TITLE: **Handicap banks to level out the field**

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Do you know what we do to the fastest race horses in Australia? We literally put lead in their saddles. That is, we handicap them in order to make sure that horse races are ‘competitive’. At the Stawell Gift, Australia’s richest foot race, we give the slower runners a head start. And in rugby league, as we now know, we impose salary caps on all teams to stop last year’s winners using their prize money to buy up even more of the best players. It’s the Australian way. It’s about everyone having a fair go. Except of course when it comes to business.

The problem is that our football regulators have a much clearer understanding of the importance of competitive outcomes than our corporate regulators. Those who barrack for the game of rugby league, rather than those who barrack for last year’s premier, understand that for the whole game to prosper no one team can be allowed to collect all the spoils.

Of course the economics textbooks say the same thing about banks and telephone companies. The ‘competitive’ firms described in the textbooks are all relatively small, relatively similar, and, most importantly, relatively powerless. In a truly competitive market we don’t know which firms will dominate each year.

But while the sporting regulators and commentators understand the need to ensure that there is genuine competition between teams, most of our corporate regulators and commentators seem to think that just because new firms are free to enter an industry that means there is plenty of competition. It just isn’t so; just have a look at the banking industry.

In 1983 the Hawke Government deregulated the Australian banking system in the hope that competition between banks and other financial institutions would deliver benefits to the economy, customers and bank shareholders. They were wrong about two and right about one.

At the time that banks, building societies and credit unions became free to compete with each other to deliver the best possible services for customers the banks, which charged virtually no fees at the time, accounted for around 50 per cent of the market.

Since then the banks have ‘competed’ with the building societies, and won. They have ‘competed’ with the credit unions, and won. They have also triumphed over the foreign banks who tried to set up here and largely defeated the home loan brokers.

The banks now have 90 per cent market share, having bought up most of their competitors. They now earn more than 19 billion in fees each year and while some credit unions and building societies remain, it is important to understand that it is the process of competition that has actually destroyed most of the competitors.

The big banks now dominate the Australian financial system in the same way that the Melbourne Storm dominated the rugby league. They take the profits they made last year and they use them to fend off new competitors next year. They take the profits they earn in one part of their business and cross subsidise the prices they charge in the parts of the market where they are actually facing competition. Just as it isn’t ‘good for the game’ to see the same clubs always winning, it’s not good for customers or the economy to see a small number of banks rake in record profits year after year.

It’s time our governments and regulators put some lead in the saddlebags of the big four banks. Nobody wants them to go broke, but everyone would be better off if there was a level playing field.

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