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Financing growth: new issues by Australian firms, 1920-1939

David Merrett
University of Melbourne

Simon Ville
University of Wollongong, sville@uow.edu.au

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D. T. Merrett and S. Ville

University of Melbourne and University of Wollongong

David Merrett
Department of Management and Marketing,
Faculty of Economics and Commerce
University of Melbourne
Victoria 3010
AUSTRALIA

+61 3 8334 5337

Corresponding author: David Merrett, dtm@unimelb.edu.au

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Abstract

An expanding economy, new technologies and changing consumer preferences provided growth opportunities for firms in interwar Australia. This period saw an increase in the number of large-scale firms in mining, manufacturing and a wide range of service industries. Firms unable to rely solely on retained earnings to fund expansion turned to the domestic stock exchanges. This paper draws upon a new data set of capital raisings constructed from reports of prospectuses published in the financial press. It concludes that many firms used substantial injections of equity finance to augment internally generated sources of funds. That they were able to do so indicates a significant increase in the capacity of local stock exchanges and an increased willingness of individuals to hold part of their wealth in transferable securities.

Introduction

The financing of Australian industry in the inter-war period has been largely ignored.[1] Such neglect contrasts with Butlin's magnum opus on economic development in the second half of the nineteenth century, which placed the interaction between financial

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We would like to thank Andrew Parnell yet again for his exemplary research assistance. Thanks also to Helen Hu for her help.

[1] The exceptions are Colin Forster, *Industrial Development in Australia 1920-1930* (Canberra, 1964) and F. U. McGee, "Australasian business finance," *Economic Record* 3 (1927).

institutions and investment at the centre of its narrative.[2] Unlike their British and American counterparts, Australian economic historians have not pursued the interplay between business expansion and the ability of financial markets to bring borrowers and investors together.[3] That literature includes a consideration of key questions about the establishment of workable systems of corporate governance that gave investors the confidence to hold securities.[4]

Recent research has highlighted the growth of 'big business' in Australia during the twentieth century, a phenomenon arising from a combination of a changing technological frontier and the profit opportunities available to firms making the appropriate investments in production, distribution and managerial hierarchy.[5] The inter-war years were notable for the emergence of important new industries including iron and steel, non-ferrous metals, car bodies and assembly plants, aircraft manufacture, home appliances, rubber tires, petrol distribution, electricity generation and distribution, a range of branded packaged foodstuffs such as breakfast cereals, and cinema chains. Department and chain stores spread rapidly taking market share from independent merchandisers. The finance industry was hungry for capital. Banks,

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[2] Noel G. Butlin, *Investment in Australian Economic Development, 1861-1900* (Cambridge, 1964).

[3] See for instance, Ranald Michie, *The Global Securities Market* (Oxford, 2006), *Idem, The London Stock Exchange: A History* (Oxford, 1999); Jean-Jacques van Helten, and Youssef Cassis, eds, *Capitalism in a Mature Economy: Financial Institutions, Capital Exports and British Industry, 1870-1939* (Aldershot, 1990); Philip Cottrell, *Industrial Finance 1830-1914: The Finance and Organization of English Manufacturing Industry* (London and New York, 1980); Leslie Hannah, *The Rise of the Corporate Economy* (London and New York, 1983), 2nd ed., chapter 6; Alexander T. K. Grant, *A Study of the Capital Market in Post-War Britain* (London, 1937); Ronald F. Henderson, *The New Issue Market and the Finance of Industry* (Cambridge, 1951); Mary A. O'Sullivan, "Funding New Industries: A Historical Perspective on the Financing Role of the U.S. Stock Market in the Twentieth Century", in Naomi R. Lamoreaux and Kenneth L. Sokoloff, eds, *Financing Innovation in the United States, 1870 to the Present* (Cambridge, MA., 2007), 163-216.

[4] Leslie Hannah, "Pioneering Modern Corporate Governance: A View from London 1900", *Enterprise and Society* 8 (2007): 642-86.

[5] G. Fleming, D. T. Merrett and S. Ville, *The Big End of Town: Big Business and the Rise of Corporate Leadership in Twentieth-Century Australia* (Cambridge, 2004).

insurance companies and stock and station agents serving the pastoral industry all raised fresh capital to build the footings of their balance sheets.

This paper explores the extent to which this dynamism and expansion in the economy was dependent on the ability of Australian businesses to make new issues on the local stock exchanges during the inter-war period.[6] To understand the role of the new issues market in this period, we begin by explaining the development of the Australian stock exchanges from the late nineteenth century under the influence of British investments, law and institutions. Important elements of the growing maturity of the Australian stock market between the wars and their relevance to new issues is then examined. The size of the market reflected the demand for funds by governments and business and the appetite of investors for securities compared with other forms of assets. Investors became increasingly willing to hold transferable securities for a number of reasons. Firms offered a variety of types of securities — debentures, preference and ordinary shares — that provided choices of risk. Investors were drawn to the market as their confidence in securities rose. The market was sufficiently well informed about the value of securities through daily trading and at a deeper level by a combination of the audit of company accounts, directors protecting their reputations, and a vigilant financial press, to entice individuals to hold more of their wealth in transferable securities. The stock exchanges improved their governance of the behaviour of their members and gradually tightened listing rules. The extent of the new issues market is reported and discussed in the subsequent section. Our estimates of the number of new issues, the amount sought, and the amount raised each year between 1920 and 1939 are presented. We then discuss the allocation of the funds

[6] Australian had six stock exchanges, one in each state. They did not merge into a national exchange, the ASX, until 1987. Edna Carew, *National Market, National Interest: The Drive to Unify Australia's Securities Markets* (Crows Nest, 2007).

raised between industries and sectors, relate this to shifts in national income and capital formation, and consider the motives of firms seeking new issues.

1. The Rise of the Securities Market before 1918

Stock exchanges emerged in Australia in the second half of the nineteenth century. Their institutional development was heavily influenced by the British connection based on trade, investment, migration, and Empire. Australia adopted, with lags, the basic tenets of British company registration and the rules governing their behaviour. Before World War One, Australia's stock exchanges were smaller and primitive versions of provincial exchanges in Great Britain. Both were overshadowed by the emergence of the London Stock Exchange as the world's largest securities market whose operations were crucial to the export of British capital.[7] Australian governments and businesses issued securities in London.[8] Moreover, many British 'free standing' companies raised capital in London to fund their business activities in Australia, particularly in banking, insurance and pastoral financing.[9]

The stock exchanges' principal business before 1914 was in mining stock, most of which were highly speculative. Hope triumphed over reason making gullible investors prey for unscrupulous promoters because nearly all mining stocks were listed at 'too early a stage of their development, before the worth of the reserves was established.'[10] The number of 'investment' class securities in railways, banks, breweries and the like

[7] Michie, *London Stock Exchange; Idem, Global Securities Markets.*
[8] Alan R. Hall, *The London Capital Market and Australia 1870-1914* (Canberra, 1963)..
[9] Mira Wilkins, "The Free-Standing Company, 1870 - 1914: An Important Type of British Direct Foreign Investment," *Economic History Review*, 2nd series 41 (1988)
[10] Michie, *London Stock Exchange,* 266.

grew slowly.[11] A single exchange emerged in each colony as competition between rival provincial and city exchanges sorted out the strongest.[12] The 1880s boom was marked by a sharp increase in the number of securities and the volume of trading. The level of activity was heightened by a large inflow of British investment in local stock, particularly banks, stock and station agencies, and mining. The collapse of the boom in the early 1890s saw a heavy fall in stock values and a sustained withdrawal of British funds. There was a sharp decline in the value of Australian securities held by British investors between 1899 and 1913 of £76m despite heavy investments in West Australian goldfields in the 1890s and a modest resumption of portfolio investment in the decade before 1914.[13] An important link between British investors and the Australian economy had been broken. A connection was maintained, however, by Australian mining interests, such as the Collins House Group, who purchased seats on the London Stock Exchange to maintain links with British capital.[14]

However, the flow of investment increasingly took place via another conduit, foreign direct investment. A growing market and rising incomes pulled in market-seeking investments.[15] The process was evident before World War One with the entry of subsidiaries of multinationals such as Lever Brothers, Michelin Rubber, National Cash Register, Vacuum Oil and others who had registered as local firms.[16] Manufacturing attracted the lion's share of investment by British and American

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[11] Alan R. Hall, *The Stock Exchange of Melbourne and the Victorian Economy1852-1900* (Canberra, 1968).
[12] Australian Associated Stock Exchanges, *The Role and Functions of the Australian Stock Exchanges*. (Sydney, 1981), Appendix B, 'The Development of Stock Exchanges in Australia', 238-62.
[13] Robert L. Nash, *Australasian Joint-Stock Companies Year-Book* (Sydney), 1898 and 1913-14; Hall, *London Capital Market and Australia*, Table II, 206.
[14] Peter L. Richardson, "Collins House Financiers" in Reginald T. Appleyard and C. Boris Schedvin, eds, *Australian Financiers: Biographical Essays* (Sydney, 1988), 226-53.
[15] John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham, UK, 2008), 179-83.
[16] Nash, *Australasian Joint Stock Companies*, 1913-14 edition.

firms.[17] A broad brush measure of the magnitude of these flows is the growth in the share of world FDI situated in Australasia and South Africa from three to eight per cent between 1914 and 1938.[18]

The breaking of the long drought of 1896-1902 and a recovery in export prices underpinned a decade of prosperity before World War One. Large scale immigration and heavy government spending on infrastructure works were resumed. An improved economy stimulated the stock exchanges. Governments, still smarting from their loss of reputation in London, turned increasingly to the local market. There was a substantial growth in the market for local securities. Nash estimates that the value of securities held within Australia and New Zealand rose by £52m between 1899 and 1913.[19] Local investors bought shares sold by British investors increasing the holdings of securities in household portfolios. In Melbourne the number of securities was smaller in 1907 than at the end of the boom in the 1880s but their nominal value had risen.

Table 1 here

Australian businesses had turned eagerly to incorporation from the turn of the twentieth century to claim the benefits of limited liability, and in some cases also to tap external sources of funding. They were early adopters of this new corporate form. Hannah estimates that in 1900 nearly three-quarters of the world's corporations, approximately 90,000, were in the United States and Great Britain. The numbers fell away sharply thereafter, more than four thousand in Japan, 1,300 in India and 'many

[17] Forster, *Industrial Development,* Donald T. Brash, *American Investment in Australian Industry* (Canberra, 1966), Appendix A, 289-327.
[18] Dunning and Lundan, *Multinational Enterprise,* Table 6.2, 175.
[19] Nash, *Australasian Joint-Stock Companies,* 1899 and 1913-14 editions.

in Canada, southern Africa, Latin America, Australasia and elsewhere.'[20] We can be more precise about the Australian numbers. In 1901 there were 1,575 incorporated companies registered in Australia, 504 in non-mining and 1,071 in mining.[21] Importantly, there were another 511 companies operating in Australia that were registered in the United Kingdom, most of which were engaged in the Western Australian goldfields. Within a decade the number of Australian registered companies had risen to 3,112, with 2,320 in non-mining and 792 in mining industries.

World War One profoundly influenced the size and character of the Australian securities market. Trade and finance were initially thrown into confusion with the outbreak of hostilities. The various stock exchanges dithered about whether they should close and for how long, with Adelaide re-opening before Melbourne. The markets were suspended from 1 August until late September, a shorter time than in Britain or Europe.[22] Restrictions on 'time bargains' were relaxed by Christmas.[23] However, the conduct of the exchanges was subject to important restrictions imposed in the *War Precautions Acts* passed in October 1914. Approval was required for registering a company, increasing nominal or authorized capital, or making calls on shares. New issues also needed the approval of the Commonwealth Treasurer. These restrictions were not repealed until 1922.[24] Subjects of countries at war with Britain were required to forfeit their shares in Australian companies to the public trustee. Denying the enemy access to Australian produce was to have important consequences for the stock exchanges. Australia had strong trade links with Germany, particularly in

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[20] Hannah, "Pioneering Modern Corporate Governance", 645-6 and note 11,
[21] Nash, *Australasian Joint Stock Companies*, 1902 edition, passim.
[22] Michie, *Global Securities Market*; *Idem, London Stock Exchange.*
[23] R. M. Gibbs, *Bulls, Bears and Wildcats: A Centenary History of the Stock Exchange of Adelaide* (Adelaide, 1988), 191.
[24] Geoffrey Sawer, *Australian Federal Politics and Law 1901-1929* (Melbourne, 1956), 135 and 195.

the metals trade. The Australian government was most concerned to stop the export of base metals to German smelting companies and to promote local metal production.[25]

The British Government indicated that Australia should bear the burden of its war effort from its own resources. Individuals rather than financial institutions or companies purchased government bonds. Patriotic fervour led to 833,752 subscriptions to the ten War and Peace Loans. Those of limited means could purchase the inscribed stock or Treasury bonds in £10 instalments. From February 1917 more than a million war savings certificates which were issued in denominations from £1 to £1,000 were taken up. These investments came free of tax and were to mature from 1923 onwards.[26] A new class of investor had been born.[27]

2. The Interwar Securities Market

2.1 Growth and diversification of securities

The inter-war period saw a sustained growth in the number of listed securities and in the volume of business transacted. The larger firms incorporated as public companies increasingly went to the Stock Exchanges to list their securities. Doing so provided signalling benefits to potential investors. These firms were able to meet the listing requirements, which provided investors with some element of safety, and their securities offered liquidity at a market-based price. Data about the number of 'industrial' securities listed between the wars on the two largest exchanges, Melbourne and Sydney, is shown in Table 1. The number of shares and debentures

[25] Ernest Scott, *Australia During the War* (Melbourne, 1936), chapter 15.
[26] C. C. Faulkner, *The Commonwealth Bank of Australia* (Sydney, 1923), chapter 9.
[27] Gibbs, *Bulls, Bears and Wildcats,* 227.

listed more than doubled from 472 in 1919 to 950 in 1939. While the paid up value of those securities rose even faster, from £166m in 1919 to £485m in 1939.

The composition of securities listed had changed irrevocably from pre-war years. Government securities were the largest section of the market in terms of capitalization. The value of government securities domiciled within Australia had risen by £252m between 1913 and 1919 and grew by another £346m between 1919 and 1939.[28] The value of government securities as a proportion of all securities in Australia was over 70 per cent in the inter-war years compared with around a third in Britain.[29] There was also a significant shift within the types of securities issued by the private sector. Mining stocks, once the mainstay of the market, fell away both absolutely and relatively to the expanding 'industrials'. Australian exchanges had been a haven of speculation, particularly in mining stocks whose values rose under the influence of rumour and fraud and fell back under the weight of short selling.[30] Even in the 1930s shares in gold companies traded on the Perth exchange attracted 'scams and sharp practices aplenty.'[31] At the outbreak of World War One the chronicler of the Melbourne stock broking firm of J. B. Were opined that 'investment interest had not yet spread through all classes of the community.'[32] The demand for securities rose under the stimulus of rising prosperity in the 1920s and the prior experience of entry into the market with risk free government securities offering an attractive yield. Don Lamberton's index of the price of industrial and commercial shares listed on the Sydney Stock Exchange had doubled between 1900 and 1919 and then trebled

[28] Matthew Butlin, "A Preliminary Annual Database 1900/01 to 1973/74" Research Discussion Paper 7701 (Reserve Bank of Australia, Sydney), Table IV.15, 104-6.
[29] Gordon R. Bruns, *The Stock Exchange* (Melbourne, 1961); Michie, *London Stock Exchange,* 270.
[30] Gibbs, *Bulls, Bears and Wildcats*.
[31] Graeme Adamson, *Miners and Millionaires: the First One Hundred Years of the People, Markets and Companies of the Stock Exchange in Perth 1889-1989* (Perth 1989), 54.
[32] A. T. Ellis, *The House of Were* (Melbourne, 1954), 173.

between 1920 and 1939, despite falling sharply between 1929 and 1931.[33] At the margin the demand for securities exceeded the supply offered by the exchanges. The committees of most of the exchanges tried to choke this excess demand by prohibiting its members from engaging in 'curb trading' of mining stocks and lobbying governments to outlaw the door to door hawking of unlisted securities, both of which became increasingly frequent in the 1930s.[34]

The 1930s provided challenges and opportunities for the stock exchanges. The immediate effect of the depression was to dampen trade. Share prices fell heavily as company profits shrank, dividends were cut and investors liquated their positions. However, policy decisions by the Australian and British governments helped the stock exchanges position themselves as the economy recovered. At the margin, shares became a more attractive option for investors than bonds. The Premiers Plan adopted by Commonwealth and States in 1931 reduced interest on bank deposits, government bonds, mortgages and rents offering equality of sacrifice across a community with unemployment of over 25 per cent. The gap between the reduced bond yields, which had lost their tax free status in the 1920s, and those offered on shares widened in favour of the latter. Moreover, the price of gold rose dramatically after Britain left the gold standard in May 1931, sparking a rush of gold mine floatations and a revival in trade in mining shares.

2.2 Institutional Development of Stock Exchanges

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[33] Don Lamberton, "Some Statistics of Security Prices and Yields in the Sydney market, 1875-1955", *Economic Record* 34 (1958), Table 3, 259.

[34] Ellis, *Were*; Graeme Adamson, *A Century of Change: The First Hundred Years of the Stock Exchange of Melbourne* (South Yarra, 1984); Idem, *Miners and Millionaires;* Gibbs, *Bulls, Bears and Wildcats*; Stephen Salsbury and Kay Sweeney, *The Bull, the Bear and the Kangaroo: the History of the Sydney Stock Exchange* (Sydney, 1988).

The capacity of the stock exchanges to handle a significantly larger securities market increased in the inter-war years. The number of members of the Sydney exchange rose from 68 in 1918 to 100 by 1939.[35] Within the offices of broking firms, the number of partners and back office staff rose. Brokers became connected to the floor of the exchange and to their clients via telephones and later by the use of teleprinters. The extension of interstate phone lines allowed for connection between local exchanges. Entrepreneurial spirits like Staniforth Ricketson of J. B. Were, took the lead in introducing new and improved services to clients, including underwriting industrial stocks and setting up investment trusts. His firm also opened an office in London in 1928, and to the chagrin of the Sydney brokers actively sought business in their market.

There were important steps towards the creation of a national securities market. A series of inter-state conferences, beginning in 1903, sought to find common ground amongst six sets of listing rules and brokerage charges while addressing differences among brokers from different exchanges. World War One placed greater responsibilities upon the exchanges through their vital role in the issuance and trading of government bonds. It thrust them into an unaccustomed prominence and brought a greater urgency to being able to speak with a single voice on issues of national importance. Interstate conferences continued throughout the 1920s and 1930s leading to agreement on many issues. Brisbane came into line with the other exchanges on reciprocal listing in the early twenties. In an attempt to stop the bears forcing down prices in July 1930 the Adelaide, Melbourne and Sydney outlawed ‘time bargains’.

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[35] Salsbury and Sweeney, *Bull, Bear and Kangaroo,* 241.

Listing requirements, particularly with respect to mining stocks, were tightened during the 1930s. By 1937 the exchanges had set up the Australian Associated Stock Exchanges to act as a national body.[36]

2.3 Business demand for funds

The dilemma for firms wishing to take advantage of the new business opportunities arising across many parts of the economy was that retained earnings might not be sufficient to fund expansion, particularly for episodic lumpy investments in those emerging industries which used capital-intensive and science-based technologies. Paradoxically, the high profits earned in the 1920s provided more funds but also fuelled the appetite for even more capital.[37] Those firms that had already exploited their first mover advantages to achieve a position of market dominance had a stream of high earnings on which they could draw. The greatest challenges faced firms wishing to make the initial investments to capture the economies of scale that could propel them into a dominant market position.[38] Managers and the providers of external funds had asymmetric information about the risks and payoff from investments, a situation that led external providers to over estimate the risks and underestimate the rewards. Firms that were newer, less profitable and less well known faced greater obstacles in attracting additional share capital. They were seen as riskier propositions to external providers of capital, reducing the amount they could borrow and increasing its cost.[39]

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[36] Gibbs, *Bulls, Bears and Wildcats,* 148, 184, 214 and 276; Salsbury and Sweeney, *Bull, Bear and Kangaroo,* 198, 206-7, 209 and 287; Robert Murray and Kate White, "Staniforth Ricketson" in Appleyard and Schedvin, eds, *Australian Financiers*, 309-30.
[37] Simon Ville and David T. Merrett, "A Time Series for Business Profitability in Twentieth-Century Australia" *Australian Economic Review*, 39, 3 (2006): 330-9
[38] Fleming, Merrett and Ville, *Big End of Town*, 84-88.
[39] Jonathan B. Baskin and Paul J. Miranti, Jr, *A History of Corporate Finance* (Cambridge, 1997). Ch. 5.

The stock exchanges were a growing source of funds for business. The development of wider and deeper markets allowed investors to lay off risk by diversifying their portfolios across a range of listed firms. Those enterprises that were not incorporated or listed were condemned to a narrower range of financing options. All was not lost for the fortunate few. As Ricketson noted, 'quite a number of public companies owe their establishment and expansion to the enterprise of strong industrial or finance groups, which have originated and developed new enterprises, bringing them to the stage of assured success before asking for public capital.'[40] BHP, the Collins House Group of companies, and ICIANZ nurtured their associated and subsidiary companies up and down stream in this fashion.[41] Occasionally, stock brokers acted as intermediaries between the founders of the company, or a promoter, and new investors.[42] More commonly, as the Chairman of the Sydney Exchange asserted, the principals raised capital 'from friends or from people who knew the business.'[43] The case of Sir Frank Beaurepaire's Olympic Tyre & Rubber Company illustrates the point. A champion swimmer, he financed his first venture in 1922, the Beaurepaire Tyre Service, with his share of a £5,000 reward for rescuing a victim of a shark attack at Coogee Beach in Sydney and with money from his brother-in-law. The business flourished. By 1933 he registered it as a proprietary company, Olympic Tyre & Rubber Co. P/L, receiving assistance from a J. T. Vinton Smith in 'disposing of his first group of shares' to outside investors including R. G. Menzies, a future Prime

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[40] Ricketson, *Evidence*, *Royal Commission on Money and Banking, 1935-37* (hereafter *RCMB*), 4 September 1936.

[41] Department of National Development, *The Structure and Capacity of Australian Manufacturing Industries* (Melbourne, 1952), 168-76; Richardson, "Collins House Financiers"; William J. Reader, *Imperial Chemical Industries: A History* (London, 1975), Volume 2, 207-12.

[42] William F. Woods, Chairman of Stock Exchange of Melbourne, *Minutes of Evidence, RCMB,* 10 March, 1936; and Eric G. Blackmore, Chairman of the Sydney Stock Exchange, *Minutes of Evidence, RCMB,* 8 May, 1936.

[43] Blackmore, *Evidence, RCMB.*

Minister.[44] However, there were only 27 shareholders, with Beaurepaire, his father and sister, holding the majority of the stock. Within a year the company, needing substantial fresh capital, converted to public company status.[45]

Securities in proprietary companies were highly illiquid. Often, sales required the permission of the directors, could be made only to existing shareholders and at a price determined by the directors.[46] Norman Rydge advised his readers to 'leave unlisted stocks for the other fellow.'[47] Not all heeded his advice, and those that did not were neither naïve nor greedy. For instance, there was sufficient interest for members of the Stock Exchange of Melbourne to defy its committee by trading unlisted securities within the exchange call room in the 1930s.[48] Melbourne's leading stock broking firm, J. B. Were, operated a large investment trust, Australian Foundation Investment Company Limited, which held 21 unlisted securities in its portfolio.[49] For some, 'insider' knowledge acquired by previous relations with the principals through social or business networks more than offset the downside of illiquidity.[50] The latter consideration may be transitory. As the Beaurepaire case demonstrated, trading unlisted shares could lead to the establishment of a market, leaving the original investors with freely traded securities in a highly profitable company.

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[44] Graham Lomas, *The Will to Win: The Story of Sir Frank Beaurepaire* (London, 1960), 109.
[45] Lomas, *Will to Win*, 71-78, 102-3, 109 & 114. The Beaurepaire family held 23 per cent of the ordinary shares in 1954. Edward L. Wheelwright, *Ownership and Control of Australian Companies: A Study of 102 of the Largest Public Companies Incorporated in Australia* (Sydney, 1957), 194-5.
[46] Clifford M. Collins, *Australian Company Law: Being a Handbook of Law relating to Companies in each of the Australian States* (Sydney, 1940), p.167.
[47] Norman B. Rydge, *The Australian Stock Exchange,* (Sydney, 1934),, 95.
[48] Adamson, *Century of Change,* 96-98.
[49] J. B. Were, *Australian Investment Trusts* (Melbourne, 1948).
[50] Naomi R. Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (Cambridge, 1994).

Staniforth Ricketson informed the Royal Commission that 'if the record and standing of the company itself and of those associated with it are satisfactory, and if there appears to be a reasonable assurance of success, the investing public will almost invariably subscribe the requisite permanent capital.'[51] He noted that even during the Depression that 'there have been many minor issues, and, except in a few isolated cases where there were special reasons for failure, the new issues have met with signal success.'[52] In particular, the 'corporate leaders' of the period, whose securities were mostly 'listed', were major players in a small economy, whose reputation and standing made them a lower risk investment.[53]

2.4 Investor Confidence

Investors faced greater risks when purchasing securities in preference to government bonds or holding their funds in bank deposits. What level of confidence could they have in the information made available to them by the firms whose securities they purchased and in the proprietary of the share brokers with whom they traded? The risk was deepened by the growth in the type and numbers of investors in the interwar period. Before the war, most individual investors were men of means who had a personal relationship with their broker. Britain and Australia shared a similar experience as the new investors flooded into the market to buy war bonds. Many of them stayed on and switched their portfolios towards equities.

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[51] Ricketson,. *Evidence, RCMB.*
[52] Ricketson, *Evidence, RCMB.*
[53] Fleming, Merrett, and Ville, *Big End of Town*, 148-9

The number of shareholders and the value of their holdings rose strongly in the USA and the United Kingdom in the 1920s and 1930s.[54] The only available data points for Australia lie on either side of the two world wars. We can compare the number of shareholders in thirteen large companies in 1954 and 1912.[55] In the earlier year, these firms had 13,302 shareholders, an average of 1,029.[56] In 1954, these same companies had 79,323 shareholders, an average of 6,102. The 1954 study of the 102 largest firms showed that they had 490,000 shareholders, who on average held stock with a nominal value of £642,000. However, the vast majority of shareholders were individuals with a nominal stock value of £1,000 or less.[57] An examination of the balance sheets of financial institutions, especially life insurance companies, in the 1920s and 1930s, shows little evidence of shares as assets.

How many individuals owned shares? Intuition suggests that it was far fewer than the number of 'book stockholders' because investors would hold a portfolio of shares to reduce risks. In 1934 Norman Rydge advised clients with only £1,000 to invest to buy shares in four or five firms operating in different industries. Someone with £5,000 was advised to select two dozen firms situated in ten different industries.[58] The best estimate of the number persons receiving dividends comes some years after World War Two. The Commonwealth government assumed a monopoly of income tax collection in 1942. The Commissioner of Taxation first provided information about the number of persons for whom dividends were part of their assessable income in the

[54] Gardiner C. Means, "The Diffusion of Stock Ownership in the United States", *Quarterly Journal of Economics* (August 1930), 562; Michie, *London Stock Exchange,* 176-77.
[55] The companies are Adelaide Steamship, Bank of Adelaide, Bank of New South Wales, Commercial Banking Company of Sydney, David Jones, Elder, Smith, Foy & Gibson, Howard Smith, Mercantile Mutual Insurance, North Broken Hill, Swan Brewery, Tooth & Co., and Tooheys.
[56] Nash, *Australasian Join- Stock Companies*, 1914 edition.
[57] Wheelwright, *Ownership and Control,* Tables III and III C, 38-42 & 48-52. Michie notes that in the 1920s 85 per cent of shareholders in the seven largest industrial firms in Britain owned stock worth £500 or less. *London Stock Exchange,* 176.
[58] Rydge, *Australian Stock Exchange,* 89-91.

tax year 1951-52. Of the 2 million or so individuals paying income tax, 109,000, 40 per cent of whom were women, received part of their income from investments in government stock, rents and dividends. Nearly one half of this income stream, 48 per cent, was derived from dividends.[59] Roughly, five per cent of individuals paying income tax held transferable securities.

The arguments made by Hannah with respect to attenuating corporate governance issues in British securities markets around 1900 resonate for Australia.[60] Australia followed British company law from the 1860s and had an army of accountants to provide independent audits of accounts.[61] Apart from mandatory disclosure, directors faced the threat of removal and, perhaps more importantly, had high powered incentives to increase their own wealth, particularly if the company was highly leveraged. A vigilant financial press could make or break directorial reputations. While there were improvements in the quality of information reaching investors some problems remained. Alex Jobson expressed concern that company promoters might 'flood the market with prospectuses of more or less merit'[62] The *Company Acts* and stock exchange listing requirements, while requiring greater disclosure, still allowed firms considerable latitude in the information contained in prospectuses. Norman Rydge observed in the 1930s that the 'average company promoter in Australia is the object of much public odium because his schemes are mostly traps to catch the unwary.'[63]

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[59] *Thirty-Third Report of the Commissioner of Taxation,* Commonwealth Parliamentary Papers, 1954-55, paper No. 68, Table 37, Dividends included in taxable income, 52 and Appendix, 110-11.
[60] Hannah, "Pioneering modern corporate governance".
[61] Robert W. Gibson, *Disclosure by Australian Companies* (Melbourne, 1971)*;* Rob Linn, *Power, Progress and Profit: A History of the Australian Accounting Profession* (Melbourne, 1996), 45-49
[62] *Australian Investment Digest,* 1 (April 1920), 53-4.
[63] Rydge, *Australian Stock Exchange*, 105.

Brokers became more than passive sales intermediaries. They sought to reach a wider market through advertising, producing circulars and setting up unit trusts. J. B. Were used its in-house research capacity to offer higher quality advice. Both the Melbourne and Sydney exchanges set up research departments in the 1930s, Sydney's avowed aim was to enable its members to compete with J. B. Were's. [64] Stock exchange members were sole traders or partners with limited financial resources to cover their exposures before settlement. Failures of brokers were rare but the sensational demise of the Melbourne firm of Edward Ward & Co. and the default of the Brisbane stock exchange's president in 1937 highlighted the need for reform.[65] The southern exchanges went their separate ways: Sydney requiring brokers to hold their client's monies in a trust account while Melbourne suffered the indignity of the passage of the *Stock and Share Brokers Bill* requiring a periodic audit of broker's accounts and the establishment of a fidelity fund.[66] A long fight ensued in New South Wales to avoid legislation and preserve self-regulation.[67]

Australian investors displayed symptoms of schizophrenia. They gambled on mining stock but were risk averse when buying other securities. A quarter of all issues were of preference shares, 18 per cent, and bonds, seven per cent.[68] These securities had a higher ratio of take up to offer than ordinary shares. Some firms offered both ordinary and preference shares in the same issue. Ordinary shares were the most common type of security offered, comprising 75 per cent of the value of all issues. However, companies strove to maintain constant dividend payouts which gave ordinary shares

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[64] Salsbury and Sweeney, *Bull, Bear and Kangaroo,* 285-87.
[65] Salsbury and Sweeney, *Bull, Bear and Kangaroo,* 264-65.
[66] Adamson, *Century of Change,* 94-95.
[67] Salsbury and Sweeney, *Bull, Bear and Kangaroo,* 263-75.
[68] The ratio of ordinary shares to fixed interest securities in Australia was comparable to Britain over the same period. See Michie, *London Stock Exchange,* 285.

often debt-like properties with lower risk.[69] During the Depression there was a sharp swing towards issues of preference shares and bonds at the expense on ordinary shares, those types of securities rose to 46 per cent of all issues between 1931 and 1935.

A principal reason for the increased willingness to invest in securities was they could be 'realized at will via the Stock Exchange.'[70] A wide and deep market in which securities were regularly traded provided prices set by the interplay of supply and demand and liquidity. However, many securities were not regularly traded between the wars. This was the case on the London Stock Exchange as well as in Australia. Less than ten per cent of quoted securities on the London Stock Exchange 'could command a ready market' before 1914 and many stocks remained inactive in the 1920s.[71] There is reason to believe that the percentage of securities traded on Australian exchanges grew in the inter-war period. For instance, The Stock Exchange of Melbourne's *Official Record* shows that the 26 per cent of all securities were traded in June 1926. That ratio had risen to 73 per cent in June 1939.[72] While the secular trend was upward the volume of trading also reflected the trade cycle. During the depression the volume of trades fell away to such an extent that brokers played cards to while away the time in the call room of the Brisbane Stock Exchange.[73]

3. The Growth of New Issues

3.1 Data Source and Trends in New Issues

[69] Fleming, Merrett, and Ville, *Big End of Town*, 150-1.
[70] Michie, *London Stock Exchange,* 269.
[71] Michie, *London Stock Exchange,* 95 and 272 -74.
[72] Stock Exchange of Melbourne, *Official List*, June 1929 and June 1939.
[73] Alan L. Lougheed, *The Brisbane Stock Exchange 1884-1984* (Brisbane, 1984), 109.

To our knowledge only two of the six state-based stock exchanges published any information about the number and nominal value of securities issued during the interwar years. As we saw in the previous section, the number of securities, shares and debentures, issued by companies on the country's largest exchanges, the Stock Exchange of Melbourne and the Sydney Stock Exchange, nearly doubled between 1919 and 1939 and their nominal value nearly trebled. However, these annual data do not capture all the information about new issues. There is an element of under-estimation in that additional issues by a company of the same class of security would not be recorded. There is an element of double counting as the largest firms listed on more than one of the state-based exchanges. Furthermore, new issues by public companies not listed on the stock exchanges are missed. Moreover, the stock exchange data cannot tell us which firms were offering the new issues or for what purposes. Consequently, we have turned to the financial press, which reported and commented on new issues by publishing prospectuses as they came to hand.

Prospectuses reached a wider audience after World War One. Stock exchanges began to publish monthly reports of their activities and stockbrokers also circulated information about securities to their clients. A specialist financial press, such as *Wild Cat* and *Australasian Insurance and Banking Record*, complemented the coverage on the business pages of the quality newspapers. Companies, promoters and underwriters, would have approached the financial press to publicize their offerings. Our judgement is that the *Australian Investment Digest*[74] provides the most complete and accurate coverage. The data set of new issues covers 2,176 usable observations.

[74] *Australian Investment Digest* (1920-24), latterly named *The Investment Digest of Australia and New Zealand* (1924-27) and *Jobson's Investment Digest of Australia and New Zealand* (1927 onwards). We refer to the source as *AID* hereafter. Colin Forster, 'Jobson, Alexander (1875-1933)', *Australian Dictionary of Biography* (Melbourne, 1983), Volume 9, Gil-Las, 488-89.

Its richness permits us to collect much material about each application for funds including the amount sought and the purposes to which it would be put, the type of securities being offered, and whether the issue was underwritten. The data for the amounts sought and the types of security on offer are complete. There are some gaps in some of the other areas, particularly that regarding the purpose for which the issue was being sought, but enough exists to allow judgements to be made.

The coverage of new issues from the *AID* is a large enough sample to offer robust findings. The total value of new issues raised between 1920 and 1939 drawn from the *AID* of £137m[75], compares with an increase in the paid up capital of securities listed on the Stock Exchange of Melbourne of £141m and the Sydney Stock Exchange of £178m. Many of the leading companies were listed on both exchanges so taking the growth separately provides a closer approximation to the net increase than from a combined number.

Table 2 here

The number of new issues, the amounts sought and amounts raised in each year are shown in Table 2. A strong cyclical pattern is evident. The demand for funds mirrored the state of the economy. Following a brief post-war recession, Australia enjoyed a strong upswing through the 1920s fuelled by a combination of strong export prices and high government spending on capital works. The onset of the world depression hit Australia, a debtor nation, doubly hard as the price of primary products collapsed on international markets and as Australian governments could no longer borrow abroad.

[75] Firms whose balance sheets were reported in *AID* in 1926 and 1939 have been identified as having had securities listed on the stock exchange.

The depression was particularly severe, with unemployment reaching over 25 per cent of the workforce, and was deepened and recovery delayed by the government's deflationary fiscal policy. Recovery from 1932 resulted from a revival in commodity prices and a rapid expansion of manufacturing.[76]

The number of issues rose through the twenties reaching more than 180 each year in 1926, 1927 and 1929 before falling away sharply in 1930. The number of issues hovered around the low 30s until 1936 when a strong recovery commenced. The amount of monies successfully raised peaked in 1926 and 1927. However, the ratio of amounts raised to amounts sought through issues fell away sharply from 76 per cent in 1927 to a nadir of seven per cent in 1933. The 'success' rate rose sharply again in the latter 'thirties reaching over 80 per cent in 1938 and 1939.

3.2 Allocation of new issues between industries and sectors

Which industries were most active in the new issue market? Only those firms that were incorporated had the opportunity to participate. These were a small fraction of all businesses as most of the economy was the province of owner operators. From the late nineteenth century an increasing number of enterprises took advantage of local Company Acts, based on British law, to register as companies with limited liability. However, most newly incorporated businesses were not listed and many of these adopted private company (proprietary) status once the appropriate legislation was passed in their State, commencing with Victoria in 1896. Rates of incorporation and stock exchange listing differed widely across sectors and industries.[77] Listed

[76] C. Boris Schedvin, *Australia and the Great Depression* (Sydney, 1970); Robert G. Gregory and Noel G. Butlin, eds, *Recovery from the Depression: Australia and the World Economy in the 1930s* (Melbourne,1988).
[77] Nash, *Australasian Joint Stock Companies*, various years.

companies came from the more capital intensive manufacturing industries, and from amongst the banks and insurance companies, stock and station agents serving the pastoral industry, department and chain stores, shipping companies and the utilities such as gas and electricity. The larger mining companies in gold, base metals and coal were also incorporated. Many of these businesses possessed the key attributes of Chandler's large industrial companies.[78] They were more capital intensive than firms in other industries, had many distinct operating units, and employed fledgling hierarchies of salaried managers.[79]

The number of non-mining companies listed on the Stock Exchange of Melbourne grew strongly. Between June 1926 and June 1939 the number of non-mining firms offering ordinary shares rose from 246 to 350.[80] Nearly three quarters of the increase came from manufacturing firms. The industries most heavily represented within manufacturing were metal refining, chemicals, car bodies, paper and board production, newspapers, textiles, tobacco, dairy products, processed foods and electrical engineering. The numbers of listed retailers rose from 10 to 31, with capital city department stores and the new chains stores accounting for nearly all of the increase.[81] By comparison, the number of mining companies listed fell from 214 to 180 over the same period.

The nearly 2,200 new issues collected from *AID* provide a richer set of data. To begin with it throws light on the access to the new issues market by listed and unlisted firms. Our new issues data has been divided into those firms whose securities were

[78] Fleming, Merrett and Ville, *Big End of Town.*
[79] Chandler, *Visible Hand;* Fleming, Merrett and Ville, *Big End of Town.*
[80] The Exchange's *Official Record* began publication in 1925.
[81] Stock Exchange of Melbourne, *The Stock Exchange Official Record* (Melbourne), June 1926 and 1939.

‘listed’ on stock exchanges and those whose securities were ‘non-listed’ because we hypothesized that they would have different characteristics. ‘Listed’ securities would be made by larger and better established companies, would be seeking greater amounts of funding, have a higher success rate, be from companies that would return to the market making multiple issues, be more likely to be offered to existing shareholders via rights issues, and be more likely to be underwritten. Of the 1,036 successful issues of listed securities, the average amount sought was £126,000 and of the 85 unlisted securities it was only £66 000. ‘Listed’ securities also enjoyed greater success with 78 per cent of their issues attracting capital compared with only ten per cent of the ‘non-listed’ securities. For each successful issue, firms with ‘listed’ securities raised 92 per cent of the amount sought against 65 per cent for ‘non-listed’ securities. Almost all of the 548 multiple issues were for listed’ securities. Underwriters were used more frequently by listed firms, 13 per cent of issues, compared with only two per cent for ‘non-listed’ securities. However, there were few other differences: firms with both ‘listed’ and ‘unlisted’ securities offered more than three-quarters of their issues to the public rather than as rights issues to shareholders, only 29 per cent of issues of ‘listed’ securities and 25 per cent for ‘non-listed’ securities were offered exclusively to existing shareholders.

Table 3 here

Table 3 compares the distribution of the new issues across sectors with that of GDP. Australia had a large farm and mining sector that generated around a quarter of GDP. Manufacturing and utilities were expanding in importance but were still eclipsed by the distribution part of the service sector. The finance industry was small in terms of its contribution to GDP. Construction and public and private services made up the remaining third of the economy. Three points stand out. First, manufacturing and utilities, and finance were disproportionately represented in the new issue market. Their combined contribution to GDP was around 20 per cent but they made more than a half of all issues and took nearly 70 per cent of the monies raised. Finance issues were heavily bunched in the 1920s when it raised a third of all new issue funds but raised only six per cent in the 1930s. By contrast, the 1930s saw a dramatic rise in the relative importance of new issues raised by manufacturing and utilities, a lift from 38 per cent of the total in the 1920s to 62 per cent. Second, the farm and mining sector, and the non-distribution parts of the service sector were under-represented. Their combined share of GDP was more than 60 per cent but they made less than 30 per cent of new issues and took less than ten per cent of the monies raised. The distribution sector, covering wholesale and retail trades, had a presence in the market commensurate with its size in the economy. Third, there were marked differences in the ratios of issues made to monies raised: distribution raised 82 per cent, manufacturing and utilities raised 63 per cent, and finance 55 per cent. The farm and mining sector and the other parts of the services sector, not only made proportionately fewer approaches to the new issue market but gathered less than a half of the funds offered to investors.

Table 4 here

In many respects manufacturing and utilities were the outliers in making the most new issues inspite of their more modest position in the economy. Unsurprisingly, there were marked differences between sub-groups within these industries. The data is shown in Table 4. Industries are ranked in descending order in terms of their contribution to manufacturing output at the end of the inter-war period. There is no obvious connection between the size of an industry and its resort to new issues. The three largest industries, food, metal, and textiles, aggregated over 70 per cent of output but took only a half of new issues and 43 per cent of all monies raised. The smaller industries by output, such as chemicals, non-metallic minerals and the utilities, were as important, making over a third of all issues and taking nearly a half of all the monies raised. The electricity and gas producers were particularly important, taking a third of all the money raised by new issues.

3.3 Motivations of Firms to Seek New Issues

Companies made new issues for a variety of reasons. They turn to external sources of finance when internal cash flows and retained earnings are insufficient to meet immediate or future spending plans. They may want a cash injection to buy assets or to use as working capital. They may seek equity in a new issue if it reduces their funding costs by retiring more expensive debt. British contemporaries argued that the majority of monies raised went to the founders of private companies who went public. Henderson carefully reworked the data for capital issues in 1926 and 1937, concluding that only 37 per cent and 52 per cent of issues in those years were of 'new money', defined as 'raising new capital for investment by the company concerned.' The majority represented 'simply a change of ownership of existing assets'.[82] Grant, employing a different approach, concurs that 'it is noticeable that money going to replace existing capital and to acquire existing assets far outweighs new capital'.[83]

[82] Henderson, *New Issue Market*, 96.
[83] Grant, *Capital Market in Post-War Britain*, 160.

The evidence available for the *AID* does not allow us to say with precision which of these motives dominated in Australia. However, it does support the case that most of the money sought was 'new' money to augment internal sources as firms sought to expand their operations. The prospectuses listed in the *AID* provided information about the purposes for which the funds were sought. The *AID* tended to provide more information in its commentary about initial floats by unknown firms than offers by the larger and better known firms whose securities were already listed. For most of the latter, the *AID* simply remarked that the firm was seeking additional capital. Of the 2,176 issues made, 508 identified themselves as new companies seeking start up capital and another 909 issues were made by existing firms who stated that they wished to increase their capital. These 1,417 issues accounted for 82 per cent of all monies raised. By contrast, only 12 per cent of monies raised were connected with the purchase of an existing business or existing rights in technology, exploration rights for minerals and timber concessions. Repayment of debt or undertaking a reconstruction were only six per cent of monies raised.

Such a conclusion is consistent with the strong growth in the assets employed by the largest firms operating in Australia between the wars. Two-thirds of the largest 100 non-financial firms made at least one issue between 1920 and 1939.[84] A study of the *AID* data of the 40 companies who raised most capital and those 16 companies which made six or more new issues shows that all were investing in additional assets. This group of companies are comprised almost entirely of 'corporate leaders', firms that remained amongst the largest over a sustained period of time.[85]

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[84] Simon Ville and David T. Merrett, " The Development of Large Scale Enterprise in Australia, 1910-64", *Business History* 42, 3 (2002), 36-7.
[85] Fleming, Merrett and Ville, *Big End of Town*.

The 1920s offered great opportunities for business expansion. 'For entrepreneurs themselves the times were propitious: there was peace, with a rising population, an increasing demand for basic and luxury goods, stable export industries, and great personal wealth.'[86] The growing demand for funds was driven by the twin forces of expanding domestic demand[87] and the adoption of new technologies. Consumer preferences also shifted over time, independently of incomes, as new goods and services became available and in response to changes in relative prices. Profits signalled where additional supply was needed. Moreover, the nature of production was shifting, at the margin, towards more capital-intensive and science-based technologies.[88] In particular, the interwar period bore witness to the rise of two major general purpose technologies, electricity and the automobile, which both generated a range of new industries and transformed the organisation and operation of many existing ones. The capital-labour ratio was therefore rising. A corollary was that the need for capital by business also rose.

Table 5 here

New issues raised amounted to nearly one-fifth of business investment across the inter-war period. The new issue data has been allocated to the sector classifications used by Butlin in his estimates of gross domestic capital formation.[89] As shown in

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[86] Gibbs, *Bulls, Bears and Wildcats*, 231.
[87] Rodney Maddock and Ian W. McLean, "The Australian Economy in the Very Long Run" in Rodney Maddock and Ian W. McLean, eds, *The Australian Economy in the Long Run* (Cambridge, 1987), Table 1.1, 14; Ian McLean, "Australian Economic Growth in Historical Perspective", *Economic Record* 80, 250, (2004), Table 1a.
[88] Frank R. E. Mauldon, *Mechanisation in Australian Industries* (Hobart, 1938) identified 23 industries in which there was rapid mechanization that displaced labour; Russell T. Madigan, ed. *Technology in Australia: A Condensed History of Australian Technological Innovation and Adaptation During the First Two Hundred Years* (Melbourne: 2000).
[89] Noel G. Butlin, *Australian Domestic Product, Investment and Foreign Borrowing, 1861-1938/39* (Cambridge, 1962), ch. 17.

Table 5, three 'industries' dominate the capital formation: rural and mining, manufacturing,[90] and commercial. New issue raisings showed a markedly different distribution between industries. Rural and mining were prominent in capital formation but did not seek to fund this through new issues. Nearly all farms were unincorporated enterprises that relied on debt instruments for capital improvements. By comparison, new issues made by manufacturers raised the equivalent of 16 per cent of that sector's large investment. The service sector industries, which Butlin described as 'commercial', were the outliers. Their share of capital formation was lower than the other sectors. However, the new issues made by these firms were the equivalent of nearly a half of all investment. This figure should be adjusted downwards because the investment series underestimates capital formation in services.[91] Moreover, these industries, more so than manufacturing, used new issues for purposes other than investment in physical assets. This is particularly true of finance whose new issues totalled more than £35m, the greater part of which was used by the banks to sustain their capital base and to fund a series of acquisitions between 1917 and 1931.[92]

The marked change in the behaviour of the trading banks in the first half of the twentieth century served as an additional factor pushing business to seek alternative sources of external finance.[93] Trading banks had been the principal providers of working capital and, largely by default, important providers of fixed capital through the late nineteenth century. The bank crashes of the 1890s crippled the sector for

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[90] We have included 'shipping' with manufacturing as that series includes the value of ships constructed in Australia. Butlin, *Australian Domestic Product,* chp 17.

[91] The series relies on changes in the value of buildings used by service sector firms. This measure fails to capture the considerable investments in fixtures and fittings used within those structures. See Butlin, *Australian Domestic Product,* ch. 17.

[92] Sidney J. Butlin, Alan R. Hall and R. C. White, *Australian Banking and Monetary Statistics 1817-1945* (Sydney, 1971), Table 12. *RCMB*, Table 43, 359.

[93] David T. Merrett, "Capital Markets and Capital Formation in Australia, 1890-1945", *Australian Economic History Review* 37, 3 (1997): 181-201; *Idem, ANZ Bank: A History of the Australia and New Zealand Banking Group Limited and Its Constituents* (Melbourne, 1985).

decades. It prompted a flight of deposits to government-owned savings banks and life assurance policies. Neither of these institutions were providers of funds to business, both invested heavily in government securities. The private trading banks continued to behave conservatively throughout the interwar period even as they repaired their damaged balance sheets in part through their own new issues. The amount they had available to lend was checked by strong competition for deposits from savings banks, life offices policies and government bonds.[94] Trading banks had become de facto long term lenders to their customers but this represented a recycling of working capital rather than lending to create new capacity. Moreover, only 30 per cent of trading bank advances during 1927-1936 went to non-rural businesses, broadly categorised as manufacturing, mining, commerce, transport and distribution, and insurance and finance.[95] As trading bank advances had grown by £44m between June 1920 and June 1939, this meant an increase in non-rural business loans of only £13m.[96]

Bankers were criticized for ignoring the needs of small borrowers, particularly 'a lack of facilities for the provision of long term capital for the persons of limited means who have been successful on a small scale in secondary industry which is capable of expansion and deserving of encouragement in the public interest.'[97] In this respect Australian banks showed the same attitude as their British counterparts towards what were perceived as high risk borrowers.[98] Small borrowers wanted fixed-term loans

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[94] Cumulated annual increases in trading bank term deposits between 1920 and 1939 were £135m, compared with £108m additional deposits in savings banks and £348m in government bonds in the hands of the non-bank public. Butlin, Hall and White, *Australian Banking and Monetary Statistics*, Tables 12, 62(i) and 62(ii); Butlin, "Preliminary annual database", Table IV.15.
[95] *RCMB*, Appendix, Table 10, 314.
[96] Butlin, Hall & White, *Australian Banking and Monetary Statistics*, Table 12.
[97] *Report, RCMB,* para 572.
[98] Michael Collins, *Money and Banking in the UK: A History* (London, 1988); Duncan M. Ross, "The clearing banks and industry – new perspectives on the interwar years", in Helten and Cassis, eds *Capitalism in a Mature Economy*, 52-70; *Idem,* "Bank Advances and Industrial Production in the United Kingdom during the inter-war years: a red herring?" in Philip L. Cottrell, Håkan Lindgren and

rather than overdrafts. Those with property as collateral turned to 'assurance companies, trustee companies, building societies, trustees and private investors.'[99] Manufacturers were seen as particularly disadvantaged as bankers would not offer overdrafts repayable at call to firms that might not break even for years.

Conclusion

The inter-war years provided many opportunities for entrepreneurs to profit from new technologies and shifting consumer demand. New industries emerged in manufacturing and services, which were increasingly capital intensive. Domestic firms entering these industries were, for the most part, not able to rely on past earnings to finance sizeable additions to their assets. Consequently, there was a rush to incorporation and stock exchange listing to access external funds. All the evidence suggests that companies were able to greatly increase their funding during the 'twenties and after recovery from the depression in spite of the difficulties attracting investors to the growing points of the economy.

Numbers of investors, securities, and listed firms all rose rapidly in this period. Legacy factors laid the foundations as local investors, buoyed by holding wartime bonds and seeking to fill gaps left by the exodus of British investors and conservatively-minded bankers, entered the local stock markets. Problems of asymmetric information commonly associated with external equity markets appear to

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Alice Teichova, eds, *European Industry and Banking between the Wars: A Review of Bank Industry Relations* (Leicester, 1992), 183-202; *Idem,* "The Unsatisfied Fringe in Britain, 1930s-80s", *Business History* 38, 3 (1996): 11-26.

[99] Report *RCMB,* para 569.

have been mitigated by the growth of investor information and advice from the likes of Alex Jobson and improving accountability requirements. The constant dividend practices and rising share values of many firms, together with and the emerging reputation of the stock exchange as a maturing capital market institution, provided further reassurance for a growing corpus of shareholders. The pursuit of portfolio diversification and the increasing liquidity of the market helped to mitigate residual risks for investors.

In the process, business enterprises became an important new player in the inter-sectoral flow of funds. During the nineteenth century, net savers and borrowers were connected by financial intermediaries and direct financing through social networks. By the inter-war years, the biggest net borrowers operated through the stock exchange where together they raised more capital than the increase of deposit liabilities of the banking system.[100] It was particularly the corporate leaders of the period, those firms who saw the opportunities to acquire prime mover advantages through innovation and deployment of strategic assets, who benefited from the growth of the new issues market. The amount of new money flowing into business expansion was also increased to an important degree by direct investments being made by the rapidly growing number of subsidiaries of foreign multinationals.[101]

Much of the supplied funds found their way into new investment rather than being diverted into the pockets of promoters and company vendors as it appears to have been the case in the UK. Whether the cash raised by these new issues was directed to

[100] Bank deposits are interest bearing deposits in trading banks and savings bank deposits. Butlin, Hall and White, *Australian Banking and Monetary Statistics*, Tables 1 and 53(i).
[101] Forster, *Industrial Development,* Appendix 3, 230-32; Brash, *American Investment in Australia*, Appendix A, 289-327.

those firms and industries that were most innovative in terms of new technologies and business practices is a research question beyond the scope of this paper. As O'Sullivan argues persuasively for the US, capital markets do not always get it right in directing funds to those activities with the highest pay offs.[102] New issues funded the expansion of industries with both low and high technologies. Moreover, new money funded entrants that spurred competition but also permitted incumbents to erect barriers to entry. Our list of those firms that raised the greatest amount of money span low technology industries in which competitive pressures were low such as banking to 'new' industries such as motor cars, ferrous and non-ferrous metal refining, paper and pulp, processed foods, and chain and department stores.

The stock exchanges played a far greater role in the financial system and economy of the interwar period than has been recognised to date. As mentioned above, Australia was an early and enthusiastic adopter of the joint-stock company behind the USA and Great Britain. Differences in scale make direct comparisons of the amounts raised problematic. However, comparing the value of new issues as a percentage of GDP is illuminating. The two major economies, with the world's largest stock exchanges and manufacturing industries of greater weight than Australia's, had ratios of new issues to GDP between 1920 and 1939 of 3.86 per cent in the US and 2.58 in Great Britain.[103] Australia managed a very creditable 0.92 per cent, which was an average of 1.40 during the 1920s.

[102] O'Sullivan, "Funding new industries".
[103] Great Britain. New issues are 'home issues' excluding public bodies, Grant, *Inter War Capital Market,* 134. GDP figures from B. R. Mitchell, *British Historical Statistics* (Cambridge, 1988), 823. United States of America. New issues and GDP data from Susan B. Carter, ed, *Historical Statistics of the United States* (Cambridge, 2006), Volume 3, Tables Ca91-19, Cj831-37 & Cj817-30.

The ratio of the market value of corporate securities to GDP within Australia is another measure of the relative importance of this class of asset. A wartime census reported in 1915 that the market value of company shares and debentures held by Australian residents was £176m, the equivalent of 47 per cent of GDP.[104] The market value of company securities continued to climb between the wars. By the end of the 'twenties, Ian Potter calculated, adjusting for double counting, that the market value of securities traded on the four largest stock exchanges was £810m, just above the figure of GDP.[105] The ratio of the market value of securities listed on the Stock Exchange of Melbourne to GDP in 1939 was 44 per cent, slightly above its value from 1963 to 1989.[106]

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[104] George Knibbs, *The Private Wealth of Australia (*Melbourne, 1918), 39. GDP figure from Noel G. Butlin, "Australian National Accounts", in W. Vamplew ed. *Australians Historical Statistics* (Sydney, 1987), ANA 50-64, 133.
[105] Potter, *Evidence to RCMB*.
[106] R. A. Foster, *Australian Economic Statistics 1949-50 to 1994-95* (Sydney, 1995), Table 3-17, 152.

Table 1: Number of issued shares and debentures, paid up capital and market value on the Melbourne and Sydney Stock Exchanges, 1899-1939

	Melbourne	Melbourne	Melbourne	Sydney	Sydney
	Number Securities	Paid up £m	Market value £m	Number Securities	Paid up £m
1889	203	32			
1907	149	39			
1919	281	80		191	86
1929	470	206		328	205
1939	562	221	367	388	264

Source: Column 1, 2 and 3, Bruns, *The Stock Exchange,* Table 1, 47, for 1889, 1907, 1919, 1929 and the *Annual Report of Stock Exchange of Melbourne*, 1961, 9, for 1939. Columns 4 and 5, Salsbury and Sweeney, *Bull, Bear and Kangaroo,* Table 10.1, 242.

Notes: The Melbourne data refer to the number of 'investment' securities, which is greater than the number of firms, and include silver, lead and copper shares but exclude gold and tin mining securities. The Sydney data excludes all mining shares. The number of securities being listed rose faster than the totals shown here as it is net of securities taken from the official lists as their company's went into liquidation or were taken over. For instance, the number of listings on these two exchanges rose by 152 between 1929 and 1939 shown above plus those that replaced the securities associated with 76 companies who were delisted.[107]

Table 2: New issues 1920-1939, number, amount sought and raised

	Number of issues	Amount sought £ millions	Amount raised £ millions	Per cent raised
1920	123	15.463	11.805	76.3
1921	105	14.234	9.893	69.5
1922	136	12.568	7.566	60.2
1923	164	16.188	6.542	40.4
1924	178	18.230	12.501	68.6
1925	176	14.103	8.102	57.4
1926	185	28.100	14.260	50.7
1927	187	24.242	18.538	76.5
1928	166	15.899	8.005	50.3
1929	187	22.655	8.979	39.6
1930	81	8.552	3.193	37.3
1931	38	2.502	0.863	34.5
1932	35	2.743	0.512	18.7
1933	31	4.045	0.268	6.6
1934	32	3.447	0.609	17.7
1935	33	3.478	1.598	45.9
1936	55	5.371	4.049	75.4
1937	91	9.429	5.679	60.2
1938	101	9.213	7.753	84.2
1939	72	6.706	5.816	86.7
Total	2176	237.168	136.531	57.6

Notes: The amount shown in column 3 as 'amount raised' is calculated from reports in *Australian Investment Digest* and an examination of the company's subsequent balance sheets.
Source: *Australian Investment Digest,* 1920-1939.

Table 3: New issues by sector, 1920-1939

	Share GDP 1919/20	Share GDP 1938/39	No. of issues %	Monies raised %	Success rate %
Rural & mining	26.8	23.1	11.4	2.4	31.8
Manufacturing & Utilities	13.6	18.7	41.2	44.1	62.5
Distribution	19.3	19.1	17.6	20.7	82.1
Finance	1.8	2.5	12.6	25.8	55.1
Other	38.5	36.6	17.2	7.0	39.8
Total	100.0	100.0	100.0	100.0	57.6

Source: GDP data from Butlin, *Australian Domestic Product,* Table 3, 12-13; new issues from *AID.*

Notes: Other includes Construction, Accommodation, Transport and Storage, Property and Business Services, and Cultural and Recreational Services. New issues have been allocated to industries as defined in the Australian Bureau of Statistics, 1993 version of Australia and New Zealand Standard Industrial Classification.

Table 4: New issues within manufacturing and utilities, 1920-1939

ANZSIC code	Share Manufacturing Output 1938/39 %	Number of new issues	Amount raised £ms
C21 Food, drink & tobacco	30.5	143	10.4
C27 & C28 Metals	28.5	217	11.0
C22 Textiles, clothing & footwear	12.2	100	4.4
C25 Chemicals	7.1	101	4.5
C24 Printing & publishing	5.2	42	2.4
C29 Other	4.7	17	0.4
C23 Wood & paper	4.5	40	2.0
C26 Non-metallic minerals	3.9	87	4.7
D36 Heat, light & power	3.5	125	19.8
Unclassified			0.4
Total	100.0	872	60.0

Source: Manufacturing output by industry from *Production Bulletin, Manufacturing 1938-39* (Canberra, 1939). New issues data from *AID.*

Table 5: Sector shares of capital formation and new issues, 1920-1939

	GDCF £m	GDCF %	New Issue £m	New Issue %	Ratio New Issue/GDCF
Rural & mining	259.7	36.7	3.3	2.4	1.3
Industrial & shipping	257.3	36.3	40.5	29.6	15.7
Commercial	191.1	27.0	93.1	68.0	48.7
Total	708.1	100.0	136.9	100.0	19.3

Notes: The capital formation data are for private sector non-residential investment.
Source: Butlin, *Australian Domestic Product* and Jobson, *Australian Investment Digest.*