MAKING A LAND FIT FOR A GOLD STANDARD: MONETARY POLICY IN AUSTRALIA 1920-1925

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Making a Land Fit for a Gold Standard: Monetary Policy in Australia 1920-1925

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Introduction

On 4 February 1925 Sir Otto Niemeyer, Controller of Finance at the British Treasury, wrote to M.L. Shepherd, Official Secretary to the Australian High Commission in London, asking whether the Commonwealth Bank "ought not take steps to bring the Australian exchange banks to some glimmering of sense". The difficulty was that Australia, "a gold producing country, with an ample gold reserve of £25m, [was] actually importing gold, because the exchange banks are still charging 3% premium for pounds in Australia in spite of the fact that sterling was within 1-1½% of gold parity." South African banks, Niemeyer noted, had recently reduced their sterling discount and "it is obvious that your exchange banks ought to do the same without a moment's delay." If the banks demurred, he proposed that the Commonwealth Bank should itself "take the initiative in offering Australian pounds at a reasonable rate against sterling payment here". After all, the "present position", he asserted, "must be doing Australia great harm for no reasonable object whatever." (RBA C1.8-25/G/1, Niemeyer to Shepherd, 4 February 1925)

Thirty-four years later, in 1959, the Australian Treasury Representative in London, John Stone, discovered Niemeyer's letter in a closed file at Australia House and dispatched a copy to his superior in Canberra, Richard Randall, who, in turn, passed it on to the Deputy Governor of the Commonwealth Bank, E.B. Richardson. In a covering note to Richardson, Randall remarked that: "It could be quite interesting to set the letter in its context and see just what the argument was all about. I'd be very surprised if our records here lend themselves to such a job." (RBA C1.8-25/G/1, Randall to Richardson, 23 April 1959) Nor would anyone acquainted with the state of Treasury records at the National Archives Office dispute this judgment. But be that as it may, by drawing upon alternative sources, it is possible to shed some light on the circumstances surrounding the Niemeyer letter of 1925. In effect, it relates to the first attempt by Australian authorities to use monetary instruments to achieve an explicit macroeconomic objective, namely, the return to the gold standard at the prewar parity.

The Exchange Rate and the Australian Economy 1920-25

Between the mid-1850s - when the Australian colonies acceded nominally to the gold standard - and 1930 - when Australia departed unofficially, though in the event permanently, from the gold standard - the exchange rate between the British (£stg) and Australian (£A) pounds remained remarkably stable. [Chart 1] The only exception took place in the first half of the 1920s when there occurred a significant appreciation of the £A. From a trough of £A101.8=£stg100 in December 1920, the £A rose to £A97=£stg100 in November 1924, representing as it did an appreciation of more than 5 per cent.²

Most of this rise in the value of the £A occurred during 1923 and 1924: at the beginning of the former year the £A was quoted at a premium of 10/?% (£A99.50=£stg100); by November 1924 the premium had risen to 60/?% (£97=£stg100). This high point remained until May 1925 when, following the return by Britain and Australia to the gold standard late in April, the £A declined to a premium of 20/?% (£A99=£stg100). [Chart 2]

These rates, it should be understood, are "official" quotations issued by the trading banks and tend to underestimate the rise of the £A in unofficial markets. At this time it appears that several institutions outside the banking system were engaged in foreign exchange business. The Associated Banks of Victoria, for example, identified in 1922 some 33 companies, including insurance, pastoral finance, and trading companies, involved in exchange transactions. And it was alleged before the 1936-37 Royal Commission investigating the Australian Monetary and Banking systems that in 1924 many exporters could scarcely obtain £A95=£stg100; in some cases they were buying forward at £A93.5=£stg100.

This movement in the exchange rate coincided with - indeed it was in part a consequence of - altogether different trends in the real and monetary components of the Australian economy. Following the termination of the First World War a boom was experienced in 1920/21, the result of strong domestic and international demand. Thereafter, for three years, economic activity was more subdued, real GDP averaging as it did about 4% a year. Then, in 1924/25, export income soared, the outcome both of considerable increases in production and highly favourable prices, especially for wool, the price of which rose by 30 per cent in 1924.

The buoyant export position is reflected in the national and international accounts. (Tables 1-4) Real GDP increased by 6.5% in 1924/25; the trade balance, having been in deficit in 1923/24 by £4.5m, recorded a surplus of £30m in 1924/25; the current account deficit fell from £42m to £8m; and the country’s international reserves reached almost £110m, a figure not exceeded until after the Second World War. The expansion in economic activity, induced in large measure by the strong export performance, assisted the continuing fall in unemployment; having risen to just over 6% in 1922, unemployment then declined to 5% in 1923 and, further, to 4.7% in 1924.

Between 1922 and 1925, while the terms of trade improved by almost 70% - principally the result of rises in export prices rather than falls in import prices - domestic price levels increased only marginally: the GDP deflator rose by 8%; the Melbourne wholesale price index by 3%; and the retail price index (weighted average for capital cities) by 6%. An explanation for this modest increase in prices may lie in the fact that while the exchange rate was appreciating and the economy was expanding under the stimulus of favourable export production and prices, the domestic economy was experiencing extremely tight monetary conditions. In the three years 1922/23, 1923/24 and 1924/25, both M1 and M3 advanced at a rate significantly less than nominal GDP; of more importance, in 1924/25, when real GDP rose by 6.5%, M1 actually fell by 1%, and M3 increased by less than 3%. In fact, both M1 and M3, expressed as proportions of nominal GNP, plummeted in 1924/25 to reach low points for the decade. These trends in the money supply are reflected in the banking statistics: by the commencement of the financial year 1924/25 the trading banks' advance/deposit ratios had peaked; by the end of the March quarter of 1924 the reserve/deposit ratio had fallen to a level beyond which the banks were not prepared to venture. Throughout 1924 no increase in bank advances occurred; on the contrary, there were absolute falls in each quarter of the year in spite of substantial demands for banking accommodation, especially by the rural community. Accordingly, it should occasion no surprise to learn that these stringent monetary conditions soon began to react unfavourably upon the real economy. Unemployment, which had fallen throughout the preceding two years, rose sharply in 1924/25 from 4.7% to 6.3%; private investment fell in real terms by 3%; whilst unsold stocks more than doubled. Interest rates, however, showed very little disposition to rise; such rises as there were - the Commonwealth Bank, for example, raised its overdraft rate from 6% to 7% in January 1925 - would have been steeper but for the tendency of governments, both Commonwealth and State, to reduce their borrowings in domestic markets during 1924 and 1925. Tight monetary conditions and reduced levels of government borrowing in Australia were by no means coincidental, for governments were well aware that heavier loan raisings would
compound the monetary squeeze, thereby exerting upward pressure upon interest rates. And the banks, clinging to tradition, preferred not to ration credit by increasing interest rates, but rather placed limits on the direct allocation of advances.

In sum, the two years from the middle of 1923 to the middle of 1925 witnessed an appreciable expansion in production; a healthy balance of payments and record levels of international reserves; an exchange rate higher in relation to sterling than at any time in the previous 70 years; and a monetary squeeze which led to a marked reduction in the growth of private investment, rising unemployment and, ultimately, a sharp fall in the level of production.

The Exchange Rate and Monetary Policy

While it is generally assumed that Australia had acquired the prerequisites of a gold standard country by the middle of the 1850s, it never adhered strictly to the classical gold standard, whereby external flows of gold act to preserve exchange rate stability. Instead of gold movements - or alterations to lending policies induced by a central bank - the mechanism by which the exchange rate was confined within the gold points hinged upon the level of funds held by the Australian trading banks in London, the so-called London funds. Hence it may be more apposite to regard Australia as being attached to a sterling exchange standard, rather than to a gold standard, though gold coins formed part of the domestic currency.

Whatever the appropriate terminology, "the Australian Monetary System", R.G. Hawtrey wrote in *The Art of Central Banking*, "has long been based on the sterling holdings of the Australian banks. When these holdings are deficient, the Australian banks restrict credit in Australia. When their sterling holdings are redundant, they relax credit." (Hawtrey: 295) In essence, buoyant export receipts, and/or overseas borrowing, by augmenting reserves in London, raised the banks' cash and deposit ratios in Australia, thereby encouraging an expansion of overdraft facilities; conversely, if London funds were depleted, the banks tightened credit in Australia. It was, therefore, the expansion or contraction of credit which sustained exchange rate stability, rather than an influx or efflux of gold. Yet the movement of gold remained the ultimate device by which stable exchange rates could be maintained. On the other hand, short-term stability of the £A-£Stg rate depended essentially upon the banks tolerating substantial swings in the level of their London funds - accumulating large balances when supply exceeded demand, and running them down when the demand for foreign exchange exceeded supply.

These procedures were followed throughout the second half of the nineteenth century and until the First World War. Then, on 14 July 1915, the Commonwealth Government issued a proclamation under the Customs Act prohibiting the export or gold, save under license obtainable from the Treasury. This embargo was renewed on 23 February 1922 but was revoked on 29 April 1925. The prohibition on the free export of gold meant the removal of the ultimate guarantor of stable exchange rates. Nor was this all, for the mints during and after the war ceased to coin sovereigns for the public; and the conversion of currency notes into gold coin by the banks on behalf of the public was discouraged by the authorities. Indeed, both the banks and the public were urged to relinquish gold for currency notes issued by the Treasury. Since the law required a gold backing of only 25%, the accumulation of gold by the Treasury allowed the government to expand the note issue appreciably during the war. Even so, while the gold standard was to all intents and purposes suspended for the duration of the war, the aim of the authorities was to retain parity with sterling, a task accomplished with relative ease since British prices rose during the war rather more steeply than those in Australia. As well, exports and external borrowing were adequate to maintain a sufficient demand for £A's in London.
Following the end of the war, the value of the £A declined with £stg against gold and, when prices fell precipitately in Britain with the collapse of the postwar boom, pressure for a while was exerted upon the £A.

Until shortly before the First World War, though gold coin circulated, the currency component of the Australian money supply was dominated by notes issued by the trading banks. But in 1910, by the expedient of an annual tax of 10% imposed upon the banks' notes in circulation, the Commonwealth Treasury, through its note issue department, became the principal source of currency. During the war the note issue expanded substantially from £11.8m to £59.1m; over the same period the price level rose by nearly a third. Whether the price inflation was the result of the swollen note issue, or the expanded note issue was the consequence of higher prices, are questions that cannot be resolved here. By the early 1920s, however, there had developed within government circles a desire to arrest - in fact to reverse - the inflationary process. As early as November 1918, the Commonwealth Government had established a Royal Commission to examine public expenditure with a view to "Effecting Economies". Under the chairmanship of Sir Robert Gibson, the Commission in its first Progress Report of 1919 concluded that "many large economies in the current expenditure of the Commonwealth are possible and can be made" (Royal Commission to Consider and Report Upon the Public Expenditure of the Commonwealth of Australia with a View to Effecting Economies, CPD, 3, 1917/19: 22-3); it recommended the formation of an "efficiency Board" for the purpose of "continuously investigating and reviewing the economy and efficiency and improving the systematization of work in all Departments throughout the Commonwealth", a view which the Royal Commission echoed in its final report completed towards the end of 1920. (CPD, 3, 1920/21)

Although an institutional apparatus of the type recommended by the Royal Commission was never created, the Acting Treasurer, in his Budget Statement of October 1919, declared that the government was "determined that value shall be obtained for all its expenditure, and intends continuously to exercise the closest supervision over expenditure." Not only was pressure to be brought to bear upon expenditure, but taxation also was to be reduced, "because a government with funds on its hands is usually beset with proposals for expenditure [and] there is the consideration that taxation reduces the funds available for important private enterprises, and money should not be drawn from the people before it is needed." Fiscal policy, it would seem, was to bear the brunt of the government's deflationary program. In contrast, monetary policy was to play a subordinate role, the Acting Treasurer dismissing suggestions that the expanded note issue had been the principal source of the war-time inflation: "artificial finance", as he called it, had "not been the only reason for the high prices, but, if it were, the effect of the increase in Australian notes would be relatively small, because there have been inflated credits all over the world, resulting in a world-wide increase in prices. Had the Australian note issue not been increased beyond its prewar amount, we should nevertheless have had the prices of today," (CPD, XC, 8 October 1919: 13077-8)

When he came to deliver the next Budget, in September 1920, the Treasurer, Sir Joseph Cook, highlighted the evils of inflation, which had accelerated during the preceding year and had now reached an unacceptable rate. "The outstanding features of the general financial situation", he observed, were the "heavy war debts, inflated credit, excessive paper currency, and soaring prices all over the world. The flood of paper money and the rising tide of the world's debts have completely upset the international exchanges. Unlike gold, paper money has no fixed international value, and therefore the increase of paper money in place of gold has altered the basis of values entirely." His intention was "to keep expenditure down to the lowest possible point, and within the revenue"; as for government borrowing, it was to be "reduced by every possible means." Yet Cook, too, played down the significance of the monetary expansion since
the outbreak of the war. He acknowledged that the "question of reducing the circulation is recognised as being one of the utmost importance, and is by no means being lost sight of, but it is considered that this must be done gradually as opportunity presents itself." In fact, he was inclined to support the view of his predecessor that the note issue had expanded as a result of inflation and was not the cause of it; after all, inflation was a worldwide phenomenon, the outcome essentially of high levels of economic activity. (CPD, XC111, 16 September 1920: 4660-4)

When Cook came to present his second Budget, in 1921, the boom had broken and prices were falling. But the decline in prices in Australia proved decidedly modest in comparison with that which had taken place elsewhere, including, above all, in Britain. Hence in the next Budget, brought down by S.M. Bruce, an entire section - addressed to the "correct principles of finance" - enunciated the key elements of the "deflationary" policy which the government had decided to invoke. The Budget was to be balanced by pruning expenditure to meet expected revenue. But, as well, the government intended to "abstain from increasing the currency." While Bruce agreed with his predecessors that the issue of additional notes during the war had been "justified by necessity", there was no denying the fact that "the Australian currency is inflated by issues beyond what were permissible by sound currency practice." Some success had already been achieved in this direction, but the government would not rest content "until Australian notes are interchangeable with gold, and the existing prohibition of [gold] export[s] is discontinued." In short, the government had set itself upon a course to restore the prewar gold value of the currency. This necessitated a rigorous attempt to control the price level, though, as Bruce admitted: "Deflation must be carried out gradually and with great caution, otherwise the disturbance to trade and credit might prove disastrous." (CPD, C, 17 August 1922: 1475-7)

The Establishment of the Australian Notes Board

It was in the area of monetary policy that the most determined attempt was made to curb prices. Of crucial importance was the government's decision in 1920 to transfer responsibility for the issue of currency notes from the Commonwealth Treasury to the newly established Note Issue Department of the Commonwealth Bank (hereafter referred to as the Australian Notes Board, or ANB).

The Commonwealth Bank, especially its Governor, Denison Miller, had for some years been pressing for the transfer of the note issue from the Treasury to the Bank. (RBA 702/30, RBA 465/13, RBA 465/19(b), RBA C.1.8-20/N.2) As early as June 1913 Miller wrote to the Prime Minister, Andrew Fisher, suggesting that the Bank should possess authority to issue notes against approved Commonwealth, State and municipal securities, and upon the security of trade bills of not more than 120 days duration. Fisher, however, was reluctant to assign the matter a high priority and it lapsed when the government was defeated at the polls. Back in office, Fisher was again approached unsuccessfully in September 1915. Undaunted, Miller by 1917 had drafted an appropriate amendment to the Notes Act, which he sent to the Treasurer, Sir John Forrest. He, too, evinced no enthusiasm, saying that the financing of the war required a close and continuing nexus between the Treasury and the note issuing authority. Moreover, he thought the private banks would cavil at the prospect of the Commonwealth Bank using the note issue to compete unfairly against them. Miller subsequently wrote to Fisher's successor, W.M. Hughes, submitting that the note issue required discretion and a sensitivity which the Bank was better able to provide than the Treasury. Again, in 1920, Miller approached the Treasurer of the day, William Watt, recommending that a separate note issue department be established within the Commonwealth Bank along the lines of the one operated by the Bank of England. Once more, in August 1920,
Miller wrote to the new Treasurer, Sir Joseph Cook, enclosing a memorandum setting out note issue arrangements in various countries, together with a proposed Bill and draft speech notes for the Treasurer. Miller argued that it was generally accepted abroad that authority for the note issue should rest with a central monetary authority and, in order to make the currency sufficiently elastic to meet seasonal demands, it should be backed not only by gold but by trade bills as well. Indeed, it should be "left free as possible to enlarge and contract according to the needs of the trading and producing community in the most natural way as possible."

Though the intention of the government when establishing the ANB was that, while it would provide seasonal elasticity in the issue of currency, it would keep a reasonably tight rein on the longer term issue of currency. However, the membership of the ANB, comprising the Governor of the Commonwealth Bank (Denison Miller) as chairman, the Secretary of the Treasury (James Collins) and two independent members, quickly adopted as its principal policy goals the avoidance of inflation and the restoration of a genuine gold standard. Its fear of inflation was undoubtedly heightened by the postwar European inflations. The secretary to the ANB, speaking of inflation in Russia and Austria, said that "fat more misery and suffering has been caused by the collapse of the Note Issue than even by the ravages of the War itself" (RBA N-N-3, 23/11122). With regard to the gold standard, the ANB seemed equally convinced of its virtue. Miller's view about the return to a genuine gold standard was simply stated: "The sooner ... the better" (Daily Telegraph, 13 February 1923). From its inception in December 1920, the ANB was dominated by one of its two independent members, J. J. Garvan, Chairman of the Mutual Life and Citizens Assurance Company, and later the inaugural chairman of the Commonwealth Bank Board. In July 1921 he declared that "we must strive to become a free gold country again, but until we get rid of our surplus paper money this cannot happen." (Sydney Morning Herald, 4 May 1921)

The ANB's strategy to achieve its goals was determined by the quantity theory of money, which it adhered to in a mechanical "MVPT" form, without any allowance for "long and variable" lags, or for any temporary effects of monetary aggregates on quantities. By contracting the volume of currency notes on issue, prices would be restrained and the exchange rate would rise in relation to gold. Garvan, for example, curtly warned the ANB regarding a proposed issue expansion: "All credit inflation dangerous particularly in peacetime; purchasing power of money automatically less" (RBA N-f-22-16, 20 October 1922). Having no formal training in economics, and lacking the time necessary to comprehend the complexities involved, it was natural that the membership of the ANB should operate on the assumption of a direct proportional relationship between money - defined in its most narrow sense, namely currency - and the price level. Nor should it be surprising that the ANB adhered to the purchasing parity notion, whereby exchange rates are determined by relative price levels between countries; if Australian prices fell in relation to those elsewhere, the £A would rise relatively to the currencies of other countries. Not only were these propositions easy to grasp, but they seemed to be supported by experts. Collins, the Treasury secretary, for example, had represented Australia at the International Financial Conference at Brussels in 1920, at which the leading exponent of purchasing power parity, and devotee of the gold standard, Gustav Cassel, was the dominant technical expert. (NAA CP 2/7/85/760, Report of the International Financial Conference; NAA A571/22/10492, Collins's memorandum on the Brussels Conference, 2 May 1922)

This adherence to the quantity theory of money, in conjunction with an implicit acceptance of purchasing power parity, implied a single strategy: control of the money supply. Controlling the money supply would control inflation, and thereby facilitate a return to the gold standard. The ANB's commitment to controlling the supply of money had two concomitants. First, the supply of currency would not be elastic to demand, since such a policy implies "validating" inflationary...
shocks. The quantity theory did allow that a genuine increase in the demand for money would destabilize prices, and thereby warrant a compensating increase in supply. But a reliable indicator of such an increase in demand would exert downward pressure on prices in the absence of a change in supply. Therefore, as long as there was no downward pressure on prices in an environment of a stable money supply, there was no reason to suppose that the demand for money had genuinely increased, and no justification for an increase in the money supply. This position was clearly stated by the ANB to the commercial banks. (RBA N-N-I, letter from the Board to the Chairman of the Associated Banks)

The second concomitant of controlling the note issue was that the exchange rate would float. The quantity theory taught that price stability required money supply stability. But a fixed exchange rate regime meant potential money supply instability. Consequently, the ANB had little commitment to the maintenance of the long-established parity of the Australian pound with the pound sterling, which had been sustained very closely until 1920. The ANB felt such a policy meant that the Australian price level would be governed by monetary policy in Britain, and it appeared to have no particular confidence in British monetary policy. An historian of the Commonwealth Bank - L. F. Giblin - analysed the sentiment of the ANB on this point in this way: "England was off the gold standard and there was no definite prospect of a return to it. To follow England in these unholy revels was to compromise 'the good Australian pound.' What should be done was to allow sterling to go to a greater discount". (Giblin:11)

The ANB, in fact, made plain from the outset its commitment to note issue control. In 1921 it advised the President of the Associated Chambers of Commerce that it would "take every possible step to reduce the Note Issue." (NAA A571/21/17113, C.J. Cerutty to David Gordon, 25 May 1921) To the Bank of Australasia it wrote: "The Board takes the view that all necessary notes can be provided out of existing currency. The issue of any notes additional to those already promised would result in an inflation of credit and would necessitate a deflation with all its attendant troubles later on." George Swinburne, one of the ANB's independent members, was more dramatic: in his view "inflation of the currency by the issue of paper money was one of the surest ways of bringing a country to bankruptcy". (Sugden and Eggleston: 23)

Did the ANB succeed in controlling the note issue? The flattening of the note issue after the hectic growth of World War I is evident. Table 5 supplies more evidence of tighter control during the tenure of the ANB. It reports the mean of the change in the log of the money supply for three periods: before, during, and after the ANB's existence. The mean diminished during the ANB's existence compared to before its creation, and the difference is statistically significant at the 1 percent level. The mean diminished further in the period after the ANB was abolished in 1924, but the difference is not significant at either the 1 or 5 percent level. This data of Table 5 provides some positive evidence that the ANB was a factor for reducing the mean of money growth, relative to the experience which preceded it.

Implementation of the ANB's Policy

Throughout 1921 the ANB prosecuted vigorously its policy of curtailing the supply of currency notes on issue and with considerable success: whereas the note issue in January 1921 stood at £59m, by December 1921 it had declined to £55.5m. Notes held by the banks, as distinct from those held by the public, fell more significantly over the course of the year - from £34.8m to £28.4m. This restriction of the note issue was continued into 1922; by December the value of notes in circulation had declined to £51.8m, almost the entire fall being the result of a
diminution in notes held by the banks. So, as early as 27 February 1922, the ANB could justly comment: "The object of the [Australian Notes] Board to steadily reduce the total circulation from time to time, has, as far as practicable, been carried out." (RBA A/N705/16, Memorandum to Secretary of ANB, 7 June 1922) Admittedly, from December 1922, the note issue rose, but by the middle of 1925 it was still only £55.9m. Overall, as a proportion of nominal GNP, the note issue declined between the middle of 1921 and the middle of 1925 from 8.4% to 6.3%.

Table 5 also provides data supportive of the thesis that the ANB reduced the variability of money supply growth. It reports the standard deviation of the change in the log in the note issue. This fell during the operation of the ANB compared to what preceded it, and rose again after the board was abolished. The excess of non-ANB standard deviations of the board's ex standard deviation are statistically significant at the 1 percent level. This reduction in money supply variability was secured by the ANB's rough adherence to the two previously mentioned concomitants of money supply control: a note issue that was inelastic to demand and a floating exchange rate.

With respect to inelasticity to demand, there is some evidence that the ANB at least made the supply of money less elastic to the seasonal demand for currency during its existence. This evidence is obtained by examining the impact of adding eleven seasonal dummies (one for each of the months, February to December) to a regression of the change in the log of note issue on a time trend, as is done in Table 6. The table shows that, whereas the dummy for December is statistically significant for the period outside the ANB's period of operation, it is not statistically significant under the classical assumptions in the period before the board's creation.

It is also plain that the ANB observed the other concomitant of controlling the note issue: a floating exchange rate. This is evinced in the violation of the long-held parity between the Australian pound and pound sterling. In December 1920, when the ANB commenced operations, the rate of exchange was 101 pounds Australian to 100 pounds sterling. By its demise in October 1924, the rate of exchange was 96 pounds and 10 shillings Australian per 100 pounds sterling. Although the deviation from parity was never more than 4 percent, it was virtually without precedent: not since 1853 had Australian pound notes risen so much against pound sterling.

Clearly the ANB's policy was not what was expected by its creators in 1920. The lawmakers who established the ANB expected that it would not be guided by a simple quantity theory, and that it would make the supply of currency "elastic" to demand. In the event, the ANB was committed to the practical relevance of an "MV = PT" type quantity theory and an "inelastic" supply of currency. This alone would seem to have set the scene for a clash between the ANB and political power. This clash was exacerbated by the unpopularity among business interests, primary producers and commercial banks of the policy of an inelastic supply of currency.

The ANB's opponents were three: business, primary producers, and the banks.

Business

The ANB made itself unpopular with business interests because of monetary tightening during 1923 and 1924. The Sydney Morning Herald (SMH) in its editorials wrote of "the monetary stringency from which we are now suffering, with dull trade, slackened production, and unemployment ... Has the public anything to hope from the present Notes Board?" (SMH, 28 March 1924).

3 In the same vein the Australasian Insurance and Banking Record described the highly critical remarks on the board by one Mr. Robert Lemmon to be "the considered opinion of the business community of Victoria" (21 June 1924).
Whereas the real economy was buoyant, as evidenced by the considerable growth in output, monetary conditions were impacting adversely on business as banks became increasingly reluctant to lend. The cause of business vexation, in large measure, was the ANB’s success in what it set out to do: stop inflation.4

Primary Producers

Primary producers were also hostile to the ANB. The most manifest source of their hostility was the appreciation of the sterling value of Australian pound balances. Since the prices of primary producers were generally denominated in pounds sterling, every appreciation of the Australian pound meant reduced incomes in terms of Australian pounds. Adding to their discontent was the fact that during the 1920s there was a lack of recognition that the Australian pound was actually a distinct currency from the pound sterling, a point on which the *Australasian Insurance and Banking Record* (AIBR, 21 January 1924) saw fit to lecture its readers on.5 Thus exporters felt they were getting 4 percent less than they deserved. This sentiment seems strange to a world acclimatized to fluctuating exchange rates, but it was not considered strange then. As Giblin has written, "It was generally recognised as a legitimate grievance of the export producer that he should get only, say, 97 pounds for wool or wheat which sold for 100 pounds in London". (Giblin: 7)

This hostility may have been compounded by the fact that the creation of the ANB coincided not only with a cessation of inflation in consumer prices, but began with the cessation of inflation in export prices (measured in Australian currency). This was followed by a drastic fall in export prices (measured in Australian currency) in 1921/22 (see Table 7). Export prices rebounded in 1922/23, but did not entirely make up the loss. Exporters would have finished 1922/3 worse off in Australian currency terms than when the ANB began.6 While this would have helped sales, the reduction in currency values may have been perceived as amounting to a reduction in incomes. Added to this, the previously noted 11 percent fall in consumer prices during 1921/21 and 1922/23 would have increased the real debt of rural borrowers. It may be that with primary producers (as with business) the ANB was to some degree a victim of its own apparent success in stopping, and reversing, inflation.

The Banks

In 1920 the banks did not consider the creation of the ANB to be of great moment. The AIBR (22 November 1920) welcomed the transfer of the note issue from the Treasury on the grounds that it would remove the political character of fluctuations in currency. At this time most banks saw the ANB as merely a matter of machinery (*Argus*, 4 September 1920). They assumed that they would enjoy with the ANB the same comfortable co-existence they had previously enjoyed with the Treasury, which the Secretary to the Treasury described several years later as follows:

Before the Notes Board came into existence a very happy understanding existed between the Treasurer and the banks. We were not always in agreement, but after a little conversation arrangements were unanimously entered into. (RBA N-N-3, 4)

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4 "A marked monetary stringency has developed in Australia" (Tocker: 568).

5 "Until the depression, the Australian pound and the English pound were generally regarded as identical". (Report of the 1936-7 Royal Commission on Banking: 41)

6 In 1923/24 export prices leaped, and were to jump again in 1924/25, to reach a peak not seen again until the late 1940s. (Bambrick: 1973) That good fortune was unforeseeable, and yet one might have expected that it would have mollified primary producers.
Within a few years, however, the banks became the ANB’s most vocal opponents.

The explanation of the ANB’s unpopularity with the banks begins with an important institutional characteristic of Australian finance in the early 1920s: the exchange rate was not determined in a competitive market, but was set by a cartel of banks. (Holder: 613) This cartel sought to fix the Australian pound at around parity with sterling and to prevent it from appreciating. The cartel’s resistance to an appreciation rested in part on the fact that the net asset position of Australian trading banks was dominated by sterling assets. Thus, any appreciation of the Australian pound significantly reduced the wealth of the banks by way of the devaluation of its sterling assets. The upshot is that the banks’ financial interests were in conflict with the ANB’s willingness to condone an appreciation of the Australian pound.

The cartel’s attempts to brake the appreciation of the Australian pound resulted inevitably in an excess demand for Australian pounds. This meant that during 1923 and 1924 the cartel was losing customers and commissions to fringe dealers, who were capturing scarce supplies of Australian pounds by offering better prices. This angered the bank cartel. In protesting these competitive pressures the cartel deployed the language of moral outrage, which roughly handled vested interests are inclined to do: the fringe dealers were “pirates,” “bandits,” “delinquents.”

Evidently, in condoning an appreciation of the Australian pound, the ANB was undermining the security of the banks’ foreign exchange cartel. In fact, board members were even more directly involved in undermining the banks’ cartel. One of the most remarkable features of the fringe dealer “piracy” is that the pirates included two members of the ANB itself: Sir Henry Braddon and J. J. Garvan. In May 1924 Braddon and Garvan, on behalf of a common business interest, organized the sale of 250,000 pounds sterling two months forward at a rate of 96 pounds 17 shillings and sixpence per 100 pounds sterling, compared to a rate of 99 pounds 17 shillings and sixpence set by the cartel. (ABL N8/356, Braddon to General Manager, London, 19 May 1924; Butlin 1971: 501) Garvan struck other deals outside the cartel. The banks were aware of these deals, and they did not like it.

7 In March 1924 the Superintendent of the Bank of Australasia rejected suggestions from within the bank that the Australian pound be allowed to appreciate: "A free market in exchange would make great inroads in our profits and I would strongly depreciate such a step". (Butlin 1961: 370)

8 In 1924 the £38m of shareholders’ equity in Australian trading banks was distributed in the following manner: £30m of net assets in Britain, £6m in New Zealand and £2m in Australia. (Butlin 1971: 127)

9 Blainey offers an alternative, and less “material,” explanation of the banks’ resistance to an appreciation of the pound. “To old bankers it seemed an extraordinary crisis. It could be solved if the exchange rate was altered to match supply and demand, but the exchange rate was a sacred cow, to be worshipped in the marketplace but not to be milked. It was the symbol of Australia’s sacred and commercial bond with Britain.” (Blainey: 196)

10 In March 1924 the Superintendent of the Bank of Australasia reported to the bank’s directors that it was impossible to sell sterling except at a discount: “There have been no buyers of London exchange for over a week” and that foreign exchange business was passing to nonbanks. (Butlin 1961: 369) This had the consequence that primary producers had some difficulty in converting pound sterling balances in London to Australian pounds: another source of unpopularity of the ANB. The scarcity of Australian pounds, consequent upon the rigidity in exchange rates, is presumably part of the explanation of industry’s complaint of “monetary stingency” of 1924.
As far as the banks were concerned, the solution to their difficulties in maintaining parity, in the face of an excess demand for Australian pounds, was for the ANB to lend them Australian pounds so that they could satisfy the excess demand. However, the ANB would not accommodate this wish. A recurrent complaint of the commercial banks throughout the period of the ANB was that the board was not allowing the supply of currency to be elastic to its demand. The ABIR (22 April 1924), for example, declared "the plan followed by the ANB has been virtually to impose a rigid limit upon the total amount of cash available for business". But the ANB was unsympathetic. It told the banks that "A genuine shortage of currency would have been accompanied by a decrease in prices," and there had not been such a decrease. (RBA N-N-1, letter from the ANB to the Chairman of the Associated Banks)

**Evolution of the ANB's Policy**

With the commencement of the 1922/23 export season the banks began to complain of excessive stringency in the availability of notes. In particular, they were finding it difficult to purchase exporters' bills in London in exchange for currency notes in Australia. The problem was accentuated by the ANB's decision on 9 September 1922 to abrogate the 3:1 agreement negotiated between the banks and the government in October 1914, by which the government had given the banks the right to obtain £3 in notes for every sovereign presented by them to the Treasury. Entitlements exercised under this agreement never reached £2m, but the ANB regarded the inflationary potential of the scheme to be considerable, and a means by which its policy of restriction could be circumvented. Even so, when the banks were advised of the ANB's decision to terminate the agreement, they were "assured that all legitimate applications to the Notes Board for currency requirements will receive favourable consideration." (RBA 24B5, minutes of the meeting of the ANB on 8 September 1922)

Accordingly, on 22 October 1922, a delegation from the banks - representing both the Associated Banks of Victoria and the Sydney banks - met the ANB to press for an addition to the note issue for the purpose of meeting seasonal demands. Instead of a decline in notes on issue, they considered that the note issue should have been enlarged: their cash and reserve ratios had fallen, and without a further issue of notes they would have to reduce advances. (NBAA E007/9W, Wereford to London, 23 October 1922) The following exchange between the General Manager of the English, Scottish & Australian Bank and the Governor of the Commonwealth Bank, on 22 October 1922, illustrates the attitudes of the different parties:

**Governor:** We are all trying to keep the circulation down.

**General Manager:** But don't you think we have got the circulation down by 4.5 million too much!

**Governor:** We had nothing to do but to wipe it out, we have to carry out our duties as set out in the Act. (RBA N-N-3, meeting between ANB and representatives of the Associated Banks, 24 October 1922)

By February 1923 public speculation had commenced about the likelihood of Australia returning to the gold standard - perhaps even ahead of Britain. (*Melbourne Herald*, 14 February 1923; *Argus*, 12 February 1923) When the ANB met on 5 October 1923 it reviewed at length the forthcoming seasonal demand for currency notes. Since it believed that "to grant seasonal facilities to the banks would lead to inflation", it did not itself wish to see any additional notes issued, even for temporary purposes. Sensing, however, that pressure might be brought to bear upon the government, especially from rural interests, it conceded that if "the Treasurer deemed it
imperative that the banks should have the facilities, the Board would consent up to a maximum of £3,000,000." (REA 24B5, minutes of the meeting of the ANB, 5 October 1923) But a number of conditions would have to be observed. First, the banks should be informed that, in future, they would have to make their own arrangements to meet seasonal requirements without the ANB’s assistance. Second, a rate of 6% would be charged on notes borrowed. And, third, the notes would have to be returned by 30 June 1924, preferably in monthly instalments.

Garvan, however, was opposed to any concessions. In November 1923 he wrote to James Kell, formerly the Deputy Governor of the Commonwealth Bank, but now Acting Governor following Miller’s death in the middle of 1923. A gold standard system, Garvan declared, would permit a drain of gold which would quickly arrest an inflationary process; on the other hand, a managed system based on a paper currency, was easily prone to inflation. In a managed system, once inflation had commenced, rather than being contained, it was likely to accelerate as prices reacted upon wages, and wages, in turn, reacted upon prices. "Germany", Garvan declared, provided an "object lesson for any banker who favoured currency inflation." He concluded, accordingly, that "if wool is financed by the creation of further credits we go a step further in the mire of inflation." His recommendation was to "meet the position boldly and resume gold payments", convinced that "very little contraction need be necessary". Kell was advised to dismiss the advice of "English bankers" and, above all, was not to allow the creation of further credit. Garvan himself found persuasive the "advantages in establishing a free gold market at once, but [he added] no great harm will result if we do nothing more than refuse to allow more credits to be created just now, but a return to gold would solve all our currency difficulties - no more trouble in paying for our wool or transferring say governm ent borrowings from London or New York." (REA 24B5, minutes of meeting of the ANB, 5 October 1923)

Within the Commonwealth Bank, however, there was some uncertainty about the extent to which it should be preparing for a return to gold. Armitage, the Bank’s Secretary, while recognising that Australia was still some distance from gold parity - by perhaps as much as 8-10%, and hence "quite outside the realms of practicability" - nevertheless believed that "if our surplus exports continue, and the exchange problem becomes increasingly difficult it may become necessary to face some such possibility." (NAA CP 103, Bundle 10, Armitage to Campion, 13 November 1923) Hence he recommended that the Bank should be seeking to reduce its sterling assets, for their value would shrink in terms of Australian currency if sterling were to remain below gold par. But Campion, the Bank’s London manager, disagreed. Since Australia would continue to be an international debtor, he thought it prudent to maintain sizeable London balances; among other things, they would be required to meet debt repayment obligations. Additionally, it was premature, he thought, to contemplate the possibility of Australia returning to gold before Britain; in the past there had often occurred temporary pressures on the exchange rate but such crises had always disappeared soon after they began.

Most bank chairman by November 1923 were expressing discomfort about the exchange problem and were proposing methods by which it might be relieved. Andrew Williamson, the chairman of the English, Scottish and Australian Bank, rehearsed the idea, which he had first canvassed the year before, that the ANB should offer notes in Australia against balances of cash and securities held by the banks in London. (AIBR, 21 January 1924; RBA LLS, Governor to London Manager, 1 December 1923) It had been this proposal and, more especially, its author, that Miller had in mind when he commented the previous year that: "Many people of very limited knowledge of high finance, and with crude ideas of banking, endeavour to get themselves some notoriety by discussing questions of this kind in the public press." (RBA LLS, Governor to London Manager, 1 December 1923) As for Williamson’s proposal, Miller dismissed it by saying that it "would merely tend towards inflation at this end, without altering the exchange position in
the slightest extent." When, in November 1923, Williamson repeated the proposal, he argued that it would not stimulate inflation since any increase in notes issued in Australia would be offset by a decline in London deposits. The chairman of the Bank of New South Wales went further: he advocated reversion to the trading banks of responsibility for the note issue. If that proved impossible - which he suspected it would - he proposed to throw his weight behind Williamson's call to the ANB to issue notes in return for cash and securities lodged in London.

The Commonwealth Government's borrowing program was also being disrupted by the ANB's policy of curtailing the note issue. Borrowing on the Australian market had become increasingly difficult because of high interest rates consequent upon heavy borrowing by state governments and public authorities. Accordingly, either London or New York, or both, would have to be approached for the purpose of meeting £10m of the government's requirement of £15m in loan funds by 30 June 1924. Yet to transfer this amount would be difficult given the ANB's reluctance to issue additional notes upon the security of London balances. Collins proposed a method of resolving the dilemma, namely that a loan of £10m should be floated in New York in April or May 1924, and £5m in London toward the end of 1924. There was no need for the proceeds of the London loan to be brought to Australia since they could be used to meet commitments in London. Of the proceeds of the New York loan, Collins advised that they should be left in New York and accredited to the ANB, which would then release to the government £10m in Australia.

There was, however, a snag: an infusion of £10m would almost certainly give rise to inflation if the embargo on gold exports was maintained. Hence, as the Treasurer, Dr Earle Page, informed Bruce, the Prime Minister, who was at the time in London: "Collins would therefore go a step further and recommend an early return to the gold standard". (RBA 1G, Page to Bruce, 12 November 1923) Page explained that Collins disagreed with the conventional view that the £A and £stg were to all intents and purposes identical currencies. After all, they were presently quoted at different rates in relation to gold and it was possible for one currency to be on gold while the other was not. Nor would trade between the two countries be impaired: the Canadian dollar and the Indian rupee, both Empire currencies, were on the gold standard and there appeared to be no difficulty for these countries in effecting trade with Britain. Collins had warned Page, however, that the embargo should not be lifted without the consent of the banks, "because if they strongly opposed...[the] position of the Commonwealth Ministry would be exceedingly difficult." Collins had also mentioned the possibility of some disturbance arising in Australian markets since the £A was still overvalued in terms of gold, perhaps by as much as 9%; prices, therefore, would have to undergo a fall by that amount, as indeed would wages. But an alteration of wages meant that the arbitration authorities would have to be approached. Yet another problem would be the losses incurred by the banks as the value of their London balances fell in terms of the £A; the Commonwealth Bank alone might face a loss of £700,000. Arrangements, too, would have to be made with the banks to ensure that they confined within reasonable limits their demands for gold in exchange for notes. In the final analysis, Collins was convinced that the government's borrowing problems could be overcome, for with a restored gold standard, "borrowing could be arranged either in Australia or overseas and [the] existing exchange difficulty would entirely disappear because if necessary gold could be imported."

Page himself, however, was uncertain about the merits of Collins' scheme and sought Bruce's advice, proposing that the Prime Minister might discuss the matter with the Chancellor of the Exchequer. Bruce, however, was reluctant to proceed along the lines of Collins' advice. He reviewed it "exhaustively" with officials of the British Treasury and the Bank of England, and concluded that it was "impracticable". He was particularly concerned at the losses the banks would sustain as the value of their London balances declined and the political support from the
financial community that the government would lose as a result. The value of future government borrowings in London would also suffer some erosion when the funds were transferred to Australia. Above all, the scheme was redundant because the problem could be adequately met by the ANB issuing notes in Australia in return for loan proceeds accredited to its account in London. He conceded that, since the purpose of the loan was to redeem war gratuity bonds and the financing of new capital works in Australia, some inflation was bound to result. Yet he was confident that any criticism of a political nature about the inflationary consequences of the loan could be rebutted by publicising the fact that a grateful nation had decided that its ex-servicemen deserved a financial bonus at the conclusion of the war. While he regretted that additional notes would have to be issued, he hoped the ANB would appreciate the predicament which the government faced.

Bruce was equally hopeful that the ANB would see fit to meet the seasonal demands of the export trades. Criticism had been directed at him in London and he did not altogether accept the ANB’s fears of inflation, “provided that assistance was only of a temporary character and redemption is brought about as soon as bills covering [the] crop are met.” In short, Page was to “take this matter up with the Notes Board and urge upon them the necessity for elasticity in the note issue.” He was also to encourage the ANB to transfer a portion of its assets to London, investing them in short-dated securities so that foreign exchange would be available in London when the need for it arose.

Page, with Collins’ concurrence, accepted this advice and informed Bruce accordingly on 10 December 1923 that “money should be borrowed from London and handed to [the] Notes Board which would issue notes in Australia.” (RBA 1G/31, Collins to Secretary, Prime Minister’s Department, 10 December 1923) However, he thought it was important that the ANB should attempt to sell its London assets as quickly as possible in exchange for notes in Australia, otherwise the inflationary process would soon gather momentum. In any event, he would shortly be taking the matter up with the ANB, but Bruce was reminded that the ANB was an independent body and might be unwilling to accept the government’s advice.

At its meeting on 13 December, Collins brought to the attention of the ANB the Prime Minister’s contention that the exchange problem could be resolved without returning to the gold standard, provided the ANB issued notes in Australia in exchange for funds transferred to it in London. The ANB, however, rejected this advice, asserting that the “exchange position will not be solved by merely paying Australians in paper money.” (RBA 24B5, minutes of the meeting of the ANB, 13 December 1923) In fact, the exchange problem would probably be accentuated rather than relieved if the ANB, having issued notes in return for London balances, then proceeded to sell its London credits in competition with the trading banks. Furthermore, there was no guarantee that the banks would return the notes once seasonal pressures abated; if the notes were not withdrawn the ANB was convinced that “a serious inflation would be unavoidable”. The ANB believed, in short, that the banks themselves should meet their seasonal requirements without assistance. Since heavy borrowing in London was “the real factor” behind the exchange problem, the government was enjoined to convert its war gratuity bonds by borrowing in Australia.

The Abolition of the ANB

By the end of 1923 the ANB’s actions had antagonized primary producers and commercial banks. These interests sought redress by appealing to political power and found sympathetic listeners. The Prime Minister, S. M. Bruce, belonged to the Nationalist Party, which represented
urban commercial interests and was supported by the banks. Even more significant was the Treasurer, Earle Page, who belonged to the Country Party, which represented primary producers. In the 1923 election campaign Page had proposed that the Commonwealth Bank "become a Central Bank by giving it control of the currency." After winning the election, Page never criticised the ANB publicly, but privately expressed the opinion that it had been responsible for deflation (Polden: 242): money had become "so tight that it [was] hard to get advances from the banks for most desirable purposes". In his memoirs, Page recorded his opinion that the ANB had left Australia in "a serious monetary crisis. By this time Australian currency and exchange troubles had reached an acute stage. The value of sterling, expressed in pounds Australian, had declined further. Primary producers were compelled to accept 95 pounds in Australia in respect of 100 overseas". (Page: 117)

The struggle with the ANB began in earnest late in 1923. On 3 December 1923 Bruce cabled Page from London:

Opinion I have always held and which has been strongly reinforced by information I have obtained here is that Notes Board should be prepared to allow greater elasticity in note issue to meet seasonal requirements.

Page replied: "I quite agree that elasticity in note issue is needed," reminding Bruce that "the Board is independent and their consent must be sought". (RBA 1G/31, Page to Bruce, 12 November 1923; Bruce to Page, 3 December 1923) The ANB's consent was sought, and Bruce's cable was passed on to them, but the ANB did not yield to this Prime Ministerial entreaty. It replied that if it accepted Bruce's recommendation "a serious inflation would be unavoidable". (RBA N-N-4, meeting of ANB, 13 December 1923)

This obduracy by the ANB brought forth an immediate response from the government. Speaking at Lithgow on 7 January 1924, Page declared that a "real and lasting solution of the whole difficulty...would be a return to the gold standard". (AIBR, 21 January 1924) Gold could be imported in respect of the excess credits existing in London, and money borrowed overseas could be brought to Australia if necessary. Any tendency to inflation would be checked by the export of gold. But he agreed that this could not be achieved immediately. Of the ANB's refusal to expand the note issue to meet seasonal demands, the government, Page said, was currently investigating the matter. In particular, he suggested that "a strong central bank might have relieved the position and enabled our financial institutions to act in concert, and with a definite policy aimed at the return to normal conditions." Later the same month the government announced that it was preparing a Bill to amend the Commonwealth Bank Act. While no details of the government's plans were released until the middle of June, there is little doubt that its intention was to alter existing practices in respect of the note issue. Page himself later admitted that "the conflict with the Notes Board, and serious losses faced by the primary producers, determined us in our intention to carry through banking reforms which would put currency control where it belonged, in the hands of a central bank." (Page: 116)

Early in 1924 the banks sent a deputation to Bruce regarding the ANB. On 18 January 1924 the representatives of the banks condemned the board before Page, then Acting Prime Minister. Again the ANB did not yield. At this meeting Garvan defended the ANB "at much length". (RBA 24B5, minutes of the meeting of the ANB, 24 January 1924) True, at its meeting on 24 January 1924, the ANB agreed that if additional notes were issued in future the rate of interest charged would have to assume penal proportions "so as to limit such requests to cases of necessity and to eliminate profit to borrowing banks." (RBA 24/B5, minutes of the meeting of the ANB, 24 January 1924) In February, however, a special request by the Australian Bank of
For notes against the lodgment of sovereigns was rejected. (RBA 24B5, minutes of the meeting on the ANB, 22 February 1924; also RBA A/N760/11) Likewise, early in April, when the chairman of the Queensland National Bank requested an advance of notes in exchange for gold, he was informed that "all necessaries can be provided out of existing currency. The issue of any additional notes to those already promised would result in an inflation of credit and would necessitate a deflation with all its attendant trouble later on." (RBA C.1.8-24/N/3, Chairman, ANB, to the General Manager, Queensland National Bank, 5 April 1924) Later, in April, the Bank of Australasia was advised in the same manner. As to the forthcoming export season, the ANB issued a warning to all banks that they should strive to maintain sufficient liquidity to meet demands placed upon them. Garvan meanwhile, in a letter to the SMH, rejected the view that the ANB should exchange notes for newly produced gold - on the grounds of its inflationary impact. He went on to float the controversial idea that the government should consider the possibility of returning immediately to the gold standard, but at a reduced parity: specifically that an £A should represent 100 grains of gold instead of 113. (SMH, 21 March 1924, quoted in AIBR, 22 April 1924) Following another protest by the banks, Bruce instigated a meeting of the ANB on April 4 1924, in which it was asked to reconsider its position. During this meeting Garvan "did practically all the talking for the Board" and, predictably, once again, the ANB rejected the request for an increased issue of notes. (ABL Z119/34/AB3, minutes of Associated Banks of Victoria, meeting on 30 April 1924)

By May 1924, as the £A approached a premium on sterling of 40/-% (£A98=£stg100), pressure upon domestic liquidity was now acute. In its review of exchange and currency on 21 May, the AIBR launched a stinging attack upon the ANB:

The main reason for the difficulty is the unsound and injudicious policy - if it can be called a policy - followed by the Australian Notes Board in contracting the currency within a hard-and-fast limit at a level which was low in relation to proper trade requirements at the busy period of the season. In so doing the Board has displayed a lack of acquaintance with elementary principles in the conduct of a currency, and at the same time has refused to be guided by expert opinion as requested by the unanimous view of the bankers, whose intimate practical knowledge of the actual trading position from day to day and from year to year enables them to form a real judgment as to the proper policy to be followed. (AIBR, 21 May 1924)

The AIBR believed there were two immediate alternatives which the ANB could follow: either allow the note issue to fluctuate on the basis of security provided in Australia - which had been the practice during and immediately after the war - or to regulate the note issue according to security furnished in London. In the longer term, however, with "a return to gold", the Australian note issue would revert to its "proper status as a subordinate item in the financial system." For the present, it was not simply a matter of the exchange rate appreciating. For as the AIBR's Sydney correspondent reported: "Not for a long time past has there been such financial stringency as that which exists here at present. Accommodation is obtainable only with considerable difficulty, and then at relatively high rates." (AIBR, 21 May 1924)

The banks were themselves expressing alarm and calling for ameliorative measures. Sir John Grice, of the National Bank, warned in June 1924 that if current demands for currency continued and the ANB refused to issue additional notes, the banks would have no choice but to curtail advances severely, thereby "injecting great injury upon the trade and commerce of the Commonwealth." (AIBR, 21 June 1924) He thought the ANB "should recognize the necessity of pursuing a moderate course between inflation and deflation. There should not be an arbitrary
line drawn irrespective of circumstances and of altering conditions - pre-war theories should not be unduly pressed nor practical difficulties disregarded." He recommended that governments should reduce their borrowing and the ANB should increase the note issue, since "the counsel of perfection of getting back to gold can only be followed gradually and slowly, and is of no practical use in the present emergency". To the chairman of the Bank of New Zealand, while the ANB considered that any increase in the note issue "would lead to inflation", he believed, on the contrary, that unless the note issue was enlarged, "restriction of production, commerce and trade is the natural outcome." He predicted that if Australia "abolished the State [note] issue and allowed the banks to issue their own notes, making the circulation legal tender and a first charge on assets, with the special security of one-third of the amount of issue to be held in gold and two-thirds in government securities, the financial stringency would be ended." (AIBR, 21 July 1924)

This view was supported by the chairman of the Commercial Banking Company of Sydney and the Commercial Bank of Australia, while the chairman of the Bank of Victoria took the extraordinary step of recommending that Bank of England notes be made legal tender in Australia. (AIBR, 21 August 1924)

These expressions of concern from individual bank chairmen were reinforced at the end of July when the chairman of the Associated Banks of Victoria wrote to the ANB saying that "the currency of Australia is now quite insufficient for the country's needs". (RBA 24B5, letter from ANB to Chairman, Associated Banks of Victoria, 15 August 1924) He noted that, whereas in the past two years, bank deposits had increased by £32m, cash reserves in Australia had actually decreased by £3m. The banks, he said, were quite prepared to exchange a portion of their London funds for additional notes in Australia. The ANB, however, failed to find the argument "convincing", for if there were a genuine shortage of currency the price level would be falling, whereas prices were rising. As to handing back responsibility for the note issue to the private banks, the ANB considered that such a move would constitute "a retrograde step", the issue of currency notes being too important to be assigned to private hands.

Collins, too, responded to criticisms from the banks. While he thought it was possible that the ANB might agree to issue, on a temporary basis, some notes in Australia for cash and securities held by the banks in London, he was adamant that "action of this kind must be taken with the "greatest caution, so as not to cause the cost of living to rise in Australia." (NLA MS 1633/1181, memorandum on the Commonwealth Bank Bill by J.R. Collins, 19 June 1924) If the banks were incapable of repaying the amounts borrowed, he suggested that the Commonwealth Bank should itself "apply a corrective by selling securities in the Australian market, thus getting the currency back." In other words, the Bank should engage in a conscious policy of open market operations with the object of suppressing any inflation that might develop. Above all, he was now much attracted to the idea that the Commonwealth Bank should act as a central bank in exchange matters, buying foreign exchange from the banks in return for notes issued in Australia when the £A was tending toward a premium, and selling exchange for currency notes when the exchange was at a discount. Care, of course, would have to be exercised lest the Bank found itself overburdened with excessive funds either in London or in Australia; to obviate the possibility of that occurring, Collins conceded that "credit control might have to be resorted to, in order to maintain suitable rates of exchange."

Members of parliament by now had also become concerned about the currency and exchange problems that were besetting the country. In April 1924, E.H. Pratten, a senior government backbencher, and subsequently Minister for Trade and Customs, argued that the premium commanded by the £A in relation to sterling represented a tax upon Australian exporters; he called for a reduction in public borrowing overseas, and the utilisation of excess London funds for the purpose of extinguishing existing debt. (CPD, 106, 1 April 1924: 151-9) On 15 May he
proposed a motion to this effect in the House of Representatives. In mid-1924 the frustration of Bruce and Page was given a Parliamentary airing. (CPD, 106: 686). In the face of the ANB's refusal to issue notes, they decided to abolish the ANB. This would be done as part of the reform of the Commonwealth Bank, contained in the Commonwealth Bank Act of 1924.

The government released details of its proposed amendments to the Commonwealth Bank Act on June 13 1924, the main purpose of which was to create a strong central bank with overall responsibility for currency and foreign exchange. Page, in his second reading speech on the amendments, acknowledged that the "real cure, both of exchange troubles and of currency shortage, if it exists, lies in a return to the gold standard." (NLA Ms 1633/1197 and 344Pr2; also CPD, 106, 13 June 1924: 1274-5) Since, however, Australia was incapable of returning immediately to gold, the government intended to strengthen the Commonwealth Bank so that it would be in a better position to cope with currency problems. In particular, the ANB was to be abolished and its responsibilities transferred to a new Board of Directors of the Commonwealth Bank. In addition, the Bank was to be encouraged to take on discounting functions, which the government hoped would allow much greater control of the credit process. And the Bank was directed to become more active in foreign exchange dealings with the aim of stabilizing the exchange rate. The note issue was now to be controlled by the newly created Board of the Commonwealth Bank. It was to have eight members; the Governor of the Bank was to be one of the directors, and the Secretary to the Treasury another. The remaining members were to consist of persons "actively involved in agriculture, industry and finance." Decisions concerning the note issue were to require the assent of six board members if eight were present, and five board members if fewer than eight were present.

These new arrangements were made effective in October 1924 when Garvan was elected by his fellow directors to the chairmanship of the Commonwealth Bank Board. In the meantime the Treasurer, on 4 September, in reply to a question in the House of Representatives, had announced details of currency policy for the forthcoming 1924/25 export season. (CPD, 108, 4 September 1924: 3962) Earlier, in May, the banks had approached the ANB for additional notes; the ANB agreed to release £3m at 6% but the banks rejected this amount, asking instead for at least £5m and requesting that this should not be regarded as a maximum. They also considered the rate of interest to be excessive. Further, the banks asked the ANB to exchange notes for cash and securities lodged in London, the banks retaining the interest accruing upon their London funds. On 19 August the ANB, without comment, acceded to most of these requests, save that £5m was to remain the absolute maximum.

Since this represented something of a departure from the ANB's policy of restriction, it is unfortunate that the basis of the decision remains obscure. It is possible that the impending alterations to the Commonwealth Bank Act were decisive. But as well, the ANB had for several months been seeking to control credit through the sale of government securities on the open market, the first occasion when open market operations were attempted in Australia. When the ANB decided in February 1924 to redeem the banks' loans to the government in respect of war gratuities, the Treasury issued to the ANB government securities to the value of the additional notes released; the ANB was informed by the Treasury that, should the ANB feel it necessary to reduce inflation, it could "sell a sufficiency of the securities on the market to correct the inflation." (RBA 24B5, minutes of the meeting of the ANB, 29 February 1924) On 4 April the ANB discussed the "question of authorising the Chairman to sell securities in order to accumulate a reserve which would permit the expansion and contraction of circulation so as to develop an elastic currency". (RBA 468/ 15, minutes of the meeting of the ANB, 4 April 1924) On 16 April the chairman of the ANB was authorised to engage brokers in Sydney and Melbourne to sell a portion of the ANB's portfolio of government paper, the proceeds of which
were to be deposited in a special account at the Commonwealth Bank and were to be made available to meet seasonal or other emergency demands. The sales of these securities, however, proceeded slowly. (RBA 24B5, meeting of the ANB on 16 April 1924) By the middle of May only £96,000 had been sold and the chairman was authorized to reduce the selling price by 10/- and to offer other marketable securities from the Commonwealth Bank in exchange for some of the ANB's holdings of government bonds. (RBA 24B5, minutes of the meeting of the ANB, 19 May 1924) Sales by the beginning of July had reached only £490,300, and by August the ANB was seeking to exchange with the Treasury a more marketable portfolio of bonds. (RBA 24B5, minutes of the meeting of the ANB, 7 July 1924) By September sales had reached just over £700,000; although disappointed, the ANB - and its successor, the Board of the Commonwealth Bank - decided to continue and by April 1925 sales had reached £3.5m. (RBA 24B5, minutes of the meeting of the ANB, 5 September 1924; also Giblin: 29)

With the arrival of a record export season, the banks in October 1924 once more approached the note-issuing authorities, now the Board of the Commonwealth Bank. Following several conferences new arrangements were announced on 14 October regarding the note issue. (AIBR, 21 October 1924) In effect, the Commonwealth Bank agreed to furnish, on a purely seasonal basis, additional credits of £15m. In return, the banks, under the direction of the Commonwealth Bank, agreed to pool amongst themselves foreign exchange and local currency: banks with an excess of foreign exchange were to draw upon the Australian cash reserves of banks having comparatively small foreign exchange commitments. It would seem that these new arrangements stemmed from the government's desire that the Commonwealth Bank should act as a truly central bank, and it appeared that the exchange problems which had faced the country for some years might now be over.

The Return to Gold

While the Commonwealth Bank's decision to allow the banks additional credits to a maximum of £5m did much to ease pressure on bank liquidity it failed to exert an immediate impact upon the exchange rate. In fact, by December 1924, with the £A quoted at a premium of 70/-%, gold parity had been reached. Sterling, too, had been rising throughout 1924 against the American dollar ($US): whereas in January 1924 £1stg = $US4.23, by January 1925 some offers were made at £1stg = $US4.76. By early 1925 it became profitable for Australian banks to purchase dollars with London funds, to exchange, in turn, dollars for gold in New York, and then to ship gold to Australia. Not only was this a method by which Australian banks were able to enhance their liquidity, but, and perhaps more especially, there was a profit to be gained by arbitrage: whereas a bank could secure only £96.10 for £100 in London, it could obtain £98.50 by buying gold in New York; a part, to be sure, of this difference was absorbed by freight and insurance charges, together with interest foregone, but it was still sufficient to secure a profit. Between February and May 1925 it is estimated that gold to the value of £10.5m was brought to Australia, principally from the United States, but also from South Africa; gold exports virtually ceased for fifteen months after November 1924, and perhaps £3m was added to the banks' gold stocks from local production.

With the £A reaching gold par and gold flowing into the country debate was rekindled about the possibility of a return to the gold standard. The position adopted by the Commonwealth Bank Board was that, while gold imports would serve to augment the credit base of the banks, the embargo on gold exports would not allow an inflationary process to be arrested. On these grounds it refused requests by the banks to issue notes in exchange for imported gold until the
embargo on gold exports was revoked. (RBA BM-P, Board Papers 1924/25, Garvan's notes to Board in reference to Prime Minister's letter, 2 March 1925)

The government, too, began to consider the possibility of restoring the gold standard in the near future. On 8 January 1925 it cabled the Secretary of State for Colonies in London to enquire about British intentions concerning the return to the gold standard. With the £A now at parity with gold, it was explained that Australia was in a position to return to the gold standard and would not necessarily have to wait for a similar decision by Britain. Though Australia had yet to make up its mind - "the whole matter is being carefully watched" - the government wished "to know whether any definite steps may be expected to be taken shortly by Great Britain towards [the] return to gold payments". (PRO T172/14998, Governor-General of Australia to Secretary of State for Colonies, 8 January 1925) Replying on 22 January, the British Government questioned whether it was really necessary for Australia to withdraw the gold export embargo - and hence return officially to gold - since Australia was actually importing gold. As to British policy, there remained the commitment to return to gold; while no firm decision had yet been made, it was "not improbable that some announcement [would be made] in the next two months since the present embargo on gold exports expires on 31 December 1925." Given this, it was "hoped that [the] Commonwealth Government may not find it necessary to take any definite action for the present." (PRO T160/463, Secretary of State for Colonies to Governor-General of Australia, 22 January 1925)

While this advice may have dampened enthusiasm among those in Australia who were advocating a return to gold independently of Britain, it failed to alter the opinion of the two leading supporters of an immediate return by Australia, namely, the Treasury and the Commonwealth Bank. On 31 January, Treasury Secretary Collins sent a comprehensive memorandum on the subject to Prime Minister Bruce, who was acting Treasurer while Page was visiting the United States and Britain. (RBA BM-27-1, memorandum by J.R. Collins on return to the gold standard by Australia, 31 January 1925) Collins now supported an immediate lifting of the gold export embargo. It was true that "some economists favour a system of paper currency managed in such a way as to maintain a stability of prices", but he said "there can be no doubt that the great weight of practical opinion leans towards the absolute freedom of gold movements, with the currency freely convertible into gold." In managed currencies, he argued, "lurk great dangers of inflation or deflation, with the attendant changes of prices, and these dangers do not exist where gold is freely available, for, if the financial institutions manufacture credit beyond what is proper, prices rise and their reserves of gold tend to disappear in payment for imported goods. Reversely, if sufficient credit has not been created, prices will show reduction, and gold will be attracted into the country." While the principal benefit of a gold standard system was its automatic nature - "the price level within the country automatically is kept on a definite relationship to the prices in other gold-using countries" - a system of managed currency, in contrast, would always be subjected to "local complaints that the bank facilities of the country are leg-roped to an amount of currency fixed by persons whose judgment, though perhaps sound, is not acceptable to outside opinion." Indeed, according to Collins, "it is because banking operations in Australia have been based upon an amount of legal tender adjusted on a non-automatic basis, which many of our financial difficulties of the last two or three years have occurred." Yet, on the other hand, had the monetary authorities attempted to accommodate demands for additional notes, criticism would have persisted from those who were sensitive to the dangers of inflation. The "fact is", Collins wrote, "that no one can determine exactly what amount of legal tender the business of the country really needs". But, he concluded, on "the gold basis there can be no dispute as to the amount of legal tender available, that being arranged automatically". In short, the "wit of man has never yet devised any other dependable system."
Having reached gold parity, Collins thought the opportunity of returning to gold should not be allowed to slip away. Britain would sooner or later be returning to gold but when that decision was made Australia might not be in such a favourable position as it was at present. Why, Collins asked, "should we wait for her? Why not take the step when our conditions are so good? We can never hope for more suitable circumstances. Our favourable trade balance is very large, and gold is being imported. These conditions will not always exist." And, by returning to gold, the exchange problems which had gravely embarrassed the government twice in living memory would no longer arise: importers and exporters "could work adequately in the knowledge that the charges for exchange would not fluctuate beyond the gold points", and "borrowing for departmental purposes may be undertaken overseas without fear of complaints that the exchange will be affected to the detriment of exporters". Nor was that all, for Collins was anxious to highlight the financial benefits that would accrue to the government from greater stability in the exchanges. Here, he estimated that considerable savings would result for the Commonwealth and the States as a result of borrowing in London and New York rather than having to rely so heavily upon local capital markets: whereas governments were forced to borrow in Australia at 6%, they could borrow in London and New York at 5%; in respect of the £59m conversion loan to be negotiated at the end of 1925, the Commonwealth could save itself nearly £700,000 in debt charges. There was also the problem of the gold imports: without lifting the embargo on gold exports, the Commonwealth Bank, in order to stem inflation, would have to withdraw additional notes from circulation.

On the debit side, Collins acknowledged that if the government returned to gold before Britain, Australia would become dependent upon American economic and financial policy. Most especially, Australian price levels would be determined in the United States. As he explained to Bruce: if America "adopted a policy of deflation, thus causing her prices to drop, we, too, being on a gold basis, would be compelled to deflate also, otherwise our gold would run away from us." Collins himself considered, however, that the possibility of the United States adopting deflationary policies could be "disregarded", on the grounds that it had learnt its lesson in the recession of 1921 and "is not likely to make a further attempt in that direction." Rather than deflation, America was likely to experience inflation, but Australia should not be too concerned about that possibility since the effect of inflation in the United States would be to bring sterling to gold parity. It was true that if Australia returned to gold before Britain, Australian exporters would obtain fewer Australian pounds for sterling. But this would be offset by the fact that the £A would be able to purchase more foreign goods and services. And by lifting the credit restrictions currently imposed by the monetary authorities and the banks, lending to rural interests would become both easier and cheaper.

Collins, in sum, had presented Bruce with a powerful case for returning Australia to the gold standard independently of Britain. Two days after the completion of the Treasury Secretary's memorandum the Executive Committee of the Board of Directors of the Commonwealth Bank resolved that the Prime Minister "be informed that in the opinion of the Board of the Commonwealth Bank the time has arrived when the embargo on the export of gold from Australia should be removed." (RBA, minutes of the meeting on 2 February 1925 of the Executive Committee of the Board of Directors of the Commonwealth Bank) Then, on 9 February, Garvan, now the Chairman of the Commonwealth Bank, in an interview with the Sydney Daily Telegraph (10 February 1925), strongly supported an immediate return to gold. In fact, the article incorporating the interview was headlined: "Gold Standard: Immediate Restoration Urged by Chairman of Commonwealth Bank". The substance of the interview centred on Garvan's fear that the inflow of gold would provide a spark to inflation unless the export embargo on gold was lifted. The £A was now at gold parity and there would be few difficulties, probably only benefits, if the government were to return to a monetary system that
would guarantee greater price stability. And he invoked the recent inflationary experience of certain European countries as an example of what might take place in Australia if the economy continued to be based upon an inconvertible paper currency. Why, he asked, should Australia feel apprehensive about announcing a formal return to gold at a time when most nations were desperately striving to "attain a gold basis."

This public statement gravely embarrassed Bruce, coming as it did a day before Cabinet was due to meet to consider the question. In the event, Cabinet failed to arrive at a definite decision except to keep its options open. Bruce, however, wrote to Garvan reproaching him for expressing his views publicly, dismissing as he did the claim that Garvan had been simply expressing his private view. For according to Bruce, the public were unable to distinguish the personal views of the Chairman of the Commonwealth Bank from those of the Bank's Board of Directors. At any rate, the question whether Australia returned to the gold standard or not was an issue for the government to decide: at the moment it had the subject under consideration but had not yet arrived at a firm decision. (RBA BM-P, Bruce to Garvan, 16 February 1925)

Garvan, while agreeing that the interview expressed his personal position, was fortified by the fact that the Board of the Bank had similarly called upon the government to lift the gold embargo. There was, moreover, a matter of principle. According to Garvan, responsibility for currency control had been vested in the Commonwealth Bank by Parliament. "I cannot concede to the Government", Garvan informed Bruce, "the right to dictation to either the Board or itself [the Bank] what we shall say on the subject, or when we shall say it. To do so would be to reduce the Bank to the level of a branch of the ordinary public service which, of course, is quite foreign to the intention of the Commonwealth Bank Act." The problem was that the Board of Directors, though having authority to control the currency, could not exercise that authority without regulating the movement of gold. Hence, Garvan wrote, the "time has arrived when in the Board's opinion the free export of gold should be reverted to." But, he continued, "if the Government resolved to take advantage of its legal power to retain the embargo upon the export of gold, in spite of the Board's opinion that it should be removed", then "it becomes quite clear that the real controllers of the currency are the Government, and not the body whom Parliament set up for the purpose of controlling it." In short, according to Garvan, the issue now concerned nothing less than who controlled the country's monetary policy, the Commonwealth Bank or the government. (RBA BM-P, Bruce to Garvan, 19 February 1925)

Bruce rejected Garvan's position. There was no question of the government seeking to dictate to the Board of the Commonwealth Bank. Rather, the Board had been "asked for its views upon a matter of transcendent importance". Bearing that in mind, Bruce submitted that Garvan should have remained silent, especially since the government still had the Board's advice under consideration. He allowed that, among the functions given to the Board by Parliament, was control of the currency, but "control does not embrace the right to determine whether the free export of gold from the Commonwealth shall be allowed or not - that is a responsibility which rests solely upon the shoulders of the government." Nor, Bruce added, could the government "act in any matter as the voice of an outside body." The issue of whether to return to the gold standard was not a question simply of "form" - which Garvan had alleged. On the contrary, it was an issue of high policy for which, according to Bruce, the government was the final arbiter. (RBA BM-P, Bruce to Garvan, 25 February 1925)

Since no further correspondence was entered into it may be concluded that Garvan accepted Bruce's interpretation. The dispute served to demonstrate the sensitivity of the government - and Bruce in particular - to the gold standard question. Clearly the government, by the middle of February, was still weighing its options and had not, as yet, accepted the advice of its Treasury
and Commonwealth Bank advisers. Indeed, on 17 February, the Governor of the Bank wrote to his London office conceding that, while the Bank had advised the Prime Minister to lift the gold export embargo immediately, "it is not likely that the government will act upon this advice in the near future". But he was convinced that "a return to gold, so far as Australia is concerned, will certainly be made before the close of the present year." (RBA BM-P, Bruce to Garvan, 25 February 1925)

The government, in fact, was in the process of evaluating the somewhat different views of its professional advisers on the one hand, and those of its principal constituents - the banks, farmers, the press and the business community generally - on the other. The Prime Minister met with representatives of both the Sydney and Melbourne banks, together with Armitage from the Commonwealth Bank and Collins from the Treasury, on 17 February. Whereas the Melbourne banks appeared to favour a partial relaxation of the export embargo, the Sydney banks were opposed to it. Bruce contested the Sydney view, arguing that if gold imports were to continue - which the Sydney banks had endorsed - free exports of gold should also be allowed, "otherwise the Commonwealth Bank Board's policy of curtailing the currency would be defeated." (RBA BM-27-1, minutes of meeting held in South Yarra on 17 February 1925 between the Prime Minister, Secretary to the Treasury and representatives of the banks) Bruce himself, while choosing not to express an opinion on the merits of the Bank's policy, acknowledged that the "removal of the embargo would act as a safety valve against expansion [of the currency]." At all events, he considered that gold exports should be permitted to the extent of gold imported by the banks since 1 January 1925. And he informed the banks' representatives that the government was "seriously considering" the question of returning to the gold standard, and was currently in communication with the British Government on the matter. Both the Sydney and Melbourne banks, however, insisted that Australia should not return to the gold standard except after consultations with the British Government and in cooperation with it. Following this meeting, the Prime Minister, on 27 February, announced that gold exports would be permitted to an amount equivalent to gold imported by individual banks since 1 January 1925.

Meanwhile, the matter was being canvassed in the press. Its financial component - including the AIBR (21 March 1925) and the Australian Investment Digest (1 July 1924) - were opposed to restoring gold payments before Britain. In Sydney, the press was divided: while the Daily Telegraph (26 March 1925) supported an immediate return, the SMH (11 February 1925) was firmly opposed to it. On 26 February the SMH published an influential article by Frederic Benham, an economist at the University of Sydney, which argued against an independent move by Australia. For one thing, Australia would be at the mercy of the United States, and there was no guarantee that American policy would be sufficient to retain a stable price level. For another, since Australia's major trading partner was Britain, it was important to maintain a stable exchange between the currencies of both countries. Further, most overseas borrowing and debt repayments were denominated in sterling. He argued, too, that since Britain would soon be returning to the gold standard, Australia would not have to wait very long. In short, Benham proposed that Australia should continue with its present managed currency until Britain moved back to the gold standard. (SMH, 26 February 1925)

These propositions were vigorously contested within the Commonwealth Bank by Bertram Latham, the Secretary of the Bank's Note Issue Department. (RBA C1.8-25/G/1, "Accumulation of Notes", and "Reply to Certain Objections Raised to Removal of the Embargo on Gold") The nub of his argument was that when the £A was below the value of gold it was premature to return to the gold standard at the prewar parity. In contrast, the £A was now at, or above, gold parity and the time was right to announce a return: to delay would be to forego an opportunity which might never be repeated. Further, the gold presently flowing into the country
would provide the basis for credit expansion and could induce an inflationary process. Permitting gold exports, on the other hand, would tend to limit the possibility of that process becoming unmanageable. And further, it was incorrect, Latham submitted, to argue that the £A and the £Stg were identical currencies. That might be true if the currencies were on a gold standard. But at present they possessed different values and were being influenced by different forces. Nor was it correct to say that Australia should not consider returning to gold before accumulating much larger gold stocks. For the community had become accustomed to using paper currencies and, in any event, gold would not be used for internal purposes but only as bank and currency reserves, and as a medium for international payments. To those opposed to an immediate return to gold on the grounds that conditions might soon deteriorate to a degree that required a hasty abandonment of gold, Latham regarded this sequence of events as highly improbable; after all, inflation was less likely to occur in a country adhering to the gold standard than in one observing a managed currency. As he concluded: "We are now in the fortunate position of being able to return to gold, and it would be unsound to delay and continue to run the risk of a serious inflation, merely because unreasoning timidity desired to see a move in England first."

As part of its continuing assessment of the issue, the government once more sought clarification from Britain. On 18 February the British Government was informed that the Commonwealth Bank had advised the government to lift immediately the embargo on gold exports and that the government was presently giving the matter serious consideration. In the meantime the British Government was requested urgently to identify the reasons why it had earlier advised Australia to delay its decision. (PRO T160/463, Governor-General of Australia to Secretary of State for Colonies, 18 February 1925) Replying on 22 February, the Secretary of State for Colonies said there had been essentially two reasons for the earlier advice. First, it was thought desirable that Australia and Britain should make a simultaneous announcement and, second, a decision by Australia to lift the gold embargo had not seemed urgent at a time when it was importing gold. He added, however, that since offering this advice in January, South Africa had announced that it would return to gold on 1 July 1925 and, accordingly, if Australia wished to proceed immediately, the British Government would not act to dissuade it. All it wanted was an assurance that Australia would not permit gold to be used for internal circulation, for to do so would not only run counter to the Genoa Resolutions of 1922 but would, in any case, be infeasible. (PRO T160/463, Secretary of State for Colonies to Governor-General of Australia, 27 February 1925)

The question of restoring the gold standard was high on the Cabinet's agenda when it met on 6 March. The minutes of the meeting record that the Prime Minister "outlined proposals"; the "matter was discussed at length"; and it was decided "that the Prime Minister's proposals be approved". Unfortunately there is no elaboration of what these proposals were. It would seem, however, that a firm decision was made in principle that Australia should return to the gold standard as soon as possible. As to a specific date, the government chose to leave it open until further consultations were concluded. Shortly before the Cabinet met, the Bank of England announced an increase in Bank rate from 4 to 5%. It has been suggested that this was significant since it indicated that a decision to return to gold had been made by the British Government. Middlemas and Barnes, for example, in their biography of Stanley Baldwin, the British Prime Minister, make this claim, adding that: "The [British] Cabinet as a whole was not apparently let into the secret but Amery [the Secretary of State for Colonies] was allowed to warn the Governor-General of Australia." (Middlemas and Barnes: 303) While no confirmation of such a warning appears in the archival records in Australia, the Commonwealth Government cabled London on 9 March to say that it "proposes to remove the embargo on [the] export of gold at [an] early date and is in consultation with [the] Commonwealth Bank as to [an] exact time." (PRO T160/463, Governor-General of Australia to Secretary of State for Colonies, 10 March
1925) It added that gold would not be permitted to circulate internally and other measures would be implemented for the purpose of economizing on the domestic use of gold.

When the British Government acknowledged this cable from Australia on 18 March it made no mention of any decision by Britain to return to gold. (NAA A2908/G9, Governor-General of Australia to Secretary of State for Colonies, 18 March 1925) Nor was this surprising for it was not until 20 March that such a decision was made and 28 April chosen as the date for the return. (Moggridge: 78-9) On 21 March, Montagu Norman, the Governor of the Bank of England, wrote to Niemeyer at the Treasury asking: "Should you not communicate the date to Australia?" to which Niemeyer replied: "Yes, but not till we know more about U.S.A." (PRO T172/1499B, Norman to Niemeyer, 21 March 1925) Here, Niemeyer was alluding to negotiations which Norman was about to conduct with American monetary authorities and financial institutions concerning the so-called "cushion" - that is, the international credits required by Britain to support free gold payments. In fact, the British Government delayed informing Australia and the other Dominions until 18 April of its decision to return to the gold standard on 28 April. However, on 18 March, the Treasurer, Earle Page, who had been in the United States seeking American support for Australian loan raising in New York, met Winston Churchill, the Chancellor of the Exchequer, during "a hectic thirty hours" in London. (Page: 119) Niemeyer, in his briefing notes for Churchill, said that Page should be informed that Britain would "raise no objections" to Australia lifting its gold embargo before Britain made a similar decision, though Page should be made aware that Britain had "every hope of doing so before very long". (PRO T172/1399B, Niemeyer to Churchill, 13 March 1925) Page himself, in his autobiography, wrote that as a result of this meeting "both Governments made a proclamation in April 1925, announcing the removal of the embargo on the export of gold." (Page: 119) But this does not seem to be accurate, for the British Government did not reach its decision until two days after Page's meeting with Churchill; nor had the Australian Government made up its mind at this stage. On 24 March, for example, Bruce stated at York in Western Australia that the government could, if it wished, return to the gold standard "tomorrow", but it was still a matter of contention whether Australia should return before Britain.

In fact, throughout March, the government persevered with its round of consultations. The Commonwealth Bank Board, shortly after its meeting on 17 and 18 March, invited the banks to clarify their position. (ABL Z119/34/AB3, memorandum on the conference between the Associated Banks and the Board of the Commonwealth Bank, Melbourne, 18 March 1925) There remained among them an absence of unanimity, though there was a general feeling that Australia should synchronize its decision with Britain; at the least, the banks considered that Australia should delay its decision for six months. Though they failed to provide a coherent set of arguments to buttress their position, the banks attached importance to Australia building up its gold reserves to an impregnable level. And since the £A was now above gold parity, and with imports and limited exports of gold being permitted, they contended that Australia was already on the gold standard. In these circumstances, an announcement that the government was returning to gold seemed but a formality, which should be delayed until Britain was in a position to make a similar decision. The Commonwealth Bank, on the other hand, conveyed to the banks its view "that the time is opportune to remove the embargo on the export of gold". In fact, it proposed both to the banks and to the government that 1 May 1925 should be the date for the revocation of the export embargo.

When C.J. Henderson, representing the Melbourne banks, and E.R. Russell, representing the Sydney banks, met the Prime Minister in Melbourne on 6 April they asserted that the high level of reserves presently held by the banks in London was only temporary, the consequence of abundant seasons, favourable prices for exports, and heavy overseas borrowing by the
Commonwealth and State Governments: were these conditions to alter, the banks would quickly
find their reserves diminishing, with consequent pressure on their cash ratios. (ABL
Z119/34/AB3, minutes of meeting with the Prime Minister, 6 April 1925) Exchange rates, they
argued, were prone to change rapidly. Just as the £A had moved swiftly from a significant
discount on sterling to an excessive premium between 1920 and 1922, so it could revert to a
discount virtually overnight. Nor should the government assume that sterling would continue to
strengthen against the $US. And if current trends relating to the Australian and British currencies
were reversed, Australia would find itself having to abandon gold once more with adverse
repercussions for its reputation in world financial markets. Above all, the banks rejected the
claim, so vigorously asserted by the Commonwealth Bank, that the importation of gold would
foster inflation.

These views, reinforced by those of the Associated Chambers of Commerce of Australia, the
Sydney Chamber of Commerce, and the Gold Producers' Association, were insufficient for
Bruce to rule out entirely the Commonwealth Bank's proposed timetable of a 1 May deadline.
(AIBR, 21 March 1925; Daily Telegraph, 15 April 1925) On 9 April Bruce sent a personal cable to
Stanley Baldwin, his British counterpart, saying that the Commonwealth Bank, "in whom Parliament
has vested control of the currency in Australia have represented to the Government
that it is absolutely imperative that [the] prohibition of the export of gold should be immediately
removed." The government, Bruce continued, "proposes to take action on this advice". Before it
did, however, he added: "If your government contemplates removing the restrictions on gold
from Great Britain in the near future my Government would delay action so that the time of
removal would coincide." Baldwin replied on 11 April saying that, while the British Government
"recognise [the] importance of [the] question raised", it was "considering [the] same question and
will communicate with you further at the earliest possible date and in any case not later than [the]
end of [the] present month". In short, the British Government "urgently press[ed]" Bruce "to
defer action at [the] moment." (PRO T172/1399B, Prime Minister of Australia to Prime Minister
of Great Britain, 9 April 1925)

On 18 April Australia was notified of Britain's intention to announce the resumption of gold
payments on 28 April. (PRO T172/1399B, Chancellor of Exchequer to Prime Minister of
Australia, 18 April 1925) When the Commonwealth Bank Board met on 20 April it was not
aware of the British request to the Australian government to delay its decision. Nor had it been
informed of the British Government's decision to return to gold on 28 April. For at the meeting,
the Board resolved that Collins should see the Treasurer "and explain to him that the matter is
really urgent and press for a decision regarding the export of gold." (RBA BM-M, minutes of the
Board of Directors of the Commonwealth Bank, 20 April 1925) When Cabinet met the
following day the government agreed to return to gold simultaneously with Britain and,
accordingly, Australia immediately informed London of its intention to delay announcing the
lifting of the embargo on the export of gold until 28 April, London time. (PRO T/172/1399B,
Governor-General of Australia to Secretary of State for Colonies, 21 April 1925)

Conclusion

When Bruce announced at midnight on 28 April 1925 that Australia would immediately lift the
embargo on the export of gold he emphasized that Australia's adherence to the gold standard
would serve to stabilize the exchanges and, as a result, would enhance the nation's overseas
trade. It would also mean an end to the price and exchange rate instability which had beset
Australia and most other countries since the war. Above all, the restrictive currency policy
adopted by the note issuing authorities since 1920 would be withdrawn, and, indeed, the entire
process of deciding how many notes to issue would be clarified, for the note issue "will be automatically adjusted by the operation of ordinary economic laws." (SMH, 29 April 1925)

For achieving the return to gold so smoothly, the advice provided by the ANB and its successor, the Board of the Commonwealth Bank, was duly recognised. To Bruce, the return to gold "consummated the earnest efforts which had for long been directed towards normal conditions." (SMH , 29 April 1925)

Page's comments were less ambiguous: "The restoration was the result, in large measure, of the refusal of the Notes Board to issue additional notes. It has been said that the Board's policy of deflation was carried rather far. The fact remains that the policy was well based." (CPD, 114, 8 July 1926: 3942) Even more forthright were the views of most of the Australian press: the Daily Telegraph, for instance, acknowledged that "if credit is due to any section for the fortunate position in which Australia has found herself in being able to go back to gold concurrently with Great Britain, it must be given to the members of the old Notes Board, whose policy of steadfastly refusing to yield to clamour for an increase of the paper currency has now been amply vindicated." (Daily Telegraph, 30 April 1925)

There is one final matter, and that is Australia's role in the timing of Britain's decision to return to gold. It is true that the sterling-dollar exchange had been moving steadily toward the prewar parity for more than a year before the reversion to gold was announced, and that the embargo on gold exports from Britain was due to expire at the end of 1925. Nevertheless, it is clear from statements by those associated with Britain's decision that Australia's position, together with that of other Dominions - especially South Africa - was of fundamental importance. Niemeyer, in particular, was extremely sensitive to the intentions of Australia and other Dominions in memoranda which he prepared for the Chancellor. In March 1924, for example, he wrote to Churchill saying that "the interests of the Dominions are very strongly in favour of the Gold Standard", and there was "no doubt whatever that any weakening in our desire to return to the Gold Standard would cause them the greatest economic trouble and might, not impossibly, have serious political results on the British Empire as a whole." (PRO T176/5 Pt 1, Niemeyer to Churchill, March 1924) In a further memorandum, entitled "The Gold Export Prohibition", Niemeyer posed the following question: "What could be worse for trade than for us to have a different standard of value to South Africa and Australia (i.e. pay more £stg for their wool, etc.)?" (PRO T172/1399B, "The Gold Export Prohibition", memorandum by O. Niemeyer, 2 February 1925) And in a third memorandum addressed to the Chancellor, in which Niemeyer commented upon the influx of American gold into Australia, he declared: "This is not a bad illustration of what happens when Dominions are at par with gold and London is not. The Dominions deal with U.S. as a centre and don't leave their sterling in London". (PRO T172/1499B, "Recent Gold Exports from USA", memorandum by O. Niemeyer, 4 February 1925) Finally, in parliamentary speech notes prepared by Niemeyer for Churchill it was stressed that, had Britain not made the decision to return to gold, there "would be a wide gap between Great Britain and her Dominions, particularly Australia and South Africa, resulting on the economic side in a heavy premium on our purchases from these colonies, e.g. wool, and a natural tendency of the Dominions and India to desert the pound for gold (dollars)." (PRO T172/1399B, Notes for Churchill compiled by O. Niemeyer)

Churchill was himself evidently impressed with these arguments, for in his own speeches he gave special prominence to what he called the "Imperial" aspect. Above all, in his second reading speech on the Gold Standard Bill he recalled that he had "received in the last few months frequent inquiries from Australia as to what is our position and indicating what were their desires". As he went on: "If we had shown ourselves incapable of taking up any position at all, the self-governing Dominions of the British Empire might have gone on to the gold standard themselves, and the Mother Country alone would have been left to pursue a different policy."
They would have all traded together." More than that, they would have redirected more of their trade, both in commodities and services, to the United States, which "would have been a condition of affairs disastrous from every point of view." According to Churchill, there were "three great reasons: economic, social and Imperial, which convinced me that we should return without delay to an international gold standard." (PRO T172/1399B, copy of Churchill's speech in the House of Commons on 5 May on the Gold Standard Bill) He was later to remark that the biggest blunder of his life had been the return to the gold standard." Australia, it would seem, bears some of the responsibility for Churchill's "blunder", the essence of which was returning to the gold standard at an overvalued rate.

Abbreviations

ABL Archives of Business and Labour (the Noel Butlin Archives), Australian National University
CPD Commonwealth Parliamentary Debates
NAA National Archives of Australia
NABA National Australia Bank Archives
NLA National Library of Australia
PRO Public Record Office (now the UK National Archives)
RBA Reserve Bank of Australia Archives
WA Westpac Banking Corporation Archives

References


The exchange rate is the average for the year, selling 60 days, Australia on London. The par rate is represented by 100; when the rate is above 100 the KA is at a discount, and when below 100, the KA is at a premium.
Source: Roland Wilson, "Australian Exchange on London, 1893-1931", Economic Record, Vol.VII, May 1931. The exchange rate depicted is the mean of the buying and selling rates. The par rate is represented by 100; when the rate is above 100 the £A is at a discount, and when below 100, the £A is at a premium.
### TABLE 1

**Changes in Real GDP**

(% change)

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<th>Year</th>
<th>Total GDP</th>
<th>Private Consumption</th>
<th>Private Investment</th>
<th>Public Sector</th>
<th>Change</th>
<th>Exports</th>
<th>Imports</th>
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<td>+3.5</td>
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<td>+53.5</td>
<td>-185</td>
<td>+19.0</td>
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<tr>
<td>1920/21</td>
<td>+13.6</td>
<td>+9.0</td>
<td>+3.0</td>
<td>+19.5</td>
<td>+460</td>
<td>-14.2</td>
<td>+32.8</td>
</tr>
<tr>
<td>1921/22</td>
<td>+5.3</td>
<td>+0.5</td>
<td>+25.6</td>
<td>+7.7</td>
<td>+96</td>
<td>+35.9</td>
<td>-24.1</td>
</tr>
<tr>
<td>1922/23</td>
<td>+3.4</td>
<td>+12.2</td>
<td>+14.2</td>
<td>+4.4</td>
<td>+148</td>
<td>-17.4</td>
<td>+53.3</td>
</tr>
<tr>
<td>1923/24</td>
<td>+3.9</td>
<td>+13.1</td>
<td>+6.8</td>
<td>+8.5</td>
<td>+121</td>
<td>-17.1</td>
<td>+18.4</td>
</tr>
<tr>
<td>1924/25</td>
<td>+6.5</td>
<td>+3.9</td>
<td>-3.0</td>
<td>+8.7</td>
<td>+265</td>
<td>+14.2</td>
<td>+5.9</td>
</tr>
<tr>
<td>1925/26</td>
<td>-3.0</td>
<td>+1.4</td>
<td>-0.5</td>
<td>+0.3</td>
<td>-104</td>
<td>+15.5</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Source: N.G. Butlin, *Select Comparative Economic Statistics 1900-1940: Australia and Britain, Canada, Japan, New Zealand and USA* (Source Papers in Economic History, Source Paper No. 4, December 1984, Australian National University), computed from Table Aa2.
<table>
<thead>
<tr>
<th>Year</th>
<th>Trade Balance</th>
<th>Invisible Balance</th>
<th>Current Account Balance</th>
<th>International Reserves</th>
<th>Capital Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919/20</td>
<td>41.4</td>
<td>-28.3</td>
<td>13.1</td>
<td>92.5</td>
<td>15.0</td>
</tr>
<tr>
<td>1920/21</td>
<td>-36.0</td>
<td>-31.9</td>
<td>-67.9</td>
<td>63.0</td>
<td>42.5</td>
</tr>
<tr>
<td>1921/22</td>
<td>27.9</td>
<td>-28.8</td>
<td>-0.9</td>
<td>81.0</td>
<td>20.0</td>
</tr>
<tr>
<td>1922/23</td>
<td>0.0</td>
<td>-33.1</td>
<td>-33.1</td>
<td>88.0</td>
<td>40.5</td>
</tr>
<tr>
<td>1923/24</td>
<td>-4.5</td>
<td>-37.3</td>
<td>-41.8</td>
<td>83.0</td>
<td>37.5</td>
</tr>
<tr>
<td>1924/25</td>
<td>30.2</td>
<td>-38.1</td>
<td>-7.9</td>
<td>109.5</td>
<td>36.0</td>
</tr>
<tr>
<td>1925/26</td>
<td>3.8</td>
<td>-41.9</td>
<td>-38.1</td>
<td>97.0</td>
<td>31.5</td>
</tr>
</tbody>
</table>

TABLE 3

Changes in GDP and Money Supply
(% change)

<table>
<thead>
<tr>
<th></th>
<th>Real GDP</th>
<th>Implicit GDP Deflator</th>
<th>Nominal GDP</th>
<th>M1</th>
<th>M3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922/23</td>
<td>+3.4</td>
<td>+6.2</td>
<td>+9.6</td>
<td>+1.7</td>
<td>+6.7</td>
</tr>
<tr>
<td>1923/24</td>
<td>+3.9</td>
<td>0.0</td>
<td>+3.9</td>
<td>+1.6</td>
<td>+0.2</td>
</tr>
<tr>
<td>1924/25</td>
<td>+6.5</td>
<td>+3.3</td>
<td>+9.8</td>
<td>-1.0</td>
<td>+2.8</td>
</tr>
<tr>
<td>1925/26</td>
<td>-3.0</td>
<td>-0.7</td>
<td>-3.7</td>
<td>+3.9</td>
<td>+4.8</td>
</tr>
</tbody>
</table>

### TABLE 4

**Monetary Indicators**

<table>
<thead>
<tr>
<th>Trading Banks:</th>
<th>Annual % Change in Reserves to Total Deposits (March Quarter)</th>
<th>Annual % Change in Trading Bank Advances</th>
<th>M1/N Nominal GDP (%)</th>
<th>Annual Interest Rates on Local Commonwealth and State Debts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of Reserves to Total Deposits</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>1920/21</td>
<td>23.0</td>
<td>+19.9</td>
<td>-1.9</td>
<td>21.8</td>
</tr>
<tr>
<td>1921/22</td>
<td>22.6</td>
<td>-5.7</td>
<td>-1.7</td>
<td>21.6</td>
</tr>
<tr>
<td>1922/23</td>
<td>19.8</td>
<td>+10.7</td>
<td>+1.7</td>
<td>20.0</td>
</tr>
<tr>
<td>1923/24</td>
<td>18.7</td>
<td>+3.7</td>
<td>+1.6</td>
<td>20.3</td>
</tr>
<tr>
<td>1924/25</td>
<td>22.6</td>
<td>-0.7</td>
<td>-1.0</td>
<td>17.7</td>
</tr>
<tr>
<td>1925/26</td>
<td>24.1</td>
<td>+8.2</td>
<td>+3.9</td>
<td>19.1</td>
</tr>
</tbody>
</table>

### TABLE 5

**The Monthly Change in the Log of Notes Issue, 1915:1 to 1929:12**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean of the change of log</td>
<td>1.27*</td>
<td>0.08</td>
<td>-0.37</td>
</tr>
<tr>
<td>Standard deviation of the change of log</td>
<td>2.71*</td>
<td>1.45</td>
<td>2.35*</td>
</tr>
</tbody>
</table>

*Significantly different from 1920:12-1924:10 at the 5 percent level

*Significantly different from 1920:12-1924:10 at the 1 percent level
### TABLE 6
Regression of the Log of Note IssuE on Explanatory Variables, 1915:1 to 1929:12
(\(t\) statistics in brackets)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.0046* (7.2)</td>
<td>0.009 (1.2)</td>
<td></td>
</tr>
<tr>
<td>WAR</td>
<td>0.001* (5.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>POSTWAR</td>
<td>0.001 (0.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>0.007 (0.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>0.005 (0.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>0.008 (0.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>0.010 (0.93)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>-0.001 (0.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>0.10 (1.0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>0.004 (0.35)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>0.006 (0.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>0.015 (1.43)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>0.015 (1.43)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>0.015 (1.43)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(R^2)</td>
<td>0.281 (2.92)</td>
<td>0.018 (0.35)</td>
<td>0.015 (0.35)</td>
</tr>
<tr>
<td>SE</td>
<td>0.0238</td>
<td>0.015</td>
<td></td>
</tr>
<tr>
<td>D.W.</td>
<td>1.41</td>
<td>1.21</td>
<td></td>
</tr>
</tbody>
</table>

* indicates significantly different from zero at the 5 percent level
** indicates significantly different from zero at the 1 percent level
<table>
<thead>
<tr>
<th>Financial years, ending June 30</th>
<th>Notes and coin of public and banks (percent change)</th>
<th>Banks’ cash/deposits ratio, (percent change)</th>
<th>Velocity of notes and coin (percent change)</th>
<th>Real GDP (percent change)</th>
<th>Retail price index (percent change)</th>
<th>Real overdraft rate (percent change)</th>
<th>Export price index (percent change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918/19</td>
<td>4.0</td>
<td>-1.6</td>
<td>3.3</td>
<td>2.0</td>
<td>7.2</td>
<td>-1.2</td>
<td>-2.4</td>
</tr>
<tr>
<td>1919/20</td>
<td>0.7</td>
<td>-2.2</td>
<td>8.4</td>
<td>-5.6</td>
<td>12.5</td>
<td>-7.5</td>
<td>10.7</td>
</tr>
<tr>
<td>1920/21</td>
<td>2.6</td>
<td>-1.4</td>
<td>15.8</td>
<td>22.1</td>
<td>1.7</td>
<td>4.3</td>
<td>0</td>
</tr>
<tr>
<td>1921/22</td>
<td>-5.2</td>
<td>-0.2</td>
<td>1.6</td>
<td>-9.2</td>
<td>15.2</td>
<td>-23.7</td>
<td>18.5</td>
</tr>
<tr>
<td>1922/23</td>
<td>-1.8</td>
<td>-2.4</td>
<td>8.1</td>
<td>0.2</td>
<td>-1.9</td>
<td>7.9</td>
<td>18.5</td>
</tr>
<tr>
<td>1923/24</td>
<td>6.4</td>
<td>-0.7</td>
<td>-2.5</td>
<td>3.7</td>
<td>0</td>
<td>6</td>
<td>22.1</td>
</tr>
<tr>
<td>1924/25</td>
<td>5.1</td>
<td>3.3</td>
<td>9.8</td>
<td>10.0</td>
<td>0.9</td>
<td>5.1</td>
<td>12.8</td>
</tr>
<tr>
<td>1925/26</td>
<td>6.2</td>
<td>1.6</td>
<td>-10.3</td>
<td>-4.4</td>
<td>0.9</td>
<td>5.1</td>
<td>-23.2</td>
</tr>
<tr>
<td>1926/27</td>
<td>-11.4</td>
<td>-3.6</td>
<td>15.1</td>
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<td>0.0</td>
<td>6</td>
<td>-3.1</td>
</tr>
<tr>
<td>1927/28</td>
<td>-3.8</td>
<td>0.7</td>
<td>6.6</td>
<td>-1.1</td>
<td>1.9</td>
<td>4.1</td>
<td>7.2</td>
</tr>
<tr>
<td>1928/29</td>
<td>-3.3</td>
<td>-1.4</td>
<td>2.8</td>
<td>-0.8</td>
<td>0.9</td>
<td>5.1</td>
<td>-8.2</td>
</tr>
</tbody>
</table>

Sources: Columns 2: Beilin, Hall, and White (1971, pp. 454-55); column 3: Beilin, Hall, and White (1971, pp. 287-89); columns 2 and 3: Beilin (1962, p. 32); column 5: Beilin (1962, p. 33); columns 6 and 7: Beilin (1972, p. 60); columns 8: Whiteman, Randers, and Perry (1945, p. 96).