Why Australia urgently needs a national bank

After governments apply an emergency tourniquet to the present economic crisis, in the form of enacting a Glass Steagall-style separation of essential banking services from speculative investment banking, the next essential step to a global economic recovery is to establish national banks.

Glass-Steagall will stop the hyperinflationary haemorrhaging, but that's all; to generate a recovery, to turn around decades of physical economic decay and collapse, governments must replace the present system of privately-controlled central banks with government-owned-and-controlled national banks that can "recapitalise" the economy by directing public credit into rebuilding infrastructure and productive industries.

The private sector is not capable of the scale of investment required to start a recovery, because under Glass-Steagall, when only deposits and essential banking services have government protection, most of the financial assets of the present system will be shown to be worthless and will vapourise. The precedent for the national banks that governments must establish, and how they must operate, is the system of national banking invented in the United States of America by the first U.S. President George Washington's Treasury Secretary Alexander Hamilton.

Australia is blessed with its own precedent, the original Commonwealth Bank founded by immigrant American politician King O'Malley, on the model of Alexander Hamilton's national bank.

Hamilton's system of public credit

The United States emerged bankrupt from its 1776-1781 War of Independence against the British Empire and the British system of monetary imperialism. Each of the 13 states owed unpayable debts. Alexander Hamilton, who had been aide-de-camp to General Washington during the war, organised a financial system to repay the debts in such a way that its creditors grew so confident in getting their money back, that debt certificates became a new national currency. In turn, the new federal government used the confidence in its new currency, to re-direct that currency as credit into "internal improvements", which today we call infrastructure, and manufactures, through the agency of the world's first national bank, the First Bank of the United States.
Here's how Hamilton did it.

First, the states willingly transferred their debt on to the new federal government. Among the first Acts the new Congress passed in 1789-90 were an Act to provide for a system of taxation to raise revenue, and another Act that authorised Hamilton to raise a new loan to pay out entirely the existing debt, which new loan the taxation from the first Act was earmarked to guaranteeing. Private citizens "subscribed" to the new loan, at a lower interest rate to the old debt, of four per cent rather than six per cent. The interest-bearing debt certificates of the new loan quickly circulated as currency. Confidence in the debt was such that banks and private citizens happily accepted the paper debt certificates as payment in lieu of gold and silver, so more currency was able to circulate more freely than if only scarce gold and silver were accepted. In 1791 Congress enacted Hamilton's plan to establish a national bank, with initial capital of $10 million. The federal government put up $2 million in gold and silver; private investors subscribed the balance of $8 million of capital stock.

Interestingly, payment for each private share comprised three parts debt certificates, and one part gold or silver. This enabled the government's existing arrangement to repay debt to private individuals to be "recycled" as the majority capital of the national bank, available for public investment.

The significance of Hamilton's bank is that it injected into the financial system an "intention" to further the common good, or as the U.S. Constitution put it, "to promote the general welfare". Prior to the bank, governments were limited financially to how much tax revenue they could raise and how much they could borrow from private sources. The banking system itself either had no intention—being the sum of countless individual decisions chasing the most profit—or where an intention did exist, it was that of the private financial oligarchy's to keep governments subservient to their monetary power. Hamilton's national bank "harnessed" the combination of government and private financial resources that comprised its start-up capital and subsequent deposits, and directed those resources as public credit into developing the new nation in a way that benefitted everybody.

In his final Report on Public Credit in 1795, Hamilton described the functioning of America's unique credit system, emphasising: its focus on the physical economy; the superiority of credit over money, or "capital"; and that the value underpinning the system was the connection between credit and future productivity, not any reliance on reserves of gold or silver.

The American credit system vs. the British monetary system

The success of the First Bank of the United States made America's enemies determined to destroy it. In 1804 a British agent, Aaron Burr, assassinated Hamilton in a duel, and when the bank's 20-year charter expired in 1811, it wasn't renewed. However, four years later in 1816 Congress chartered the Second Bank of the United States which, under its manager Nicholas Biddle, and the administration of

President John Quincy Adams, fostered an amazing period of economic development, called at the time "internal improvements". The British struck again in 1836, through the administration of President Andrew Jackson, a protégé of Aaron Burr, and the Second Bank's 20-year charter was also not renewed. One of the staunchest defenders of national banking against Andrew Jackson's attacks was a young Illinois legislator named Abraham Lincoln, who introduced himself during his 1832 campaign thus: *"I am humble Abraham Lincoln... I am in favour of a national bank, the internal improvement system, and a high protective tariff."*

Lincoln became President in 1861 intending to restore America's national banking system. To stymie him, Wall Street and the City of London tried to starve the government of funds by refusing to buy government bonds, so Lincoln put through Congress on 25 Feb. 1862 the Legal Tender Act to issue paper currency backed only by the government, called the greenback. His administration created $450 million in greenbacks during the Civil War, financed by $500 million in bonds sold to individual citizens instead of banks; the greenback became a new national currency, replacing the chaos of 7000 different currencies the U.S. had fallen into since the Second Bank expired in 1836.

Australia's Hamiltonian bank

Many nations have gone on to adopt limited versions of Hamilton's public credit system, but Australia is the only other nation in the world to have had a dedicated national bank, thanks to the genius efforts of an immigrant American politician, King O'Malley. In 1909 O'Malley declared in federal Parliament, "I am the Hamilton of Australia. He was the greatest financial man who ever walked the earth, and his plans have never been improved upon... The American experience should determine us to establish a national bank which cannot be attacked." O'Malley's tireless organising finally achieved the establishment of the Commonwealth Bank, enacted by Parliament in 1911 and commencing operations in July 2012 under Governor Sir Denison Miller. Initially the Commonwealth Bank was more limited than the bank of "issue, reserve, exchange and deposit" O'Malley fought for, because it would be a number of years before it had the power to issue the nation's currency and maintain the private banks' reserves, but nonetheless it immediately empowered the government to direct public credit into national development. The Commonwealth Bank was instrumental in funding the Indian-Pacific Railway and the WWI war effort, and stopping a run on the private banks.

When Sir Denison Miller died in 1923, the anti-national bank government of British fop Stanley Melbourne Bruce replaced his position of sole governor with a board of directors, drawn largely from private business. This neutered the national bank—it retained its powers, but its new management refused to use them, arguing against any "unfair" competition with the private banks. This led directly to the enormous political fight during the Great Depression, when the management of the Commonwealth Bank, under anti-Labor chairman Sir Robert Gibson, refused the Labor government's instructions to the government bank to issue funds for public works to relieve the crisis of 30+% male unemployment. "I bloody well won't," was the unelected Gibson's response to the elected representatives of the bank's owners—the people. In 1936, a Royal Commission into the banking system investigated the Commonwealth Bank's lack of action during the Depression; future Labor Prime Minister Ben Chifley served on the Royal Commission. Among its findings, the Royal Commission declared, very significantly, that the government should be the ultimate authority over the financial system—a finding that flew in the face of the private Money Power's demands that government's submit to their power. The Royal Commission's findings were ignored by the Joe Lyons-Robert Menzies government, but in the 1937 federal election campaign, Labor leader John Curtin used his speech to the party's campaign launch at the Fremantle Town Hall to demand the restoration of the Commonwealth Bank's original charter, so it could be freed from the vices of private finance and returned to government control. *"If the Government of the Commonwealth deliberately excluded itself from all participation in the making or changing of monetary policy it cannot govern except in a secondary degree,"* declared Curtin. It was only when Curtin and Chifley took office at the height of WWII in 1942 that the Commonwealth Bank was restored to being able to function again as a national bank. Curtin and Chifley used emergency war-time powers to implement the findings of the 1936 Royal Commission, which gave the Commonwealth Bank absolute authority over the private banks, so that the government could ensure that all public and private financial resources were maximised in support of the war effort. Under the Commonwealth Bank, Australia during WWII functioned as a public credit system, not a monetary system. The banking system worked so well that at war's end Prime Minister Chifley moved to make the war-time banking controls permanent. However, with the war over the private banks dropped any pretence of cooperation and furiously attacked Chifley's plans, leading to the 1949 fight over bank nationalisation, the Privy Council striking down Chifley's bills, and Labor's election loss. The new Prime Minister Robert Menzies again neutered the Commonwealth Bank on behalf of his financial backers from Collins Street, splitting off its power over the private banks into the separate Reserve Bank, and leaving the Commonwealth as mostly a savings bank.

Commonwealth National Credit Bank

In 1994, just as Paul Keating was finalising the privatisation of the Commonwealth Bank, the CEC published legislation for a new national bank in its special platform document called *Sovereign Australia II: A Legislative Programme to Save Australia*. The draft legislation would enact a Commonwealth National Credit Bank, owned and controlled by the government, but with a board comprising the Prime Minister and Premiers of each state. The new bank would replace the existing Reserve Bank. It would make loans at 1-2 per cent interest to all three tiers of government for infrastructure, and to private business in productive industries, such as farmers and manufacturers. The money for lending would come from two sources: its deposits, and created credit. In terms of deposits, the bank will hold all of the deposits of the federal government, any willing state government, and most if not all local councils. Private businesses and individuals would also be able to deposit funds. This is instantly an enormous reserve of funds available for lending. In terms of created credit, the bank would have the same power to create funds out of thin air, so to speak, that central banks have and use today. The difference is that the CNCB will only create credit to invest in highly productive infrastructure and industries. Under the provisions of the CNCB bill, it must demonstrate that its investments increase the power of the national physical economy, as measured in increasing energy flux density and potential relative population density. In other words, it must be able to show that its investments enable Australia as a whole to support a growing population at an increasingly higher standard of living. The CNCB is forbidden from any involvement in “open market operations” or any other schemes that privately-controlled central banks use presently to create money.

Used scientifically, the power to create credit provides a virtually unlimited source of public credit for developing the physical economy. Never again will governments claim there isn’t enough money to build important infrastructure. The only limit to creating credit is the availability of manpower and materials.