.

"11.—(1.) The Bank shall be managed by a Board of Directors composed of the Governor and seven other Directors.

"(2.) Subject to this Act, the seven other Directors shall consist of—

(*a*) the Secretary to the Treasury ; and

(*b*) six other persons who are or have been actively engaged in agriculture, commerce, finance or industry.

Appointment of Governor, Deputy Governor and Directors.

"12.—(1.) The Governor and a Deputy Governor shall be appointed by the Governor-General, and shall hold office for a period not exceeding seven years, and shall be eligible for re-appointment.

"(2.) The Directors specified in paragraph (*b*) of sub-section (2.) of the last preceding section shall be appointed by the Governor-General.

"(3.) Of the six Directors first appointed in pursuance of paragraph (*b*) of that sub-section, one shall be appointed for a term of seven years, one for a term of six years, one for a term of five years, one for a term of four years, one for a term of three years, and one for a term of two years.

"(4.) Thereafter each Director shall be appointed for a term of seven years.

"(5.) Each person who is appointed a Director shall, upon the expiration of the term for which he was appointed, be eligible for re-appointment.

"(6.) In the event of the office of one of the Directors specified in paragraph (*b*) of sub-section (2.) of the last preceding section becoming vacant otherwise than by effluxion of time, the Governor-General may appoint a Director to that office for the remainder of the term for which his predecessor in that office was appointed.

Duties, &c., of Governor and Deputy Governor.

"12A.—(1.) The Governor shall be the Chief Executive Officer of the Bank.

"(2.) The

"(2.) The Deputy Governor shall perform such duties as are directed by the Board.

"(3.) The Governor and the Deputy Governor shall severally devote the whole of their time to the duties of their office.

London Board of Advice.

"12B.—(1.) There shall be a Board of Advice in London hereinafter called the London Board.

"(2.) The London Board shall consist of three members to be appointed by the Governor-General upon the recommendation of the Board of Directors.

"(3.) The members of the London Board shall subject to this Act hold office for four years and be eligible for re-appointment.

"(4.) The duties and powers of the London Board shall be such as may be delegated to it from time to time by the Board of the Bank.

Remuneration of Directors and members of London Board.

"13.—(1.) The Governor and the Deputy Governor shall be entitled to remuneration by way of salary at such rates as are fixed by the Governor-General.

"(2.) Each Director, other than the Governor, shall be entitled to remuneration by way of salary at the rate of Six hundred pounds per annum, or, if he is Chairman of Directors, One thousand pounds per annum, and each member of the London Board shall be entitled to such remuneration as is fixed by the Governor-General on the recommendation of the Board of Directors.

Offices to be held subject to good behaviour.

"14. Notwithstanding anything contained in this Act, the Governor, the Deputy Governor, each Director and each member of the London Board shall hold office only during good behaviour.

Provision in case of illness or absence of Governor, Deputy Governor, &c.

"15. In case of the illness of the Governor, the Deputy Governor, or any Director, or a member of the London Board, or in case of his absence for a period exceeding two months, the Governor-General may appoint a person to act as Deputy of the Governor, Deputy Governor, Director, or member of the London Board, as the case may be, during his illness or absence, and the deputy shall, while so acting, have all the powers and perform all the duties of the Governor, Deputy Governor, Director, or member of the London Board, as the case may be.

Declaration of fidelity and secrecy.

"15A. Each Director and each member of the London Board shall, before entering upon his duties or exercising any power under this Act, make before a Justice of the Peace or a Commissioner for taking Affidavits, or a Commissioner for Declarations, a declaration of fidelity and secrecy in the prescribed form.

Disqualifications from becoming Director or member of London Board.

"15B. A person who is—

(*a*) a Director of any corporation (other than the Commonwealth Bank) the business of which is wholly or mainly that of banking; or

(*b*) an

(*b*) an officer of any corporation (other than the Commonwealth Bank) the business of which is wholly or mainly that of banking,

shall not be capable of appointment, or of continuing to act, as a Director or a member of the London Board.

Office of Governor, Deputy Governor, Director or member of London Board —how vacated.

" 15C. The Governor, the Deputy Governor, a Director or a member of the London Board shall be deemed to have vacated his office if—

(*a*) being the Governor or the Deputy Governor, he engages, during his term of office, in any paid employment outside the duties of his office ;

(*b*) he becomes bankrupt or insolvent, or applies to take the benefit of any Act or State Act for the relief of bankrupt or insolvent debtors, or compounds with his creditors, or makes an assignment of his remuneration for their benefit ;

(*c*) being a Director, he absents himself (except on leave granted by the Governor-General) from all meetings of the Board held during two consecutive months, or during any three months in any period of twelve months, or, being a member of the London Board, he absents himself (except on leave granted by the Governor-General) from his duties for a period of two consecutive months, or for each of three months in any period of twelve months ; or

(*d*) he becomes permanently incapable of performing his duties.

Meetings of Board.

" 15D.—(1.) The Board shall meet at least once a month, and at such other times as the Chairman directs.

" (2.) At meetings of the Board four Directors shall form a quorum.

" (3.) The Board shall in each year choose one of its members to be Chairman of Directors for the ensuing twelve months, and the member so chosen shall preside over meetings of the Board.

" (4.) At meetings of the Board the Chairman shall have a deliberative, and, in the event of an equality of votes, a second or casting vote.

" (5.) All questions arising at any meeting of the Board shall be decided by a majority of the votes of the Directors present :

Provided that a decision of the Board which affects the Note Issue Department of the Bank shall not be effective unless six Directors vote for it at a meeting at which all the Directors are present or five Directors vote for it at a meeting from which any of the Directors are absent.

Appointment of Executive Committee.

" 15E.—(1.) The Board may appoint from among its members an Executive Committee of not less than three members to carry on the business of the Bank between the meetings of the Board.

" (2.) The Executive Committee shall have such powers and duties as are conferred or imposed on it by the Board, and shall be subject to such directions as are given by the Board.".

8. After

8. After section 16A of the Principal Act the following section is inserted:—

Appeals by Officers of the Bank.

"16B.—(1.) Where an officer of the Bank is affected in his employment by the action of any authority of the Bank other than the Board, the officer may, within the prescribed time, submit in writing an appeal to the Board.

"(2.) An appeal under this section shall state fully the action appealed against and the grounds of the appeal.

"(3.) The Board shall refer the appeal to an Appeal Board consisting of three members, one of whom shall be appointed by the Board and one of whom shall be elected by the officers of the Bank in the manner prescribed, with an independent Chairman chosen by mutual agreement between the other two members or, if those members fail to agree, appointed by the Board.

"(4.) The Appeal Board shall consider any appeal referred to it under this section and shall submit its report thereon to the Board, which shall determine the appeal and notify the appellant of its determination, which shall be final and conclusive.".

9. Section seventeen of the Principal Act is repealed and the following section inserted in its stead:—

Borrowing from Bank by Directors and officers.

"17.—(1.) Subject to this section, the Directors and officers of the Bank shall not borrow money from the Bank.

"(2.) An officer of the Bank may, with the consent of the Board, borrow money from the Bank for the purchase or erection of a home in which he intends to reside.".

10. After section twenty-nine of the Principal Act the following section is inserted:—

Publication of rates at which bills of exchange will be discounted.

"29A. After a date to be fixed by Proclamation, the Board shall fix and publish from time to time the rates at which the Bank will discount and re-discount bills of exchange.".

11. Section thirty of the Principal Act is repealed and the following section inserted in its stead:—

Profits of Bank—how dealt with.

"30.—(1.) The net profits of the Bank in each half-year shall be dealt with as follows:—

(*a*) One-half shall be placed to the credit of a fund to be called the Bank Reserve Fund; and

(*b*) One-half shall be paid into the National Debt Sinking Fund as soon as practicable after the preparation of each balance-sheet.

"(2.) The Bank Reserve Fund shall be available for the payment of any liabilities of the Bank.".

Investment of Funds.

12. Section thirty-four of the Principal Act is amended by omitting from sub-section (2.) thereof the word "Governor" and inserting in its stead the word "Board".

13. Section

13. Section thirty-four A of the Principal Act is amended by inserting after the word "insolvency" the words "or the winding up of companies". Priority of debts due to Bank by other Banks.

14. Section sixty A of the Principal Act is amended by omitting the definition of "the Board". Definitions in Part VIA.

15. Section sixty D of the Principal Act is repealed. Management of Note Issue Department.

16. Section sixty E of the Principal Act is repealed. Remuneration of Directors of Note Issue Department.

17. Section sixty O of the Principal Act is amended by omitting the word "Board" and inserting in its stead the words "Note Issue Department". Issue of Notes to Commonwealth Bank for general business.

18. After section sixty O of the Principal Act the following section is inserted:—

"60 OA. The Board may issue Australian notes to the Bank or to other banks in Australia in exchange for money or securities lodged with the London branch of the Bank.". Issue of notes on money or securities lodged in London.

19. Section sixty P of the Principal Act is repealed. Repeal of Section 60 P.

20. After section sixty AB of the Principal Act the following sections are inserted in Part VII.:—

"60AC. On and after a date to be fixed by Proclamation such corporations as are specified by Proclamation, which carry on the business of banking, shall settle, as between themselves, by means of cheques drawn on and paid into the Commonwealth Bank, the balances arising between those corporations out of any customary general clearance effected in any capital city in Australia. Settlement of balances between Banks to be conducted through Commonwealth Bank.

Penalty: Fifty pounds.

"60AD.—(1.) Every Bank shall, at the close of business on Monday of every week, prepare and make up a full and correct account and statement in writing, exhibiting details in accordance with the classification of liabilities and assets which is set out in the Schedule. Supply of banking statistics to Treasurer.

"(2.) From the weekly accounts and statements prepared in pursuance of the last preceding sub-section, every Bank shall, on the last Monday of each quarter ending on the thirty-first day of March, the thirtieth day of June, the thirtieth day of September, and the thirty-first day of December in every year, prepare a general abstract in writing in accordance with the Schedule.

"(3.) Every such quarterly abstract shall be verified by the statutory declaration of the Managing Director, the Manager, the Chief Cashier or Clerk of the Bank making the abstract; and shall, within one month after the close of the quarter, or so soon thereafter as is practicable, be delivered to the Treasurer and published in the *Gazette*.

"(4.) If

"(4.) If any Bank fails to keep the weekly accounts specified in sub-section (1.) of this section or to deliver to the Treasurer the quarterly abstract specified in sub-section (2.) of this section, it shall forfeit for every such offence the sum of Five hundred pounds.

"(5.) If any such quarterly abstract is wilfully false in any detail, the Bank shall forfeit for every such offence the sum of Five hundred pounds; and, in addition to any other penalty, the Managing Director, Manager, Chief Cashier or Clerk who has verified the abstract by statutory declaration, shall forfeit for every such offence the sum of One hundred pounds.

"(6.) The penalties fixed by the last two preceding sub-sections may be recovered respectively by action of debt in any Court of competent jurisdiction.

"(7.) In this section the word 'Bank' means a person or corporation carrying on the business of banking, and includes any person or corporation which receives deposits from the public and allows interest thereon and which is proclaimed by the Governor-General to be a bank for the purposes of this section.".

21. After section sixty-two of the Principal Act the following section is inserted :—

Bank as trustee for charitable or public purposes.

"62A. The Bank shall have power to accept any trust for charitable or public purposes only and to perform and discharge all the accounts and duties of a trustee for charitable or public purposes only as fully and effectively as a private individual may when appointed such a trustee.".

22. The Principal Act is amended by adding at the end thereof the following Schedule :—

Schedule.

"THE SCHEDULE.

AUSTRALIAN BANKING STATISTICS.

GENERAL ABSTRACT showing the average Amount of the Liabilities and Assets within the Commonwealth of Australia taken from the several weekly statements of the .....during the Quarter from the.....to the .....19....., not including as Liabilities or Assets any accounts between the Head Office and a Branch, or between different branches of such bank, and not including contingent liabilities.

Liabilities.	Details.	Total.	Assets.	Total.
Notes in circulation ..			Coin	
Bills in circulation ..			Bullion	
Balances due to other Banks			Australian Notes and cash with Commonwealth Bank	
Deposits—			Government and Municipal Securities	
Bearing interest.. ..			Landed and house property	
Not bearing interest ..			Balances due from other Banks, not including current account with Commonwealth Bank ..	
All other Liabilities (not including capital, reserved profits, and balance of Profit and Loss Account)			Notes and Bills of other Banks	
			All other Assets	
Total amount of Liabilities	..	£	Total amount of Assets ..	£

CAPITAL

CAPITAL AND PROFITS.

Amount of Capital authorized	£
Amount of Capital subscribed	£
Amount of Capital paid up	£
Total Reserve Liability of Shareholders	£
Last Dividend declared—	
Rate per cent. per annum of paid-up Capital	
Amount	£
Period in respect of which Dividend declared	
Amount of Reserved Funds	£
Balance carried forward to next half-year	£

Place and Date— .....

..... General Manager, Manager

..... or Chief Cashier.".

THE SCHEDULE.

THE SCHEDULE.

CONSEQUENTIAL AMENDMENTS IN THE PRINCIPAL ACT.

Title or Section as the case may be.	Extent of Amendment.
Title.	After "to provide for a Commonwealth Bank", add "and for other purposes".
16	Omit "The Governor", insert "The Board".
	Omit "he", insert "the Board".
18	Omit "The Governor", insert "The Board".
20	Omit "The Governor", insert "The Board".
21	Omit "the Governor", insert "the Board".
22	Omit "The Governor", insert "The Board".
23	Omit "The Governor", insert "The Board".
25	Omit "The Governor", insert "The Board".
27	Omit "the Governor", insert "the Board".
28	Omit "the custody of the Governor or Deputy Governor of the Bank", insert "such custody as the Board determines".
29	Omit "the Governor", insert "the Board".
32	Omit "The Governor", insert "The Board".
35	Omit "The Governor", insert "The Board".
	Omit "he", insert "the Board".
	Omit "the Governor", insert "the Board".
36A	Omit "the Governor", insert "the Board".
38	Omit "the Governor", insert "the Board".
43	Omit "the Governor", insert "the Board".
	Omit "he", insert "the Board".
44	Omit "the Governor" (wherever occurring), insert "the Board".
46	Omit "the Governor", insert "the Board".
47	Omit "the Governor" (wherever occurring), insert "the Board".
	Omit "he", insert "the Board".
51	Omit "The Governor", insert "The Board".
	Omit "his" (first occurring), insert "its".
	Omit "the Governor", insert "the Board".
	Omit "he", insert "the Board".
52	Omit "The Governor", insert "The Board".
60H	Omit "Chairman of Directors", insert "Governor".

Printed and Published for the GOVERNMENT of the COMMONWEALTH of AUSTRALIA by H. J. GREEN, Government Printer for the State of Victoria.

LC/PW

Sydney 17th September, 1924.

The Governor,
Federal Reserve Bank of New York,
NEW YORK, U.S.A.

Dear Sir,

COMMONWEALTH BANK ACT.

We are in receipt of your letter of the 20th ultimo, and have much pleasure in forwarding, under separate cover, six copies of the speech delivered by the Hon. Earle Page, M.P., in regard to the above.

For your records three copies of the new Act, as finally passed by Parliament, are enclosed herewith.

Yours faithfully,

E W Hulle

Acting for the Deputy Governor.
(E.W. Hulle)

2 copies each sent to Librarian at Princeton 10/29/24
MLB

October 27, 1924.

Mr. E. W. Hulle,
Acting Deputy Governor,
Commonwealth Bank,
Sydney, Australia.

My dear Sir:

I want to acknowledge and thank you not only for your letter of September 17, enclosing three copies of the new Commonwealth Bank Act, but also for the six copies of the speech of Honorable Earle Page, which you were good enough to send me. I am indeed glad to have both for our records.

Very truly yours,

BENJ. STRONG,
Governor.

MSB