BOOK III—THE ECONOMIC ASPECTS OF THE WAR

CHAPTER XIII—FINANCE

The financial year which ended on the 30th of June, 1914, found the Commonwealth Treasury with a deficiency of £1,418,958, the revenue for the year having been £21,741,775, and the expenditure £23,160,733. Mr. Fisher's estimates for 1914-15 anticipated a deficit of £13,088,314; the estimated revenue was £24,495,401, and the estimated expenditure £37,583,715. The latter sum included £11,742,050, which was expected to be Australia's expenditure on the war during the year. But the actual revenue for 1914-15 was £22,419,798, and the actual expenditure £40,269,702, the actual deficit being therefore £17,849,904, or £4,761,590 in excess of the estimate. The actual war expenditure for the year was £15,111,335, being £3,369,285 in excess of the estimate.

The revenue and expenditure of the six States of Australia for the year ended 30th June, 1914, were as follows:

<table>
<thead>
<tr>
<th>State</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Surplus/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>£18,298,625</td>
<td>£17,701,851</td>
<td>surplus £596,774</td>
</tr>
<tr>
<td>Victoria</td>
<td>£10,730,961</td>
<td>£10,717,642</td>
<td>surplus 13,319</td>
</tr>
<tr>
<td>Queensland</td>
<td>£6,973,259</td>
<td>£6,962,516</td>
<td>surplus 10,743</td>
</tr>
<tr>
<td>South Australia</td>
<td>£4,822,766</td>
<td>£4,604,130</td>
<td>surplus 218,636</td>
</tr>
<tr>
<td>Western Australia</td>
<td>£5,205,343</td>
<td>£5,340,754</td>
<td>deficit 135,411</td>
</tr>
<tr>
<td>Tasmania</td>
<td>£1,238,085</td>
<td>£1,235,014</td>
<td>surplus 3,071</td>
</tr>
</tbody>
</table>

Mr. Fisher had cherished the hope that the Commonwealth would be able to finance its war obligations during the financial year from revenue, but found that this was too difficult. The States required money for public works, and, though there was no obligation upon the Commonwealth to finance State enterprises, it was considered desirable to assist them. It was not therefore for war purposes, but to obtain money for the States, that the Commonwealth Government made its first appeal to the British Government for a loan. "It was with great reluctance," Mr. Fisher acknowledged,

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2 The expenditure included £14,471,118 of loan money spent upon war services and £2,154,439 loan money spent upon works.
3 Commonwealth Year Book, 1916, pp. 746, 752.
"that I gave up the cherished hope of financing our war forces on sea and land, in the Pacific and in Europe, during this financial year, from revenue, but that wish had to be sacrificed in order that we might be enabled to render needed financial help to the States." He made enquiries in London as to the possibility of raising a loan on the money market, but the terms quoted were not acceptable. He then applied to the British Government for a loan of £18,000,000, and told Parliament that "it cheerfully assented"; but, as will appear from what follows, the cheerfulness was not manifested in willingness to lend for State public works, but on account of a desire to help the Commonwealth to finance war services. Mr. Higgs, who succeeded Mr. Fisher at the Treasury, in his budget speech of 9th May, 1916, said that the capacity of Australia for raising war loans was unknown, but the Government believed "that the time has arrived when Australia should at least furnish the money to pay her own share of war expenditure, if not indeed to lend money to the Imperial Government." The exuberant optimism of that sentiment was not supported by the facts of the time, nor of any time during the period of the war.

Although receipts from customs remained unexpectedly steady, the task of meeting even a fraction of war expenditure from revenue was almost at the outset found to necessitate additional taxation. Since the federation of Australia the chief source of revenue of the Federal Government had always been customs and excise, from which, however, the Government had to return a considerable proportion to the States. Income tax and death duties had so far been imposed only by the States, and the Commonwealth's power of direct taxation had so far been employed only in the levying, since 1910-11, of a land tax. In the first year of the war, however, Mr. Fisher not only increased the land tax by altering its graduation, but imposed succession duties on all estates of more than £1,000 net value. In 1915-16 the Commonwealth first entered the field of income taxation, imposing a levy which was, on the

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4 Parliamentary Debates, LXXV, p 1341
5 Ibid., 1340.
6 Ibid., LXXIX, 7710
7 Fixed in 1910 at 25s., per head of population, with certain allowances for the less populous States. In 1913 this amounted to roughly two-fifths of the total receipts.
whole, more stringent than those of the States, and which returned, as estimated, some £4,000,000 in its first year. In 1916-17 an entertainment tax was added, and in 1917-18 Sir John Forrest brought in a War-time Profits tax⁸ and increased the income tax of bachelors and widowers who had not enlisted for active service. This last was not levied and was repealed next year. In 1918 Mr. Watt increased the rate of postage by a half-penny. This was credited with a return of £463,317 in 1918-19, and £745,962 in 1919-20. Of the other taxes here mentioned, the yield during the war was:

<table>
<thead>
<tr>
<th>Succession</th>
<th>Income</th>
<th>Entertainment</th>
<th>War-time Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914-15</td>
<td>£39,646</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1915-16</td>
<td>£626,215</td>
<td>£3,932,775</td>
<td></td>
</tr>
<tr>
<td>1916-17</td>
<td>£1,062,168</td>
<td>£5,621,950</td>
<td>£110,683</td>
</tr>
<tr>
<td>1917-18</td>
<td>£947,232</td>
<td>£7,385,514</td>
<td>£245,898</td>
</tr>
<tr>
<td>1918-19</td>
<td>£923,908</td>
<td>£10,376,456</td>
<td>£358,126</td>
</tr>
</tbody>
</table>

The assessment for the War-time Profits tax ceased at the 30th of June, 1919, but delayed collections continued for several years, as follows: 1919-20, £2,569,013; 1920-21, £2,083,139; 1921-22, £1,306,709.

The total revenue of the Federal Government during the war (exclusive of the portion received for and paid to the States under the subsidy arrangement), and the portion of war service expenditure met from it, was—

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Expenditure on War Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>1914-15</td>
<td>16,056,023</td>
</tr>
<tr>
<td>1915-16</td>
<td>24,415,221</td>
</tr>
<tr>
<td>1916-17</td>
<td>27,692,015</td>
</tr>
<tr>
<td>1917-18</td>
<td>29,986,973</td>
</tr>
<tr>
<td>1918-19</td>
<td>37,416,044</td>
</tr>
</tbody>
</table>

Throughout the war the expenditure of the Commonwealth and the States, on other than war requirements, exceeded anything previously known in Australian public finance. In contrast to the position of the Commonwealth, the States had no direct financial war obligations, and they would have made the task of financing the war easier if they had been able to

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⁸ The tax was on the amount by which the profit in the war years from 1915 onwards exceeded the average profits of certain years, or exceeded 10 per cent. The rate of tax for 1915-16 was 50 per cent.; for subsequent years 75 per cent.
38. Hon R B Orchard, Minister for Recruiting, drawing a ballot for voluntary enlistment, in Martin Place, Sydney, October 1918

Photo by "The Sydney Mail"
reduce their expenditure, or even keep it within limits not exceeded by their requirements in 1913-14. But no State government showed any resolute tendency to economise. Consequently, both ordinary expenditure and the weight of indebtedness through loans were augmented. The following table gives the revenue and expenditure of the States for the years 1915-20:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1914-15</td>
<td>£18,928,551</td>
<td>£10,529,017</td>
<td>£7,202,658</td>
<td>£3,973,310</td>
<td>£5,140,725</td>
<td>£1,244,995</td>
</tr>
<tr>
<td></td>
<td>17,935,748</td>
<td>11,706,968</td>
<td>7,199,399</td>
<td>4,662,395</td>
<td>5,706,542</td>
<td>1,384,159</td>
</tr>
<tr>
<td></td>
<td>992,803</td>
<td>1,177,951</td>
<td>3,259</td>
<td>689,085</td>
<td>565,817</td>
<td>149,055</td>
</tr>
<tr>
<td>1915-16</td>
<td>£19,629,442</td>
<td>£11,470,875</td>
<td>£7,706,365</td>
<td>£4,356,967</td>
<td>£5,356,978</td>
<td>£1,376,493</td>
</tr>
<tr>
<td></td>
<td>18,931,814</td>
<td>11,683,303</td>
<td>7,671,573</td>
<td>4,741,377</td>
<td>5,705,201</td>
<td>1,340,711</td>
</tr>
<tr>
<td></td>
<td>697,628</td>
<td>212,488</td>
<td>34,792</td>
<td>384,410</td>
<td>348,223</td>
<td>35,782</td>
</tr>
<tr>
<td>1916-17</td>
<td>£20,537,835</td>
<td>£11,813,879</td>
<td>£8,880,893</td>
<td>£4,874,603</td>
<td>£4,577,007</td>
<td>£1,369,368</td>
</tr>
<tr>
<td></td>
<td>20,806,633</td>
<td>11,795,295</td>
<td>8,134,387</td>
<td>5,190,453</td>
<td>5,276,764</td>
<td>1,412,893</td>
</tr>
<tr>
<td></td>
<td>-268,798</td>
<td>18,584</td>
<td>-233,494</td>
<td>-315,850</td>
<td>-699,757</td>
<td>-43,525</td>
</tr>
<tr>
<td>1917-18</td>
<td>£21,577,229</td>
<td>£12,672,787</td>
<td>£8,491,482</td>
<td>£5,526,226</td>
<td>£4,622,536</td>
<td>£1,503,047</td>
</tr>
<tr>
<td></td>
<td>21,553,405</td>
<td>12,631,169</td>
<td>8,900,934</td>
<td>5,500,419</td>
<td>5,328,279</td>
<td>1,459,748</td>
</tr>
<tr>
<td></td>
<td>23,824</td>
<td>41,618</td>
<td>-409,452</td>
<td>25,807</td>
<td>-705,743</td>
<td>43,299</td>
</tr>
<tr>
<td>1918-19</td>
<td>£23,448,166</td>
<td>£13,044,088</td>
<td>£9,415,543</td>
<td>£5,798,313</td>
<td>£4,944,850</td>
<td>£1,581,984</td>
</tr>
<tr>
<td></td>
<td>23,233,398</td>
<td>13,023,407</td>
<td>9,587,532</td>
<td>5,876,811</td>
<td>5,596,864</td>
<td>1,644,512</td>
</tr>
<tr>
<td></td>
<td>214,768</td>
<td>20,681</td>
<td>-171,989</td>
<td>-78,498</td>
<td>-652,014</td>
<td>-62,528</td>
</tr>
<tr>
<td>1919-20</td>
<td>£28,650,496</td>
<td>£15,866,184</td>
<td>£11,293,743</td>
<td>£6,582,788</td>
<td>£5,863,501</td>
<td>£1,815,031</td>
</tr>
<tr>
<td></td>
<td>30,210,013</td>
<td>15,752,459</td>
<td>11,266,910</td>
<td>6,437,039</td>
<td>6,531,725</td>
<td>1,828,301</td>
</tr>
<tr>
<td></td>
<td>-1,559,517</td>
<td>113,725</td>
<td>26,833</td>
<td>125,749</td>
<td>-668,224</td>
<td>-13,270</td>
</tr>
</tbody>
</table>

These figures show that during six years of expanding revenue the expenditure of the States increased in a marked degree; so that, while New South Wales and Victoria had deficits in two years, Queensland in three, South Australia and Tasmania failed to make their budgets balance in four years, and Western Australia had a deficit every year.
II

Until heavy war expenditure made demands upon the financial resources of the Commonwealth which could not be met from revenue, the Federal Government had paid for public works without resort to the money market. Until 1911 there was no Commonwealth debt. But in that year the taking over from South Australia of the Northern Territory and of the railway from Port Augusta to Oodnadatta necessitated the taking over also of the debt upon these, amounting to more than £6,000,000. The requirements of the projected railway to Western Australia and of the Federal Capital Territory also made it expedient to raise a Commonwealth Loan Fund. Public borrowing was not, however, required for these purposes. The Treasury borrowed, first from the General Trust Fund and later from the maturing investments and profits of the Commonwealth Notes Fund, the Government paying 3½ per cent. for the money used. By the 30th of June, 1914, the Commonwealth debt had grown to £19,182,333.

The States had been large borrowers. Their public debts on 30th June, 1914, totalled £317,598,788. In all the States public works were in progress which their governments had expected to finance from loan money, and other works were projected for which they hoped to be able to provide in the same manner. The needs of the States and the certainty that the war would make severe demands upon the financial resources of the Commonwealth made it desirable that the seven governments should carefully examine the position soon after the war began. For this purpose the Cook Government conferred with the Premiers of the States in Melbourne during the 11th–14th of August, 1914. The Commonwealth Government was represented by Mr. Joseph Cook and Sir William Irvine. Mr. Fisher and Mr. Hughes were invited to be present as the chief members of the Federal Labour Party. Five of the State Premiers attended, namely, Sir

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9 £3,931,086 for the development of the Territory, and £2,273,937 for the railway.
10 In addition Senator Millen and Messrs. Glynn, W L. Baillieu, Hagelthorn, Groom, and Kelly attended at various times.
Alexander Peacock (Victoria), Mr. Holman (New South Wales), Mr. Denham (Queensland), Mr. Peake (South Australia), and Mr. Earle (Tasmania). The Western Australian Premier, Mr. Scaddan, was not able to reach Melbourne in time. The conference recognised the duty of the Commonwealth to concentrate its financial capacity upon immediate and prospective military demands, and the desirability of procuring for the States assistance to enable them to carry out their programmes of public works.

The ensuing general election caused a postponement of further consultation between the Commonwealth and the States upon financial questions; but soon after Mr. Fisher came into office (the 17th of September, 1914) the financial position gave him some uneasiness. "Finding the position unsatisfactory," he said, reviewing the occurrences in his budget speech, "I immediately invited Sir Alexander Peacock, as the available representative of the States, to meet me, and made him acquainted with the position, and made certain proposals, which I desired him to communicate to the Premiers of the States. I also communicated with the representatives of the associated banks here, with the same object in view. It was then obvious that the Commonwealth was not in a position to find the necessary money to finance the States, together with its own war and other expenditure, without resorting to the London money market."

But the London money market was not easy of access at that time. The British Exchequer offered strong objections to Australian loans being floated for public works purposes, though willing to assist in financing Australian war obligations. It was realised that the financial resources of Great Britain would be strained to meet the demands of the war. Hardly any money was being spent on other than war purposes by the Government in the United Kingdom, nor were municipal loans, even for very desirable purposes, favoured. With what justification, then, it was urged, could the Government consent to money being borrowed for the Australian States? Moreover, said Mr. Lloyd George to a State treasury officer

11 See also pp 27-30 12 Parliamentary Debates, LXXV, 1340
in London, "how can the Commonwealth Government expect to recruit by voluntary enlistment, if the States spend millions upon public works which will give profitable employment to thousands of men who ought to enlist?" Mr. Fisher knew that he would have a difficult task to induce the financial advisers of the British Government to relax. He approached them by a telegram on the 16th of October, 1914, in which he said:

After careful consideration of the financial position, the Commonwealth Government has come to the conclusion that the best course is to approach His Majesty's Government on behalf of the States. The States require, say, £20,000,000, for reproductive works, mostly railways and water works, during the next twelve months. The Commonwealth is acting with and for the States in the matter, and will guarantee a joint loan to be raised in London for all the States except Queensland, which does not require money at present. Commonwealth Government would be glad of the assistance and advice of His Majesty's Government in this matter. If £20,000,000 can be raised in London for the States, the Commonwealth will be able to raise in Australia sufficient funds for all its requirements during this financial year, including full cost here and abroad of expeditionary force. Would be glad to learn your views as soon as convenient, and if His Majesty's Government is willing to assist, would be pleased to know in what form such assistance would be rendered.

The Secretary of State replied (October 22nd):

His Majesty's Government most earnestly trust that your ministers will not press for £20,000,000 loan for reproductive works. All such works have had to be reduced and controlled here. The financial situation here is not for the present serious, but the war expenditure is enormous, and we shall soon feel the strain if the war lasts, as it possibly will, from one to two years. The expenses and liabilities to the Allies and other dominions for purely war expenditure are even now becoming very pressing. Of course we should be prepared to help Australia for special expenditure for war purposes.

The reply (October 23rd) was:

Commonwealth Government thanks the British Government for interest shown in proposal submitted to Chancellor of the Exchequer for advice and assistance in connection with raising loan of £20,000,000 in London in behalf of States of New South Wales, Victoria, South Australia, Western Australia, and Tasmania. Fearing the position may not have been fully understood, the following facts are submitted with request that they be carefully considered. Position of the Commonwealth in this matter is purely to arrange for and guarantee for the first time a joint loan for five States, and for their purposes only. The sums asked for are spread over the next twelve months as follows: New South Wales £8,500,000, Victoria £4,500,000, South
Australia £3,000,000, Western Australia £3,500,000, Tasmania £500,000; for which ten monthly loans of £2,000,000 each commencing 1st December would suffice. Suggest if British Government unfavourable to arrange this, they might agree to finance difference between the amounts we could borrow monthly on open market and above-mentioned sum of £2,000,000 monthly. Commonwealth Government have been proud to equip and transport troops to the theatre of war, and their great desire is to meet the cost out of their own resources. Inclusion of any Australian war expenditure in imperial loan at present would we fear cause great disappointment and frustrate laudable ambitions.

The British Government replied that it would be impossible to provide for the amount required in an imperial war loan, for the reasons stated; but no objection was offered to assisting the Commonwealth Government to raise money in London for war purposes. Mr. Fisher grasped at this opportunity with a modified proposal, in which he said (October 27th):

Realising that all loans raised by His Majesty's Government for the dominions shall be for war purposes only, Commonwealth would be glad if His Majesty's Government would include in imperial war loan £18,000,000 for Commonwealth war expenditure estimated for next twelve months. If approved would be glad if funds could be made available at rate of £1,500,000 per month or £4,500,000 per quarter.

The Secretary of State replied on the same day that "His Majesty's Government will be very happy include in their war loan . . . £18,000,000 required by Australia for war expenditure for next twelve months," and Mr. Fisher (October 28th) telegraphed "Thank you heartily." What happened, therefore, was that, though the British Government would not sanction borrowing in London for States' public works, they included in the war loan offered to the public in December £18,000,000 for the Commonwealth. On November 5th, at a conference with the State Premiers, Mr. Fisher agreed to lend them £18,000,000 for the carrying on of their public works, the Premiers on their side undertaking not to borrow further money, except for loan renewals, for a year. Queensland, having sufficient funds in hand, did not share in the loan.

In the second year of the war it became apparent that the financial strain upon Australia would be much more severe than was anticipated in 1914. The military forces raised by

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13 The first British war loan, Nov. 1914, was of £350,000,000. See F. L. McVey, The Financial History of Great Britain, 1914-18, p. 49.

14 In explaining this transaction to Parliament in his budget speech, 3 Dec., 1914, Mr. Fisher said: "After negotiations, it was agreed between the Commonwealth
the Commonwealth were larger than had been anticipated, and the call for men was still insistent. Consequently the cost of the war effort greatly exceeded all estimates. The response of the Australian public, when an appeal was made for a local war loan, was enthusiastic. In 1915 the Government obtained from Parliament authority to raise in Australia loans to the amount of £38,000,000, and, when the first issue of £5,000,000 at 4½ per cent. was placed upon the market towards the end of the year, it was subscribed to more than two and a half times the amount required, no less than £13,389,440 being offered by the investing public. But it became evident that, if the war lasted several years, and the cost to Australia continued to increase at the rate so far indicated, the Commonwealth Government would be compelled to borrow largely. In August, 1915, therefore, a high authority whose name carried weight in British financial circles made a discreet enquiry. Would it be possible, if deemed desirable, for Australia to participate in future British war loans for purely war purposes? The Lords Commissioners of the Treasury cautiously enquired whether it was meant that local loans might prove insufficient. It was explained in reply that in all probability the money that could be locally raised would be insufficient if, say, Australia despatched 200,000 men. The States were being lent £18,000,000 from the Notes Fund, and it was very desirable to keep them off the local money market, in order that all loan money should be confined to war purposes.15

and the States that the Commonwealth should act for the States and guarantee with them a loan of £20,000,000, to be raised in London. It was soon discovered that the state of the money market was so unsatisfactory that, although terms were quoted, I could not recommend them as acceptable. During further negotiations it became known that the British Government would lend the Commonwealth money to pay our war expenditure. It was the desire of this Government that we should not borrow for war expenditure during this financial year, but yielding to the pressure of the situation, and with a view to strengthening the financial position of Australia generally, I requested the British Government to include in their war loan £18,000,000 for the Commonwealth, and it cheerfully assented.... Associated with that transaction was an agreement made with the associated banks whereby they should give to the Commonwealth £10,000,000 in gold for Australian notes. In undertaking this financial transaction, I impressed upon the banks' representatives that, as Treasurer, I should require their assistance, and they, recognising the national emergency, cheerfully agreed to render the Government every possible aid in their power. It should be clearly understood that the £10,000,000 advanced by the banks will be redeemed at the close of the war. These arrangements made it possible for the Commonwealth to make available to the States, at a low rate of interest, having regard to the state of the money market, a sum equal to the amount the Commonwealth Government itself had borrowed from the British Government.16

15 See Mr. Fisher's ministerial statement, Parliamentary Debates. LXXVI. 2304.
The question of financial relations with the dominions had already been engaging the attention of the British Treasury, since Australia was not the only dominion which made enquiries as to the possibility of raising money in London. Conferences took place in March, 1915, between British Treasury officials and representatives of the dominions with a view of determining lines of financial policy. The dominions were requested to formulate their requirements up to the end of 1915 under three headings: (a) war expenditure; (b) money required for renewing obligations, i.e., converting current loans; and (c) money required for new works and other services. The Chancellor of the Exchequer was most emphatic on the point that it was essential that expenditure on works and other services, so far as these were dependent upon loans, should be cut down to the absolute minimum. Great Britain herself had been compelled to adopt this policy, and the dominions, with their component states, must do the same. He suggested that expenditure on works should be confined to those already contracted for and actually under construction. The British Treasury agreed to finance the dominions to the amount required for war expenditure, on terms on which the British Government itself raised money for the prosecution of the war; and the amounts which were to be lent during 1915 were fixed as follows: Canada £18,000,000; Australia, £6,500,000; New Zealand, £7,000,000; South Africa, £9,000,000.

As to expenditure not falling within the category of war costs, it was agreed that the dominions should be permitted to borrow in the open market such sums as they could satisfy the Treasury were required to complete works under construction. The Treasury reserved the right to scrutinise all applications. It was also agreed that there was no objection to the dominions borrowing for the renewal of existing loans falling due. But the Chancellor of the Exchequer stated positively that permission would not be given to borrow for new works or extensions.

The firmness of the Chancellor's statement was prompted by the magnitude of the Australian requirements for 1915
They amounted to no less than £51,528,000, made up of the following items:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth war loan</td>
<td>£6,500,000</td>
</tr>
<tr>
<td>balance of 1914 loan</td>
<td>£12,000,000</td>
</tr>
<tr>
<td>for works</td>
<td>£3,500,000</td>
</tr>
<tr>
<td>for extensions</td>
<td>£5,000,000</td>
</tr>
<tr>
<td>New South Wales, renewals</td>
<td>£5,300,000</td>
</tr>
<tr>
<td>contracted or undertaken</td>
<td>£4,250,000</td>
</tr>
<tr>
<td>Victoria, works</td>
<td>£1,500,000</td>
</tr>
<tr>
<td>Queensland, renewals</td>
<td>£11,728,000</td>
</tr>
<tr>
<td>South Australia, works</td>
<td>£250,000</td>
</tr>
<tr>
<td>Western Australia, renewals</td>
<td>£780,000</td>
</tr>
<tr>
<td>for works</td>
<td>£220,000</td>
</tr>
<tr>
<td>for drought</td>
<td>£500,000</td>
</tr>
<tr>
<td></td>
<td>£24,528,000</td>
</tr>
<tr>
<td></td>
<td>£51,528,000</td>
</tr>
</tbody>
</table>

The Exchequer treated the Commonwealth and the Australian States on an equality in the application of the principle which had been laid down. Thus, while New South Wales, Victoria, and Queensland were permitted to go upon the London money market for loans for renewals and public works already undertaken, the Commonwealth was refused the £5,000,000 asked for extensions. Mr. Fisher thought it necessary to complain because the British Treasury, evidently basing its action on the constitutional position in the several dominions, treated Australia as consisting of seven independent borrowing authorities, while it treated Canada, New Zealand, and South Africa each as one. Mr. Fisher considered that this was not merely disadvantageous to the Commonwealth in respect to its war finance, but disastrous to Australian credit, because the competition of the six States made it more difficult for the Commonwealth Government to finance its war obligations. That government had undertaken responsibilities for the construction of the transcontinental railway, and for defence works. Yet, while the British Government had refused to sanction a loan for these purposes, it had permitted States
to go upon the money market for loans for public works already under construction. The Commonwealth Government had not objected to this discrimination, but Mr. Fisher thought that the time had come when for the protection of Australian credit there should be one borrower on the London market. He therefore suggested that during the war the British Government should treat only with the Commonwealth Government in monetary matters. To this suggestion the Secretary of State for the Colonies replied that a determination to treat only with the Commonwealth would raise important constitutional issues, involving the powers of the Australian State governments, on which it would be undesirable for the British Government to express an opinion.

The Commonwealth Government endeavoured to bring the six States into an agreement whereby all overseas public borrowing should be conducted through its agency. At a conference in the first week of November, 1915, five States agreed to this policy, but New South Wales refused to be a party to it. The agreement was made for two years, and applied only to overseas borrowing. The States were still at liberty to raise local loans, subject to the limitation that they were not to go upon the Australian money market until the requirements of the Commonwealth for money for war purposes had been satisfied.18

The States required £12,000,000 during the thirteen months from the beginning of December, 1915, to the end of 1916. In December they began to press the Commonwealth Government for advances, and their pressure was reported to be an embarrassment to the Commonwealth Treasury. Information to this effect again awakened the reluctance of the British financial advisers. There was no objection to lending the Commonwealth an additional £25,000,000 for war purposes, but the Secretary of State cabled that “in view of the present financial situation and outlook” the Exchequer felt that no lump sum could be agreed to without scrutiny of the purposes to which the money was to be applied. Meanwhile New South Wales had been allowed to raise a loan of £2,000,000 in London; and there was a not unnatural feeling, on the part

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18 The terms of the agreement of 6 Nov., 1915, were quoted by Mr. Poynton in his budget speech of 8 Oct., 1919. See Parliamentary Debates, XC, 13076.
of the Commonwealth and the five States which were parties to the agreement of November, that their claims were prejudiced, and that undue favour was shown to the one State which insisted on playing a lone hand. The Secretary of State for the Colonies, Mr. Bonar Law, was brought into the controversy. He went to the length of writing to the Treasury asking for a reconsideration of the Commonwealth's case. But, even in face of this influence, the Treasury expressed its repugnance to authorising the flotation of loans unless details were submitted. As the Lords of the Treasury said, they "could not agree to a globular total without regard to the specific purposes for which the money is required." They attached great importance to the principle that "during the war recourse must be had to the London money market only for loans for the purposes of (1) payment of maturing obligations, (2) actual commitments under contracts placed before the outbreak of the war, and (3) expenditure necessarily incurred in respect of works already in progress." These restrictions, it was again pointed out, had been imposed upon local authorities in the United Kingdom, and must be applied with even greater strictness in the future.

While the British Treasury felt obliged to restrict the amount of borrowing by Australia in London, it showed itself fully alive to the financial difficulties of the Commonwealth, and made suggestions for meeting them. The Chancellor of the Exchequer, Mr. McKenna, in a statement in the House of Commons (30th June, 1915), discouraged the investment of money in British war loans by residents in the dominions, reminding them that they could render greater service to the Empire by lending to their own governments, thereby reducing the calls which those governments were inclined to make upon the resources of the United Kingdom. At this time the Australian Government had not yet floated a local war loan. The Imperial Government was prompted to point to the existence overseas of considerable private funds which were not being invested for war purposes. On both financial and
patriotic grounds, these monies might readily be subscribed for local loans, if these were guaranteed by the Imperial Government. That government therefore (July, 1915) offered to guarantee principal and interest on local loans the proceeds of which were entirely devoted to war purposes. The Australian Government replied that it had already decided to raise such a loan. No advantage was taken of the offers to guarantee.

In 1917, when financial considerations were again urgent, the British Treasury suggested that immediate steps should be taken by the Commonwealth to raise money in the United States. It was understood that there were prospects of a favourable reception in New York for dominion issues for other than war expenditure. But, when asked whether the Treasury would act as agent for the Commonwealth in the American money market, the Secretary of State had to reply that that course was not favoured. American borrowing, however, was not considered by Commonwealth authorities to be desirable, partly because if the States found that they could raise money freely in New York they would not be inclined to curb unnecessary expenditure, and partly because, while the gain from easing the existing financial situation would be temporary, such action would tend to divert trade from British channels, and to that extent weaken the financial relations between Australia and Great Britain.

The objection of New South Wales to borrow only through the Commonwealth persisted till 1918. Mr. Holman, the New South Wales Premier, even then desired that his State should preserve its freedom of action. He said that he had discussed the matter several times with his colleagues, but "on each occasion we came invariably to the position that we should not join in." Unanimous agreement between Commonwealth and States was not reached until Mr. Watt became Commonwealth Treasurer. At a conference of Treasurers held in Melbourne in July, 1918, he strongly pressed for an agreement, pointing out that the State debts had already largely increased, and sharply commenting, "You cannot go on indefinitely increasing your indebtedness." Mr. Holman relaxed to the point of admitting that "if the war lasts all public works will have to cease," and Mr. Watt urged that it
should be proclaimed that "the ordinary services of the Commonwealth and States should increase no further in the aggregate during the war." When Sir Richard Butler, the South Australian Treasurer, stated that his State was only spending a million and a half during the next eighteen months, Mr. Watt asked, "What are you spending it on?" "Locking the Murray, draining in the south-east, water schemes, broadening railway gauges," replied Sir Richard. "Developmental operations should be arrested in war times," Mr. Watt insisted. Finally, by pressure combined with tactful handling, the Commonwealth Treasurer had his way, when Mr. Theodore, the Queensland Treasurer, moved and the conference carried the resolution, that, "in the unanimous opinion of the Treasurers at this Conference, the ordinary aggregate expenditure of all Commonwealth and State departments should not be further increased during the war."

But the war, though raging fiercely when this self-denying ordinance was passed, came to an end within a little more than three months, so that the virtuous intent had little time to make much difference to the total of State borrowings during the period when, if British example and precept had conduced to financial restraint, the resources of the Commonwealth in cash and credit would have been in large measure concentrated upon the supreme need. That disposition having been absent, the borrowings of the States between 1914 and 1920 were very large. The figures were:

<table>
<thead>
<tr>
<th>State Debits</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1914:</td>
</tr>
<tr>
<td>In 1920:</td>
</tr>
<tr>
<td>Total in 1914</td>
</tr>
<tr>
<td>Total increase</td>
</tr>
<tr>
<td>Total in 1920</td>
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**Notes:**


The Commonwealth would have had a stronger case in pressing the States to reduce to a minimum their expenditure on public works if it had been assiduous throughout the war period to reduce its own expenditure in similar directions. But an examination of the schedules of "additions, new works and buildings" attached to the estimates laid before Parliament in those years does not reveal an economical disposition. The formation of a separate Department of Works and Railways in 1916, and the consequent removal of responsibility for such works from the Department of Home Affairs, led to the presentation of the figures in a different manner, so that it is difficult to make an exact comparison between the expenditure in 1914 and 1920, as can be done in the case of the States; and a further difficulty occurs through part of the expenditure being borne from the consolidated revenue and part from loan money. But the Commonwealth works' expenditure was considerable throughout the war. That it was expenditure on works which were necessary, such as the construction of the Transcontinental Railway, can be maintained, but the States were entitled to say the same of theirs, which they were chided for incurring. The real seriousness of the war, its duration, the huge financial drain, with the shifts and expedients it would entail, were all under-estimated, alike by public men and by the people at large. It was freely said, and believed with infantile optimism, in the early months of the vast conflict, that the slogan of the Allies was "business as usual." Nothing was "as usual" in 1914-19, and the financial derangement was part of the terrific confusion of all things.

III

The cost of the war to Australia between 1914-15 and 1919-20 (including interest and sinking fund but not war gratuities) was £333,594,954 plus £43,398,098, i.e., £376,993,052. The first of these amounts was the actual expenditure of the Commonwealth on war services during the years mentioned, and that expenditure was met out of loan money to the extent of £262,507,829, and out of revenue to the extent of
£71,087,125 (including interest and sinking fund charges amounting to £46,469,102).\(^2\)

The smaller sum, £43,398,098, consisted of indebtedness to the Government of the United Kingdom for payments made, services rendered, and goods supplied to or on behalf of the Australian army during the war.\(^2\) But the total cost of the war is not comprehended within the expenditure to the end of the financial year 1919-20. Expenditure on repatriation and pensions was a direct consequence of the war, and that continued to be a very heavy drain upon the finances of the Commonwealth in later years. The total cost to 30th June, 1934, had reached the figure of £831,280,947, inclusive of war gratuities, interest and sinking fund.\(^2\)

The prodigious cost of modern warfare in comparison with previous wars, and the way in which that cost weighed upon a country like Australia, with a small population, may be illustrated from a few facts. The war of the Spanish Succession lasted eleven years, 1702-13, and its average yearly cost to England was something over £4,000,000.\(^2\) In 1815 Great Britain emerged victorious from the French revolutionary and Napoleonic wars, which had raged for nearly a quarter of a century. In 1792 her national debt had stood at £239,650,000; in 1815 it amounted to £861,000,000, the increase, £621,350,000, being due entirely to war expenditure.\(^2\)

The Crimean War lasted three years, 1854-56, and one of the soundest histories of the period relates that "the nation became less eager for military enterprise when it learnt from the lips of the Chancellor of the Exchequer that the war might be computed to have cost England in three years no less a sum than £77,588,000."\(^2\) In one year, 1918-19, the cost of war services to the Commonwealth of Australia was £80,802,181, substantially more than the expenditure of Great Britain upon three years of warfare in the Crimea, and more than the entire cost to her of the War of the Spanish Succession. The financial strain upon Australia may be judged from the facts that her population in 1914 numbered no more than 4,940,952,

\(^{21}\) From figures supplied by the Commonwealth Treasury.

\(^{22}\) See pp. 232-5.

\(^{23}\) Commonwealth Year Book, 1935, p. 476.


while the population of the British Isles when Great Britain entered upon the Crimean War was over 27,000,000.\textsuperscript{27}

Included in the total war expenditure of Australia was a sum of £27,504,193, paid in the form of war gratuities under the War Gratuity Acts, 1920. This measure, which was introduced by Mr. Hughes, provided for the payment of a gratuity to every soldier, sailor, or nurse who served with the Australian forces, and to certain reservists of the British Army and Navy, and the next-of-kin of soldiers who fell in the war. Mr. Hughes informed Parliament that the proposal had been brought under his notice by the Returned Sailors' and Soldiers' Imperial League, who pointed out that gratuities had been granted in other parts of the Empire. It is probable that, when the matter was first mooted, the gratuity was not expected by the majority of the then returning troops, who recognised that their remuneration had been more liberal than that of others, and most of whom, on discharge, received a round sum as deferred pay. The initiative, as a matter of fact, came from the Returned Sailors' and Soldiers' Imperial League of Australia,\textsuperscript{28} an organisation which, although then still in its early years, was to play a powerful part in Australian affairs during the next generation. The semi-official history of the League\textsuperscript{29} claims that the successful campaign for the war gratuity was "the most striking achievement of the League," and that verdict does not overstate the position. It was learned that war gratuities had been granted to soldiers in Great Britain, the United States, and some other countries; and although undeniably Australia had treated her soldiers liberally in the matter of pensions, war service homes, and land settlement, still, a gratuity would be a very welcome means of giving men a fresh start in life; and the League determined to use its influence to overcome the reluctance of the Commonwealth Government to increase its repatriation responsibilities.

The general election of 1919 gave to the executive of the League a favourable opportunity of pressing the question. Its

\textsuperscript{27} At the census of 1851, the population of the British Isles was 27,508,736. For purposes of exact comparison, allowance has to be made for the changes in the purchasing power of money.

\textsuperscript{28} Formed on 3 June, 1916.

\textsuperscript{29} The Returned Sailors' and Soldiers' Imperial League of Australia Its Origin, History, Achievements, and Ideals, by Dr. Loftus Hills.
members included supporters of both the Ministerial and the Labour parties, but they were united on the gratuity question, and their political influence at this time was too great to be ignored. According to its history, the League's officials "had received information . . . . that a committee had recommended that a gratuity could not be paid owing to the enormous cost." A campaign was therefore organised. Mr. Hughes's first cautious response was not quite satisfactory: "I am in favour of Australia treating her soldiers as generously as other countries have treated theirs"; but it might well be argued that Australia had already done that. The League insisted on the gratuity. "The sub-committee," records the chronicler of the League, "had in all eight interviews with the Prime Minister, and they were not, at times, run on the lines of a Sunday-school conversazione."

At length the gratuity was promised, not without restrained protest from some of those who had throughout the war been among the soldiers' staunchest supporters. The transaction had obviously been a bid for the soldier vote. The saving feature, according to The Argus, was the fact that the gratuity was not to be paid in cash. Mr. Hughes said that he was not Aaron—he could not make the rock gush by merely striking it. He undertook that payment should be made in non-negotiable bonds for about £25,000,000 immediately redeemable in necessitous cases, and acceptable in payment for houses, land, and other benefits under the repatriation scheme. The demand for cash payment continuing, Mr. Hughes later guaranteed that the whole of Australia's share in the reparations payable by Germany—estimated at "anything between £7,000,000 and £15,000,000"—should be earmarked for this purpose; if the reparations received on or before May, 1921, did not reach £10,000,000, the Government would make up the deficiency. Over and above this he subsequently arranged for the immediate cashing of £6,000,000 by the banks. Large numbers of employers agreed to cash the bonds of their employees. Insurance companies agreed to accept them in payment of premiums.

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80 In New Zealand a similar demand had been met by the Government bidding a gratuity of 1s. 6d. per day, on which Sir Joseph Ward bid 2s., another politician 2s. 6d., and the Labour party 4s. The New Zealand Government, however, on a party vote, carried its proposal of 1s. 6d.
40. THE SEVENTH WAR LOAN

A meeting in Martin Place, Sydney, 30th September, 1918

Lent by the Commonwealth Bank
41. Sir Denison Miller, first governor of the Commonwealth Bank of Australia (1912-23)

Photo by May Moore, Sydney
The gratuity was assessed at the rate of 1s. 6d. a day from time of embarkation to the date of the signing of peace, the 28th of June, 1919. The plan satisfied the executive of the League, who accepted the contention that the Commonwealth could not, in view of its commitments, agree to make immediate cash payments to so large an extent. But the opponents of the Government at the election, bidding for the soldiers' vote, undertook that, if returned to power, they would pay the gratuity in cash; and the election of 1919 was fought, if not on this cash or bond issue entirely, certainly with that issue kept prominently before the minds of the electors.

The Nationalist Government was, however, returned again, and the promises were redeemed by the passing of the War Gratuity Acts, 1920. The bonds issued in accordance with it were maturable in 1924, and bore interest at 5½ per cent. In necessitous cases payment was made in cash. The first gratuities were made available in June, 1920. The total amount paid to the 30th of June, 1934, was £27,504,193. In practice, the greater part of the bonds were converted into cash before many years had passed. Undoubtedly a certain part of the money furnished in this manner was wasted, how great or small a part can never be known. But much went into business or the furnishing of homes.

Seven war loans were floated by the Commonwealth Government within Australia during the currency of the war, and three peace loans, mainly for expenditure rising out of the war, were floated after the cessation of hostilities. The total amount subscribed to these loans was £250,172,440. It is a remarkable fact that the whole of the war loans were over-subscribed. The number of subscribers was no less remarkable. For the seventh loan, no fewer than 242,210 persons bought bonds and stock, justifying the comment of the Governor of the Commonwealth Bank, Denison Miller, that it was "a stupendous achievement for Australian patriotism."

"Some idea of the magnitude of this result," wrote the

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81 There was a different rate for men who enlisted for overseas service, but actually served only in Australia. A similar rule applied in the case of the Navy.

82 For the use of War Gratuity bonds in founding industries, see p. 855

publicity officer "can be gathered from the fact that at this particular period there were in Australia just a little more than 1,000,000 dwellings, which meant that practically one household in every four throughout the whole of the Commonwealth contributed, to the Loan, and it must be remembered, too, that many of those householders who did not subscribe to the Seventh War Loan were unable to do so because they were already heavily involved in connection with the previous issues."

Mr. Watt, while he held the office of Treasurer, announced (25th September, 1918) that it was the intention of the Government to introduce legislation compelling all persons to contribute to war loans in proportion to their means. It was within the knowledge of the Treasury, he stated, that there were many persons possessing ample means who had not subscribed, or whose subscriptions were not so large as might have been expected of them. "While relying, as in the past," said Mr. Watt, "upon the patriotic spirit of the people to furnish the major portion of our loan supplies voluntarily, it has been determined that in so far as subscriptions to any war loan fall short of the amount required, resort must be made to compulsion."

The War Loan Subscriptions Bill, the second reading of which was moved in the House of Representatives on 9th October, 1918, accordingly made provision for compelling every person to subscribe to any war loan a sum equal in any given year to six times his yearly average income tax paid during the previous three years. Mr. Watt was able to state in support of the measure that the principal financial institutions of the country approved of it. The bill was introduced on the eve of the flotation of the seventh war loan, when there was some anxiety as to whether the amount required would be subscribed. It was in the nature of a threatening gesture. On the one occasion when it was debated, strong objection was taken on the ground that it was harsh. But by that time the war was over; and whatever arguments could be advanced

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34 Faulkner, The Commonwealth Bank of Australia, p. 102 See the analysis of Commonwealth war and peace loans in the same volume, p. 157 The statement quoted is that of Capt. G. M. Dash.

35 Parliamentary Debates, LXXXVI, p. 6709 It had been suggested early in the war (by Mr. H. Gregory, M P., among others) that loans should be compulsory and the maximum interest 3 per cent.
in support of compulsion in the case of war loans, did not apply to loans in time of peace. The bill, therefore, was not proceeded with, even as far as taking a vote on the motion for the second reading. It was tactfully dropped.

In all probability it was the size of the sum, £40,000,000, required for the seventh war loan that, not unreasonably, suggested a doubt as to whether the flotation would be successful without some such stimulus; and it is also probable that a proportion of the very large number of 242,210 investors in this loan were influenced by the threat. But the loan was in fact over-subscribed, no less than £44,056,500 being offered; and success so eminent, coming after more than £144,000,000 had been subscribed for the six previous war loans, testified to the eager patriotism of the people, their confidence, and the financial resilience of the country. It also has to be remembered that “those relatively few citizens who did not contribute directly to any of the loans, had the subscribing done for them by banks, friendly societies, savings banks and insurance institutions, whose clients comprise more than two-thirds of the population of Australia.”

The floating of the war loans called for almost as much attention in the arousing of public interest and enthusiasm as went to the promotion of recruiting. The banks displayed large signs inviting the public to subscribe, and made advances to investors to enable them to do so; members of the stock exchanges circularised their clients; appeals were made by mid-day addresses in places frequented by large crowds of people; effective slogans were coined and given currency; attractive posters were printed; and various clever and effective devices were invented. An actual “tank,” imported from Great Britain for the purpose, lumbered along the streets of the principal cities, with wicked-looking guns protruding from its slate-coloured armour. Aeroplanes droned above the roofs, and suddenly a ‘plane would swoop and discharge a sackful of little printed leaflets commending the war loan, the paper flakes suggesting a snow storm. In Sydney a model ship-of-war was set up in Martin-place, manned and guarded by bluejackets, while the duty of subscribing to the seventh war loan was commended from her deck beneath a fluttering Union

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10 Faulkner, The Commonwealth Bank of Australia p 105
Jack. An effective “barometer” was erected in each of the capital cities, by means of which the public could see at a glance what proportion of the required £40,000,000 was expected to be raised in each State and how much had been subscribed up-to-date, while the hands of a large clock above the barometer told of the sum still to be raised, and appealed to the public to “Help move the hand.”

The officers of the Commonwealth Bank displayed remarkable organizing ability in promoting the loan, and it enjoyed throughout the hearty co-operation of the great trading banks and the government savings banks. The propaganda was not, perhaps, orthodox in its methods, judged by the dignified standards normally favoured by the financial fraternity, but the times were extraordinary, and the bankers moved with them. A surprising circumstance, considering the extent and nature of the propaganda, is that the loans were floated so cheaply. “The total flotation expenses of the ten loans amounted,” says the historian of the Bank, “to £705,747,” or about 5s. 7d. per cent. of the amount raised—a result directly due to the enthusiastic helpfulness that was general throughout the nation.

In addition to the regular war loans, war savings certificates were issued from 1917, while Sir John Forrest was Treasurer, and War Savings Committees were instituted in all States for organizing the purchase of them. They were issued in denominations as high as £1,000 and as low as £1, the intention being to encourage people who had only small sums to lend to the Government to use their savings for this purpose. The certificates bore interest at 5 per cent. As many as 1,065,739 were issued, to the amount of £7,369,753. War savings stamps realised £174,521.

Faulkner, pp. 105-6. Some of the figures shown in the Commonwealth Year Book differ from these, but not materially. The comparison made in that history between the usual cost of floating loans in London and the costs here cited, leaves out of account many factors (such as underwriting charges, stamp duty, discount, etc.) which render true comparison impossible. None of the war loans raised in Australia, or by the British Government in Great Britain, during the war was underwritten. A number of the British loans were, however, issued at a discount or, if issued at par, were repayable at £102, £103, or £105 according to date.

War savings certificates were issued at the rate of 12s., 13s., and 17s. 6d. per £1 of face value according to whether the duration of the security was 10, 5, or 3 years. The actual cash received from this source was £6,462,513 in 11s. 6d., representing, apparently, £7,369,753 in face value. In terms of the prospectus war savings stamps were convertible into certificates, and stamps to the value of some £160,000 were so dealt with.
The note issue was freely used by the Government to assist its financial operations. In June, 1914, the quantity of Australian notes in circulation was £9,573,738. In June, 1920, the notes in circulation amounted to £56,949,030. The maximum issue was reached in June, 1921, with a total of £58,228,070. But inasmuch as the export of gold was prohibited—except through the agency of the Gold Producers' Association, which was not formed till 1919—the gold reserve backing the note issue was maintained at a safe average. The following table shows the gold reserve and note issue in June of the years 1914-20, with percentages:

<table>
<thead>
<tr>
<th>Year</th>
<th>Note-issue</th>
<th>Gold Reserve</th>
<th>Percentage of Reserve to Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>£9,573,738</td>
<td>£4,106,767</td>
<td>42.90</td>
</tr>
<tr>
<td>1915</td>
<td>32,128,302</td>
<td>11,034,703</td>
<td>34.35</td>
</tr>
<tr>
<td>1916</td>
<td>41,090,546</td>
<td>16,112,943</td>
<td>36.12</td>
</tr>
<tr>
<td>1917</td>
<td>47,201,564</td>
<td>15,244,592</td>
<td>32.30</td>
</tr>
<tr>
<td>1918</td>
<td>52,535,959</td>
<td>17,059,754</td>
<td>33.61</td>
</tr>
<tr>
<td>1919</td>
<td>55,567,423</td>
<td>24,273,622</td>
<td>43.68</td>
</tr>
<tr>
<td>1920</td>
<td>56,949,030</td>
<td>23,658,092</td>
<td>41.54</td>
</tr>
</tbody>
</table>

"The embargo on the export of gold was the really vital factor in the situation." Australia being a gold-producing country, it was possible to hold freshly-produced gold in sufficient amount to make the issue of paper-money secure. The banks, also, in order to obtain from the Commonwealth Treasury the notes required for banking business, had to present gold in exchange. As the Commonwealth Treasurer in 1924, Dr. Earle Pageexplained in introducing in the House of Representatives the amending Commonwealth Bank Bill, "immediately upon the outbreak of war, the banks brought large sums of gold to the Treasury to be exchanged for equivalent sums in notes. Their action was quite voluntary, and the result of a natural desire to stock their numerous branches with the more convenient paper money. Thus began a strengthening of the gold reserves of the Treasury."
The rapid increase of the note issue from £9,600,000 to £57,000,000 was one of the causes of the rise in the price level in Australia during the war years, the rise being from 100 in 1913 to 247 in 1920.\textsuperscript{42}

Commonwealth notes had printed upon them the undertaking that the Treasurer would "pay the bearer" the specified amount in gold "on demand at the Commonwealth Treasury at the seat of Government," but in fact the obtaining of gold for notes was not so easy as the words seemed to imply. Nowhere else than at the Treasury in Melbourne could the demand be met, and if a person applied there the gold was not handed to him over the counter. He had to sustain an interview with one of the chief officials, who subjected him to an examination as to why he wanted gold, and what he wished to do with it. He was reminded that he was not allowed to take or send it out of the country, and that if he paid it into his bank he would, on wishing to withdraw any part of the amount, be paid back in notes. Besides, it was a patriotic duty to sustain the currency of Australia by accepting notes instead of gold; the notes were good for all purposes of trade, and the Treasury would not give him gold unless satisfied that there was a particular reason why it should.

Travellers were permitted to obtain small sums in gold, sufficient for the expenses of a voyage, and those who were fortunate enough to be able to procure, from any source, fairly large amounts were able to make substantial profits in foreign ports. Thus, in 1917, travellers who were so fortunate as to arrive at Colombo with sovereigns could there exchange each of them for British or Australian notes of the value of 30s. or more.\textsuperscript{44} But, except for a few instances of this kind, the Australian sovereign—till then the ordinary currency of the country—went out of employment during the war years, and a new generation arose which had never seen one of these golden coins, with the mintmark of Melbourne, Sydney, or Perth—a tiny "M," or "S," or "P," as the case

\textsuperscript{42} "Trade from 1914 to 1917 decreased, but currency increased, and this suggests, other things being equal, that the expansion of the currency was an important cause of rising prices." Copland, \textit{ob cit.}, p. 507.

\textsuperscript{44} \textit{Economic Record}, Feb 1928. p. 96.
might be—on the bar beneath the effigy of St. George fighting the dragon, unless it were exhibited as a curiosity, like the stater of Philip of Macedon or the napoléon of the French Emperor.

V

Australia was at one time the most prolific source of the world's gold-supply. The discovery of the rich Transvaal mines in the last quarter of the 19th century placed her in a secondary position, but she was still a very large gold-producing country when the Great War broke out. In 1914 Australian mines produced gold to the value of £8,719,191. But by 1916 the production had fallen to £5,078,000, and was still rapidly diminishing. The embargo on the export of gold was one important cause of the decline, but not the only one. The increase in the prices of commodities necessarily involved a rise in the wages of men engaged in the mining industry, while there was an enormous rise in the prices of mining material. The average of all the stores used in mining, excluding explosives, showed a percentage increase of 222 per cent., while explosives increased by 24 per cent., comparing 1914 with 1918.

The embargo on the export of gold from Australia was imposed by a proclamation of the Governor-General on 14th July, 1915, whereby the exportation of gold specie or bullion was prohibited "except with the consent in writing of the Treasurer of the Commonwealth." Between that date and October 28th, £5,943,635 was shipped by permission, but Mr. Higgs, who had meanwhile become Treasurer, then informed the banks that he would not permit any more gold to be transferred to the United States until the whole question had been reviewed. A deputation of bankers which waited on the Treasurer contended that the embargo interfered with trade to such an extent that the rate of exchange had become unduly high. Mr. Higgs, however, maintained that, inasmuch as the export of gold was a profitable transaction, any profit which might accrue should be placed to the credit of the Commonwealth and be used to meet current war obligations. He

See schedules relating to costs and wages, in The Case for Gold Mining, 1919, pp. 71-2.
agreed that any bank which lodged full-weight sovereigns with the Commonwealth Bank or Treasury might receive payment in London at the rate of £98 for every 100 sovereigns lodged, the balance of £2 per £100 to be kept in hand, and, after expenses were paid, to be adjusted at the discretion of the Treasurer. If the gold was sold at a premium, the profit was to be paid into the consolidated revenue. Only three banks out of the 22 carrying on business in Australia decided to lodge gold in the manner prescribed, their operations amounting to £800,000. After a six weeks’ trial of this arrangement, Mr. Higgs decided to suspend it indefinitely, and ordered that no further exports of gold to foreign countries should take place during the war.\textsuperscript{46} He informed the banks to this effect by a letter of 25th March, 1916, wherein he stated that “the understanding under which the Treasurer is willing to arrange for a limited export of gold from the Commonwealth is suspended until further notice.”\textsuperscript{47}

The argument of the bankers against the contention of the Treasurer that any profit from the export of gold should accrue to the Commonwealth Government was that there was no more justification for the Government claiming a property interest in gold belonging to the banks, than for claiming such an interest in the profit from wool, wheat, or any other commodity. But the Treasurer held that gold was in a different position, inasmuch as profit from its exportation arose from the dislocation of monetary values due to the war. The real desire, however, was to prevent the exportation of gold, because its retention in Australia was desirable for maintaining as far as possible the security of the note issue.\textsuperscript{47}

The concern of the gold mining industry in the embargo was based upon the injury done to all persons interested in gold mining by depriving the producers of markets wherein they could obtain full value for their commodity. In Australia they did not obtain full value, because, the production of the mines being saleable only within Australia, and being

\textsuperscript{46} Commonwealth Parliamentary Debates, LXXIX, p 7701

\textsuperscript{47} Mr. Higgs printed in pamphlet form a full shorthand report of his interview with the bankers, and 4,000 copies of it were distributed among bankers, directors of public companies, members of parliament, newspaper editors, and other interested persons, with the object, as he stated, of assisting in forming public opinion on the question.
paid for in a depreciated currency, they were deprived of the difference between the Australian price and the real value of gold in world markets. Thus, while the mint price per ounce of fine gold in Australia in 1917 was £4 4s. 11d., there was a strong demand for gold in China at from £5 10s. to £6 per ounce, and a responsible financial house in that country offered to buy 5,000 ounces monthly at from £5 2s. 3d. to £5 6s. 2d. per ounce. The direct loss to the gold mining industry during the period of the war was calculated at between £4,000,000 and £5,000,000, and the adverse conditions showed themselves in the decline of gold produced from 2,054,968 ounces in 1914 to 1,273,188 in 1918.

A measure of relief from these deterrents was not afforded till 1919, when Mr. Watt, then Treasurer and Acting Prime Minister, gave permission for the formation of the Gold Producers' Association Limited, which was allowed to ship gold abroad, chiefly to Asiatic countries, and sell it at open-market prices. Between June, 1919, and December, 1924, the association sold gold to the amount of £19,548,988 and paid £380,503 in premiums to the producers. By the end of 1924, however, "with the gradual approach of sterling to parity with gold," it became impossible to make further shipments at a profit. War conditions inflicted upon the gold mining industry blows from which it did not recover in the ensuing years of peace.  

VI

In the financial machinery of Australia throughout the war the Commonwealth Bank played a part second only to that of the Treasury. It managed the loan business. It furnished facilities for the troops overseas and for the Government in New Guinea. And, in so far as the cash received from loans from the British Government was insufficient for payments overseas, it provided exchange—excepting as to the amount

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48 See The Case for Gold Mining, and, for the operations of the Gold Producers' Association, the article by its founder, E. C. Dyason, on "Gold Marketing," in the Economic Record, Feb. 1928, p. 93.

49 The British Government had to be paid, and, even after the per capita arrangement with the War Office, large accounts for food, arms, clothing, sea transport, and other goods or services supplied to troops in Australia, in transport to Europe, in New Guinea, etc., had to be met directly by the Commonwealth. All war expenses in Australia were paid from the loans raised in Australia. For the Bank's work in New Guinea, see Vol. X, pp. 239-45, 290-4.
of £92,480,156 eventually covered by a funding arrangement with the British Government. The services rendered by the Bank, its efficiency, and the confidence reposed in it were the more remarkable seeing that when the war broke out it had been in existence only a few weeks more than two years. The Commonwealth Bank Act which brought the institution into being was passed in December, 1911, and at the beginning of June, 1912, the Fisher Government appointed Denison Miller, then assistant to the general manager of the Bank of New South Wales, to be Governor of the Bank. The Act of Parliament enabled £1,000,000 to be raised by the sale of debentures, if deemed desirable, but in fact the Commonwealth Bank was commenced without any capital. From the beginning, of course, it transacted the business of the Government, and was open to receive deposits from the public, but it did not require capital to be raised in the ordinary way in which a bank obtains capital from its shareholders, nor was it in need of any other security for its depositors than the credit of the Commonwealth, which guaranteed its stability.

The establishment of the Bank was pressed upon the Labour party by that erratic genius, Mr. King O'Malley, but the legislation establishing it was brought in by Mr. Fisher; and, an extremely cautious man in financial affairs, he was careful in the choice of its first governor. Denison Miller was a man of 52 years of age at the time of his appointment. He had had experience of banking in all grades in New South Wales, and, shortly before the new sphere of work was opened to him, had travelled round the world studying banking policy and methods. He was a man of clear mind, ripe capacity, and suave disposition. Had he remained in the service of the oldest bank in Australia, it is probable that he would in due course have stepped into the chief managerial position. It suited his enthusiastic temperament to take charge of the newest bank at its launching, and build it up from the simplest beginnings. None, indeed, could have been simpler. Miller began with one messenger and an officer borrowed from the Treasury. Hardly had the bank settled down to business than the war threw upon it duties and responsibilities of great magnitude and complexity.

Financing Australia’s part in the war meant, for the Commonwealth Bank, not merely raising loans for the Government, but also attending to the financial requirements of the individual soldier. Wherever he might be and whatever might be his fate—in Egypt, in France, in Palestine, in Great Britain; fighting, or in hospital, or prisoner-of-war—the Bank through its agents was available to provide him with funds. Agencies were established by whose means the soldier could draw upon his credit account with the bank almost as easily as if he were at home. Australian officers who had the misfortune to become prisoners-of-war in Turkey or Germany were provided with cheque books enabling them to operate upon the Bank’s London office, and members of the flying corps were encouraged to carry cheque books with their equipment in case they were compelled to descend in enemy territory. The establishment of these connections between the Bank and foreign financial institutions in time of war was extremely difficult. The organisation had to be implemented very rapidly, and in circumstances which did not permit of ordinary negotiation. But it was done; and the reticulation of money to the far-flung lines occupied by the A.I.F. and A.N. & M.E.F. and to the bases of the Australian Navy was a triumph of skill and perspicuity. The Bank made no profit from the work it did for the troops. It charged no commission on any financial transactions in their behalf. This was part of its war service. As far as possible, too, it arranged with British and foreign banks that Australian notes, cheques, and money orders presented by Australian soldiers should be cashed free of exchange, and, where this was not possible, that the lowest possible rates of conversion should be charged.

The pay of the Australian soldier being much higher than that of his British compeer, rank for rank, there was at first a little anxiety as to whether, when troops from both countries were taking part in the same military operations, irritation might not be caused by this difference. Indeed, the War Office (24th December, 1914), "without wishing to dictate," expressed the opinion that it was "undesirable that the amount of cash drawn by the troops of the A.I.F. should to any material extent exceed the amount drawn by corresponding ranks of the British troops." But there was never an attempt
to insist upon this precaution, nor, indeed, was there any need for restraint. The Australian soldier did not draw the full amount of his pay. Part of it was reserved. Very large numbers of the men never drew more than a shilling a day, and started accounts with the Commonwealth Bank for taking charge of the balance. As many as 40,000 savings bank accounts were opened in London alone; and in Australia £5,500,000 was lodged with the bank through the district paymasters. That the men of the A.I.F., however, liked to "do themselves well," is quite true. They had for the most part been accustomed to good food and plenty of it, with a flavouring of luxuries, simple but good, and they were not expected to deprive themselves of the things which kept them in good heart and temper. The fact that they had more money to spend than other troops was rapidly grasped by the shopkeepers of Cairo, and even of France, and when the familiar "digger's" hat entered a shop there was a tendency for prices suddenly to rise, whereupon "the higgling of the market" was apt to be achieved amid comments frank and free.

VII

The protection of the financial interests of the soldier was given as the reason for the issue of the first of two sets of regulations, known as the "Moratorium Regulations," issued in July, 1916, under the War Precautions Act. The argument used in support of the "Active Service Moratorium" was that many soldiers upon enlistment left behind them dependants and debts, and that the dependants were sometimes mercilessly treated on account of the debts. Mortgagees pressed for their interest or principal, landlords were inconsiderate in demanding their rents, firms which had sold goods on time-payment were insistent upon their claims. It was said to impede voluntary recruiting if it became known in a town that the wife and children of a soldier were "victimised" by an inconsiderate mortgagee, landlord, or storekeeper. Genuine cases of this kind were probably very few, but it can easily be imagined that, if they had been allowed to continue, they would have been a cause of intense and reasonable bitterness among men serving at the front. Moreover, persons
not friendly to recruiting made use of, and exaggerated, the alleged rapacity of creditors who, themselves indifferent to the sacrifices of the soldier, squeezed the last farthing out of his relatives; and the Government concluded that relief ought to be given.

The "Active Service Moratorium" regulations provided for the postponement, until six months after the termination of the war, of payment of the principal secured by a mortgage due by any member of the military and naval forces serving abroad, or his female dependants; also for the postponement of the payment of the purchase money under an agreement for the purchase of land; and gave protection against the seizure of furniture and personal effects, or ejectment from dwelling houses, farms, or shops. There was very little criticism of the moratorium as long as it applied only to the dependants of the fighting forces. Doubt was expressed whether the regulations were necessary, but there was general agreement that, if hard cases did occur, protection should be accorded. Still, it was pointed out, the country was prosperous, good prices were realised for produce, there was no shortage of money, very little unemployment, and people who had opportunities of judging seriously questioned whether there were serious instances of creditors pressing the dependants of soldiers where there was honest inability to meet obligations. Certainly the banks and other financial institutions were, in point of policy, considerate and conciliatory in all cases affecting the homes and interests of soldiers.  

But a fresh series of moratorium regulations of general application required a different justification. Under these regulations, the first of which came into force in November, 1916, a mortgagor was defined as "the person liable under the provisions of a mortgage," without regard to military service. Any such person was entitled to apply to a court, which could prevent a mortgagee from calling up or demanding payment of any part of the principal due to him. Similarly it was provided that if, for the purposes of the war, restrictions were placed upon the marketing of any produce, and the producer was in consequence unable to pay his rent for land occupied

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by him, the payment might be postponed, interest at the rate of 5 per cent. per annum being payable to the lessor during the period of postponement.

The argument used in favour of these general moratorium regulations was that, in consequence of the rise in the rate of interest, persons who owed money were unable to secure renewals of mortgages or extensions of time for payment as easily as they could have done under normal conditions. The Government itself was an extensive borrower at the time, and did not desire that the interest rate should soar, lest the Commonwealth should have to pay more for loan money. A considerable calling-up of private loans would, it was considered, prejudice the borrowing capacity of the Government. The Treasury estimated, with admitted uncertainty, that mortgages to the amount of £100,000,000 were affected; and even this estimate was judged by some experienced men to be too low.

On the other hand, it was pointed out that many persons were embarrassed by the moratorium through being unable to obtain the money due to them, while mortgagors who took advantage of the regulations were in a position to pay, but withheld payment in order to invest the amount elsewhere. Further, the effect of the moratorium was to restrict credit; and solicitors with experience of mortgage business were well aware that, after the moratorium was proclaimed, nearly all mortgagees and drawers of contracts of sale were careful to make it a condition that their contracts should not be affected by the regulations. "Since September, 1916," Sir Robert Best informed the House of Representatives, "mortgages and contracts which have been entered into, almost without exception, have provided for the exemption of the moratorium regulations."

Hostilities ceased in November, 1918, but for legal purposes the war did not end until ratifications had been exchanged between the belligerent powers. There was no doubt that the moratorium regulations had the force of law as long as

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53 Parliamentary Debates, LXVXYIII, p. 11202, and see also the similar statement by Mr Brennan, p. 11205
the war continued, but a doubt arose as to whether it was competent for the Commonwealth Parliament to legislate to extend them for a period after peace was proclaimed. The Government considered that hardship would be caused if the regulations ceased to operate immediately, and favoured a sliding scale by which mortgages might be extended till dates fixed according to the times when the obligations matured. A bill was prepared on these lines. The question whether such legislation would be constitutional was submitted by Mr. L. E. Groom, who was Acting Attorney-General in 1919, to two committees of eminent lawyers, consisting of Sir Edward Mitchell, Professor Harrison Moore, Mr. Starke, and Mr. Campbell (Melbourne), and Mr. Adrian Knox, Professor Peden, and Mr. Hemsley (Sydney). These authorities reported: "We have carefully considered this Bill, and are of opinion that it is within the competence of this Parliament." But the Sydney committee appended the reservations: "Subject to the proviso that the Bill becomes law before the termination of the war, so far as part II is concerned," part II being the portion of the bill dealing with general mortgages as distinguished from "active service" obligations.

The Moratorium Act, 1919, was carefully considered by both Houses of Parliament, the debates upon it being informed by intimate knowledge of economic conditions in all parts of Australia. The effect of the measure was that the general moratorium regulations ceased to operate after the 31st of July, 1920, no postponement of the date of repayment of monies being effective after that date. The Active Service Moratorium regulations were to continue in force so long as there remained a mortgage to which they applied.

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55 Sir Harrison Moore, K.B.E., C.M.G. Professor of Law, and Dean of Faculty University of Melbourne, 1892/1927. Of London and Melbourne, b London, 30 April, 1867. Died, 30 June, 1935.
56 J. M. Campbell, Esq.; Solicitor; of Melbourne; b Melrose, Scotland, 12 April, 1847. Died, 15 Dec., 1930.
57 Hon. Sir John Peden, K.C.M.G., M.L.C., N.S.W.; President of Legislative Council, since 1949, Challis Professor of Law, and Dean of Faculty, University of Sydney, since 1910. Of Sydney and Cabarag, N.S.W.; b Randwick, N.S.W., 25 Apr., 1871.
59 In certain cases, where an order had been made by a court, the regulations were allowed to continue in force until the issue of a proclamation on 24 Jan., 1922.