

Robert Menzies and the Creation of the Reserve Bank

Selwyn Cornish*



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Abstract

The Reserve Bank of Australia was created in 1959 by separating the commercial and central banking functions of the original Commonwealth Bank of Australia. An attempt in 1930 to establish a separate central bank in Australia failed when the enabling legislation was blocked in the Senate, but pressure by the private banks in the 1950s led to a renewed attempt to establish one. This attempt was opposed by then Governor of the Commonwealth Bank, Dr HC Coombs, who argued that the Bank's commercial banking activities strengthened its central bank functions. At first, the Prime Minister, Robert Menzies, supported Coombs, but he changed his mind as political pressure for separation grew. Legislation to create a separate central bank was unsuccessful in 1957 and again in 1958 because the government lacked a majority in the Senate, but was passed in April 1959 following the general election in November 1958 in which the government won a majority in both houses of Parliament. This article discusses the events leading to the creation of the Reserve Bank as a stand-alone central bank and concludes that Menzies' political acumen and role in the decision to support separation were crucial.

Introduction

At a cabinet meeting on 3 April 1957, the Coalition government led by Robert Menzies resolved to separate the commercial and central banking functions of the original Commonwealth Bank of Australia. The decision led to the passing of legislation in April 1959 to create the Reserve Bank of Australia as the nation's central bank.

Menzies' personal involvement in the establishment of the Reserve Bank has been understated by historians of central banking in Australia. At first, Menzies opposed the separation of the commercial and central banking functions of the Commonwealth Bank, but by 1956 he began to have second thoughts, and by early 1957 he was convinced that a separate central bank had to be created in order to appease the demands of the private trading banks, Liberal Party supporters and members of the Australian Parliament.

The decision to terminate the commercial operations of central banks is commonly regarded as a significant event in the evolution of central banking. Charles Goodhart, a British authority on central banking, claimed that it was the 'metamorphosis from their involvement in commercial banking ... to a non-competitive non-profit-maximising role that marked the true emergence, and development of proper central banking' (Goodhart 1985, p 7). MH de Kock, in his classic study of central banking, declared that a 'requisite of a real central bank is that it should not, to any great extent, perform such banking transactions as accepting deposits from the general public and accommodating regular commercial customers with discounts or advances'. If 'a central bank', he argued, 'has a large commercial banking business, such operations might come into direct conflict with its functions as the bankers' bank, the lender of last resort and the controller of credit' (de Kock 1959, pp 22–23). The 'success of a central bank', he added, 'depends largely upon the whole-hearted support and co-operation of the commercial banks, and such co-operation can be effectively obtained only if it refrains from competing directly with them in their ordinary banking business' (de Kock 1959, p 7).

The origins of central banking in Australia

The legislation passed in April 1959 to establish the Reserve Bank of Australia resolved an issue that had been debated since the depression and the associated banking crisis in eastern Australia in the 1890s. With the collapse of many banks, and the loss of savings deposited in the banks, there was a desire to create a government-owned bank that would guarantee the security of bank deposits. Such a bank might be a government-owned competitor to the private commercial banks, offering a deposit guarantee to its customers. An alternative proposal was to create a central bank similar to those established in some European countries, of which the Bank of England was the exemplar. Such a bank would act as the lender of last resort to the banking system with the object of providing stability to the financial system. Another possibility was a composite government-owned commercial bank and central bank. Such a bank might provide a deposit guarantee to its commercial customers while acting as the 'lender of last resort' to the banking system.

The Commonwealth Bank of Australia was established in 1911 as a government-owned commercial trading and savings bank, having no central banking functions other than banker to the Australian Government. During the next four decades, however, it acquired an extensive array of central banking functions: it floated loans for the government during and after the First World War; it took responsibility from 1920 for the printing and issuing of Australian currency notes; from 1924 it held accounts through which trading banks had to settle their interbank balances; and during and after the depression of the 1930s it managed the exchange rate and began to exert an influence over the determination of interest rates. Additional central banking functions were assigned to the Commonwealth Bank during the Second World War when a number of direct controls were adopted for the purpose of conducting monetary policy and providing financial system stability. In effect, the Commonwealth Bank had evolved from a government-owned commercial bank into a composite commercial bank and central bank.

Advice from the Bank of England

The evolution of the Commonwealth Bank to a composite commercial and central bank did not accord with advice it received from the Bank of England regarding the principles of 'true central banking'. Lacking experience in operating a central bank, in 1926 the Commonwealth Bank invited the Bank of England's Governor, Montagu Norman, to visit Australia to explain how it could function as a central bank. Norman declined the invitation because of other pressing commitments, but suggested that Sir Ernest Harvey, one of the Bank of England's most senior officers, could visit Australia in his place. In the meantime, Norman provided a list of principles of central banking for the Commonwealth Bank to consider and perhaps adopt. The principles included that a 'Central Bank should not compete with other banks for general business' and that a 'Central Bank should be the banker of all other banks in its own country' (Norman 1925).

The Commonwealth Bank was clearly not conforming to either of these principles nor to several of Norman's other principles of central banking. For a start, it was heavily involved in the provision of commercial services, in effect competing against the private trading banks for business. Nor was it acting as a 'bankers' bank'. This involved, among other things, the private trading banks maintaining their reserves at the Commonwealth Bank, which could be drawn on by the central bank for the purpose of preserving the viability of commercial banks experiencing runs on their deposits.

Harvey arrived in Australia in 1927 and spent a considerable amount of his time engaged in discussions with the government (including the Prime Minister and the Treasurer), senior staff of the Commonwealth Bank, private bankers, business leaders and federal and state officials, on how the Commonwealth Bank could function as a central bank (Harvey 1927, p 10). He agreed with Norman that a 'central bank should not ordinarily compete with the trading banks for general banking business' and he insisted that 'the trading banks' reserves should stand to their credit on accounts opened by them with the central bank' (Harvey 1927, p 9).

After Harvey left Australia, the Commonwealth Bank entered into negotiations with the private trading banks, with the key focus being that the trading banks keep their reserves with the Commonwealth Bank as the central bank. However, the banks refused, arguing that the Commonwealth Bank, as their major competitor, could not be trusted with their reserves because it was likely that the Commonwealth Bank would use their reserves to compete against them. In an attempt to induce the banks to change their minds, they were assured that the Commonwealth Bank would not compete aggressively against them, and that the Commonwealth Savings Bank would be provided with its own statutory authority, thereby allowing a degree of separation between it and the central banking activities of the Commonwealth Bank. Again, the banks refused to entertain the idea, on the grounds that the Commonwealth Bank was not only the central bank but also a commercial bank actively engaged in competition with them for business. To leave their reserves with the Commonwealth Bank, the banks asserted, would give it a competitive advantage.

In 1929 the Australian Labor Party (ALP), led by James Scullin, won the federal election. In May 1930, the Treasurer, EG Theodore, introduced a Bill into Parliament aimed at establishing a separate central bank, to be called the Central Reserve Bank of Australia. The commercial functions of the Commonwealth Bank were to remain with the Commonwealth Bank, which would revert to being a government-owned commercial bank. Theodore stressed that the principal object in creating a separate central reserve bank was that the private banks would not agree to maintain their reserves with the Commonwealth Bank because it was a competitor of the private banks (Theodore 1930, p 1335). This proposed legislation was approved by the House of Representatives, where the government commanded a majority, but it was rejected by the Senate, which was dominated by the Opposition parties.

The Royal Commission of 1935–1937

Following the 1934 federal election, the Coalition government led by Joseph Lyons established a Royal Commission to report on the 'Monetary and Banking Systems at Present in Operation in Australia'. It strongly supported the development of central banking and the retention of the composite nature of the Commonwealth Bank, arguing that the commercial functions of the Commonwealth Bank assisted its central banking operations (Commonwealth of Australia 1937, p 224). The Royal Commission asserted that conducting monetary policy was difficult in Australia because there existed no short-term money market to speak of. Unlike the situation in Britain, where the Bank of England conducted monetary policy through market operations by raising or lowering its discount rate – the 'bank rate' – the lack of a short-term money market in Australia meant that attempts by the monetary authorities to buy and sell securities on the open market would create considerable volatility in the price of securities, and hence in yields, resulting in financial uncertainty and confusion. By adjusting the volume and terms of its commercial deposits and loans, the Royal Commission explained that the Commonwealth Bank could influence monetary conditions in Australia, and ultimately the level of economic activity and employment (Commonwealth of Australia 1937, p 202).

Several attempts were made after the release of the Royal Commission's report to obtain the banks' approval to leave their reserves on deposit at the Commonwealth Bank. Once again the banks refused, on the grounds that the Commonwealth Bank was not only the nation's central bank but their main competitor. When the ALP came to office in November 1941, it did not seek the approval of the private banks to maintain their reserves at the Commonwealth Bank. Instead, it invoked the special wartime provisions of the Australian Constitution to compel the banks to lodge up to a 100 per cent of the annual increase in their assets in Special Accounts held at the Commonwealth Bank. This mechanism – the Special Accounts procedure – together with other direct controls, including interest rate controls on deposits and loans, and controls limiting bank lending, were continued after the war through the *Commonwealth Bank Act 1945* and the *Banking Act 1945*.

The 1953 amendments to the Commonwealth Bank Act

Following the Second World War, the trading bank activity of the Commonwealth Bank experienced a significant increase in its share of total bank deposits and advances. Of total trading bank deposits, the Commonwealth Bank's share in 1948 was 7.5 per cent; it rose to 11.6 per cent in 1954 and 15.0 per cent in 1960 (Coombs 1981, p 136). In effect, within a period of 12 years, the Commonwealth Bank doubled its share of total trading bank deposits. The private banks responded by claiming that this expansion was due largely to the Commonwealth Bank not being subjected to many of the direct controls imposed on the private banks for monetary policy purposes – the Special Accounts procedure in particular, but also interest rate, lending and liquidity controls.

As a result of the favourable conditions enjoyed by the Commonwealth Bank, the private banks began to agitate for the separation of the commercial and central banking functions of the Commonwealth Bank, enlisting the support of some bank officers' associations, chambers of commerce, the press and Liberal Party backbench members of the Australian Parliament. The Commonwealth Bank, led by its Governor, Dr HC Coombs, resisted calls for separation, arguing that the commercial operations of the Commonwealth Bank strengthened its central banking functions, quoting the 1930s Royal Commission to support its case (Coombs 1981, p 133).

As the calls for separation grew louder through the early 1950s, Coombs advised the government that the commercial activities of the Commonwealth Bank could be separated from the central banking functions without enforcing the complete separation of the Bank's commercial and central banking activities. The trading bank function, for example, could be provided with its own body corporate and general manager, with the Commonwealth Bank retaining its single board of directors and common staffing arrangements for both its commercial and central banking operations (Coombs 1981, p 138). Prime Minister Menzies supported Coombs; so did the Deputy Prime Minister and Treasurer, Sir Arthur Fadden, the Leader of the Country Party (Coombs 1981, pp 138–139).

In 1953, the Commonwealth Bank Act was amended along the lines that Coombs had recommended: the name of the trading bank function of the Commonwealth Bank was changed from the General Banking Division to the Commonwealth Trading Bank and given a separate statutory authority, a similar arrangement to that provided in 1928 for the savings bank activities of the Commonwealth Bank. Steps were also taken to ensure that the Trading Bank was subjected to the same direct controls as the private trading banks, including the Special Accounts procedure. With these developments, it was argued that the private banks could no longer legitimately claim that they were being subjected to unfair competition by the Commonwealth Bank.

Menzies changes his mind

The compromise adopted in 1953 soon came under renewed attack by the advocates of separation, especially the private trading banks, supported by the Fairfax press and an increasing number of Liberal Party backbench members, particularly those holding seats in and around Sydney. Towards the end of 1956, Menzies was beginning to think that the demands for separation had reached a stage where serious consideration had to be given by the government to separating the commercial and central banking functions of the Commonwealth Bank.

At a meeting of cabinet on 23 October 1956, Menzies announced that he and Fadden would be meeting with senior representatives of the private trading banks that afternoon to review the existing bank legislation. The following day, he reported to cabinet about this meeting and said that the concerns raised by the banks would be discussed at party meetings the next day. After these meetings, Menzies announced at a press conference on 25 October that he and the Treasurer would hold further discussions with the trading banks and Treasury officials in early February 1957 to resolve the issues still in dispute.¹

The meeting with representatives of the trading banks took place on 12 February 1957. A press statement drafted by the banks after the meeting drew attention to the two major amendments to the existing legislation requested by the banks – the establishment of ‘a true and proper Central Bank entirely separated from any trading functions or activities’ and the ‘replacement of the special accounts provisions of the Banking Act by a

system of statutory reserve deposits’. The statement asserted that the ‘banks are unanimous in their opinion that these amendments are essential in the national interest and in establishing the banking system which will best serve to ensure Australia’s economic stability.’²

On 15 February, Menzies drafted a memorandum entitled ‘Banking’,³ which highlighted the dilemma he was now facing. While Menzies said that he was able to appreciate the technical issues that might confront the central bank if it no longer had the support of a trading bank, he was concerned about the growing support in the Liberal Party and among its supporters for separation. He also questioned the banks’ argument that it was unusual for central banks to operate commercial enterprises. Menzies thought the ‘analogy with other countries can ... be misleading. It does not necessarily follow that what is appropriate in, say, the United Kingdom, should be appropriate in Australia’. For instance, ‘[w]e have in Australia, no short-term money market, and, therefore, can’t employ the flexible techniques of the discount rate’. He added, however, that ‘this didn’t mean we should not be prepared to consider the case of the trading banks’. On the contrary, he thought ‘we should consider them and ... in a sympathetic way’.

At a meeting of cabinet on 19 February 1957, it was decided to separate the Commonwealth Trading Bank from the central banking function.⁴ The Trading Bank would have its own board of directors and ‘would be subject to the general directives of the Central Bank in the same way as other trading banks’. The Rural Credits Department would remain part of the central bank, while the Industrial Finance Department and the Mortgage Bank Department would join the Trading Bank. It was also agreed that ‘the Special Accounts system would be replaced by a system of reserve deposits by the trading banks with the Central Bank’. Where the Savings Bank would fit into this new structure had yet to be determined; as a commercial enterprise it seemed logical to separate it from the central bank and place it with the Trading Bank. But there was concern within the government – and among the trading banks – that a combined Commonwealth Trading and Savings Bank could pose a formidable challenge to the private trading banks.

On 24 February, Menzies wrote a second note on ‘Banking’,⁵ in which he said ‘the best thing for the banking structure, both public and private, would be to

leave it alone'. But it 'remains a matter for judgment', he continued, 'as to whether our own people will allow us to leave it alone. If through our resolution to do nothing, banking remains a burning issue, it will, I think, materially weaken our position at the next election and may well encourage our opponents not only to re-unify themselves, if that be possible, but also to promote revolutionary banking legislation in a new Parliament in the event of our defeat'. 'All these considerations', he concluded, 'would lead us to making a modicum of change provided we had the most categorical assurance from both banks and Members of Parliament that the amendments brought the whole argument to an end'. It was Menzies' 'wish' that he 'knew the right answer to this matter. On balance, my feeling is to make a settlement along the lines indicated. But I am not unaware of the dangers. I think that with the suggested amendments being made we might, before long, have the most terrible uproar from the Trading Banks about the competition from this vastly enriched Commonwealth Trading Bank. My fear [is] that in the case of some of our recalcitrant members the appetite for attacking the Government will tend to grow by what it has fed on'.

On 17 March, Menzies wrote a third note on 'Banking', containing his 'revised thought in the light' of recent party meetings and cabinet discussions.⁶ He considered that the government had become 'impaled upon the horns of a dilemma'. According to 'political judgment and experience', it was clear to Menzies that banking ought to be awarded a 'Parliamentary holiday'. And he feared that 'the introduction of what will undoubtedly be contentious banking legislation will tend to drive the two wings of the Labour Party together; and will, by making banking a sort of chronic political issue, enable the next Labour Government to pass quite extreme legislation'. At the same time, he thought it probable that 'the overwhelming majority in the [Liberal] Party will have none of this argument and are hot for banking changes'. Therefore, 'by leaving banking alone', Menzies predicted that 'we will not put the matter at rest; it will be agitated month after month by our supporters until some day we are, under the most humiliating circumstances, practically compelled to bring down proposals'. In weighing up these competing considerations, Menzies was inclined to think that 'there are no votes to be gained by legislation but many votes to be lost'. Providing the Liberal Party clearly understood his 'own view' – that he would prefer not to embark on

further banking legislation – he felt 'I must prefer unity in the Party to everything else. If, therefore, the Party can be united by banking legislation and continue to be disunited in its absence, banking legislation must be produced'.

That said, Menzies then proceeded to specify what he thought should be done. Here, he set out his thoughts as follows:

1. Changes must interfere as little as possible with the present employment structure of the Commonwealth Bank as a whole. They must not give rise to any belief that –
 - (a) the Central Bank is being weakened;
 - (b) the security of the Commonwealth Savings Bank is being impaired;
 - (c) the competitive position of the Commonwealth Trading Bank is being unduly enhanced or unduly restricted.
5. There is great intrinsic merit in the Central Bank being organically detached from competitive trading banking.
 - i. The Commonwealth Trading Bank should therefore be given a separate Board to which its manager will be responsible.
 - ii. The Rural Credits Department, being non-competitive and having no chance of existence except with Central Bank funds, should remain under the Board and Governor of the Central Bank.
 - iii. The Mortgage Bank is non-competitive with the Trading Banks since it does business they would not entertain. It deals essentially with long term finance for rural development. The Industrial Finance Department, except for its Hire Purchase activities, relates to industrial development proposals which the trading banks would not entertain. Therefore the Mortgage Bank and the Industrial Finance Department (minus hire purchase) should be grouped together into a development department under the Board and Governor of the Central Bank.
 - iv. The Hire Purchase activities of the Industrial Finance Department should go over to the Commonwealth Trading Bank.

- v. The Commonwealth Savings Bank should remain with the Commonwealth Trading Bank for all purposes of management, employment and premises.

The note of 17 March provoked an extraordinary response from Fadden, which he addressed to Menzies on 22 March 1957.⁷ Fadden did not see what could be gained from separation, claiming that it 'would not give the private banks the protection against future nationalisation which they say they need'. Nor would it 'ensure them a basis of fairer competition from the Commonwealth Trading Bank'; in fact, Fadden thought 'it could become a far more dangerous instrument of competition and a weapon of the utmost potential destructiveness in the hands of some hostile future government'. He requested Menzies 'to counsel our Cabinet colleagues and our parties against legislation. We should, I think, inform the parties that, after most prolonged and careful consideration of the issue, the Government is not prepared to take further Parliamentary action on banking'.

Menzies' immediate response to Fadden is unknown, though he was aware presumably that a vote at a joint party meeting would result in support for separation even if members of the Country Party were to oppose it. In a note addressed to Fadden on 2 April, Menzies said he agreed with Fadden that 'the wisest course in the interests of banking and of the banks would be to keep the whole subject out of politics for as long as possible. So on this matter we are completely at one'.⁸ But he said it was 'clear that, in my own Party at least, there is a substantial majority opinion demanding legislation; if this is so, then a refusal by us to produce proposals would keep the whole issue open and tend to make it more and more bitter'. It was for this reason, Menzies informed Fadden, that, '[o]n balance, my own conclusion is that we should recognise this demand, but should make it clear that the proposals put forward by us are final and that we should demand a united support for them'.

Having reached this conclusion, Menzies stressed again that he 'would like very much to counsel our Parties against legislation, and to give the powerful reasons which support that view'. But were he to do that – and he was sure that Fadden would agree – 'the whole thing would be in the newspapers the next day, our divisions of opinion would be advertised and our opposition encouraged'. In concluding the note, he said 'we should

formulate legislative proposals, applying to them our own unfettered judgment and without worrying about whether the banks have asked for them or not'. He was convinced that the key components of the legislative changes should include the separation of 'the Central Bank physically and in point of staff from the Trading Bank'; the 'Governor of the Central Bank should no longer administer the Trading Bank'; and the 'Rural Credits Department should remain with the Central Bank'.

The government's decision

Cabinet agreed at its meeting on 3 April to amend the banking legislation. The brief minutes of the meeting recorded that '[t]he central bank will be separated physically and in point of staff from the Trading Bank'; that '[t]he present Special Accounts procedure will be replaced by a system of Reserve Deposits'; and '[t]he Rural Credits Department will remain with the Central Bank'.⁹ No decision had been made on whether the Commonwealth Savings Bank would be attached to the central bank or to the Trading Bank.

Fadden wrote to Menzies on 10 April immediately after a meeting of Country Party members of Parliament, and before a joint meeting of the Coalition parties was due to take place later that day, to warn him that Country Party members (with government ministers 'refraining') had 'unanimously reaffirmed their previous unanimous decision against [the] proposed banking legislation'.¹⁰ Fadden wanted Menzies to understand that these members confirmed their '(a) Opposition to [the] proposed legislation'; and '(b) Desire future full consideration and decision of the form and scope of whatever legislation in principle is now decided upon'. He insisted, furthermore, that '[i]t must not be interpreted or accepted as "taken for granted" that silence by my Party members, for the reasons herein conveyed, is consent, or that they are in any way committed to support the nature of bank reform recommended to, and accepted by, this meeting in the absence of the fullest details of the implications and the complexities of its form and scope'.

How – and if – Menzies responded to Fadden's letter is unclear. But it appears that the joint party meeting went ahead on 10 April and that it endorsed the cabinet resolutions passed on 3 April. After that meeting, Menzies held a press conference at which he announced that the separation of the central banking and

commercial operations of the Commonwealth Bank would proceed, with the preparation of legislation beginning as soon as possible.¹¹

Parliamentary approval

The legislation to create the Reserve Bank was introduced into Parliament in late 1957 by Fadden. It passed through the House of Representatives without great drama, though the ALP opposed all 14 Separation Bills, largely on the grounds that separation would weaken the operations of the central bank. But the Coalition parties lacked a majority in the Senate. This became clear when the two Democratic Labor Party (DLP) senators and the single Queensland Labor Party (QLP) senator announced that they would be voting with the ALP to oppose separation. This meant the government parties and the combined opposition in the Senate (the ALP, the DLP and the QLP) now commanded an equal number of votes; an even vote resulted in a negative outcome and the legislation failed to pass the Senate in late 1957, and again when it was re-introduced in early 1958. The government could have sought a double dissolution of both houses of Parliament. But with a general election for all 122 House of Representatives seats and 32 of the 60 Senate seats due before the end of 1958, it was decided to wait for the scheduled election. The election was held on 22 November and resulted in majorities for the government in both houses of Parliament.

Fadden chose not to contest the 1958 election and was replaced as Treasurer by Harold Holt, who re-introduced the Banking Bills that had been presented to Parliament in 1957 and again in 1958. The Bills were approved by both houses of Parliament in April 1959, but a considerable amount of administrative work was then needed, including the allocation of staff and physical assets, before the separate institutions could begin operations. The Reserve Bank of Australia – the new name for Australia's central bank – opened for business on 14 January 1960. The commercial functions of the former Commonwealth Bank were assigned to the new Commonwealth Banking Corporation, which included three separate statutory authorities – the Commonwealth Trading Bank, the Commonwealth Savings Bank and the Commonwealth Development Bank (which comprised the former Mortgage Department and Industrial Finance Department of the Commonwealth Bank). The Commonwealth Banking

Corporation was provided with its own board of directors and Managing Director, while the three statutory bodies each had general managers.

Assessments of separation

Assessments of the outcome of separating the commercial and central banking functions of the Commonwealth Bank were largely positive. Two prominent historians of central banking, SJ Butlin and CB Schedvin, agreed that the creation of a separate central bank enhanced the effectiveness of central banking (Butlin 1983, pp 115–116; Schedvin 1992, p 290). Coombs – who was appointed Governor of the Reserve Bank – admitted that ‘the change brought me relief from the problems of reconciling different, if not conflicting purposes. It meant that a source of irritation between me and my colleagues on the one hand and our banking clientele on the other was removed. And, to be truthful, its removal was followed by a significant improvement in our working relationships with the private banks. I was able to devote my whole energies to central banking issues’ (Coombs 1981, p 140).

For the private banks, while they were more inclined after separation to accept the leadership of the Reserve Bank and its role as the nation's central bank, separation did little to arrest their declining position within the Australian financial system. The Commonwealth Trading Bank continued to increase its share of total trading bank deposits – from 14.5 per cent in 1959 to 20.8 per cent in 1970. Furthermore, the private banks lost business to the rapidly expanding non-bank financial institutions, including finance companies, building societies, merchant banks and credit unions.

While the private banks failed to win back business as a result of separation, the two clear winners from separation were Prime Minister Menzies and the Reserve Bank. For Menzies, achieving separation meant that he was able to preserve the stability of his government; indeed, at the federal election in November 1958, the Coalition increased its majority in the House of Representatives and gained an absolute majority in the Senate. For the Reserve Bank, separation meant that it could concentrate its attention on central banking issues, including the development of new operating procedures and the pursuit of its mandate of price

stability and full employment. In short, the central bank no longer had to divert its attention to commercial banking issues.

Conclusion

Several forces were responsible for the separation of the commercial and central banking functions of the Commonwealth Bank. The private trading banks were determined to see the separation of the Commonwealth Bank's commercial and central banking functions, arguing that they were experiencing unfair competition because their major competitor, the Commonwealth Trading Bank, was part of the same institution as the nation's central bank. The leading newspapers, especially *The Sydney Morning Herald*, supported the trading banks and their case for separation. An increasing number of backbench members of the Liberal Party were also influential advocates of separation. Menzies' role in the government's decision to support separation was crucial. It was his political acumen that led him to support separation and the creation of the Reserve Bank as a stand-alone central bank.

In a broader sense, it seems that Menzies believed that history was determined principally by the ideas and actions of individual men and women. Writing to the Oxford historian, AL Rowse, in August 1958, Menzies revealed that he had 'long since come to the conclusion that Diogenes was right and that at all stages and under all circumstances, we must look for a man' (Martin 1995, p 1). In the case of the separation of the commercial and central banking functions of the Commonwealth Bank – and hence the responsibility for creating the Reserve Bank – 'the man', it would appear, was Menzies himself.

Endnotes

- * Selwyn Cornish is the Reserve Bank of Australia's Historian and a Visitor at the School of History, Australian National University. The author acknowledges the assistance of Virginia MacDonald and Greg Tyler. This article is an abridged version of a paper the author delivered at the 2023 Annual Conference of the Robert Menzies Institute, University of Melbourne, 23–24 November 2023.
- 1 National Archives of Australia (NAA), A11099, 1/23, Cabinet Meeting, 23–24 October 1956.
 - 2 National Library of Australia (NLA), Ms 4936, Box 433, Folder 8, 'Draft Press Statement' by the Australian Bankers Association, 12 February 1957.
 - 3 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking', 15 February 1957.
 - 4 NAA, A4940/1, C1571, Cabinet Meeting, 19 February 1957.
 - 5 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking' 24 February 1957.
 - 6 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking', 17 March 1957.
 - 7 NLA, Ms 4936, Box 433, Folder 10, Fadden to Menzies, 22 March 1957.
 - 8 NLA, Ms 4936, Box 433, Folder 10, Menzies to Fadden, 2 April 1957.
 - 9 NAA, A571/138, 1957/1206 Pt 1, Cabinet Meeting, 3 April 1957.
 - 10 NLA, Ms 4936, Box 433, Folder 7, Fadden to Menzies, 10 April 1957.
 - 11 NAA 571/1957, 1205 Pt 2, Press Conference by Menzies, 10 April 1957.

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