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横濱正金銀行調査課

THE ORGANIZATION AND SYSTEM
OF
THE COMMONWEALTH BANK OF AUSTRALIA

By
Y. KURATA

THE YOKOHAMA SPECIE BANK
TOKYO, JAPAN
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- The Commonwealth Bank Act 1911—1924.
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CHAPTER I. INTRODUCTION.

BRIEF OUTLINE OF THE DEVELOPMENT OF
AUSTRALIAN BANKING.

1. Monetary Conditions before the Establishment of Banks.

Although Captain Phillip took possession of Sydney Cove (now Port Jackson), New South Wales on the 26th January, 1788, there were no banking facilities in the colony until 1817. In the early years of the settlement, barter was the recognised medium of exchange, rum, corn, wheat and other marketable produce being generally used as currency. It was so widely used that, according to Hyman, wages of labour and government rewards were paid in spirits; part of the price of the erection of the first church in 1793 was paid in rum, and in 1796, a 1 s./- seat in the gallery of Sydney's first theatre could be paid for in money, flour, meat or spirits according to the market value. ("Coins, Coinage and Currency of Australasia." pp. 10—16) Another form of currency was the store-receipt issued by the commissary for wheat and grain supplied to the government stores. Paymasters' notes, which were given in exchange for purchase of military requirements were also used as a means of exchange, and, in later years, traders' promissory notes too were generally accepted as currency.

The first record of a currency regulation appeared in a proclamation issued by the government in November, 1800. This was to issue twopenny coins in copper, weighing one ounce, and also was to furnish a table of all the coins then existing in the colony, and thereby circulating them as a legal tender. The diverse nature of the coinage may be gathered from the table setting out the value of each coin.

| | £ | s. | d. | | £ | s. | d. |
|------------------|---|----|----|-------------------------|---|----|----|
| A guinea | 1 | 2 | 0 | A Pagoda | 0 | 8 | 0 |
| A half-johanna | 2 | 0 | 0 | A rupee | 0 | 2 | 6 |
| A gold-mohur | 1 | 17 | 6 | A Dutch guilder | 0 | 2 | 0 |
| A Spanish dollar | 0 | 5 | 0 | An English shilling | 0 | 1 | 8 |
| A Johanna | 4 | 0 | 0 | A copper coin (1 oz.) | 0 | 0 | 2 |
| A ducat | 0 | 9 | 6 | A copper coin (1/2 oz.) | 0 | 0 | 1 |

(Hyman : Coin, Coinage & Currency of Australasia, p. 22)

With all this variety, money was still scarce. In 1893, a remarkable method of meeting the continued shortage of coin was resorted to. Having received in November, 1812, a consignment of £ 10,000 worth of Spanish dollars from India, the government, in July 1893, issued a proclamation directing that "a small circulating piece of silver shall be struck out of the centre of every such dollar, which together with the remaining part of every such dollar is intended to be issued and circulated at the value and under the regulation hereinafter described....." So the outside portion, which became known as the "holy dollar" passed at its original value of 5 s./-, while the piece cut out, which was called a "dump," circulated at 1s./3d.

2. Establishment of Banks. The increasing difficulties attending the lack of an adequate and suitable currency finally brought about a meeting of merchants and land-owners in 1816 to discuss the formation of a bank, and the result was the founding of the Bank of New South Wales in Sydney, with a capital of £ 20,000, which commenced business on the 8th April, 1817. The bank issued its own notes, and by 1819, these notes had become the principal circulating medium of the colony.

The above is a brief outline of the monetary conditions of

the colony from its earliest stage down to the formation of the first bank, 29 years after the first settlement. In February, 1826, the second bank (Bank of Australia—not the Bank of Australasia) was founded, which, however, with a short career, failed in 1843. In 1834, the Bank of Australasia came into existence, as a bank of issue and deposit, in New South Wales. Many banks speedily followed, notably the Commercial Banking Company of Sydney (1834), the Union Bank of Australia (1837), and the Western Australian Bank (1841). All of these banks, except the last mentioned one, encountered unfavourable conditions in the forties, owing to heavy land speculation.

3. Gold Discovery of 1851. The discovery of gold in Australia in 1851 was an important event in the history of Australian banking and currency in view of:—

- (a) that it gave the banks the opportunity of developing the present system of branch banking;
- (b) the rapid development of bank note issue; and
- (c) that it hastened the establishment of a mint in Sydney and solved the currency problem of the colonies.

(a) The branch banking system had held the field from the beginning, but the gold discovery gave the banks their opportunity of developing the system on a much wider scale. Many branches were opened on the chief gold-fields, and it was at this period that the branch banking system was firmly established

(b) Although bank notes were used from the time of the establishment of first bank, it was not until gold was discovered, that the issue was carried out on any large scale. The banks' purchasing gold from the gold diggers and supplying their own bank notes in the days of early gold-rushes formed

a most important and profitable part of their business. Some idea of the expansion of banking business and the large profit made by the banks during the period of the gold-rushes (1851—1855) may be gathered from the fact that the Union Bank's deposits and bullion, which in 1851 had been only £ 25,823 and £ 10,546 respectively had increased to £ 3,303,361 and £ 2,277,419 in the short space of eighteen months and the dividends ranged during 1853—1855 from 32% to 40% per annum. ("The Shipping and Commerce of Australia Magazine," October 10, 1910.)

Many banks were also established after the discovery of gold. Among them were the English, Scottish & Australian Chartered Bank (1852)—the present E.S. & A. Bank—the Bank of Victoria (1852), the Ballarat Banking Company (1864), the Bank of Adelaide (1865) and the National Bank of Australia (1867).

(c) The discovery of gold again, created a demand for a mint at which it might be coined. On May 14, 1855, a branch* of the Royal Mint of England was established at Sydney for the coinage of Australian sovereigns and Australian half-sovereigns. The Melbourne branch of the Royal Mint was opened on the 12th June, 1872 and the Perth branch on the 20th June, 1899.

4. The Financial Crisis of 1893. H.E. Teare† in his "Business Cycles and Business Indices" counts as many as twenty-six crises since the formation of the first bank, viz:—The Bank of New South Wales, in 1817 up to the present time.

* Owing to losses incurred in the operation of recent years, Sydney Branch of the Royal Mint was closed on the 30th June, 1926.

† Author of "Australian Banking Currency and Exchange."

Among those he mentions, there was first of all the currency crisis of 1822 due to the extensive counterfeiting of dollars and dumps, which rendered necessary the importation of Spanish dollars on a determined scale. These measures did not alleviate the position, and another crisis developed in 1826, which eventually brought about the introduction of British coinage. In 1827 there was a feverish speculation in land and stock; again in 1842—43, after a land boom, there was a severe financial crisis. In 1852 South Australia experienced a bullion crisis brought about by the exodus of the male population to the gold-diggings in Victoria, while Queensland experienced a financial crisis in 1866. These were, however, mere financial ripples compared with the cataclysm that overwhelmed the banking world in 1893, Victoria being the storm centre. A.G.V. Peel's "Australian Crisis of 1893"* and Sir G.R. Dibbs' rejoinder printed by the New South Wales Government in 1894 gives the full account of this wonderful event, and affords one of the most interesting and useful subjects in the study of Australian banking history. The present papers do not permit the writer to go into details of the event; however, to describe briefly, it took the following course:—

- (a) Influx of British capital.
- (b) Wild speculation in land and stock.
- (c) Collapse of building and land mortgage companies.
- (d) Difficulties of the State Government finance.
- (e) Failure of banks.

(a) During 1881—91, the Victorian Government raised in the London market no less than £ 30,000,000, of which,

* A.G. Peel's "Australian Crisis of 1893" was originally issued by the British Government in 1894 and was reprinted by the New South Wales Government.

however, £9,000,000 was applied to extinguish prior debts. The public companies and private firms followed in the opening thus made, and it was estimated that the total borrowings of the colony during that period were £60,000,000. The main effect of this immense influx of capital was the rise in prices, the stimulation of production, the full employment of the working man, and a buoyant sense of prosperity in the mercantile world.

(b) A feverish "land boom" developed. During a single month in 1888, no less than 16 building and land mortgage companies were registered in Melbourne. Numerous bogus companies, mainly in connection with land mortgages and building business, also came into being, and between May, 1887 and May, 1888, no fewer than 270 of such companies were registered in Melbourne. Properties changed hands several times in one day and, in a very short time, the prices of land rose almost to as much per foot as the land at the beginning of the period of excitement brought per acre. Besides the land boom, three other great speculations ran rife throughout Australia during those years in the shares of the Mount Morgan Gold-mine, of the Broken Hill Silver-mine, and of the Tramways of Melbourne City. Some of the banks advanced up to £10 per share on shares whose nominal value was £1, though they had advanced in price to £16.

(c) As the land boom declined in the latter half of 1888 the first to collapse were those numerous building and land financing companies. In November, 1891, the great City of Melbourne Building Society suspended payment. The bogus companies fell week by week and in 1892, 150 of such companies went into liquidation. The collapse of the land financing

companies was practically completed by or in 1892.

(d) Under the circumstances, the Victorian Government lost the credit for borrowing in England in 1891, and the general public lost their credit too. In 1892 the government declared a deficit of £1,570,000 on the year's account, and in all other States, except West Australia, deficits were also announced. Desperate measures were resorted to, imposing duties and floating local loans. Prices no longer maintained by borrowing, suddenly fell towards the close of 1891 and there was a great depression of business.

(e) Although the banks, except few, were involved in the land and mining booms, their direct losses from it were not so serious, the majority of the banks having already taken definite precaution early in 1891, before the collapse of the land financing companies. Their losses, however, from the general depression of business and depreciation of prices were serious, and what was fatal to them was that in 1891-92 the British depositors, growing suspicious of all Australian companies, commenced withdrawing their deposits, and this course being followed by the nervous Australian depositors. Now, in 1892, 25 Australian banks' deposits amounted to £154,797,000 of which £42,561,000 were British, and their advances amounted to £184,547,000. The banking panic largely rose through British withdrawal, for the first six banks to suspend payment were those which derived an exceptional proportion of their resources from London. They were:—

| | Australian Deposits. | British Deposits. |
|---|-------------------------|----------------------|
| 1. The Mercantile Bank of Australia..... | £ 1,100,000 | £ 1,000,000 |

| | Australian Deposits. | British Deposits. |
|--|-------------------------|----------------------|
| 2. The Federal Bank of Australia | £ 900,000 | £ 1,800,000 |
| 3. The Commercial Bank of Australia..... | 5,900,000 | 7,300,000 |
| 4. The E.S. & A. Chartered Bank..... | 1,800,000 | 4,600,000 |
| 5. The Australian Joint Stock Bank..... | 3,550,000 | 7,500,000 |
| 6. The London Chartered Bank of Australia | 4,400,000 | 3,300,000 |
| | <hr/> 17,650,000 | <hr/> 25,500,000 |

From January, 1893 until May of the same year, fourteen banks altogether with upwards of 1,000 branches had suspended payment. Eleven of these banks were reconstructed, a portion of their liabilities being converted into fixed capital in the form of preference shares or stock. In New South Wales the pressure was relieved by the action of the government in making the bank notes of certain banks legal tender for six months and further authorising the treasury to advance to depositors one-half of the balance which the provisional liquidators of the suspended banks certified was standing at their credit. The other colonies were more or less drawn into the vortex. In Queensland, the government took over the note issue in that colony, and maintained the monopoly until, nineteen years later, the Commonwealth authorities took control of the currency.

5. Bank Notes and Commonwealth Notes.

As has been stated previously, the Bank of New South Wales was established in 1817 to meet the urgent demand for a regular currency. From that time until 1910, the note circulation of the colony was in the hands of the trading banks; at the end of June, 1910, *£ 3,748,482 of these notes were in circulation in all States of Australia except Queensland (in Queensland the State Government's Treasury notes were used exclusively by the banks after 1893). Banks were paying 2 per cent. tax (Queensland 3 per cent) on the average circulation of their notes.

In 1910, the Federal Government passed two acts relating to banking, the first being the Australian Notes Act, and the second the Bank Notes Tax Act. The first Act empowered the Federal Treasurer to issue notes in the denominations of 10/-, £ 1, £ 5, £ 10 and any multiple of £ 10, which were to be legal tender throughout the Commonwealth and redeemable at the seat of the Federal Government. The Act, in addition, prohibited the circulation of notes issued by any State. The Second Act imposed a tax of 10 per cent. per annum on all bank notes issued or re-issued.

The Australian Notes thus created began to appear in December, 1910, and were in circulation side by side with bank notes and Queensland Treasury Notes until the end of June the following year, when the penal clause of the Notes Act came into operation, and the issuing banks and the Queensland Government commenced withdrawing their notes from circulation.

* Official Statistics, Finance Bulletin No. 15.

The Australian Notes Act of 1910 originally required the Federal Treasurer to hold a gold reserve in coin of:—

- (a) An amount not less than one-fourth of the amount of Australian Notes issued up to seven million pounds, and
- (b) An amount equal to the amount of Australian Notes issued in excess of seven million pounds,

but was amended by an Act of 1911 to hold in gold coin:—

“not less than one-fourth of the amount of Australian notes issued.”

The rest of the money derived from the issue, the Treasurer might:—

- (a) place on deposit with any bank, or
- (b) invest in securities of the United Kingdom, of the Commonwealth, or of any State.

In 1920, the sphere of investment was extended to include Trade Bills with a currency of not more than 120 days.

By an Act passed in 1920, the control of the note issue was transferred by the Federal Treasurer to the Note Issue Department of the Commonwealth Bank of Australia, the notes, however, still remaining Treasury notes. The Australian notes in circulation on December 31st, 1927 amounted to £ 51,793,226, against which there was a reserve of gold coin amounting to £ 21,600,553, or approximately 41.70 per cent. and other assets including investment of £ 28,061,524. (Commonwealth Bank Balance Sheet, December 31st, 1927.)

The organization and the system of the Note Issue Department of the Commonwealth Bank will be discussed, and the statistics of the Australian notes be shown, in the following chapters.

6. The Establishment of the Commonwealth Bank. The most important event in the banking legislation of Australia was the passing of an Act by the Federal Government, assented to on the 22nd December, 1911, for the establishment of the Commonwealth Bank of Australia.

Up to the beginning of the year 1911, the Federal Government had met its public works expenditure out of revenue, and had not incurred any indebtedness by issue of stock. The public debts of Australia had been entirely incurred by the States on their own accounts, mainly for railway construction and national works, the States, not being under any power of the central Federal Government in regard to finance, having sovereign powers in regard to raising and spending moneys. At the end of June, 1911, the State debts on loan issues totalled * £ 267,127,283, whilst the Commonwealth public debts amounted only to * £ 5,932,322 on account of Northern Territory and Port Augusta-Oodnadatta Railway and the transfer of Post Office and Customs from the States to the Commonwealth. Furthermore, the State Governments were conducting savings bank business throughout the States by the agencies of the post offices, and the deposits of these savings banks, aggregating £ 5,939,682 (June, 1911), were used by the State Governments in investments in their own bonds, loans to settlers or State enterprises, and in financing agricultural banks. The idea of establishing a Commonwealth bank, similar to the State banks, appears to have, for some years, been conceived by the federal authorities, and the heavy prospective cost of

* Comparison:— Figures of the public debts at the end of June, 1926.
Commonwealth.....£ 458,443,351
States£ 642,844,761

the federal projects, such as the building of the Trans-continental Railway, naval and military defence, and the establishment of the Federal capital, which could no more be met by the revenue, gave rise to the introduction of the Commonwealth Bank Bill to the Federal Parliament in the session of 1911.

By the above-mentioned Act, the Commonwealth Bank was empowered, among other activities, to carry on general banking business, that is to say, the receiving of deposits on current accounts or for fixed terms, the granting of advances, the discounting of bills, the issuing of drafts and letters of credit, and generally the transaction of every branch of banking business, including that of a savings bank. The capital of the bank was fixed at £ 1,000,000 to be raised by the sale and issue of debentures, but actually it had no capital to start with, except a temporary loan of £ 10,000 from the Commonwealth Government.

In July, 1912, a beginning was made by the opening of the Savings Bank Department in the State of Victoria. By January 1913 the Commonwealth Savings Bank business had been extended throughout the Commonwealth. In the same month, the General Banking Department of the Bank was opened in all the six States of the Commonwealth and in London. In 1914, the nominal capital of the Bank was increased to £ 10,000,000, the capital to be advanced by the Commonwealth Government, (but no capital had been actually advanced by the Government.) The outbreak of the War at the beginning of August, 1914, found the Commonwealth Bank in a particularly strong position; among many unusual activities, it floated government loans to an aggregate sum of approximately £ 257,000,000, and financed the pools for the

marketing of primary produce totalling approximately £ 437,000,000.

In December, 1920, the issue of the Australian Notes became a function of the Bank, and a separate board was created to control the Note Issue Department of the Bank. By an Act of 1924, the nominal capital of the Bank was increased to £ 20,000,000, of which £ 4,000,000 have been paid up from the accumulated profits of the Bank. This Act was passed to broaden the scope of the Commonwealth Bank and to enable it to perform the function of a Central Bank.

With a career extending seventeen years from its opening of the savings bank business in Victoria, the Commonwealth Bank of Australia has become a Government Bank, a Savings Bank, a Trading Bank, a Rural Bank, and a Central Bank. It is probably unique in that it is the only bank in the world which combines so many functions under one management

7. Present Banks. With the Commonwealth Bank, there are now eighteen banks doing business in Australia, of which three banks have their head offices in London, five in Sydney, two in Melbourne, three in Brisbane, and one each in Ballarat, Adelaide, Wellington, Paris, and Yokohama. All these banks, with the exception of the Commonwealth Bank, are joint stock enterprises, and are known as the "ordinary trading banks," or the "cheque paying banks."

The following statement shows the names of cheque-paying banks, and their paid-up capital, together with their reserve funds.

Australian banking practice, as it is usually assumed, is modelled on that of the Scottish system, notably in its branch banking and in advancing money on current account. Keen

competition between the banks has brought about the establishment of branches even in the very thinly populated districts, nearly 4,000 branches now operating under the control of the eighteen banks, and it has been extremely difficult matter for any foreign bank or projected local bank, to get a footing in Australia. The bank amalgamation movement, which has been the tendency in England and some other parts of the world in recent years, has also been acute in Australia, eight* amalgamations of two banks and one of three banks having been effected since 1917. Of these amalgamations, three took place during the early part of 1927, the Bank of Victoria having been acquired by the Commercial Banking Company of Sydney, the Western Australian Bank by the Bank of New South Wales, and the Royal Bank of Australia by the English, Scottish and Australian Bank.

Every bank in Australia, in addition to publishing half-yearly or yearly balance sheets, is compelled by a Federal law to furnish, at the close of each quarter, a sworn statement of the total average of its liabilities and assets to the Commonwealth Statistician, and, by State laws, to supply the State Government quarterly, with a similar statement. In such

* During 1917 and 1918, the following amalgamations were recorded:—

- (a) Royal Bank of Queensland, Ltd., with Bank of North Queensland, Ltd. ;
- (b) City Bank of Sydney, with Australian Bank of Commerce, Ltd. ;
- (c) National Bank of Tasmania, Ltd., with Commercial Bank of Australia, Ltd., and ;
- (d) Colonial Bank of Australasia, Ltd., with National Bank of Australasia, Ltd.

In 1920, the London Bank of Australia, Ltd. amalgamated with the English, Scottish and Australian Bank, Ltd., and these banks acquired the Commercial Bank of Tasmania in 1921.

The National Bank of Australasia also absorbed the Bank of Queensland.

(Official Year Book, No. 20, p. 403)

Table 1.

CHEQUE - PAYING BANKS.

| BANK. | Head Office. | Established. | Paid-up Capital. | Reserve Fund. |
|---|--------------|--------------|------------------------|---------------|
| Commonwealth Bank of Australia..... | Sydney | 1912 | £ 4,000,000 | — |
| Joint Stock Banks:— | | | | |
| Bank of Australasia | London | 1834 | 4,000,000 | 3,810,000 |
| Union Bank of Australia, Limited | London | 1837 | 3,500,000 | 4,250,000 |
| English, Scottish, and Australian Bank, Limited | London | 1852 | 3,000,000 | 3,187,960 (a) |
| Bank of New South Wales | Sydney | 1817 | 7,423,440 | 5,650,000 |
| Commercial Banking Company of Sydney, Limited | Sydney | 1834 | 4,710,412 ² | 3,850,000 |
| Australian Bank of Commerce, Limited | Sydney | 1909 | 2,194,239 | 1,000,000 |
| Primary Producers' Bank of Australia, Limited | Sydney | 1923 | 403,606 (x) | 92,800 (x) |
| National Bank of Australasia, Limited | Melbourne | 1859 | 4,974,540 | 2,894,368 |
| Commercial Bank of Australia, Limited | Melbourne | 1867 | 3,325,605 | 1,300,000 |
| Ballarat Banking Company, Limited | Ballarat | 1864 | 127,500 (x) | 71,000 (x) |
| Queensland National Bank, Limited | Brisbane | 1876 | 1,712,124 ³ | 750,000 |
| Federal Deposit Bank, Limited | Brisbane | 1887 | 502,894 (x) | 60,000 (x) |
| Queensland Deposit Bank, Limited | Brisbane | 1886 | 47,377 (x) | 40,000 (x) |
| Bank of Adelaide | Adelaide | 1865 | 1,250,000 | 950,000 |
| Bank of New Zealand | Wellington | 1861 | 6,658,345 | 3,609,655 (a) |
| Comptoir National d'Escompte de Paris | Paris | | 10,000,000 | 4,046,715 (b) |
| Yokohama Specie Bank, Limited | Yokohama | | 10,000,000 | 9,650,000 (c) |
| | | | 67,530,083 | 45,212,498 |

(a) Including unprovided profits.

(b) Paid-up capital fr. 250,000,000, Reserve fund fr. 101,167,898

(c) Paid-up capital Yen 100,000,000, Reserve fund Yen 96,500,000

(x) As at 31st December, 1926.

statements, Quarterly Returns as they are usually called, are included, on the Liabilities' side, the notes and bills in circulation, balances due to other banks, deposits by the governments and by the public, and other liabilities; and, on the Assets' side, coin, bullion, Australian notes, securities, property, balances due from other banks, notes and bills of other banks, and all other assets. The figures are representative of the average of the items as they are on each Monday during the quarter. The following statement has been compiled from the Summary of Australian Statistics prepared by the Commonwealth Statistician, and also from the Official Year Books. It covers the whole of the ordinary banks operating in the Commonwealth, as well as the Commonwealth Bank of Australia.

The following is a short explanation of the various items appearing in the above statements:—

LIABILITIES.

- (1) Notes in Circulation:—As stated previously, the Bank Note Tax Act of 1910, imposing a prohibitive tax of 10% on all notes issued by the trading banks, has practically driven these bank notes out of circulation since 1912. The amount now outstanding roughly £200,000 may be considered to represent notes which are not in actual circulation.
- (2) Bills in Circulation:—These are bills on which the banks have given their acceptance. They may pass from hand to hand, until they become due, and can also be discounted at other banks.
- (3) Balances due to Other Banks:—This item represents the balances of loans from, and overdrawn accounts with, other

Table A. STATEMENTS OF ASSETS AND LIABILITIES OF BANKS IN AUSTRALIA, 1890 TO 1927.

| Quarter Ended 30th June | Total Liabilities | Total Assets | Reserve Fund |
|-------------------------|-------------------|--------------|--------------|
| 1890 | 105,420,000 | 111,007,727 | 10,000,000 |
| 1891 | 100,737,000 | 105,847,000 | 10,000,000 |
| 1892 | 100,700,000 | 104,750,000 | 10,000,000 |
| 1893 | 110,000,000 | 110,000,000 | 10,000,000 |
| 1894 | 121,500,000 | 122,000,000 | 10,000,000 |
| 1895 | 130,000,000 | 130,000,000 | 10,000,000 |
| 1896 | 140,000,000 | 140,000,000 | 10,000,000 |
| 1897 | 150,000,000 | 150,000,000 | 10,000,000 |
| 1898 | 160,000,000 | 160,000,000 | 10,000,000 |
| 1899 | 170,000,000 | 170,000,000 | 10,000,000 |
| 1900 | 180,000,000 | 180,000,000 | 10,000,000 |
| 1901 | 190,000,000 | 190,000,000 | 10,000,000 |
| 1902 | 200,000,000 | 200,000,000 | 10,000,000 |
| 1903 | 210,000,000 | 210,000,000 | 10,000,000 |
| 1904 | 220,000,000 | 220,000,000 | 10,000,000 |
| 1905 | 230,000,000 | 230,000,000 | 10,000,000 |
| 1906 | 240,000,000 | 240,000,000 | 10,000,000 |
| 1907 | 250,000,000 | 250,000,000 | 10,000,000 |
| 1908 | 260,000,000 | 260,000,000 | 10,000,000 |
| 1909 | 270,000,000 | 270,000,000 | 10,000,000 |
| 1910 | 280,000,000 | 280,000,000 | 10,000,000 |
| 1911 | 290,000,000 | 290,000,000 | 10,000,000 |
| 1912 | 300,000,000 | 300,000,000 | 10,000,000 |
| 1913 | 310,000,000 | 310,000,000 | 10,000,000 |
| 1914 | 320,000,000 | 320,000,000 | 10,000,000 |
| 1915 | 330,000,000 | 330,000,000 | 10,000,000 |
| 1916 | 340,000,000 | 340,000,000 | 10,000,000 |
| 1917 | 350,000,000 | 350,000,000 | 10,000,000 |
| 1918 | 360,000,000 | 360,000,000 | 10,000,000 |
| 1919 | 370,000,000 | 370,000,000 | 10,000,000 |
| 1920 | 380,000,000 | 380,000,000 | 10,000,000 |
| 1921 | 390,000,000 | 390,000,000 | 10,000,000 |
| 1922 | 400,000,000 | 400,000,000 | 10,000,000 |
| 1923 | 410,000,000 | 410,000,000 | 10,000,000 |
| 1924 | 420,000,000 | 420,000,000 | 10,000,000 |
| 1925 | 430,000,000 | 430,000,000 | 10,000,000 |
| 1926 | 440,000,000 | 440,000,000 | 10,000,000 |
| 1927 | 450,000,000 | 450,000,000 | 10,000,000 |

The Australian Finance and Banking Report, August 1927, p. 10.
 Official Year Book of the Commonwealth of Australia, Vol. 20, p. 10.
 Figures in 1925-1926, and 1926-1927, are preliminary, and based on
 data from Official Year Books.

statements, Quarterly Returns as they are usually called, are included, on the Liabilities' side, the notes and bills in circulation, balances due to other banks, deposits by the governments and by the public, and other liabilities; and, on the Assets' side, coin, bullion, Australian notes, securities, property, balances due from other banks, notes and bills of other banks, and all other assets. The figures are representative of the average of the items as they are on each Monday during the quarter. The following statement has been compiled from the Summary of Australian Statistics prepared by the Commonwealth Statistician, and also from the Official Year Books. It covers the whole of the ordinary banks operating in the Commonwealth, as well as the Commonwealth Bank of Australia.

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- (2) Bills in Circulation:—These are bills on which the banks have given their acceptance. They may pass from hand to hand, until they become due, and can also be discounted at other banks.
- (3) Balances due to Other Banks:—This item represents the balances of loans from, and overdrawn accounts with, other

Table II. A. CHEQUE-PAYING BANKS. AVERAGE LIABILITIES, 1890 to 1927.

(Statistics for the Commonwealth Bank included since 1913.)

| Quarter Ended 30th June | Notes in Circulation. | Bills in Circulation. | Balances due to Other Banks. | DEPOSITS. | | | Total Liabilities. |
|----------------------------|--------------------------|--------------------------|---------------------------------|-----------------------|-------------------|-------------|--------------------|
| | | | | Not Bearing Interest. | Bearing Interest. | Total. | |
| 1890 | 4,347,693 | 379,344 | 641,411 | 26,605,766 | 70,946,981 | 97,552,747 | 102,921,195 |
| 1891 | 4,388,424 | 488,537 | 588,861 | 27,145,455 | 70,546,287 | 97,691,742 | 103,157,564 |
| 1892 | 3,956,171 | 294,783 | 565,604 | 24,671,512 | 73,879,532 | 98,551,044 | 103,367,602 |
| 1893 | 4,275,760 | 316,465 | 490,695 | 23,257,995 | 71,789,126 | 95,047,121 | 100,130,041 |
| 1894 | 2,872,006 | 287,007 | 309,229 | 22,029,649 | 64,495,233 | 86,524,882 | 89,993,124 |
| 1895 | 2,808,117 | 343,947 | 419,833 | 25,895,517 | 59,924,256 | 85,819,773 | 89,391,670 |
| 1896 | 3,015,413 | 411,379 | 455,161 | 30,286,958 | 57,729,370 | 88,016,328 | 91,898,281 |
| 1897 | 3,018,038 | 435,295 | 444,309 | 32,467,232 | 54,560,180 | 87,027,412 | 90,925,054 |
| 1898 | 2,939,448 | 542,093 | 536,038 | 32,048,549 | 51,793,284 | 83,841,833 | 87,859,412 |
| 1899 | 2,947,617 | 354,063 | 454,060 | 33,233,197 | 51,736,306 | 84,969,503 | 88,725,243 |
| 1900 | 3,188,410 | 466,126 | 393,716 | 37,719,525 | 52,802,156 | 90,521,681 | 94,569,933 |
| 1901 | 3,399,462 | 525,958 | 376,972 | 37,366,834 | 54,120,314 | 91,487,148 | 95,789,540 |
| 1902 | 3,305,135 | 518,504 | 459,255 | 37,633,940 | 55,802,293 | 93,436,233 | 97,719,127 |
| 1903 | 3,315,747 | 539,132 | 407,947 | 37,056,187 | 54,701,047 | 91,757,234 | 96,020,060 |
| 1904 | 3,133,268 | 521,267 | 290,441 | 35,630,255 | 55,917,848 | 91,548,103 | 95,493,079 |
| 1905 | 3,036,879 | 555,256 | 446,555 | 36,847,610 | 61,295,775 | 98,143,385 | 102,182,075 |
| 1906 | 3,244,256 | 568,670 | 577,094 | 41,036,116 | 65,479,150 | 106,515,266 | 110,905,286 |
| 1907 | 3,563,181 | 801,878 | 444,460 | 46,781,234 | 65,916,735 | 112,697,969 | 117,507,488 |
| 1908 | 3,536,227 | 707,903 | 796,447 | 46,015,448 | 67,678,940 | 113,694,388 | 118,734,965 |
| 1909 | 3,510,629 | 720,853 | 555,806 | 46,812,632 | 70,945,623 | 117,758,255 | 122,545,543 |
| 1910 | 3,748,482 | 821,758 | 570,115 | 55,233,862 | 74,657,274 | 129,891,136 | 135,031,491 |
| 1911 | 3,718,458 | 928,663 | 741,188 | 62,226,897 | 81,220,013 | 143,446,910 | 148,835,219 |
| 1912 | 536,984 | 1,002,062 | 872,946 | 65,408,841 | 84,397,756 | 149,806,597 | 152,218,589 |
| 1913 | 368,975 | 894,095 | 2,492,229 | 62,012,773 | 87,814,795 | 149,827,568 | 153,582,867 |
| 1914 | 306,809 | 1,089,548 | 2,750,788 | 70,195,462 | 93,659,093 | 163,854,555 | 168,001,700 |
| 1915 | 275,589 | 1,140,592 | 3,347,646 | 75,380,916 | 99,598,420 | 174,979,336 | 179,743,163 |
| 1916 | 257,621 | 1,263,622 | 4,389,228 | 92,821,872 | 100,118,758 | 192,940,630 | 198,851,101 |
| 1917 | 244,806 | 1,439,106 | 3,660,970 | 105,465,711 | 103,826,948 | 209,292,659 | 214,637,545 |
| 1918 | 229,639 | 1,726,045 | 4,486,497 | 112,262,321 | 112,504,432 | 224,766,753 | 231,208,934 |
| 1919 | 221,755 | 1,813,390 | 6,540,609 | 118,988,567 | 130,069,687 | 249,058,254 | 257,634,008 |
| 1920 | 224,130 | 2,343,713 | 4,505,117 | 133,912,800 | 131,715,792 | 265,628,592 | 272,701,552 |
| 1921 | 213,868 | 2,392,074 | 5,745,770 | 127,789,314 | 154,767,037 | 282,556,351 | 290,908,063 |
| 1922 | 209,894 | 2,299,870 | 4,377,704 | 123,819,184 | 164,725,978 | 288,545,162 | 295,432,630 |
| 1923 | 207,228 | 2,483,725 | 3,754,260 | 126,656,935 | 184,664,568 | 311,321,503 | 317,766,716 |
| 1924 | 204,830 | 2,652,247 | 4,066,234 | 129,383,510 | 178,446,400 | 307,829,910 | 314,753,221 |
| 1925 | 202,875 | 2,850,641 | 7,179,781 | 131,943,724 | 189,650,356 | 321,594,080 | 331,827,377 |
| 1926* | 201,551 | 3,247,320 | 9,595,524 | 134,770,643 | 203,543,573 | 338,314,216 | 351,258,611 |
| 1927† | 200,946 | 2,979,848 | 10,646,859 | 130,185,154 | 207,894,085 | 338,079,239 | 351,906,892 |

* The Australian Insurance and Banking Record, August 1927, P. 699.

† Official Year Book of the C'wealth of Australia No. 20 pp. 404-408.

1890-1925, Compiled from Commonwealth Bureau of Census & Statistics' Finance Bulletin 1925-1926, and also from Official Year Books.

Table II. B CHEQUE-PAYING BANKS. AVERAGE ASSETS, 1890 to 1927.
(Statistics for the Commonwealth Bank included since 1913.)

| Quarter Ended 30th June | Coin. | Bullion. | Australian Notes. | Landed Properties. | Notes and Bills of Other Banks. | Balances Due from Other Banks. | Advances and Investments | Queensland Treasury Notes. | Total Assets. |
|-------------------------|------------|-----------|-------------------|--------------------|---------------------------------|--------------------------------|--------------------------|----------------------------|---------------|
| 1890 | 17,008,409 | 787,723 | — | 4,741,229 | 591,575 | 3,887,503 | 122,332,330 | — | 149,348,769 |
| 1891 | 16,674,035 | 807,523 | — | 4,884,437 | 538,109 | 2,830,357 | 125,494,121 | — | 151,228,582 |
| 1892 | 16,936,406 | 745,459 | — | 5,051,954 | 475,522 | 3,259,185 | 127,539,586 | — | 154,008,112 |
| 1893 | 17,076,741 | 653,182 | — | 5,178,111 | 1,450,377 | 2,169,291 | 120,631,442 | 20,673 | 147,179,817 |
| 1894 | 19,804,740 | 849,711 | — | 5,475,189 | 350,982 | 3,364,007 | 105,454,693 | 306,073 | 135,605,395 |
| 1895 | 20,676,492 | 811,323 | — | 5,384,866 | 342,233 | 3,183,715 | 102,882,718 | 445,886 | 133,727,233 |
| 1896 | 22,340,550 | 1,304,600 | — | 5,273,911 | 429,740 | 1,172,694 | 98,448,731 | 484,626 | 129,454,852 |
| 1897 | 20,098,763 | 1,184,871 | — | 5,302,658 | 434,680 | 973,132 | 96,847,650 | 547,731 | 125,389,485 |
| 1898 | 18,068,685 | 1,085,686 | — | 5,284,901 | 598,939 | 1,159,542 | 92,016,155 | 550,960 | 118,764,868 |
| 1899 | 17,275,766 | 1,213,457 | — | 6,184,066 | 641,218 | 1,005,824 | 86,927,449 | 420,770 | 113,668,550 |
| 1900 | 21,058,589 | 1,213,103 | — | 6,220,717 | 696,761 | 1,310,516 | 84,743,486 | 453,619 | 115,696,791 |
| 1901 | 18,581,224 | 1,199,304 | — | 6,145,742 | 695,676 | 1,215,701 | 88,238,975 | 684,906 | 116,761,528 |
| 1902 | 19,744,914 | 1,330,304 | — | 5,337,277 | 656,302 | 1,152,534 | 87,724,677 | 687,731 | 116,633,739 |
| 1903 | 18,513,784 | 1,507,825 | — | 5,289,440 | 741,977 | 1,115,369 | 88,223,686 | 648,299 | 116,040,380 |
| 1904 | 17,910,771 | 1,447,698 | — | 5,245,312 | 692,688 | 781,368 | 87,052,470 | 652,752 | 113,783,059 |
| 1905 | 19,988,465 | 1,501,890 | — | 5,212,799 | 705,089 | 809,929 | 85,157,011 | 609,248 | 113,984,431 |
| 1906 | 21,268,679 | 1,412,763 | — | 5,160,875 | 802,225 | 1,234,921 | 87,227,842 | 661,279 | 117,768,584 |
| 1907 | 22,420,395 | 1,291,033 | — | 5,028,379 | 840,217 | 1,170,276 | 94,233,245 | 757,190 | 125,740,735 |
| 1908 | 23,578,293 | 1,353,267 | — | 4,938,212 | 889,077 | 1,131,612 | 100,844,019 | 803,325 | 133,537,805 |
| 1909 | 24,943,910 | 1,353,933 | — | 4,852,471 | 932,354 | 1,153,611 | 97,692,800 | 788,621 | 131,717,700 |
| 1910 | 28,826,729 | 1,322,899 | — | 4,919,991 | 973,161 | 1,343,669 | 100,611,111 | 760,706 | 138,758,266 |
| 1911 | 32,330,705 | 1,140,065 | 5,137,478 | 4,937,437 | 1,279,714 | 1,698,097 | 112,766,491 | 275,456 | 159,565,443 |
| 1912 | 27,581,368 | 1,104,644 | 5,434,819 | 4,956,593 | 1,168,958 | 1,761,701 | 123,760,625 | 2,548 | 165,771,256 |
| 1913 | 30,133,187 | 1,118,879 | 4,853,709 | 4,983,882 | 1,333,780 | 3,211,812 | 118,919,263 | 402 | 164,554,914 |
| 1914 | 35,385,924 | 1,024,100 | 5,036,516 | 4,592,951 | 1,785,498 | 4,737,862 | 122,886,354 | 101 | 175,449,306 |
| 1915 | 33,850,144 | 1,052,979 | 20,473,229 | 5,064,575 | 1,671,105 | 4,070,229 | 128,129,779 | 6 | 194,312,046 |
| 1916 | 26,957,576 | 843,214 | 30,511,219 | 5,237,167 | 1,756,796 | 5,526,231 | 148,721,356 | — | 219,553,559 |
| 1917 | 21,696,820 | 1,158,007 | 30,946,645 | 5,288,199 | 2,035,308 | 5,429,884 | 145,948,778 | — | 212,503,641 |
| 1918 | 21,518,264 | 889,032 | 33,952,572 | 5,300,834 | 2,149,799 | 6,087,990 | 166,433,989 | — | 236,332,480 |
| 1919 | 21,341,026 | 793,883 | 35,759,107 | 5,215,550 | 2,274,422 | 7,798,735 | 204,768,013 | — | 277,950,736 |
| 1920 | 20,704,078 | 625,786 | 34,610,763 | 5,375,279 | 2,909,031 | 7,819,654 | 197,829,682 | — | 269,874,273 |
| 1921 | 21,066,405 | 560,427 | 34,492,912 | 5,736,389 | 2,406,515 | 6,644,558 | 241,838,689 | — | 312,745,895 |
| 1922 | 21,350,702 | 551,351 | 30,314,643 | 5,892,641 | 5,249,453 | 6,603,581 | 232,223,277 | — | 302,185,648 |
| 1923 | 21,353,880 | 568,401 | 28,787,887 | 6,484,140 | 7,059,235 | 8,162,423 | 255,042,530 | — | 327,458,496 |
| 1924 | 21,574,331 | 577,542 | 32,029,193 | 6,975,048 | 3,004,022 | 9,773,519 | 261,518,767 | — | 335,452,422 |
| 1925 | 27,243,394 | 4,486,930 | 37,212,490 | 7,201,170 | 3,106,918 | 7,250,671 | 261,340,527 | — | 347,842,100 |
| 1926 | 32,403,716 | 284,265 | 34,854,599 | 7,380,422 | 3,275,853 | 6,769,501 | 285,875,650 | — | 370,844,006 |
| 1927* | 27,262,143 | 196,244 | 29,526,340 | 7,360,477 | 4,294,251 | 4,760,838 | 317,008,281 | — | 390,408,574 |

* The Australian Insurance and Banking Record, August 1927, P. 699.
1890-1925; Compiled from Commonwealth Bureau of Census & Statistics' Finance Bulletin 1925-1926, and also from Official Year Books.
1926; Official Year Book No. 20. pp. 404-408.

Table II. B. CHEQUING-BANKING BANKERS HAVE

Statistics for the Commonwealth Bank

| Year | Coin, Fullion, and Australian Notes | Notes and Bills of Other Banks | Quarter Ended June |
|------|-------------------------------------|--------------------------------|--------------------|
| 1927 | 17,008,708,461,787,753 | 17,008,708,461,787,753 | 1927 |
| 1926 | 16,674,022,151,807,233 | 16,674,022,151,807,233 | 1926 |
| 1925 | 16,936,408,017,147,439 | 16,936,408,017,147,439 | 1925 |
| 1924 | 17,076,717,171,693,183 | 17,076,717,171,693,183 | 1924 |
| 1923 | 19,807,740,007,181,711 | 19,807,740,007,181,711 | 1923 |
| 1922 | 20,678,132,272,181,333 | 20,678,132,272,181,333 | 1922 |
| 1921 | 22,410,750,102,301,000 | 22,410,750,102,301,000 | 1921 |
| 1920 | 20,088,733,000,184,871 | 20,088,733,000,184,871 | 1920 |
| 1919 | 18,000,000,000,000,000 | 18,000,000,000,000,000 | 1919 |
| 1918 | 17,270,780,000,000,000 | 17,270,780,000,000,000 | 1918 |
| 1917 | 21,000,000,000,000,000 | 21,000,000,000,000,000 | 1917 |
| 1916 | 18,000,000,000,000,000 | 18,000,000,000,000,000 | 1916 |
| 1915 | 17,000,000,000,000,000 | 17,000,000,000,000,000 | 1915 |
| 1914 | 16,000,000,000,000,000 | 16,000,000,000,000,000 | 1914 |
| 1913 | 15,000,000,000,000,000 | 15,000,000,000,000,000 | 1913 |
| 1912 | 14,000,000,000,000,000 | 14,000,000,000,000,000 | 1912 |
| 1911 | 13,000,000,000,000,000 | 13,000,000,000,000,000 | 1911 |
| 1910 | 12,000,000,000,000,000 | 12,000,000,000,000,000 | 1910 |
| 1909 | 11,000,000,000,000,000 | 11,000,000,000,000,000 | 1909 |
| 1908 | 10,000,000,000,000,000 | 10,000,000,000,000,000 | 1908 |
| 1907 | 9,000,000,000,000,000 | 9,000,000,000,000,000 | 1907 |
| 1906 | 8,000,000,000,000,000 | 8,000,000,000,000,000 | 1906 |
| 1905 | 7,000,000,000,000,000 | 7,000,000,000,000,000 | 1905 |
| 1904 | 6,000,000,000,000,000 | 6,000,000,000,000,000 | 1904 |
| 1903 | 5,000,000,000,000,000 | 5,000,000,000,000,000 | 1903 |
| 1902 | 4,000,000,000,000,000 | 4,000,000,000,000,000 | 1902 |
| 1901 | 3,000,000,000,000,000 | 3,000,000,000,000,000 | 1901 |
| 1900 | 2,000,000,000,000,000 | 2,000,000,000,000,000 | 1900 |

The Australian Insurance and Banking Board, August 1927, p. 697.
 1927-1928: Compiled from Commonwealth Bureau of Census & Statistics.
 from Official Year Books.
 1928: Official Year Book No. 20, pp. 104-108.

banks, as well as the balances due on clearing house account. This item also includes balances kept by the banks on behalf of overseas' and interstate banks.

- (4) Deposits:— In this item, are included moneys deposited by the Commonwealth and State Governments, municipal and shire councils, friendly societies, insurance companies, investment and loan societies, as well as the deposits of manufacturing and trading firms and individuals.

Since the establishment of the Commonwealth Bank, a greater portion of the deposits of the Commonwealth and State Governments, and local governing bodies has been transferred to the Commonwealth Bank from the trading banks.

Deposits are either interest-bearing (fixed deposits) or non-interest-bearing (current deposits). Fixed deposits are usually taken for 6, 12, and 24 months. Current accounts are not subject to interest.

- (5) Total Liabilities:—The total liabilities are arrived at by adding together the above mentioned items. This total does not, however, include the capital and undivided profits of the banks.

ASSETS.

- (1) Coin, Fullion, and Australian Notes:— Coin and Australian notes are held by the banks as the portion of their cash reserves. Since 1925, balance of current account with the Commonwealth Bank has also been included in the item of Australian Notes.
- (2) Notes and Bills of Other Fanks:—They represent the banks' holding of bank notes issued by other banks (practically up to 1911) and also the holding of other

banks' acceptances. This item is the counterpart of Notes in Circulation and Bills in Circulation appearing on the Liabilities' side.

- (3) Balances due from Other Banks:—This item is the counterpart of Balances due to Other Banks on the Liabilities' side.
- (4) Land and Other Property:—This item is self-explanatory.
- (5) Advances and Investments:—All loans, discounts, overdrafts are included under this heading. In addition, there are included the banks' investments in Government and municipal securities. A greater portion of these investments relates to those of the Commonwealth Bank. The discounts are the ordinary trade bills which the banks have discounted. The overdrafts are an ordinary form of making advances in Australian banking. These overdrafts are made against the deposit of approved securities.
- (6) Queensland Treasury Notes:—This item represents the banks' holding of the Queensland Government Treasury Notes which had been issued by the Queensland Government, being the outcome of the 1893 crisis. The Queensland Treasury Notes Act remained in force until the Australian Notes Act of 1910 forbade their further issue by the State or their circulation by the banks.

CHAPTER II.

ORGANIZATION AND SYSTEM OF THE COMMONWEALTH BANK.

1. Establishment of the Commonwealth Bank.

Federal motives for the establishment of a Commonwealth Bank have been dealt with in the preceding chapter.

It was in 1908 that the Commonwealth Bank scheme began to take shape; the interstate conference of the Australian Labour Party, sitting at Brisbane, included in its "fighting platform," the establishment of a "Commonwealth Bank of Issue, Deposit, Exchange and Reserve, with non-political management." The Party's scheme proposed that the Bank's nominal capital must be held by the Commonwealth and such States as chose to join in, the Commonwealth holding at least 6,000 shares and no single State more than 1,000 shares. Besides ordinary banking business, the Bank was to issue notes, float all public loans (Commonwealth, State or Municipal), act as banker for Federal, State and Municipal treasurers, and buy bullion and issue coin on behalf of the mints. On 25th October, 1911, Andrew Fisher of the Labour Party, then Prime Minister and Treasurer, introduced into the Federal Parliament the Commonwealth Bank Bill, which passed both Houses and was assented to on the 22nd December, 1911.

Under this Act the Bank had no power to issue notes, but, in every other respect, it had the function of an ordinary bank. The capital of the Bank was one million pounds, to be raised by the sale and issue of debentures, but actually it started without capital, and all expenses incidental to the establishment of the Bank were met by an advance from the Consolidated Revenue,* which was repaid as soon as business commenced, with interest at the rate of 3½ per cent. p.a. The Bank was to be managed by a Governor and a Deputy-

* In Section 81 of the Commonwealth of Australia Constitution Act, it is provided that "all revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one Consolidated Revenue Fund, to be appropriated for the purpose of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution."

Governor, appointed by the Governor-General; they were to hold office during good behaviour for a period of seven years, and were eligible for reappointment. The net profit derived by the Bank was to be equally divided between the Bank Reserve Fund and the Redemption Fund. A novel feature was the establishment of a department dealing with savings bank business only. The framers of the Act had largely followed the lines laid down by the respective State Savings Bank Acts, particularly the Western Australian Act of 1906. The debentures previously referred to were to be for £ 10, or some multiple thereof, bearing interest and redeemable at par, the Commonwealth guaranteeing the payment of the principal and interest due by the Bank.

On June 1st, 1912, Denison Miller, as he then was, metropolitan inspector of the Bank of New South Wales, assumed office as Governor of the Bank, by virtue of commission issued by the Governor General, and at once brought into existence the Savings Bank Department of the Commonwealth Bank.

2. Savings Bank Department. As has been mentioned in the preceding chapter, the Government of each of the Australian States had, in the past, conducted its savings bank business almost entirely at the post offices. Under the proposed Commonwealth Bank Act, however, the Federal Government was to establish a Savings Bank with the agency of the post offices, first giving the State Governments, notice of intention to discontinue their agency. Great apprehension was felt by the States and strong opposition had already been offered to the Federal Government.

At the conference of State Premiers, held at Melbourne

in January, 1912, the Commonwealth Prime Minister submitted a proposal that the Commonwealth Bank should take over the savings bank of each State, and that the State Government would, after this had happened, have first call on any loan which the Commonwealth Bank should repay to the State Bank in redemption of loans existing when it was taken over, and also first call on three-fourths of deposits in the State available for investment. The premiers, feeling unwilling to agree to this, submitted a counter proposal (the Victorian Treasurer dissenting), that the Commonwealth Bank should refrain from embarking on savings bank business, and that the State, in consideration thereof, should lend to the Bank an amount equal to one-fourth of the excess of deposits over withdrawals. No resolution, which was mutually acceptable, was arrived at in the conference, and the matter remained in abeyance for some time. Apart from this, while the Commonwealth Bank Act was still before Parliament, the savings banks in some of the States, anticipating that the post offices would probably be required by the Commonwealth Bank, and being fully mindful of the importance of the protection of their savings bank business, had already taken steps to vacate the post offices and make other arrangements for the conduct of their agencies. Victoria and Queensland withdrew at a very early stage. In July, 1912, the Federal Executive Council gave notice that the savings banks in the remaining States should be removed from the post offices by the end of December of that year.

The Savings Bank business of the Commonwealth Bank was brought into operation in Victoria on July 15th, 1912, in Queensland on September 16th, 1912, in the Northern Territory on 21st October, 1912, and in the States of New South

Wales, South Australia, and West Australia on 13th January, 1913. The Tasmanian State Government had decided to hand over the savings bank business to the Commonwealth Bank, and arrangements were made for the transfer to take effect as from January 1st, 1913. In Queensland, the State Government decided, in 1920, to end the competition between its own and the Commonwealth Savings Bank, and transferred the business of the Queensland Government Savings Bank to the Commonwealth Bank under an agreement, whereby 70% of the increase in deposits each year was to be invested by the Commonwealth Bank in Queensland Government stock.

At present, the Savings Bank business of the Commonwealth Bank is conducted at its 88 branches and 3460 Post Office Agencies throughout the Commonwealth and Territories of Papua and New Guinea and in the Somon Islands. The rate of interest allowed, and limits of interest-bearing deposits at present are $3\frac{1}{2}$ per cent on the first £ 1,000, and 3 per cent. upon another £ 300.

3. General Banking Department. On the 20th January, 1913, the Commonwealth Bank commenced general banking business simultaneously at the following places:—Sydney, N.S.W. (Head Office), Canberra, N.S.W. (Federal Capital), Melbourne (Victoria), Brisbane (Queensland), Townsville (Queensland), Adelaide (South Australia), Perth (Western Australia), Hobart (Tasmania), and London (England).^{*} This marked the accomplishment of the provisions of the Commonwealth Bank Act of 1911. The result of the first day's transaction was the deposit of £ 2,368,126, chiefly the Common-

^{*} New York Branch was established in Nov. 1927.

wealth Government's accounts transferred from the private banks in each Australian capital city and in London.

In assuming its activities in the general banking business, the Commonwealth Bank made a departure from the prevailing practice throughout Australia in regard to levying a charge for keeping current accounts. Up to that time, all Australian trading banks were making half-yearly charges of 5 s. (10/6 d. in Western Australia) for keeping each current account, irrespective of the balance, or the course of the account. The Commonwealth Bank, however, took the view that, where a bank had the continuous use of customer's money, or, where, on the other hand, a customer was paying interest on an overdraft, it was hardly equitable to levy a fee for conducting the account. Consequently, the Commonwealth Bank exempted all overdraft accounts from this charge, and also those accounts where the credit balance during the period of the half-year did not at any time fall below £ 50. Accounts of Government, municipal councils and other local governing bodies, Friendly Societies, kindred bodies, Churches, Charitable Institutions, etc. which did not trade for profit, were exempted from any charge. Most of the other banks have fallen into line, and these conditions are now fairly general throughout Australia.

A special facility was afforded to friendly societies and similar bodies, whereby the funds of such societies could be deposited with the Savings Bank Department of the Commonwealth Bank, while at the same time cheques could be drawn on the General Banking Department in respect of such funds. By this means, these bodies were given the dual advantage of earning interest on their funds (Australian banks do not allow interest on current account), and operating on their accounts

by cheque at the same time.

The business of the General Banking Department of the Commonwealth Bank has been carried on on the line of ordinary trading banks, namely the receiving of deposits on current accounts or for fixed terms, the granting of advances, the discounting of bills, the issuing of drafts and letters of credit, etc. The Commonwealth Bank's policy, however, has been of a non-competitive character, and no aggressive attempt has been made to attract business from other trading banks.

To give an idea of the rapid growth of the business of both the Savings Bank and the General banking Departments, the following tables have been prepared from the half-yearly balance sheets of the Commonwealth Bank.

Table III-A. DEPOSITS.

| Year. | Savings Bank Deposit. | General Bank Deposit. | Total Balance Deposits. |
|----------------|-----------------------|-----------------------|-------------------------|
| 1912 (Dec. 31) | 615,689 | — | 615,689 |
| 1913 (June 30) | 2,694,774 | 2,176,820 | 4,871,594 |
| 1914 " | 4,645,268 | 4,559,264 | 9,204,532 |
| 1915 " | 7,420,647 | 8,547,527 | 15,968,174 |
| 1916 " | 9,447,896 | 29,745,868 | 39,193,764 |
| 1917 " | 12,442,847 | 36,341,502 | 48,784,349 |
| 1918 " | 15,227,534 | 51,939,580 | 67,167,114 |
| 1919 " | 17,789,423 | 43,672,183 | 61,461,606 |
| 1920 " | 17,982,402 | 41,002,909 | 58,985,311 |
| 1921 " | 36,190,389 | 34,515,485 | 70,705,874 |
| 1922 " | 38,056,980 | 42,091,310 | 80,148,290 |
| 1923 " | 40,150,890 | 35,099,235 | 75,250,125 |
| 1924 " | 41,071,099 | 31,914,902 | 72,986,001 |
| 1925 " | 42,313,086 | 35,155,565 | 77,468,651 |
| 1926 " | 45,537,605 | 36,729,307 | 82,266,912 |
| 1927 " | 46,479,020 | 32,277,337 | 78,756,357 |

Table III-B.

INVESTMENTS AND ADVANCES.

| Year. | Government & Municipal Securities | Bills Discounted, Loans, Advances, etc. | Total Balance Advances & Investments. |
|----------------|-----------------------------------|---|---------------------------------------|
| 1912 (Dec. 31) | 120,401 | — | 120,401 |
| 1913 (June 30) | 1,312,992 | 458,706 | 1,771,698 |
| 1914 " | 2,818,981 | 1,392,084 | 4,211,065 |
| 1915 " | 5,470,480 | 2,147,339 | 7,617,819 |
| 1916 " | 8,255,882 | 5,721,356 | 13,977,238 |
| 1917 " | 11,802,881 | 8,145,600 | 19,948,481 |
| 1918 " | 14,451,513 | 11,898,554 | 26,350,067 |
| 1919 " | 15,646,021 | 19,471,672 | 35,117,693 |
| 1920 " | 17,975,463 | 13,194,693 | 31,170,156 |
| 1921 " | 33,304,515 | 18,657,922 | 51,962,437 |
| 1922 " | 34,875,722 | 14,459,388 | 49,335,110 |
| 1923 " | 38,034,441 | 19,871,319 | 57,905,760 |
| 1924 " | 38,772,985 | 12,603,882 | 51,376,867 |
| 1925 " | 38,891,731 | 14,168,832 | 53,060,563 |
| 1926 " | 46,222,043 | 11,240,621 | 57,462,664 |
| 1927 " | 53,732,160 | 16,194,993 | 69,927,153 |

Note 1. The increase of deposits and advances during and after the war is partly due to the inflation of Australian notes, which generally caused the rise in prices.

Note 2. The sudden increase of Savings Bank deposit in 1921 is due to the transfer of the Queensland Government Savings Bank deposit (£14,791,957) to the Commonwealth Bank in 1920.

Note 3. Investment in Government & Municipal securities have chiefly been made by the Savings Bank Department. In fact, about 85% of the savings bank deposit is invested in such securities at present.

Note 4. Progress in the General Banking Department has not been so remarkable as that of the Savings Bank Department.

As the initial expenses of the Bank were heavy and no capital was advanced, the early business resulted in a small loss. This was temporarily debited to the profit and loss account, and was refunded later by the profits made by the Bank. During the war-period (1912—1918), the Bank extended its activities to meet the special circumstances, and large profits were realised in that period. At 31st December, 1927, the aggregate total of the profits derived by the Bank (Banking Departments) since its inception amounted approximately to £ 6,400,000. These profits were equally divided between the Reserve Fund and the Redemption Fund of the Bank until June 30th, 1923, each having accumulated by that time to roughly £ 2,200,000. By virtue of an Act of 1923, the profits derived after July, 1923 are equally divided between the Reserve Fund and the National Debt Sinking Fund (in place of the Redemption Fund), the latter having benefited to the extent of roughly £ 1,000,000 up to December 31st, 1927.

In 1924, by an amended Commonwealth Bank Act, the authorised capital of the Bank was increased to £ 20,000,000, comprising of:—

- (1) £ 4,000,000, half of which was paid from the Reserve Fund, and the other half from the Redemption Fund;
- (2) £ 6,000,000, which the Treasury was authorised to borrow from the public and grant to the Bank at interest; and,
- (3) £ 10,000,000, authorised to be raised by the issue of debentures.

Up to the present, neither of the methods indicated in (2) and (3), has been undertaken, and the paid-up capital of the Bank remains to be £ 4,000,000.

This Act also placed the management of the Commonwealth Bank, under a Board of Directors, comprised of the Governor of the Bank, and seven other Directors, one being the Secretary to the Treasury. The new Board presides over not only the Savings and General Banking Departments, but also the Note Issue Department and the Rural Credits Department of the Bank. Board of Advice in London, consisting of three members was also provided for.

Other sections of this Act which are of considerable interest are:—

- (1) That on and after a date fixed by proclamation, the Board must fix and publish from time to time the rates at which the Bank will discount and rediscount bills of exchange;
- (2) That Australian notes may be issued to Commonwealth Bank or other banks in Australia in exchange for money or securities lodged with the London Branch of the Bank;
- (3) That on and after a date to be fixed by proclamation, banks should settle their general clearances by cheques on the Commonwealth Bank.

These relate to the functions of central banking, and will be discussed under a separate heading.

4. Activities of the Commonwealth Bank in the Great War Time.

During the whole period of the War, the Commonwealth

Bank rendered splendid assistance to the nation of Australia in many ways

(a) Raising the War Loans. Early in 1915, owing to the tremendous pressure of war finance on the British Government, it became imperative for Australia to finance her own share of the war expenses, and the Commonwealth Bank was entrusted with the work of flotation and management of loans on behalf of the Commonwealth Government. Up to that time, the financial resources of Australia were practically unknown, no financial operations of large magnitude having ever been carried out in the country, and the raising of loans which would be sufficient to finance the huge war expenses was really a matter of experiment. The first and second War Loans were announced in July and December, 1915 for £ 5,000,000 and £ 10,000,000 respectively, and the each flotation was entirely successful, the latter being subscribed twice over and the former more than two and a-half times. Loan after loan was announced and, within the short space of 6 years, altogether seven War Loans and three Peace Loans were issued, flotations of which were carried out in such a vigorous and resourceful manner that a huge (for Australia) total of £ 250,172,440 was subscribed. The total expenses of the flotations of these loans amounted such a small sum of £ 705,747 or 5/7 per cent. and this included commission paid to stock-brokers, printing, advertising, and the Commonwealth Bank's own charges of 2/- per cent. which covers not only the flotation of the loans but also the payment of interest coupons and repayment of principal at maturity. The subjoined table gives a rough idea of the way, in which the seven War loans and three Peace Loans were floated:—

Table IV. PARTICULARS OF COMMONWEALTH WAR LOANS AND PEACE LOANS.

| Loan. | Announced. | Amount Asked For. | Amount Subscribed | Total Flotation Expenses. | Flotation Expenses % |
|------------------------------------|------------|-----------------------|-------------------|---------------------------|----------------------|
| 1st War Loan — 4½% | July 1915 | 5,000,000 | 13,389,440 | 34,301 | 5/7 |
| 2nd War Loan — 4½% | Dec. 1915 | 10,000,000 | 21,655,680 | 49,665 | 4/7 |
| 3rd War Loan — 4½% | June 1916 | Not Specified | 23,587,650 | 50,188 | 4/3 |
| 4th War Loan — 4½% | Dec. 1916 | 18,000,000 | 21,584,020 | 42,986 | 4/- |
| 5th War Loan — 4½% | Sept. 1917 | 20,000,000 | 21,213,780 | 49,105 | 4/7 |
| 6th War Loan — 4½% | Feb. 1918 | 40,000,000 | 42,944,360 | 117,395 | 5/5½ |
| 7th War Loan — 5% (subject to tax) | Aug. 1918 | 40,000,000 | 44,072,640 | 129,385 | 5/10½ |
| 1st Peace Loan — 5% | July 1919 | 25,000,000 | 25,025,370 | 86,635 | 6/11 |
| 2nd Peace Loan — 6% | July 1920 | 25,000,000 | 26,612,560 | 96,649 | 7/4 |
| 3rd Peace Loan — 6% | June 1921 | 10,000,000 | 10,086,940 | 49,438 | 9/9½ |
| Totals. | | Approx. £ 210,000,000 | £ 250,172,440 | £ 705,747 | 5/7% |

(b) Financing War-time Pools. The Commonwealth Bank also took prominent part in the financing of the primary produce in Australia. As a necessity of war, practically all the primary industries were controlled by the Commonwealth Government, and the various products were taken over in bulk from the producers and dealt with in "Pools." The financing was mostly carried through by the Commonwealth Bank and the total amount paid to primary producers during the period of 1914-1923 under the pooling arrangements exceeded £437,000,000 as follows:—

| | |
|--------------------------------|---------------|
| Wheat Pools | £ 210,400,000 |
| Wool | 175,700,000 |
| Butter and Cheese Pools | 19,500,000 |
| Sugar | 18,500,000 |
| Fresh Meat Pool | 10,300,000 |
| Rabbit Pool | 1,800,000 |
| Jam and Fruit Pools | 1,300,000 |
| | £ 437,500,000 |

(c) Helping the A.I.F. and the Australian Navy. The Commonwealth Bank took an active part in making all possible banking facilities available to the A.I.F. (Australian Imperial Forces), both in Commonwealth and abroad. Agencies of the Bank were established at each of the principal camps throughout Commonwealth, and at the principal base for Australian soldiers in England. Agencies were also established on the war ships. The Bank supplied means for the purchase of 15 cargo steamers by the Federal Government.

(d) Building Homes for Soldiers and assisting Local

Governing Bodies. After the conclusion of the war, the Commonwealth Bank took a leading part in building and purchasing houses on behalf of the returned soldiers. A very great deal of work has also been done in assisting local governing bodies to finance various undertakings. Road construction, Bridges, Drainage, Gas and Electric light, Tramways, Harbour improvements, all came within the sphere of operations by the Commonwealth Bank, and about £9,360,000 were financed in connection with these undertakings.

5. Note Issue Department. As has been stated previously, the Commonwealth Bank was prohibited in its original Act from issuing Bank Notes, such power having already been vested in the Federal Treasury by virtue of the Australian Notes Act, 1910. In the session of 1920, however, "An Act to amend the Commonwealth Bank Act 1911-1914, and for other purposes" was passed by the Federal Parliament and assented to on 30th November 1920, whereby the control of the Australian Note Issue was handed over by the Federal Treasurer to the Commonwealth Bank.

The Note Issue Department, thus created, was to be kept distinct from all other departments of the Bank. It was to be managed by a Board of directors, composed of the Governor of the Bank (who is Chairman, ex officio), the Secretary to the Commonwealth Treasury (ex officio), and two other financial experts appointed by the Governor-General in Council. The denominations of Notes which were to be issued by the Board were 5/-, 10/-, £ 1, £ 5, £ 10, or any multiple of £ 10. They were to be legal tender throughout the Commonwealth

G. C. Faulkner "The Commonwealth Bank" p.p. 71-254.

M. B. Young "Brief Outline of Australian Banking."

and all Territories under the control of the Commonwealth, except in respect of payments due by the Note Issue Department itself, and they were to bear the promise of the Treasurer to redeem the notes in gold coin (or, in the case of a single five shilling note, in silver coin) on demand at the Head Office of the Commonwealth Bank. The Australian Notes, then existing which were expressed to be payable at the Commonwealth Treasury at the seat of Government were to be payable at the Head Office of the Commonwealth Bank. The Board was required to "hold in gold coin and bullion a reserve of an amount of not less than one-fourth of the amount of Australian notes issued." and the remainder or any part thereof to invest

- "(a) on deposit with any bank, or
- (b) in securities of the United Kingdom, or of the Commonwealth, or of a State; or
- (c) in Trade Bills with a currency of not more than one hundred and twenty days."

The new Act thus assented to, was proclaimed on 14th December, 1920, and, on that day, the transfer of existing issue from the Commonwealth Treasury to the Note Issue Department was effected, with all the assets and liabilities of the Treasury. At the end of that month, the Note Issue amounted to £ 58,713,251, against which there was the reserve of £ 23,714,983 in gold coin and bullion.

The Note Issue Department has been conducted at the Head Office of the Commonwealth Bank in Sydney, and at the branches at Melbourne, Brisbane, Adelaide, Perth, Hobart, Launceston, Townsville, Rockhampton, Bundaberg, Cairns, Mackay, Darwin, and Thursday Island. All these branches

are fully equipped, but their main functions are to replace worn notes with new ones.

By an Act, assented to on 20th August, 1924, and proclaimed on 10th October of that year, the original Board was superseded by a new Board of Directors, appointed to control not only the general business, but also that of the note issue. The new Board consists of the Governor of the Bank, the Secretary to the Treasury, and six others, who are or have been actively engaged in agriculture, commerce, finance or industry. Power was added to the new Board to issue Australian Notes to the Commonwealth Bank or to other banks in Australia in exchange for money or securities lodged with the London Branch of the Bank.

The nett profits derived from the issue of Australian notes were paid to the Federal Treasury half-yearly, until June, 1925, in accordance with the Act of 1920. In December, 1925, Rural Credits Department of the Bank was established (as will be explained in the next section), and since that time, a portion (one-fourth) of the Note Issue Department profits has been transferred to the Capital account of the new Department, the remaining portion (3/4) going to the Federal Treasurer as before.

The sub-joined table, compiled from the Official Year Books (1911—1920) and the Half-yearly Balance Sheets of the Commonwealth Bank (1921—1927), shows the amount of the Australian Notes issued and unredeemed, and the amount of gold coin and bullion, held at the end of June of each year since 1911.

Table V.

AUSTRALIAN NOTES AND GOLD RESERVE.

| 30th June. | Australian Notes in Circulation. | Gold Coin and Bullion | Percentage of Gold Reserve. |
|---------------|--|--------------------------|--------------------------------|
| 1911 | 8,031,217 | 3,352,281 | 41.74 |
| 1912 | 9,485,943 | 4,279,007 | 45.10 |
| 1913 | 9,163,518 | 3,732,557 | 40.73 |
| 1914 | 9,595,551 | 4,144,581 | 43.19 |
| 1915 | 32,067,032 | 11,034,703 | 34.35 |
| 1916 | 45,057,616 | 16,262,693 | 36.09 |
| 1917 | 47,201,362 | 15,418,391 | 32.67 |
| 1918 | 52,501,948 | 17,783,742 | 33.87 |
| 1919 | 55,401,727 | 24,232,622 | 43.74 |
| 1920 | 56,768,530 | 23,658,092 | 41.67 |
| 1921 | 58,225,787 | 23,863,207 | 40.98 |
| 1922 | 53,556,698 | 23,534,181 | 43.94 |
| 1923 | 52,102,025 $\frac{1}{2}$ | 24,443,980 | 46.95 |
| 1924 | 56,890,225 | 24,441,276 $\frac{1}{2}$ | 42.96 |
| 1925 | 53,890,226 $\frac{1}{2}$ | 25,841,027 | 47.95 |
| 1926 | 53,890,226 $\frac{1}{2}$ | 28,082,387 $\frac{1}{2}$ | 52.11 |
| 1927 | 48,393,226 $\frac{1}{2}$ | 22,065,071 $\frac{1}{2}$ | 45.59 |

Note 1.—(1911—1914). Before the war, currency in Australia was chiefly gold coin, but there is no reliable estimate of the amount then actually in circulation. The total issue of Australian notes was between £9,000,000 and £9,600,000, of which approximately £5,000,000 was held by banks. (See Table II.-B, Item 3.) Therefore, approximately £4,000,000 of notes only was in circulation among the public.

Note 2.—(1914—1920). The sudden rise of note issue in 1915 is explained by the fact that:—

- (1) The Federal Treasury, which then controlled the note issue, lent in notes to the States £18,000,000 to enable them to carry on public works.
- (2) The Treasury arranged with the private banks to exchange notes for £10,000,000 for a like amount in gold, on condition that the notes were not to be presented at the Treasury for redemption in gold.

The effect of these transactions was to augment the note issue by

£28,000,000 and the gold reserve holding by £10,000,000.

During the war, the note issue increased each year, owing to the successive flotation of war loans (aggregating £250,000,000; See Table IV.), until the note issue reached its highest point in October 1918 to the amount of £59,676,000.

Note 3.—(1920—1924). In December, 1920, the issue and control of Australian notes was transferred to the Notes Board, presided over by the Governor of the Commonwealth Bank, as stated.

The increase in the supply of currency during the war tended to decrease the value of the Australian pound, or to raise the general level of prices in Australia.

In this period, the Notes Board was striving to bring the paper pound to its gold face value, by reducing the total issue. One might call it the period of deflation. During this period, cash balance was mounting in London, which, however, could not be transferred to Australia, on account of the prohibition on the movement of gold. Banks were unable to grant accommodation to their customers. Finally, the Notes Board decided to issue notes for £4,200,000 to the banks, which had the right to demand them in settlement of the advances made to the Federal Government for the purpose of cashing War Gratuity Bonds, issued to returned soldiers. This serves to explain the sudden rise in the note issue between June, 1923 and June, 1924.

Note 4.—(1914—1927). In October, 1924, the Commonwealth Bank took over the control of the note issue, as stated. With booming exports, exchange on London then rose until Australian currency first reached gold parity during December, 1924, and shortly afterwards, the gold point was reached. Early in 1925, the banks were thus in a position to import gold (£10,500,000 was imported), which not only tended to correct the London position, but brought gold reserves in Australia to restore the cash ratio to deposits of the banks to provide funds available to grant fresh advances to their customers. During 1926, note issue was reduced by £4,000,000 in connection with the export of gold amounting to £12,500,000, which will be explained in detail later on.

On the last Monday in each month, the Note Issue Department prepares a statement, showing the number and amount of Australian notes issued and not redeemed, and the amount of gold held, at that date. This statement is published in the "Commonwealth Government Gazette," and appears later in the Press and various financial journals. The following table has been compiled from the Australasian Insurance and Banking Record.

Table VI.

Australian Notes issued and unredeemed as at undermentioned Dates.

| Denomination. | 28 June 1926 | 27 Dec. 1926 | 28 March 1927 | 27 June 1927 | 26 Sept. 1927 | 26 Dec. 1927 |
|--|-----------------|-----------------|------------------|-----------------|------------------|-----------------|
| 5 s. | 2,814,661½ | 3,265,890½ | 2,978,169½ | 2,962,098½ | 3,015,837½ | 3,386,413½ |
| 10 s. | 15,972,655 | 18,546,126 | 16,785,907 | 16,505,523 | 16,871,489 | 19,091,628 |
| £ 1. | 10,798,050 | 13,060,350 | 11,398,260 | 11,217,815 | 11,496,570 | 13,332,385 |
| £ 5. | 3,683,510 | 4,241,820 | 3,790,030 | 3,717,890 | 3,808,230 | 4,305,520 |
| £ 10. | 414,500 | 456,540 | 426,660 | 420,700 | 430,400 | 453,180 |
| £ 20. | 1,116,150 | 1,200,500 | 1,142,600 | 1,129,100 | 1,114,500 | 1,165,600 |
| £ 50. | 1,610,700 | 1,654,000 | 1,611,600 | 1,678,100 | 1,624,200 | 1,820,500 |
| £ 100. | 17,480,000 | 7,465,000 | 10,260,000 | 10,762,000 | 10,032,000 | 8,238,000 |
| Total Outstanding | 53,890,226½ | 49,890,226½ | 48,393,226½ | 48,393,226½ | 48,393,226½ | 51,793,226½ |
| Notes held by banks | 30,254,500 | 18,522,437½ | 22,763,915½ | 23,479,995 | 22,483,929½ | 20,470,322½ |
| Notes held by public | 23,635,726½ | 31,367,789 | 25,629,311 | 24,913,231½ | 25,909,297 | 31,322,904 |
| Gold Reserve | 28,182,387½ | 21,982,065½ | 21,985,065½ | 22,065,071½ | 20,721,000 | 21,600,553 |
| % of gold reserve on total outstanding | 52.30% | 44.06% | 45.43% | 45.60% | 42.82% | 41.71% |
| % of gold reserve on notes held by public | 191.24% | 70.08% | 85.78% | 88.57% | 79.98% | 68.96% |

(Compiled from Australasian Insurance & Banking Record.)

The 5/- notes have not so far been issued. The £ 1,000 notes are held mainly by the banks as a portion of their cash reserves, and, before the provision of a Section of the Commonwealth Bank Act 1924, whereby a system of settling balances between the associated banks through the Commonwealth Bank has been established, came into force, these notes were also used in effecting exchange settlements between the banks.

As will be seen from the foregoing tables, the amount of notes in circulation was reduced during 1926 by £ 4,000,000, from £ 53,890,226½ to £ 49,890,226½. With the reduction in the issue, there was reduction of the gold holdings. The peak of the gold holdings in that year was shown on May 31st (£ 30,247,504) and this amount represented 56.13 per cent. of the note issue of that date. The gold holding at the close of the same year was £ 21,982,065½, or 44.06% of the note issue. The difference between the two amounts shown £ 8,265,438½, together with further amounts from the Banking Department, represents a total export of £ 12,500,000, of which £ 10,500,000 went to the United States and £ 2,000,000 to India.

Generally speaking, the notes held by the public and the trading banks may be regarded as the actual notes in circulation. The reduction of the note issue in 1926 did not affect the circulation, for nothing was taken from the hands of the public. It was a purely inter-bank transaction of the Commonwealth Bank; the Note Issue Department exchanged with the Banking Department securities for notes, and these notes were cancelled.

In the monthly statement prepared by the Note Issue Department are also shown the separate figures of the notes

held by the banks (including Commonwealth Bank) and the public. This is of some importance to the business man, for by it he is able to see the trend of the spending power of the community. An increase in the notes in the hands of the public as at Christmas season, for instance, will illustrate the public's increased spending power.

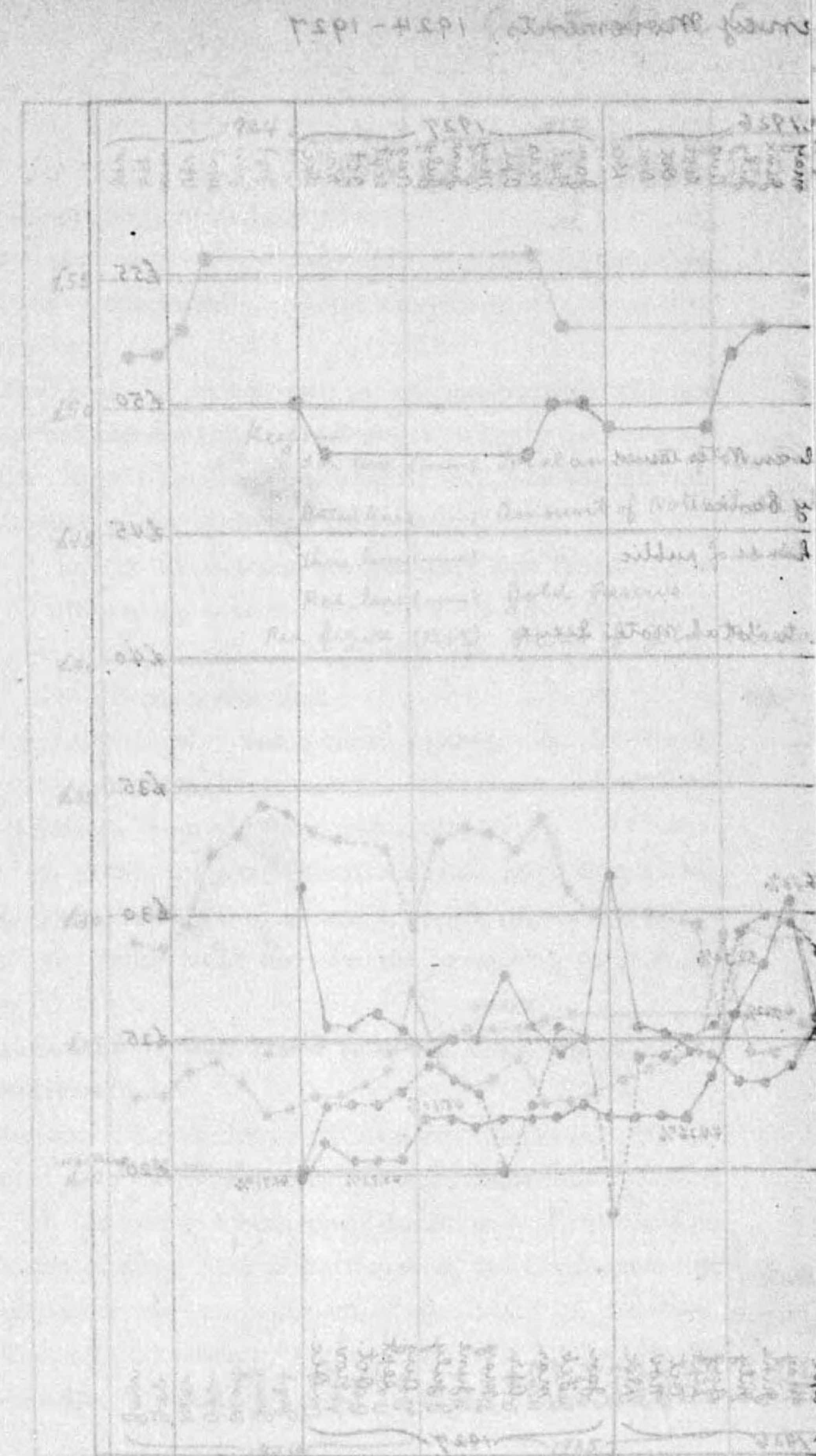
6. Establishment of the Rural Credits Department. On the 14th September, 1925, a further Act amending the Commonwealth Bank Act 1911-1924 was assented to, and brought into existence the present Rural Credits Department, which is kept distinct from all other Departments of the Commonwealth Bank.

The functions of the Rural Credits Department are to give assistance to the various institutions in financing primary produce, such as wool, grain, butter, cheese, fresh preserved or dried fruits, hops, cotton, sugar, etc. It makes advances upon the security of the primary produce placed under the legal control of the Bank, to:—

- (a) the Commonwealth Bank or other banks;
- (b) co-operative associations formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth; and
- (c) such co-operations or incorporated bodies formed under the law of the Commonwealth, as are specified by proclamation.

The period of advances is limited to one year. In lieu of making advances, it may, on behalf of any aforesaid institutions, discount bills, secured upon produce placed under the legal control of the Bank.

The funds of the Department are to be provided as



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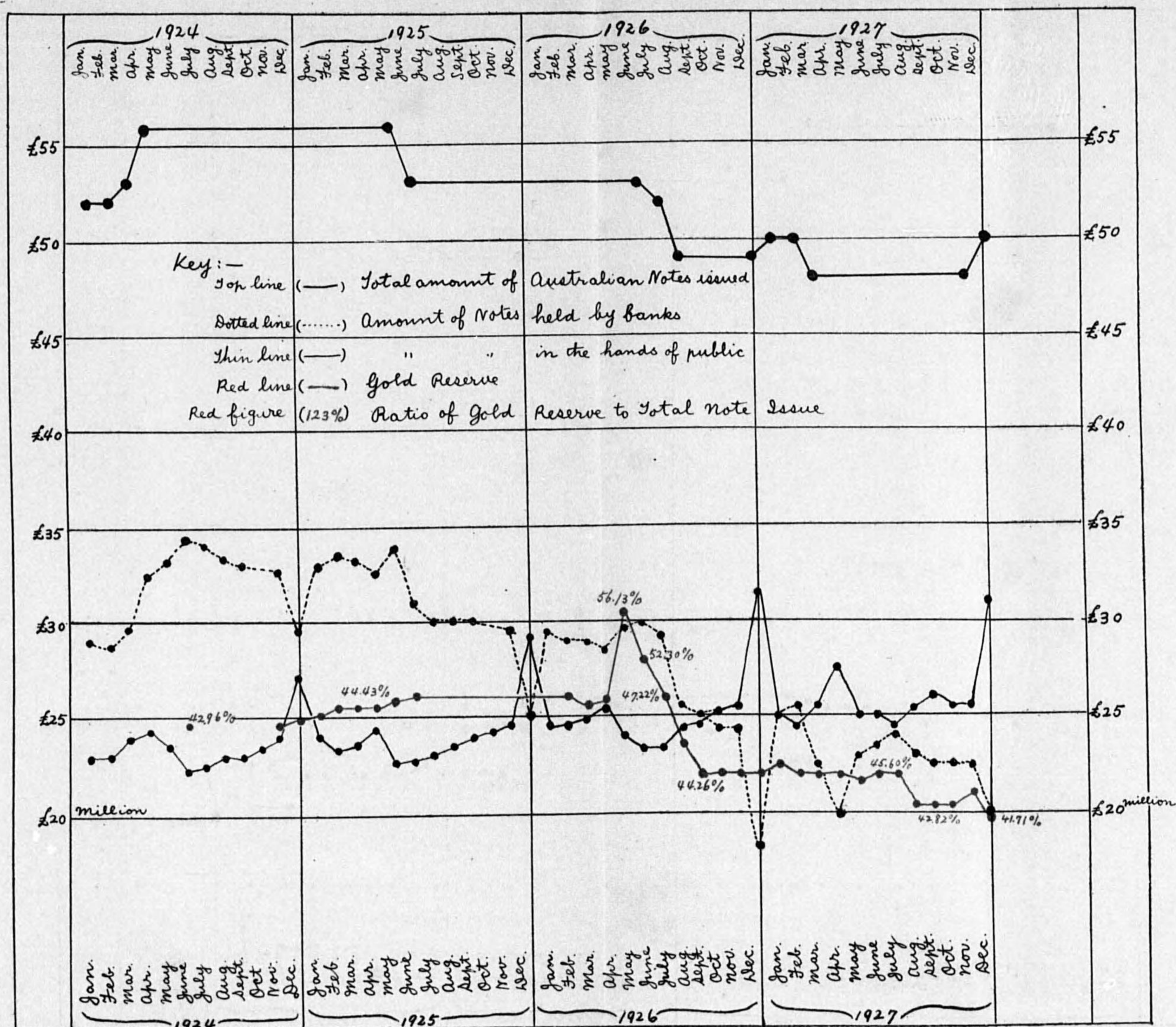
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- (a) the Commonwealth Bank or other banks;
- (b) co-operative associations formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth; and
- (c) such co-operations or incorporated bodies formed under the law of the Commonwealth, as are specified by proclamation.

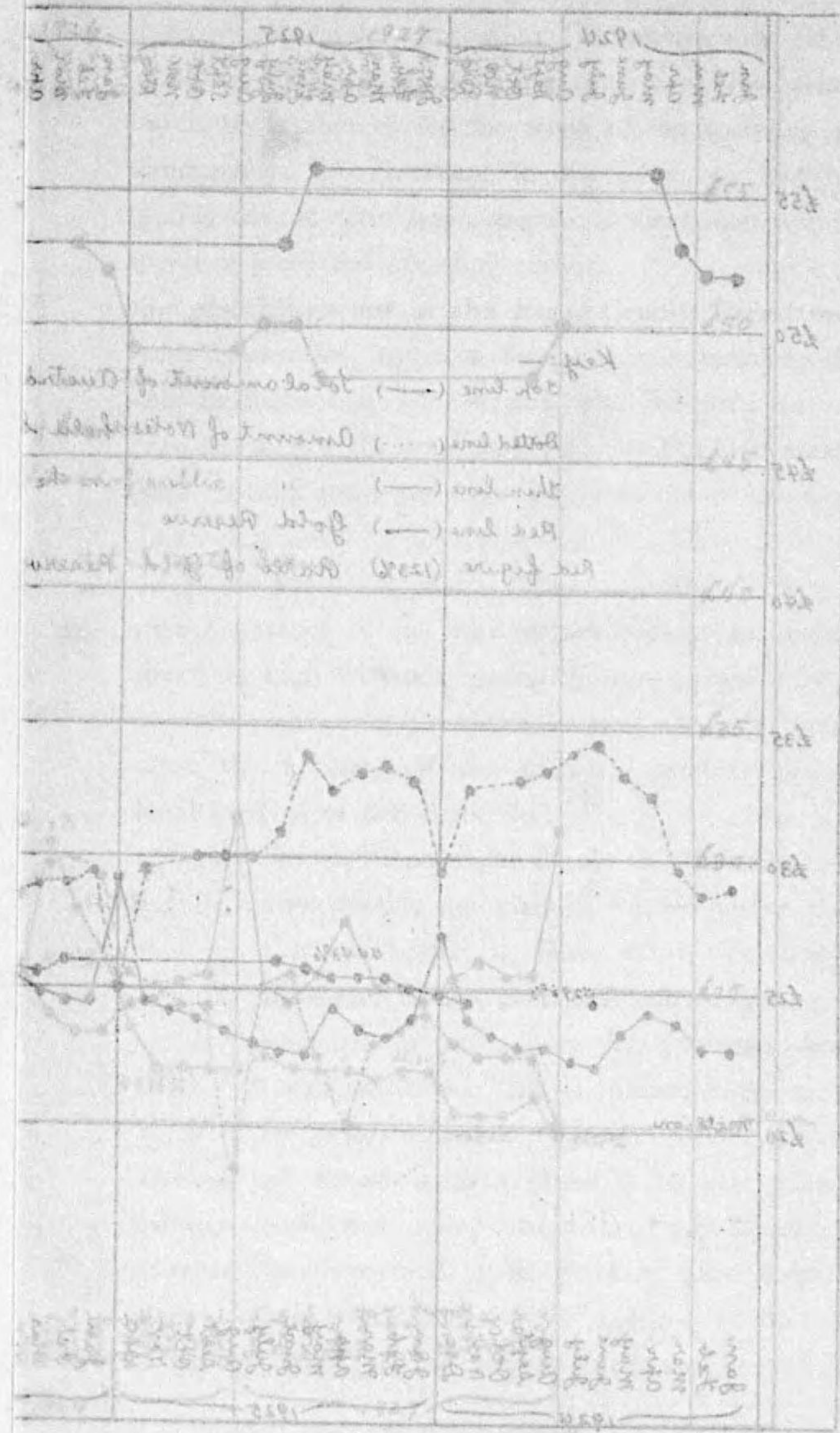
The period of advances is limited to one year. In lieu of making advances, it may, on behalf of any aforesaid institutions, discount bills, secured upon produce placed under the legal control of the Bank.

The funds of the Department are to be provided as

Australian Currency Movements, 1924-1927



1924-1927



follows:—

- (1) Loans from the Federal Treasurer within the limit (outstanding) of £ 3,000,000 :
- (2) 25 per cent. of the net annual profits of the Note Issue Department until the amount of £ 2,000,000 is reached ;
- (3) The issue of debentures to an amount that will not exceed the amounts advanced on primary produce by the Rural Credits Department or four times the amount of the aggregate of :
 - (a) the loans from the Treasury not repaid,
 - (b) money paid to the Rural Credits Department out of the net profits of the Note Issue Department, and
 - (c) half the accumulated profits of the Rural Credits Department ;
- (4) Advances from the Commonwealth Bank.

The net profits of the Rural Credits Department are divided between a Reserve Fund and a Rural Credits Development Fund, the latter to be used for the promotion of primary production.

7. Separation of Savings Bank Business from the Banking Department.

On the 22nd December, 1927, an Act to provide for the establishment of a Commonwealth Savings Bank was assented to. The Act has not yet been proclaimed, but when it comes into force, the Savings Bank Department of the Commonwealth Bank, now under the management of the Board of Directors, will become an independent Bank, under the name of the "Commonwealth Savings Bank of Australia," and under an

entirely different management.

Under this Act, the newly established Savings Bank is to be managed by a Commission composed of a Chief Commissioner and two other Commissioners, appointed by the Governor-General. The assets of the Commonwealth Bank in respect of its Savings Bank business is to be transferred to the new Bank, and the new Bank is to be responsible for the liabilities of the Commonwealth Bank in respect of its savings bank business.

The Commonwealth Savings Bank is empowered, inter alia:—

- (a) to carry on the general business of a Savings Bank;
- (b) to acquire and hold land on any tenure;
- (c) to receive money on deposit either for a fixed term or on current account;
- (d) to make advances by way of loan or otherwise; and
- (e) to do anything incidental to any of its powers.

The funds of the Savings Bank may be invested:—

- (a) in any Government securities approved by the Treasurer;
- (b) on loan on the security of land;
- (c) in advancing money, in accordance with the Commonwealth Housing Act 1927, for the purchase or erection of dwelling-houses, and for the discharge of mortgages on dwelling-houses;
- (d) in advancing money for the erection of warehouses or storage facilities intended for the warehousing or storage of primary products, including the erection of plant for treatment to ensure their preservation and preparation for marketing;

- (e) in debentures issued by the Commonwealth Bank for the purpose of its Rural Credits Department;
- (f) on fixed deposit with the Commonwealth Bank; and
- (g) in any other prescribed manner.

The net profits of the Savings Bank are to be equally divided half-yearly between:—

- (1) the Savings Bank Reserve Fund, and
- (2) the National Debt Sinking Fund.

CHAPTER III.

ANALYSIS OF THE COMMONWEALTH BANK BALANCE SHEET AT 31st DECEMBER, 1927.

By an Act, the Board of Directors of the Commonwealth Bank is required to prepare, at least twice in each year, a balance-sheet, and submit it to the Auditor-General for report as to its correctness or otherwise, and transmit it with the report of the Auditor-General to the Treasurer of the Commonwealth, and also to transmit a copy of the balance-sheet and report to the President of the Senate and to the Speaker of the House of Representatives to be laid before the Senate and the House of Representatives respectively, (Commonwealth Bank Act, Sec. 20.) Such balance-sheet is made up to the end of June and December each year and is published in the following September and December respectively.

In addition to the half-yearly balance-sheet, the Commonwealth Bank, as in the case of ordinary banks, prepares, at the close of each quarter, a statement showing the total average of its liabilities and assets. Since the 1st July, 1927, the Bank has also been publishing weekly statements of the accounts of the Note Issue and General Banking Departments.

The quarterly statements, or Quarterly Returns as they are usually called, are really helpful towards a correct comprehension of balance-sheets, and the writer, in an attempt to analyse the following balance-sheet of the Commonwealth Bank in this chapter, has shown, where available, the average figures obtained from the quarterly returns.

1. Aggregate Balance Sheet.

(1) Capital Account £ 4,000,000.—

This amount comprises £ 2,000,000 transferred from the Reserve Fund, and £ 2,000,000 transferred from the Redemption Fund, on December 31st, 1924, in accordance with the Commonwealth Bank Act of 1924.

(2) Reserve Fund £ 1,379,155. 15. 5.

Profits derived by the Savings Bank and the General Banking Departments, from the inception of the Bank up to 31st December, 1927, amounted to £ 6,354,324. 8. 2. Of this, half the amount aggregating £ 3,177,162. 14. 1 has been transferred to the Reserve Fund, out of which £ 2,000,000 was paid into the Capital Account, as stated. The other half of the profits had been transferred to the Redemption Fund until December 31st, 1923, having accumulated by that time to £ 2,201,993. 11. 4, out of which £ 2,000,000 was paid into the Capital Account, leaving a balance of £ 201,993. 11. 4. The Reserve Fund figure £ 1,379,155. 15. 5 in the Balance Sheet is consisted of £ 3,177,162. 4. 1, less £ 2,000,000 transferred to the Capital Account, plus £ 201,993. 11. 4 transferred from the Redemption Fund, thus:—

Commonwealth Bank Act, 1911—1924, Section A.—(1)

" " " " " (2)

The above Statement of the L of Australia as at 31st December, agrees with the Books kept, and have been inspected, and the other and documents.

The Statement has been pre opinion that the particulars of the

March 2, 1928.

COMMONWEALTH BANK
 M. C. RIDDLE
 Governor
 Sydney, 17th February, 1928.
 MARCUS BRYANT, Branch Accountant

COMMONWEALTH BANK OF AUSTRALIA
STATEMENT OF THE ACCOUNTS OF THE RURAL CREDITS DEPARTMENT
FOR THE YEAR ENDED 31st DECEMBER 1927

| | |
|--------------------------------------|--------------------|
| Balance at 1st Dec. 1926 | £ 1,379,155. 15. 0 |
| By transfer from Capital Account | 2,000,000. 0. 0 |
| By transfer from Reserve Fund | 19,684. 14. 6 |
| By transfer from Development Fund | 19,684. 14. 6 |
| By profit and loss | 6,354,324. 8. 2 |
| Less transferred to Capital Account | (2,000,000. 0. 0) |
| Less transferred to Reserve Fund | (1,177,162. 14. 1) |
| Less transferred to Development Fund | (19,684. 14. 6) |
| Less transferred to Capital Account | (19,684. 14. 6) |
| Balance at 31st Dec. 1927 | £ 6,354,324. 8. 2 |

C. J. CROFT, Auditor

Aggregate profit up to 31st Dec. 1927 £ 6,354,324. 8. 2
 Half.....£ 3,177,162. 14. 1
 Less transferred to the Capital a/c 2,000,000. 0. 0
 £ 1,177,162. 14. 1

Accumulated Redemption Fund
 on Dec. 31, 1923...£ 2,201,993.11.4
 Less transferred to
 Capital Account... 2,000,000. 0.0. 201,993. 11. 4
 Reserve Fund.....£ 1,379,155. 15. 5

(3) Rural Credits Department:—

Capital Account £ 693,737. 15. 0
 Reserve Fund 19,684. 14. 6
 Development Fund 19,684. 14. 6

The Capital Account £ 693,737. 15. 0 represents the one-fourth of the net profits of the Note Issue Department, which has been paid into the Rural Credits Department, in accordance with the Commonwealth Bank Act 1925, since 31st December, 1925, as follows:—

December 31st, 1925 £ 126,190. 12. 6
 June 30th, 1926 149,787. 14. 1
 December 31st, 1926 132,147. 19. 8
 June 30th, 1927 151,971. 1. 10
 December 31st, 1927 133,640. 6. 11
 £ 693,737. 15. 0

Each of the Reserve Fund and the Development Fund, amounting to £ 19,684. 14. 6, is the accumulation of one-half of the

net profits derived by the Rural Department itself, since December 31st, 1925, which are as follows:—

| | | | | |
|--------------------------|---|-----------|-----|-----|
| December 31st, 1925..... | £ | 37. | 7. | 0. |
| June 30th, 1926 | | 5,986. | 12. | 10. |
| December 31st, 1926..... | | 1,312. | 5. | 2. |
| June 30th, 1927 | | 18,663. | 16. | 10. |
| December 31st, 1927..... | | 13,369. | 7. | 2. |
| | | £ 39,369. | 9. | 0. |
| Half..... | £ | 19,684. | 14. | 6. |

(4) Deposits, Accrued Interest and Rebate. £ 33,504,978. 7. 5.

This item includes moneys deposited by the governments and the public, but a very large portion of the amount may represent deposits made by the former. The Commonwealth Bank, besides holding the Commonwealth Government account, also holds the accounts of the State governments of Queensland, South Australia, West Australia, and Tasmania, as well as the accounts of many municipals and other local governing bodies. The deposits are taken either for fixed terms or for current accounts. The fixed deposits include in the Balance Sheet the interest which has accrued on the deposits up to the date of the Balance Sheet. In this item are also included rebates on undue bills from the date of the Balance Sheet up to the maturity of the bills.

The Balance Sheet does not show separately the balance of the fixed deposits and the balance of the current deposits, but Quarterly Returns of the average liabilities and assets of the Bank have always shown the figure of the latter item much bigger than that of the former. The comparison between the average figures of the two items for the second quarters

of the last five years is as follows:—

| Quarter Ended 30th June. | Bearing Interest. | Not Bearing Interest | Total Deposits. |
|-----------------------------|----------------------|-------------------------|--------------------|
| 1923..... | 14,658,671 | 17,718,999 | 32,377,670 |
| 1924..... | 6,899,902 | 23,004,674 | 29,904,576 |
| 1925..... | 7,828,650 | 23,381,481 | 31,210,131 |
| 1926 | 7,103,349 | 23,350,534 | 30,453,883 |
| 1927..... | 8,216,103 | 20,435,503 | 28,651,606 |
| 1927 (Dec.)... | 9,443,038 | 16,260,156 | 25,703,194 |

1923-1926:— Official Year Book No. 20, p. 407.

1927:— Insurance and Banking Record, July, 1927, p. 596
& Feb., 1928, p. 148.

(5) Bills Payable and Other Liabilities.....£ 6,105,746. 9. 0.

To this amount the Bills payable contributes only a very small portion, a great portion of the amount representing the "Balance due to Other Banks," which is included in "Other Liabilities" in the Balance Sheet. In 1925, trading banks placed their accounts with the Commonwealth Bank, and since that year the figure of this item in the Balance Sheet has shown a very great increase.

The quarterly average of the Bills Payable and the Balances due to Other Banks for the last five years is as follows:—

| Average for the Quarter Ended 30th June. | Bills Payable. | Balances due to Other Banks. |
|---|-------------------|---------------------------------|
| 1923 | 204,576 | 29,849 |
| 1924 | 212,362 | 29,061 |
| 1925 | 265,936 | 3,940,022 |
| 1926 | 355,240 | 6,045,894 |
| 1927 | 258,606 | 7,306,854 |

| Average for the Quarter Ended 30th June. | Bills Payable. | Balances due to Other Banks. |
|--|----------------|------------------------------|
| 1927 (Dec.) | 527,609 | 10,606,769 |

1923-1926 :—Official Year Book, No. 20, p. 407.
1927 ;—Insurance and Banking Record, July 1927, p. 596
& Feb. 1928, p. 148.

(6) Savings Bank Department :—

Depositors' Balance with Interest Accrued...£ 47,144,011. 12. 9.

About a half of this amount represents the deposits in the State of Queensland, where the savings bank business has been monopolised by the Commonwealth Bank since 1920 (see Sec. 2, Chapter II.) The following table shows the amount for each State for the quarter ended 31st December, 1927 :—

| State. | Average for the Quarter Ended June 30th, 1927. |
|--------------------------|--|
| New South Wales | 10,625,652 |
| Victoria | 5,857,362 |
| Queensland | 22,716,005 |
| South Australia | 2,439,618 |
| Western Australia | 2,766,709 |
| Tasmania..... | 1,570,189 |
| Northern Territory | 70,187 |
| Papua & New Guinea | 95,191 |
| | £ 46,140,913 |

Insurance and Banking Record, Feb. 1918, pp. 126 & 148.

(7) Contingent Liabilities :—

Outstanding Credits per Contra £ 473,923. 18. 2.

This item represents contingent liabilities incurred by the Bank under Letters of Credit, which have been issued to the

customers of the Bank. On the assets' side an item for a similar amount appears.

(8) Coin, Bullion and Cash Balances.....£ 1,230,215. 0. 0.

Quarterly Returns show the average figures of the coin and bullion held by the Bank for the last five years as follows :—

| Average for the Quarter Ended 30th June. | Coin. | Bullion. |
|--|-----------|----------|
| 1923..... | 2,637,450 | 9,397 |
| 1924..... | 2,100,874 | 6,683 |
| 1925..... | 4,675,665 | 2,251 |
| 1926..... | 6,016,703 | 945 |
| 1927..... | 1,141,600 | 11,210 |
| 1927 (Dec.) | 824,098 | 77,395 |

1923-1926 :—Official Year Book No. 20, p. 408.
1927 :—Insurance & Banking Record, July, 1927 p. 596
& Feb., 1928 p. 148.

Separate figures of Cash Balances are not obtainable, as the item under the heading of "Balances due from Other Banks" in the quarterly returns may include not only the cash at banks, but also the balances of loans to and overdrawn account of other banks, etc.

(9) Australian Notes.....£ 3,577,490. 0. 0.

Usually, the months of May and June are the period of largest holding of notes by the Commonwealth Bank, because it is the period of Commonwealth income tax payment. These notes flow out to the public during November, and December, and this shows the large spending by the public during the Christmas and New Year seasons. Following is the Australian Notes held by the Commonwealth Bank, average for each

quarter and on the last day of the quarter:—

| | Average. | End of Quarter. |
|------------------|------------|-----------------|
| Dec., 1924 | 9,548,396 | 5,350,032 |
| March, 1925..... | 9,252,488 | 12,091,445 |
| June, „ | 14,000,586 | 13,443,329 |
| Sept., „ | 12,852,076 | 10,976,738 |
| Dec., „ | 8,847,851 | 4,548,048 |
| March, 1926..... | 7,527,681 | 10,570,419 |
| June, „ | 12,119,139 | 12,314,356 |
| Sept., „ | 9,634,203 | 7,822,952 |
| Dec., „ | 7,153,802 | 3,941,126 |
| March, 1927..... | 5,910,329 | 6,549,382 |
| June, „ | 7,092,715 | 7,150,549 |
| Sept., „ | 7,639,093 | 6,920,668 |
| Dec., „ | 5,994,920 | 3,577,490 |

Insurance & Banking Record, Dec., 1927, p. 1053, Feb., 1928, p. 148.

(10) Money at Short Call in London..... £ 10,110,000. 0. 0.

This amount represents a portion of the cash balance held by the London Branch of the Commonwealth Bank, loaned out on the London Money Market at short call.

(11) Investment:—

British, Colonial and Government Securities

£ 42,621,499. 3. 11.

Commonwealth Government Securities. £ 10,493,044. 18. 5.

The greater portion of these amounts represents the investment made by the Savings Bank Department. Of the Savings Bank Department deposits, about 85 per cent. have been invested in securities of Commonwealth and State Governments and local governing bodies, and cash representing 12 to

13 per cent., practically nothing has been invested in other securities.

(12) Fixed Deposits of Other Banks.....£ 2,149,000. 0. 0.

This item represents the fixed deposits made in other banks by the Commonwealth Bank, and is most probably a portion of the funds of the Savings Bank Department. In the Quarterly Returns, this item is included under the heading of “Notes and Bills of Other Banks.”

(13) Bills Receivable in London and Remittances in Transit.

£ 4,263,836. 17. 0.

This item represents a portion of export bills drawn by customers and discounted by the Bank. The bills are in transit to London, or are lying in London awaiting collection.

(14) Bills Discounted, Loans and Advances to Customers and Other Sums due to the Bank...£ 17,781,012. 7. 10.

Separate figures for each of Bills Discounted, Advances, Loans, etc. are not obtainable from any publication or report. As will be seen from the following quarterly average figures, although an Act was passed in 1924 to “fix and publish from time to time the rate at which the Bank will discount and rediscount bills exchange,” there has since been no remarkable increase in the amount of this item.

| Quarter Ended 30th June. | Discounts, Overdrafts, and all other Assets. |
|-----------------------------|---|
| 1922 | 14,130,747 |
| 1923 | 14,035,767 |
| 1924 | 11,999,432 |
| 1925 | 11,950,338 |
| 1926 | 13,113,051 |

| Quarter Ended 30th June. | Discounts, Overdrafts, and all other Assets. |
|---|---|
| 1927 | 17,043,459 |
| 1927 (Dec.) (including short term loans.) | 21,621,802 |

Official Year Book No. 20, p. 408.
Insurance & Banking Record, July, 1927, p. 596
& Feb., 1928, p. 148.

2. Profit and Loss.

On the Cr. side of this statement are shown the net profits derived by the Banking Department, Rural Credits Department, and the Note Issue Department respectively, for the half-year ended 31st December, 1927. On the Dr. side, allocations of these profits are shown, that is to say, the profits of the Banking Department are divided equally between the Reserve Fund and the National Debt Sinking Fund; the profits of the Rural Credits Department is divided equally between the Reserve Fund and the Development Fund of the Rural Credits Department; and three-fourths* of the profits of the Note Issue Department is paid to the Commonwealth Treasury, the remaining one-fourth being put into the Rural Credits Department's Capital Account.

3. Reserve Fund.

For an explanation of this statement, refer to item (2) of the Aggregate Balance Sheet.

4. Note Issue Department.

For an explanation of this statement, the reader is referred to Sec. 5 of Chapter II (Establishment of Note Issue Department.)

(1) Gold Coin and Bullion £ 21,600,533. 16. 9.

The amount of gold reserve is legally not less than one-fourth of the total amount of the notes issued, but has actually

been 40 to 50 per cent.

(2) Debentures and Other Securities..... £ 28,061,524. 15. 7.

Particulars of this item for 31st December, 1927 are not available. But on 30th June, 1926, the particulars were as follows:—

Australian Notes Account.—Particulars of Investments
as at June 30th, 1926.

| Investment. | Amount. | |
|-------------------------------------|-----------|--------------|
| | £ | £ |
| Commonwealth Government Securities | 1,505,750 | |
| | 63,640 | |
| | 1,000,000 | |
| | 244,140 | |
| | 3,014,716 | 5,828,246 |
| New South Wales Securities..... | 5,400,000 | 5,400,000 |
| Victorian Securities..... | 49,000 | |
| | 2,400,000 | |
| | 583,000 | 3,032,000 |
| Queensland Securities | 1,490,000 | 1,490,000 |
| South Australian Securities | 1,600,000 | |
| | 326,000 | |
| | | 1,926,000 |
| Western Australian Securities | 590,000 | |
| | 2,100,000 | |
| | 335,000 | |
| | | 3,025,000 |
| Tasmanian Securities | 50,000 | |
| | 500,000 | |
| | 402,000 | |
| | | 952,000 |
| United Kingdom Securities | 247,449 | |
| | 247,420 | |
| | | 494,869 |
| Total..... | | £ 22,148,115 |

(Official Year Book, No. 20, p. 402.)

(3) Other Assets..... £ 2,171,147. 17. 8.

For particulars of this item, there is no publication available. But, according to the "Annual Report of the Commonwealth Auditor General, 1922—1923," a similar item amounting to £ 2,391,689. 10. 0 on the 30th June, 1923, was composed of:—

Advances to Banks and Mints £ 1,887,698. 10. 0.

Amount due by the Commonwealth Bank. 503,991. 0. 0.

Any later report of the Commonwealth Auditor General does not show these particulars.

CHAPTER IV.

COMMONWEALTH BANK, AS A CENTRAL BANK.

In the Commonwealth Bank Act of 1924, it was laid down, inter alia, that the old Notes Board should be abolished, the issue to be placed under the control of the new directorate. It was also laid down that the Bank have the right to issue notes in exchange for money or securities lodged in London; that the Bank fix and publish discount rates; that clearing house transactions be settled by cheque through the Commonwealth Bank. The aim of this Act was to give additional powers and machinery to the Commonwealth Bank, whereby it might function as a central bank. It will be necessary here to survey how far the existing Act is carried out, and to comment briefly on the aspect of the Commonwealth Bank as a central bank.

1. Management of the Commonwealth Bank.

Up to the year 1920, the Bank did not have the necessary

authority to issue notes, but in an Act passed in that year, the management of the Australian note issue was transferred to a Note Issue Department of the Commonwealth, the Department to be controlled by a newly-established Notes Board. This was really a first step in the direction of making the Commonwealth Bank a central bank. However, as the authority of the Notes Board was limited to the Note issue Department, and had no voice in the management of the ordinary business of the Bank, which was then solely managed by its Governor, the banking policy and the issuing policy could not be fully responsive to each other, and so the regulation and control of the note issue to the needs of commerce and industry was found to be highly unsatisfactory.

Consequently, in the Act of 1924, the control of both the Note Issue Department and the Banking Department was placed under one directorate, composed of the Governor of the Bank, the Secretary to the Treasury, and six others, who "are or have been actively engaged in agriculture, commerce, finance or industry." While these Directors are all Government nominees, still they are chosen from a wide field and would, to some measure, represent private and public interests in the management of the Bank, though not by any means to such an extent as do the directorates of central banks in other countries, which are elected from the shareholders. The Act further provides that, the decision of the Board which affects the Note Issue Department is not 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. In other cases, four Directors form a quorum at meetings of the Board.

2. Rediscount Policy.

The rediscount of commercial papers presented by commercial banks is a very important function of a central bank, because only through it, control and regulation of note issue and control of the monetary market could be possible. Further from the ordinary banks' standpoint, the possibility of rediscounting commercial paper makes it a highly liquid asset in their hands. The scheme of rediscounting trade bills at the Commonwealth Bank had already taken shape in 1920, by giving authority to the Note Issue Department to issue notes against Trade Bills with a currency of not more than 120 days, which procedure could be accomplished by the Banking Department rediscounting such bills presented by other banks. Further, in the Act of 1924, it was laid down that "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 or rediscount bills of exchange." The object of this provision was, of course, to enable the ordinary banks to obtain from the Commonwealth Bank, any temporary accommodation required, and the Act contemplated that the most convenient method of securing such accommodation would be turning over to the Bank, bills for discount or rediscount. As it appears, however, the Commonwealth Bank itself has not considered it necessary to assume such function. At least it did not consider so up to May, 1926. ("Bank Notes," Journal of the Commonwealth Bank, May, 1926.)

Anyhow, the bill market has not been developed in Australia as in other countries, the ordinary form of accommodation being the overdraft. Opinion inclines to the belief that it would probably take time before the rediscounting of bills

comes into vogue in Australia. (F. C. Benham & R. C. Mills' "Money, Banking, and Foreign Exchange," p. 163)

3. Trade Balance and Note Issue.

The provision of issuing notes against the deposit of gold or securities in London, was made to meet the financial stringency which had existed in 1924, when the Australian banks had large balances in London. The arrangement was that the Commonwealth Bank was to give the notes to the ordinary banks in exchange for money in London, and vice versa, at fixed rates. For instance, it was understood that the Commonwealth Bank would give £99/15/- in notes for £100 in London, and was prepared, on the other hand, to give £100 in London in exchange for £100 in notes. The Commonwealth Bank carried through a number of transactions under this provision. ("Bank Notes" Commonwealth Bank Journal, May, 1926.)

Such arrangement is important in that, when the trading banks, because of heavy exports, are selling sterling to the Commonwealth Bank in exchange for Australian notes, the note issue expands, and when, on the other hand, because of heavy imports, they hand over Australian notes to the Commonwealth Bank in exchange for sterling, the note issue contracts, thus always safeguarding requirements for overseas trade.

Under such arrangement, it naturally follows that the Commonwealth Bank must keep a large balance in London in order to meet all possible demands from the trading banks for sterling, and if the balance held in London by the Commonwealth Bank is not sufficient for the purpose it must provide funds. It is really in this direction that the value

of the Commonwealth Bank as a central bank lies, but it is not certain to what extent such arrangement is now being carried on.

4. Clearing House Settlement.

As elsewhere stated, early in 1925, the trading banks, in compliance with the 1924 Act, opened current accounts with the Commonwealth Bank at the various centres for the purpose of settling their clearing house exchange. Up to that time, the trading banks were holders of a considerably large amount of Australian notes, and the daily exchange settlements were effected through the passing of £ 1000 notes.

It should be remembered, however, that these banks still continue to be the holders of gold coins and bullion of a considerably large amount. In this respect, it may be said that the "Central Reserve System," which is a feature of the modern central banking, has not yet been realised in Australian banking. The ideal would be that the Commonwealth Bank become an absolute custodian of all the gold reserve of Australia, as well as a central reservoir of cash.

5. Future of the Commonwealth Bank.

It will be seen from the foregoing statements that although the Commonwealth Bank is theoretically a central bank, yet it is not practically so. It is a bank of issue, but, in many other respects, it is not functioning as a central bank. Indeed, the manifold nature of the business of the Bank is unique in the world, and it is really in this aspect that the weakness of the Bank as a central bank lies. As a trading bank it has competed (though not aggressively) with other banks, rather than dominated them. As a savings bank and as a rural bank its business is bound up with housing and land settlement

schemes, and its assets tend to be frozen up in long dated investments of an extremely fluctuating nature. However, the Comptroller of the Bank of England, Sir Ernest Harvey's visit to Australia to investigate and advise on the policy and practice of the Commonwealth Bank last year, appears to have led to some reformations in the system of the Commonwealth Bank. The Act of December last, providing for the separation of the Savings Bank business from the Banking Department, rendering the former an independent bank, will be an important legislation in the direction of making it a real central bank. As the history of the Commonwealth Bank amply proves, it has always strived to assume the position of a central bank, and is still going to that goal. It is almost certain, then, that in the long run the Commonwealth Bank will find itself as a real central bank of Australia, truly a Bankers' Bank, a Bank of Issue, Deposit, Discount, Exchange and Reserve.

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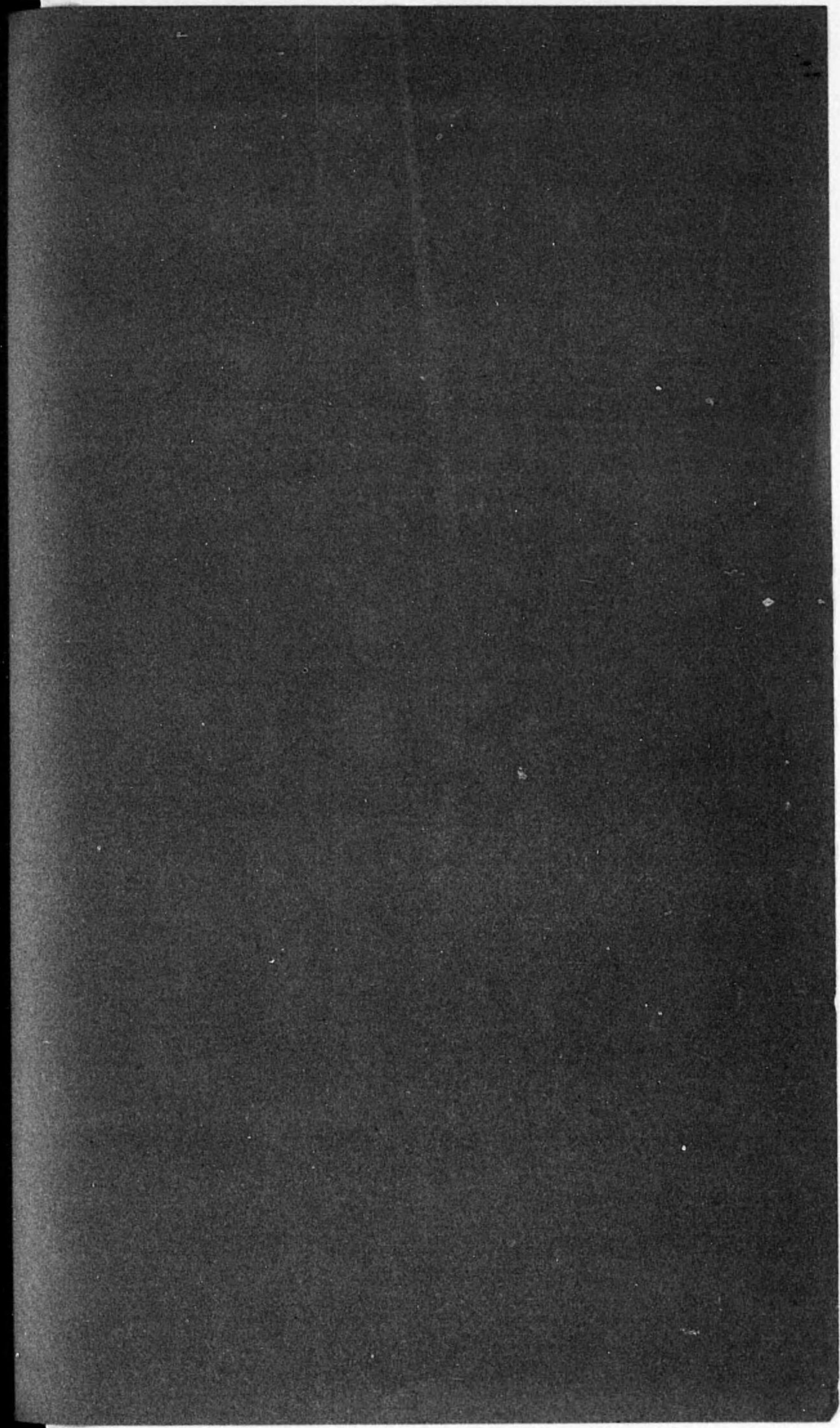
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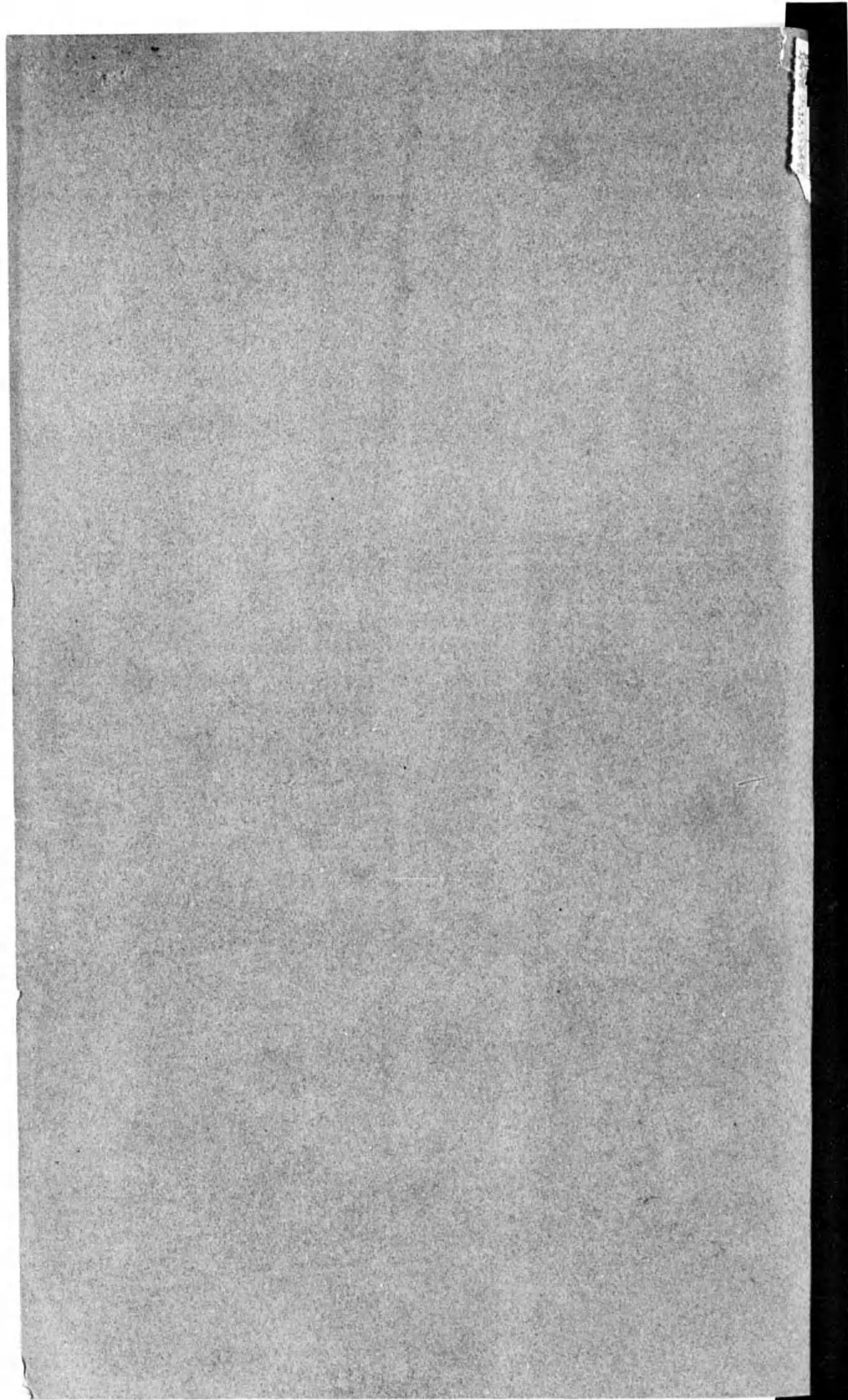
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