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TITLE: **People's bank déjà vu: a potted history of competition in the banking sector**

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Establishing a 'people's bank' to provide genuine competition to the Big Four has been mooted recently by a group of economists calling for an inquiry into Australia's financial system. That sounds like a great idea - but unfortunately, we've tried that already.

One of the first attempts at a people's bank followed on from the economic crisis of the 1840s when the NSW Legislative Council established a Select Committee on Monetary Confusion. It recommended a state-owned bank to issue its own banknotes and otherwise compete against the avaricious and incompetent private banks. When the NSW Government tried to legislate, Queen Victoria's representative Governor Gipps, refused assent. We had to wait for the end of British rule.

Early in the twentieth century the banks were seen as operating against the interests of the workers and were seen to be involved in worsening the 1890's depression. In 1911 our Prime Minister and Treasurer, Andrew Fisher introduced the *Commonwealth Bank Bill* to create the people's bank with the aim of achieving genuine competition against the banks. However it wasn't long before the Commonwealth Bank was acting just like any other bank.

Following the war, the Chifley Government tried to nationalise the banks. Some of the Labor caucus still harboured memories of the banks' behaviour against bankrupt customers in the 1890s and the 1930s was still fresh in their minds. However, the bank nationalisation legislation was overturned by the High Court and Privy Council. Policy turned back towards competition.

In the 1960s and 70s competition from building societies was seen as the answer. Building societies were not-for-profit organisations and were not allowed to offer the full range of services that the banks were allowed to offer. For a while they seemed to offer genuine competition to the banks to the benefit of home buyers. But by the 1990s those building societies were turning themselves into banks and obtaining full banking licenses. That began to give us a two tier structure with the large old banks and the newer regional banks based on the old building societies. However, the old banks soon began to buy them up or merge so that many of them have since disappeared. The St George Bank has been bought by Westpac and that follows the disappearance of

Advance Bank, the Bank of Melbourne, the various state banks and BankWest to name a few.

In the 1980s the then Treasurer Paul Keating opened banking to competition from foreign banks. Essentially the argument was that our banks are worse bastards than their banks. However, apart from opening up representative offices few foreign banks made any real inroad. They would have been a big disappointment to their champions.

Credit unions had always been around and much was expected of them in the 1990s. Credit unions tend to be small and unable to take advantage of economies of scale. Indeed, most of the credit unions contract out some of their functions to the banks themselves.

Regional banks were another model that began with high hopes. After some initial experiments Bendigo Bank developed a business model which supported independent mini-banks in rural and regional centres. These were interesting but never seemed to get beyond a niche position.

Mortgage originators were the next fad and, once again, they threatened to give the banks some real competition in the mortgage markets. However, their business models were too fragile in the wake of the global financial crisis and they have almost disappeared.

An important theme in recent decades has been the prevention of further mergers between the remaining big banks. This is sometimes expressed as the "four pillars" policy. It is generally believed that bad as the present might be it would be so much worse if any of the remaining banks merged.

The four pillar policy really began as the "six pillar" policy as expressed by Keating in 1990. The six pillar policy prohibited mergers between the big four banks as well as the big two life insurance companies, then the AMP and National Mutual (now Axa Asia Pacific).

The global financial crisis has meant Australia's top four banks have moved into the world's top 10 banks in terms of financial soundness. While that says a lot about Australia's regulators and regulatory environment, the global financial crisis has also meant much of their competition has been wiped out as customers consolidate around "sound and solid" institutions.

The Australia Institute recently reported (http://www.tai.org.au/index.php?q=node%2F19&act=display&type=4&pubid=546) that since the global financial crisis the banks have managed to increase their underlying profits up from 2.7 per cent of GDP to 3.2 per cent of GDP. It's not surprising that we are again hearing calls for more competition in the banking sector. It's just hard to think of anything we have not tried before.

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