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War Finance (Australia)

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Throughout the First World War, there were significant new developments in the Commonwealth government taking on the responsibility of raising loans for the majority of the states. Australia also continued to raise loans on the London Money Markets as it had been doing since the 1870s. However, the exigencies of war meant that the Imperial government actually raised an Empire-wide loan, from which it loaned money to Australia at the same rates of interests as it was paying. As the war progressed and finance became ever more scarce the British government became increasingly critical of the vast sums of money that the Australian states and also the Commonwealth were spending on lavish public works. This led to the British suggestion that both the Commonwealth and New South Wales governments raise loans in the United States. Arguments drawing upon the ties of the British World were employed successfully to persuade the Imperial government to continue facilitating war finance for Australia as it had been doing since the outbreak of war.

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Introduction

The story of war finance in [Australia](#) during the First World War is a multifaceted one with local, national, intra-imperial and international dimensions. These various dimensions operated to some extent before the outbreak of war and their consequences were felt for many decades after the end of hostilities in 1918. Some of the key points include the Commonwealth government's attempts to secure a war loan on behalf of the Australian States in the London money markets; the failure of all the states to get on board with this plan; New South Wales' efforts to raise its own loan and the difficult constitutional position in which this put the Imperial government; and the [British government's](#) suggestion to both the Commonwealth and New South Wales governments that they raise loans in the [United States](#) (US).

Historiography

The key historian who has explored the history of war finance in Australia during the First World War is Bernard Attard.^[1] One of the strengths of Attard's work is the way in which he situates this history in a broader historical context. Attard argues that for much of its history Australia had a "dependent economy." In terms of international economics theory, "a dependent economy is one that is unable to influence the prices it receives for its exports or pays for its imports; in both instances, it is a 'price-taker.'"^[2] More specifically, Australia was economically dependent on the British Empire.

Furthermore, due to London's prominence as a financial centre in the late 19th century (especially for overseas settlements) Australian colonial private and public borrowers looked to the city and British financial organisations, particularly after their need for overseas money increased considerably from the 1870s on.^[3]

Attard maintains that "[d]espite this, the scale of Australian borrowing and heavy investment in public works from the 1870s attracted growing City criticism of the colonies' apparent extravagance."^[4] The founding fathers had envisaged that the Federation of the six Australian colonies would increase the nation's credit. The Constitution did allow the new Commonwealth government to take over the country's current overseas public debt. However, the new states had no desire to hand over their borrowing rights and kept a series of economic roles which allowed them the majority of responsibility for public borrowing. In its initial years, the Commonwealth government refrained from raising any debt of its own and agreed with the states to administer all overseas public capital-raising. But by 1914 its only success was a referendum that increased the Constitution's provisions in regard to state debt raised since federation. Nevertheless, the colonies' problems in London from 1890 on had forced them to access local sources of capital more and more frequently. Still, at the outbreak of the First World War they owed £224 million in London, greater than 70 percent of their

total public debt.^[5]

Historical Context

Putting the issue of war finance into context, one of the largest wartime expenditures was pay for soldiers fighting overseas. This was a responsibility of the Commonwealth government in Canberra. However, the States were responsible for economic production, which was also crucial to the war effort – as Australia supplied a lot of [raw materials](#). Therefore, the loans that they raised either directly or indirectly were extremely important. This was especially so as loans formed the bulk of their wartime finance. Although a federal income tax was introduced in 1915 in order to help fund the war effort (there were already existing state income taxes) the amount of revenue raised through these was limited due to the small Australian population at this time. Because of this small tax base, this paper will focus on wartime loans.

1914

The story of war finance in Australia during the First World War begins quite early in October 1914. It was at this point that some of the Australian states were deciding whether to agree to a Commonwealth request to negotiate with the Imperial government on their behalf to raise a loan for wartime expenditure. The prime instigators on this front were New South Wales and Victoria although they were quite keen for Queensland to join them.^[6] Ultimately all of the states with the exception of Queensland got on board with the Commonwealth plan.^[7] This was primarily because Queensland did not need any additional finance at that time.^[8] The Governor-General of Australia, [Ronald Munro-Ferguson \(1860-1934\)](#) made quite clear in a telegram to Secretary of State for the Colonies [Lewis Harcourt \(1863-1922\)](#) later that month that the plan represented a new stage in state/Commonwealth financial relations as previously the states had taken complete charge of their finance. They nevertheless agreed to the Commonwealth plan as they believed they would be able to get better rates of interest for the repayment of their loans: “The general situation is being entirely altered...owing to the Commonwealth taking the initiative, with more or less State concurrence, as borrower in chief for Australia.”^[9]

The culmination of these efforts was the decision of the British government to facilitate finance for the Commonwealth for war expenditure. The figure was set at £18,000,000. This amount would be advanced to Australia from a broader Imperial government loan and it would pay the same rate of interest as that of the British government. However, it was stressed that the money advanced would be for war expenditure only, not for infrastructure projects.^[10] The subsequent agreement between the Commonwealth and the state governments gave the greatest share of this loan to New South Wales, which was followed by Victoria, Western Australia, South Australia and Tasmania.^[11]

1915

In 1915 the situation of New South Wales and Queensland was reversed, with the former deciding not to join its sister states in a subsequent Commonwealth/state collective plan to secure war finance, while the latter came on board at this stage.^[12] This was mainly due to the fact that New South Wales believed that it was receiving a disproportionate share of the Commonwealth loans considering the size of its economy (it contributed a significant share to the nation's wealth) and that it could secure greater loans on its own. This created an extremely difficult situation for the Imperial government as it did not want to be drawn into a constitutional disagreement between the Commonwealth and New South Wales governments, but at the same time recognised that it had an obligation to assist the latter even though the former opposed this in quite strong terms.^[13] The Imperial government's dilemma was expressed in a telegram from Andrew Bonar Law (1858-1923), the Secretary of State for the Colonies to Munro-Ferguson in late 1915:

Your Ministers' suggestion that during the war His Majesty's Government should treat only with Commonwealth Government in regard to Australian borrowing appears...likely to raise important constitutional issue as to powers of State Governments on which it would be undesirable that His Majesty's Government should express an opinion.^[14]

Ultimately the British government decided to offer loans to both the Commonwealth and New South Wales governments, to the strong displeasure of the former.

1916

The scarcity of finance as the war progressed meant that the British government became more reluctant to facilitate ever increasing loans for the Australian Commonwealth and New South Wales;^[15] the former was particularly critical of the latter for spending large amounts of the loans it supposedly secured for war purposes on massive public works programs.^[16] However, the Imperial government in turn criticised both for the amount of money that was spent on public works at the end of 1916 when Britain was facing a financial crisis and a serious balance of payments problem.^[17] The British government was particularly scathing of both the Commonwealth and New South Wales governments on this issue as it had stopped all expenditure on public works in the "mother-country" very soon after the outbreak of war in late 1914. The Imperial government's position was illustrated in a further telegram from Bonar Law to Munro-Ferguson in late 1916: "Australia can render most effective assistance...by enforcing rigid economy in all expenditure for non-war purposes, particularly in the drastic curtailment of expenditure on public works of all kind."^[18]

The Commonwealth government continued for its part to oppose the way in which the New South Wales government was able to raise loans on the London money markets through the acquiescence of the British government. They strongly believed that it was unfair that the other states had to exercise economy as demanded by the Commonwealth government in order to receive their share

of the loans arranged on their behalf, when New South Wales appeared to be spending vast amounts of money on lavish infrastructure programmes.

1917

The ever-growing burden of wartime expenditure led the British government to suggest that the Commonwealth and New South Wales governments turn to the U.S. to raise war loans, which it was also doing.^[19] The [Australian government](#) was hostile to this recommendation as it thought it would lead to a weakening of ties between Australia and Britain and would push the former into the American sphere. Munro-Ferguson expressed the Australian government's view in a telegram to [Walter Long \(1854-1924\)](#), the Secretary of State for the Colonies in early 1917: "Decision of Treasury that Commonwealth should go to America for money has much disturbed Prime Minister...In his opinion proposal strikes vital blow at relations between Britain and Australia."^[20] The Commonwealth government was also not happy about the prospect of New South Wales being able to borrow unlimited sums on the American market, which would in its opinion do nothing to limit New South Wales' extravagant expenditure on public works.^[21] The Imperial government ended up actually providing more funds to both the Commonwealth and New South Wales governments because the way in which they (New South Wales in particular) were attempting to raise loans through speculation in the U.S. risked damaging the British government's own efforts at securing funds in that country.^[22]

Both the Commonwealth and New South Wales governments continued to request further loans from the Imperial government before the end of the war. Even though the Imperial government was still critical of the level of expenditure in Australia on public works it recognised that political considerations meant that some further assistance should be given.^[23] This recognition was on display in a telegram from [John Bradbury \(1872-1950\)](#), Secretary to the Treasury, to [George Fiddes \(1858-1936\)](#), Under-Secretary of State, Colonial Office in August 1917: "From the purely economic and financial point of view I think our proper course would be to refuse them any further accommodation...On the other hand the political situation in Australia is undoubtedly difficult, and it is not possible to leave it out of account."^[24] The Commonwealth and particularly the New South Wales governments were adept at implicitly linking Australia's continued support for the war to its ability to fund major public infrastructure projects, as this kept extreme trade union activism at bay.^[25]

1918

The last year of the war brought some fascinating developments in terms of war finance in Australia. First, the amounts requested by the states significantly decreased (this was primarily a reflection of the fact that the public works that had been in construction during the war were nearing completion) and second some of the Australian states started to raise loans locally rather than request the Commonwealth government raise loans on its behalf in London. Victoria was a prominent example in

this regard. New South Wales continued to raise its own loans in London.^[26] However, as the year progressed, there were signs that this position was going to shift with New South Wales now expressing its willingness to rejoin its sister states in delegating to the Commonwealth the responsibility to raise finance on their behalf in London. This was much appreciated by its sister states as Commonwealth Treasurer William Watt (1871-1946) expressed at a Commonwealth/States Conference in July 1918: "The other States had always felt that the free hand the Government of New South Wales claimed was anomalous and inequitable."^[27]

Again Attard is very useful in putting Australia's experience with war finance during the First World War in a broader historical context. He argues that

[a]fter August 1914, Australian governments had to canvass strenuously to retain access to the London capital market and enter into co-operative borrowing arrangements...As well as borrowing for the States, the Commonwealth for the first time acquired a substantial overseas debt of its own.^[28]

“British World” Context

Putting the issue of war finance in Australia during the First World War in a broader “British world”^[29] context Australia was not the only Dominion, which requested the Imperial government's assistance in facilitating the raising of loans on the London money markets. Canada, New Zealand and South Africa also made demands on the British government. Thus, the Imperial government had competing requests for assistance with ever diminishing financial resources as the war progressed. Canada, the largest Dominion, in particular was a strong competitor against Australia in not only financial terms, but also in a broader trade sense. The main difference between Canada and Australia was that the Canadian federal government only asked for money for itself, not on behalf of the Canadian provinces. The latter were expected to raise money in the local Canadian financial market.^[30] In contrast, as outlined above, the Australian Commonwealth government actually only asked for money for its states - it intended to raise its own funds from the local Australian financial market.^[31]

Conclusion

Throughout the war, there were significant new developments in the Commonwealth government taking on the responsibility of raising loans for the majority of the states. Australia also continued to raise loans on the London Money Markets as it had been doing since the 1870s. However, the exigencies of war meant that the Imperial government actually raised an Empire-wide loan, from which it loaned money to Australia at the same rates of interests as it was paying.

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Commonwealth and New South Wales governments raise loans in the U.S. Arguments drawing upon the ties of the British World were employed successfully to persuade the Imperial government to continue facilitating war finance for Australia as it had been doing since the outbreak of war.

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Notes

1. ↑ Attard, Bernard: Financial Diplomacy, in: Bridge, Carl/Attard, Bernard (eds.): *Between Empire and Nation: Australia's External Relations from Federation to the Second World War*, Melbourne 2000; Attard, Bernard: *Australia as a Dependent Dominion, 1901-1939*, in: Bridge, Carl/Pfisterer, Susan (eds.): *Working Papers in Australian Studies*, No. 115, London 1999; Attard, Bernard: *Politics, Finance, and Anglo-Australian Relations: Australian Borrowing in London, 1914-1920*, London 1988.
2. ↑ Quote taken from Attard, *Australia as a Dependent Dominion* 1999, p. 4.
3. ↑ *Ibid.*, p. 6.
4. ↑ Quote taken from Attard, *Financial Diplomacy* 2000, p. 111.
5. ↑ *Ibid.*, p. 111. Ernest Scott's multivolume official history of Australia and the First World War also covers the issue of War Finance. Scott's work is still considered the standard treatment of the history of Australia and the First World War. See: Scott, Ernest: *Official History of Australia in the War of 1914-1918: Volume XI - Australia During the War*, St. Lucia, Queensland 1936.
6. ↑ The National Archives [TNA], T 1/11903, Paraphrase of Cablegram from Chief Secretary, Queensland Government to Agent-General for Queensland's Office, London, UK, 15 October 1914.
7. ↑ TNA, CO 418/133, Paraphrase Telegram from Ronald Munro-Ferguson, Governor-General of Australia to Lewis Harcourt, Secretary of State for the Colonies, 16 October 1914, p. 377.
8. ↑ TNA, T 1/11903, Paraphrase of Cablegram from Chief Secretary, Queensland Government to Agent-General for Queensland's Office, London, UK, 15 October 1914.
9. ↑ TNA, CO 418/133, Cablegram from Munro-Ferguson to Harcourt, 21 October 1914, pp. 304-5.
10. ↑ Harcourt Papers, MS. Harcourt 468, Copy of Treasury Minute dated 17 November 1914 relating to "Advances to His Majesty's Self-Governing Dominions," 19 November 1914, p. 236.
11. ↑ TNA, T 1/11903, Copy of Memorandum of Agreement between the Commonwealth and the States of New South Wales, Victoria, South Australia, Western Australia and Tasmania dated 5 November 1914, 18 January 1915.
12. ↑ TNA, CO 148/143, Telegram from Munro-Ferguson to Bonar Law, 10 November 1915, p. 134.
13. ↑ TNA, CO 418/143, Telegram from Bonar Law to Munro-Ferguson, 22 October 1915, p. 314.
14. ↑ TNA, CO 418/143, Andrew Bonar Law, Secretary of State for the Colonies to Munro-Ferguson, 22 October 1915, p. 314.

15. ↑ TNA, CO 418/145, Paraphrase Telegram from Bonar Law to Munro-Ferguson, 1 August 1916, p. 244.
16. ↑ TNA, CO 418/144, Paraphrase Telegram from Munro-Ferguson to Bonar Law, 3 January 1916, p. 4.
17. ↑ TNA, CO 418/154, Telegram from Bonar Law to Munro-Ferguson, 7 December 1916, pp. 498-500.
18. ↑ TNA, CO 418/154, Telegram from Bonar Law to Munro-Ferguson, 7 December 1916, p. 500.
19. ↑ TNA, CO 418/165, John Bradbury, The Secretary, Treasury to The Under Secretary of State, Colonial Office, 5 January 1917, p. 465.
20. ↑ TNA, CO 418/157, Paraphrase Telegram from Munro-Ferguson to Walter Long, Secretary of State for the Colonies, 13 January 1917, p. 77.
21. ↑ TNA, CO 418/157, Paraphrase of Telegram from Munro-Ferguson to Long, 7 January 1917, TNA, CO 418/157, Paraphrase Telegram from Munro-Ferguson to Long, 13 January 1917.
22. ↑ TNA, CO 418/165, Telegram from Bradbury to G.V. Fiddes, Under Secretary of State, Colonial Office, 9 March 1917, pp. 496-498.
23. ↑ TNA, CO 418/165, Telegram from Bradbury to Fiddes, 8 August 1917, pp. 593-5.
24. ↑ TNA, CO 418/165, Telegram from Bradbury to Fiddes, 8 August 1917, p. 594.
25. ↑ TNA, CO 418/165, Telegram from W.A Holman, Premier of New South Wales to Bradbury, 25 July 1917, pp. 596-7.
26. ↑ TNA, CO 418/169, Telegram from Munro-Ferguson to Long, 31 January 1918, p. 126.
27. ↑ TNA, CO 418/170, Munro-Ferguson to Long, 27 July 1918, p. 82.
28. ↑ Quote taken from Attard, *Financial Diplomacy* 2000, p. 113.
29. ↑ This was a worldwide community of British peoples, primarily centered on the United Kingdom, and the British Settler Societies of Australia, Canada, New Zealand, and South Africa.
30. ↑ For more on Canada and finance see Smith, Andrew: *Patriotism, Self-Interest, and the 'Empire Effect': Britishness and British Decisions to Invest in Canada, 1867-1914*. *The Journal of Imperial and Commonwealth History* 41/1, pp. 59-80.
31. ↑ For more on the "British world" and finance see Dilley, Andrew: *Finance, Politics, and Imperialism: Australia, Canada, and the City of London, c.1896-1914*, Basingstoke 2011.

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