

**Submission to the
Senate inquiry into
Competition within the Australian
Banking Sector**

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About the author

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Introduction

Banking regulation can have one of three objectives;

- Consumer protection – this ensures that firms (including banks) do not take advantage of their customers.
- Investor protection – this ensures that firms do not take advantage of the providers of finance.
- Prudential regulation – this ensures that financial institutions are financially sound. This type of regulation is the most common regulation that policy makers consider when discussing bank regulation.

This list, of course, is not mutually exclusive. Regulators may wish to achieve all three goals. Yet it must also be recognised that some trade-offs may exist between different regulatory objectives. For example, it might be the case that some regulations that promote greater consumer protection might undermine prudential regulations. The difficulty that regulators face when dealing with banks (and deposit taking institutions generally) is that consumers of bank services are simultaneously investors and prudential regulation is really just a form of consumer and investor protection.

Traditional regulation theory suggests that regulation is justified by some or other market failure. Economists recognise three broad sources of market failure.

- Monopoly power – It is not clear that banks in Australia exercise monopoly power. (See Box One). It is true that barriers to entry and exit exist in the banking sector, but it is not clear that these barriers ought to be relaxed. The argument that banks have monopoly power as evidenced by their profitability is to misunderstand the role of profits in a modern economy.
- Externality or spillover – The notion of systemic risk is an externality argument. This is the idea that financial distress at one financial institution can cascade to other institutions causing a system wide collapse even among otherwise healthy institutions. This idea is very common and is a popular justification for banking regulation, yet the evidence of systemic failure is in fact quite rare.
- Information asymmetry – This is the recognition that different parties to any transaction have different information sets and different ability to access additional information. Information asymmetry is very common in economics and thought to be high in financial markets. This is both a negative and positive feature of banking. As a negative asymmetric information gives rise to moral hazard and adverse selection, while as a positive the management of asymmetric information (and the resulting different opportunity sets) makes banking viable as an industry and accounts for the profitability of banking.

Regulation may impact upon the structure of the industry. Here the regulator may create either barriers to entry or exit, or indeed as in the case of banking both barriers to entry and exit.

Regulation may impact upon the conduct of firms within an industry or across industries. Here the regulator may insist of pricing conventions for example (the quoted price must include all prices and taxes passed on to the consumer) or truth in advertising.

Regulation may impact upon the performance of firms within an industry. Here the regulator may restrict how much profit a firm may earn. In the banking industry these types of regulation are likely to lead to capital rationing and reduce the freedom that consumers have in choosing a financial institution as a business partner.

Box One: Are Banks Monopolies?

Economists usually define monopoly as being a single seller of a commodity or service. Of course, this criteria is seldom, if ever, realised. Arthur Seldon argues in his *Everyman's Dictionary of Economics* that in practice a monopoly is taken to be a seller of a product or commodity with no near substitutes. The banking industry does not meet this requirement.

Furthermore monopolies are often said to earn profits by restricting supply of their commodity or service. A major criticism of the banking industry, however, is of 'predatory lending' which would suggest that the industry is not restricting supply.

An additional indicator of monopoly is persistent supernormal profit – I discuss the profitability of Australian banks in the paper below.

The Business of Banking

While banks perform a multitude of functions on behalf of their clients, the core business of banking consists of borrowing money in order to lend it. Banks earn their profit by managing the mismatch of risks arising from the different preferences of borrowers and lenders. While this activity might be considered risky, the basic business model is similar to that of any market intermediary.

The major argument that banks are somehow different from other types of firm is based on the notion that banks are subject to high levels of systemic risk. This is due to fractional reserve banking, high levels of leverage, and strong interrelationships between banks as they lend and borrow from each other. This leads to the view that a bank run could easily and quickly lead to a loss of confidence in the entire banking system. (See Box Two). This, in turn, imposes very high costs on competitors, suppliers, consumers, and the economy as a whole. Benson (2000), however, suggests that these arguments are oversold. He divides those individuals and firms affected by a bank failure into two groups. First, those with a contractual

relationship with the failed bank; Benson (2000, p. 190) makes the argument that these individuals should be well-placed to understand the risks of their relationship and should not get any greater protection than any other contractual relationship. Then there are those who may suffer an externality due to bank failure. Here Benson (2000, p. 191) argues that attempts to prevent this sort of externality has had the perverse effect of increasing the risk of failure.

Box Two: Do Sound Banks Fail?

The standard theoretical economic model describing bank runs by Douglas Diamond and Philip Dybvig suggests that anything that causes depositors to anticipate a run will cause a run to actually occur. That suggests that contagion should be a common cause of bank failure, i.e. that healthy banks will fail during a banking crisis along with unhealthy banks. This model also suggests that bank failures and banking panics will occur (somewhat) at random.

The empirical evidence, however, does not support this theoretical view. Gary Gorton (1988) tests the view that bank failures occur at random by investigating bank panics and failures during the US National Banking Era (1863 – 1914). He tests two hypotheses. The first hypothesis is that bank failure and bank panics are unrelated to economic events (this can be described as a 'pure panic hypothesis') and second hypothesis is that bank failure and bank panics are related to economic events (the recession hypothesis or an information-based run). His evidence is consistent with the view that bank panics occur when consumers perceive a recession being imminent – they then withdraw money from the banking system in anticipation of bank failures. Banking crisis are not random events, but rather are a rational response to expected future loss.

Similarly Charles Calomiris and Joseph Mason (1997) find that runs on Chicago banks in the early 1930s were information based – those banks that experienced runs were already insolvent. It seems that depositors were able to differentiate between those institutions that were insolvent and those that were not.

There are, of course, the macroeconomic effects of a systemic crisis in banking. The macroeconomic issue at hand is due to the interaction between the banking system and the money supply. A run on the banking system can cause the money supply to contract quite sharply imposing huge costs on the real economy. The problem here is in differentiating between solvent and insolvent banks. There is a large theoretical literature dealing with this problem – yet the empirical evidence suggests less of a problem. Kaufman (1994) undertook a review of theory and evidence and reports that banks are only slightly different from non-bank firms with respect to failure. Kaufman (1994) does provide some argument that is worth quoting in full.

However, there is no evidence to support the widely held belief that, even in the absence of deposit insurance, bank contagion is a holocaust that can bring down solvent banks, the financial system, and even the entire macroeconomy in domino fashion. Indeed, losses to depositor creditors at failed banks, one of the major fears and causes of runs, are smaller on average than in nonbank

industries. Even at its worst, as in the 1980s with deposit insurance, resolution of bank insolvencies appears far more efficient than resolution of nonbank firms through the bankruptcy process.

Benson (2000) concurs with Kaufman (1994) and suggests that even if banking crises could impact upon the macroeconomy, then the monetary authorities could quickly and easily intervene. He concludes (1994, p. 192) that protecting the macroeconomy is not a valid basis for regulating banks.

The Role of Regulation¹

The economics of regulation can be broken up into three strands. The first strand, generally associated with Arthur Cecil Pigou, is the ‘public interest’ theory and suggests that governments intervene in order to correct for externalities and other market failures. The second strand, associated with George Stigler (1972), suggests that industry seeks out regulation in order to create barriers to entry for new rivals and to maintain profitability. This strand of literature is known as the ‘special interest’ or ‘capture theory’ theory of regulation. The third strand, associated with Andrei Shleifer, sets out an institutional analysis of regulation that draws upon both the public interest and capture theories of regulation.

Shleifer (2005) describes four broad general mechanisms to exert social control over organisations; ‘market discipline, private litigation, public enforcement through regulation, and state ownership’. The trade-off in distinguishing between these mechanisms is between *disorder* and *dictatorship*. These notions are described by Djankov, Glaeser, La Porta, Lopez-de-Silanes, and Shleifer (2003).

- ‘Disorder refers to the risk to individuals and their property of private expropriation in such forms as banditry, murder, theft, violation of agreements, torts, or monopoly pricing. Disorder is also reflected in the private subversion of public institutions, such as courts, through bribes and threats, which allows private violators to escape penalties.’
- ‘Dictatorship refers to the risk to individuals and their property of expropriation by the state and its agents in such forms as murder, taxation, or violation of property. Dictatorship is also reflected in expropriation through, rather than just by, the state, such as occurs when state regulators help firms to restrict competitive entry.’

Market discipline is a very powerful force, and should be considered as a regulatory default. Shleifer (2005) argues that the ‘case for public intervention relies crucially on the presumptive failure of market discipline to control disorder’. At this point the control strategy becomes private litigation. Courts, however, cannot always resolve disputes cheaply, predictably and impartially. When this occurs the scope for regulation opens up. Regulation occurs when the state not only provides a dispute resolution mechanism but also writes the rules that govern economic behaviour and transactions. There is substantial variation in how government can enforce its

¹ This section relies on section three of my paper *Bankers and Scapegoats*.

regulations. It can, for example, allow bureaucrats to engage in a regime of inspection and verification with fines being issued for non-compliance. Alternatively, the state can provide a set of rules that are privately litigated, or publicly litigated. Public litigation can consist of either civil or criminal charges. Similarly the regulatory agency can initiate litigation itself for breaches of the regulations, or act once a complaint has been received.

State ownership appears to be an efficient response to those situations where the disorder costs are likely to be very high. Shleifer (2005) gives the examples of prisons, police force, and military where this is likely to be the case. The costs of disorder resulting from private ownership here are potentially so large that government needs to maintain control over these institutions. This, however, is not the case with financial institutions – governments should not own banks. Andrei Shleifer and Robert Vishny (1994) have argued that political interference in firm operations is likely to result in inefficiencies, misallocation of resources, and corruption. Government ownership of banks, however, is common.

Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2002) investigate government ownership of banks across 92 economies (including Australia). They consider two hypotheses that could explain why government ownership of banks is pervasive across economies. A ‘development hypothesis’ is associated with the great Harvard economist Alexander Gerschenkron, who argued that banks were an important mechanism for allocating finance to industry in economies with underdeveloped financial systems. Under a ‘political hypothesis,’ government takes control of banks in order to capture benefits of ownership and to direct those benefits to friends and supporters in the form of subsidies and employment opportunities. After careful analysis, they report that the evidence supports the political hypothesis more than the development hypothesis: Government ownership of banks is higher in economies with ‘underdeveloped financial systems, interventionist and inefficient governments, and poor protection of property rights.’

It is one thing to have a generalised argument for regulation as an effective control mechanism, it is quite another to advocate regulation for a specific industry. The argument for regulating financial markets appears to be strong. As indicated, financial markets face what economists call an ‘asymmetric information’ problem. Of course security markets are hardly unique in this respect. Friedrich von Hayek (1945) has written that asymmetric information is *the* economic problem to be resolved. This represents a classic case of ‘market failure’ and gives rise to the need for regulation under public interest regulation theory.

It is important to recognise that an argument for some regulation is not an argument for any regulation.

La Porta, Lopez-de-Silanes, and Shleifer (2006) investigate the impact of how security laws in financial markets across 49 economies to protect investors and whether regulators with public enforcement or rules with private enforcement lead to better

outcomes. After exhaustive empirical analysis, La Porta, Lopez-de-Silanes, and Shleifer (2006) report

our findings suggest that securities laws matter because they facilitate private contracting rather than provide for public regulatory enforcement. Specifically, we find that several aspects of public enforcement, such as having an independent and/or focused regulator or criminal sanctions, do not matter, and others matter in only some regressions.

The upshot of this analysis is that legal rules matter, but that *regulators* do not always matter. So long as rules can be enforced in courts investors do not need to be protected by regulators.

Barth, Caprio and Levine (2004) find an analogous result in their investigation of bank regulation and supervision across 107 countries (including Australia). They summarise their results as follows (Barth et al. 2004, p. 245 – 246).

In terms of broad implications, these findings raise a cautionary flag regarding reform strategies that place excessive reliance on countries adhering to an extensive checklist of regulations and supervisory practices that involve direct, government oversight of and restrictions on banks. Instead, our findings are consistent with the view that regulations and supervisory practices that

- (1) force accurate information disclosure,
- (2) empower private-sector corporate control of banks, and
- (3) foster incentives for private agents to exert corporate control,

work best to promote bank development, performance and stability.

Regulations involving prescriptive behaviour and powerful regulators using public enforcement mechanisms are not the better techniques to employ for the purpose of social control. These sorts of results raise the important question of why governments' pursue those types of regulation. Not only do they appear to be non-optimal from an economic perspective they must be non-optimal at a personal and political level. After all, as the *Wall Street Journal Europe* (2009) points out, 'The bankruptcy of a systemically important bank is, necessarily, also a failure of the regulators who were overseeing it'.

An important component of any regulatory policy is competition policy. This is an area fraught with difficulty at the best of times, let alone in financial services. With the exception of the United States, the banking industry tends to be highly concentrated. US policy has tended to promote a large number of smaller banks rather than allow for higher levels of concentration. Generic arguments in favour of competition include costs being minimised and resources being efficiently allocated in the economy. Competition ensures that the benefits of an efficient and effective banking sector are broadly spread across the economy.

An important issue to consider, however, is the potential trade-off between competition and financial stability. (See Box Three). Despite vigorously promoting competition in the banking sector, the US seems to be characterised by higher levels

of financial instability. This observation suggests two inter-related questions: What is the optimal amount of competition in the banking sector? and what are the trade-offs between increased competition and increased concentration?

The academic literature has not provided a clear answer to the first question.² It is likely that the deadweight costs of bank failure are larger than the efficiency gains of additional competition. In other words, increased competition may be less valuable, at the margin, in the banking sector than in other sectors of the economy, i.e. the benefits of competition, everything else being equal, are quickly exhausted. Banks, which are highly leveraged, are also more likely to experience moral hazard problems. In particular, banks face an ‘asset substitution’ problem. Policies that promote excessive competition are likely to provide incentives for banks to take on too much risk.

In answer to the second question, there is some empirical evidence that supports the notion that concentrated banking systems are more stable than fragmented systems. In an analysis of sixty-nine economies over the period 1980 – 1997 (including Australia) Thorsten Beck, Asli Demirguc-Kunt and Ross Levine find that greater bank concentration is associated with a lower probability of a banking crisis. In particular they find ‘no support for the view that banking system concentration is a proxy for a less competitive banking environment’.

Box Three: Glenn Stevens on the Competition-Stability Trade-off

At his recent appearance before the House of Representatives Standing Committee on Economics the Reserve Bank of Australia Governor Glenn Stevens had this view of this very important question.

Dr LEIGH—I will turn to banking. Do you think there is a trade-off between competition in the banking sector and system stability?

Mr Stevens—At one level there probably is, but I will articulate that a little more. Like I was saying before, banking is not just any other business. In many areas it is probably the case that more competition is always better for consumers, but in banking more competition is good to a point but beyond a point more competition is not good, because the bankers can be led to do things that ultimately cause a lot of subsequent damage. I think we have to understand that. That is not to say that the current amount of competition we see in any particular market is necessarily enough, but there is a point beyond which extreme competition in lending money leads to problems.

That is actually the background to why, after the Great Depression, there was so much more regulation brought in. A lot of that regulation was designed to prevent

² See Allen and Gale (2001, pg. 268).

competition from going too far, frankly. That is the way people thought then. Of course, we probably overdid regulation historically and had to come back to letting there be some more competition. I think to a point that was good. But there is a kind of point somewhere beyond which the competition pushes down lending standards and ends up lending money to people who really should not get it. That is not a good thing.

Profitability and Competition

Australian banks appear to be highly profitable. The general argument seems to be that banks somehow earn monopoly profits. This perception is untrue, and if translated into policy action could seriously undermine the Australian banking industry.

Australian banks are often criticised for the profits that they earn. Despite the positive role that profits play in the economy, the broader community are often ambivalent about profitability. It is important to understand that profit is not a conspiracy against the public. Consumers should not begrudge the profitability of firms but rather recognise it as a manifestation of the value of a transaction.

As Ludwig von Mises (1952) indicated,

There would not be any profits but for the eagerness of the public to acquire the merchandise offered for sale by the successful entrepreneur, but the same people who scramble for these articles vilify the businessman and call his profit ill-got.

But we should investigate this issue further before drawing any judgement. After all von Mises (1949) also argues that entrepreneurs earn profit through serving consumers, while the monopolist 'reaps monopoly gains through impairing the satisfaction of consumers.' It is not unreasonable for consumers to question whether or not Australian banks are truly entrepreneurial or if they exercise monopoly power.

One way of evaluating competition in an industry is to make use of the well-known Structure-Conduct-Performance (SCP) model.³ This approach works on the principle that the structure of the industry (either concentrated or diffuse) leads to conduct (either monopolistic or competitive) which in turn leads to performance (monopoly profits or normal competitive returns). The SCP approach has been criticised by economists such as Harold Demsetz, nonetheless the approach itself is widely used and appears to be intuitively attractive to non-economists.

Jacob Bikker and Jaap Bos (2008) have investigated the SCP approach in a massive analysis of 7,266 banks across 46 countries spanning 1996 – 2005. Their Australian sample includes 36 financial institutions. In their analysis they make use of the well-known Herfindahl-Hirshman Index and various concentration ratios (in the empirical

³ See Ferguson and Ferguson (1994).

test of the SCP approach they employ a top-three bank concentration ratio). They are able to find no statistically significant relationship between concentration and profitability for Australia (pg. 87) and no statistically significant relationship between the Herfindahl-Hirshman Index and profitability for Australia (pg. 88). They interpret this result as follows, 'for most countries the impact of market structure on performance is limited'.

Of course, the argument at present is that the banking industry has become more concentrated and less competitive since the global financial crisis. To be sure it does appear that the banking sector is more concentrated and some smaller financial institutions are struggling in the current environment. It is instructive to examine what Australian regulators and public officials were saying about bank competition at the time the crisis first began and to compare that to what they say now. In particular what was reported to the 2008 House of Representatives Standing Committee on Economics Inquiry into Competition in the Banking and Non-Banking Sectors.

At that time The Treasury argued (emphasis added)

Notwithstanding the prominence of the five major banks in the Australian banking sector, there is evidence that the sector is contestable. *Australian banking customers are served by a wide range of banking providers*, including: 13 domestic banks; 12 building societies; 139 credit unions; and a subset of Australia's 10 foreign bank subsidiaries, 31 foreign bank branches, and more than 100 non-ADI financial institutions. According to financial services research firm CANNEX, there are currently around: *140 providers of over 2,400 mortgage products*; 70 providers of over 300 different credit cards; and 130 providers of over 2,400 different types of deposit accounts.

Similarly the RBA argued, 'By international standards, Australian borrowers are offered a wide range of mortgage products and are able to choose from a large number of different loan types, with many of these offering more flexibility than is available in other countries.'

The view of both the RBA and the Treasury seems to indicate that the structure and conduct components of the SCP model do not suggest monopolistic behaviour.

Similarly on profitability there was little evidence that the Australian banking industry earns monopoly profits. The Treasury indicated that, 'The profitability of the major banks appears to be broadly consistent with other large Australian companies.' Ric Battellino of the RBA reported a far more comprehensive analysis to the House of Representatives inquiry into competition in the Australian banking sector.⁴

⁴ http://www.rba.gov.au/Speeches/2008/sp_dg_140808.html

When we look at bank profitability, we find that Australian banks are around the top of the international range. On the surface, this could indicate a lesser degree of competition than elsewhere. But when we look a bit deeper it seems that an important reason for the high profitability of Australian banks is their unusually low bad debt experience. Over the past decade or so, bad debts of Australian banks have been about half the long run average, and also around half the experience of overseas banks. This has been the result of the very strong domestic economy. It is also worth noting that other Australian industries have been very profitable over this period.

Ric Battellino made far more expansive comments at the hearing held in Sydney and these comments are reproduced from Hansard:⁵

Some commentators have recently been concerned that financial turmoil over the past year has lessened the degree of competition. This is because the turmoil has made it harder for lenders who fund themselves in capital markets to compete. ... While it is true that lenders relying on securitisation have lost market share in recent months, it has always been the case that some phases of the economic cycle favour some forms of financing more than others.

In other words we can expect to observe that competitors with different business models perform differently in different stages of the economic cycle. Good policy provides a framework for economic behaviour it should not determine outcomes. At present some business models are at a disadvantage but that is not sufficient grounds for government intervention.

These points were more or less reiterated by the RBA when officials appeared before the House of Representatives Standing Committee on Economics on November 26, 2010. The cost of capital for Australian banks (and lenders in general) has risen over the past few years. As Glenn Stevens explained⁶

What we have seen in the past several years is that those wholesale funding sources, which for some years up to the middle of 2007 were very available, very inexpensive and, apparently, quite reliable and quite stable, changed dramatically after the problems began in 2007 and especially after the Lehman failure in September 2008. I think every banker in the world and every supervisor concluded that it was a more unstable and risky source of funding than had previously been assumed and that banks, therefore, needed to change their funding mix more in the direction of things that could be expected to be stable. Our banks have done that. I cannot say that I regard that as something to regret. I think it is probably prudent. What that has meant is that there has been

⁵ <http://www.aph.gov.au/hansard/reps/commttee/R11143.pdf>

⁶ <http://www.aph.gov.au/Hansard/reps/commttee/R13346.pdf>

much more intense competition to raise funds by financial institutions in that space than there had been before. You have seen that in the rises in their costs and the relatives of the cash rate. The cost of several types of deposit funding has increased quite markedly over this period.

At present those financial institutions that are better able to access capital will have an advantage over those that cannot. Furthermore, we can expect to see higher prices in the banking industry. This is not due to monopoly power per se, but rather due to a reassessment of risk.

Should government set prices?

The primary function of government is to establish and maintain conditions for society to flourish. The rule of law acts to restrict the extent and scope of government intervention in society. The rule of law has economic consequences. Government should only undertake those tasks which the market will not undertake, for example the provision of a reliable and stable monetary system. Importantly any form of price control or government mandated price manipulation is inconsistent with the rule of law. As Friedrich von Hayek (1960) has argued:

Appropriate prices depend on circumstance which are constantly changing and must be continuously adjusted to them. On the other hand, prices which are not fixed outright but determined by some rule (such as that they must be in a certain relation to cost) will not be the same for all sellers and, for this reason, will prevent the market from functioning. A still more important consideration is that, with prices different from those that would form on a free market, demand and supply will not be equal, and if the price control is to be effective some method must be found for deciding who is to be allowed to buy or sell.

Hayek does not argue against government regulation, but he does indicate that the price mechanism must be free to operate and determine prices.

It has often been argued that government can maintain and enhance public welfare by operating business firms. The basis for this type of argument is that the profit motive is somehow inconsistent with public welfare. This argument is wrong, of course. Yet economic history is littered with examples of where governments have attempted to operate firms best suited for private operation. Examples in recent Australian history include the State Bank of South Australia. This State Owned Enterprise collapsed in 1992 following many years of poor financial management.

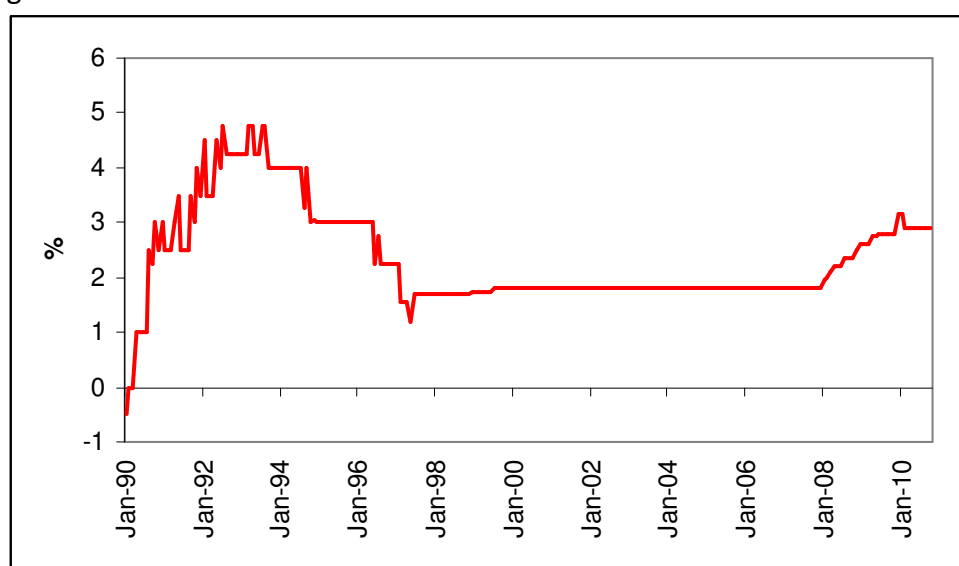
It is important to reflect on the one bank that is owned by government – the Reserve Bank of Australia. Historically the Commonwealth Bank operated both as a commercial bank and as a central bank. The Reserve Bank of Australia was created in 1960 as a separate entity from the Commonwealth Bank. It was broadly felt that a single entity should not operate as both a (profit-seeking) commercial bank and also

as a (non-profit seeking) central bank.⁷ Furthermore, the Reserve Bank operates at arms length from the government.

It seems somewhat incongruous that government should influence the pricing of banks when it does not do so for its own wholly owned instrumentality the Reserve Bank. Similarly, the government owned the Commonwealth Bank, but chose to privatise it in the 1990s. Again, it seems incongruous that the government should now attempt to control pricing arrangements of a private sector entity when it made little attempt to do so when it owned the bank. Despite the rhetoric, government clearly needs to recognise the limits of its powers and influence. This is especially so given the history of ownership of the Commonwealth Bank (and current ownership of the Reserve Bank) and the behaviour of government at the time of ownership.

The present concern about pricing revolves around the differences between changes in the RBA cash rate and the standard variable rates charged by banks. Using data from the RBA I have plotted the differential between the two for the period January 1990 to October 2010 (the standard variable rate for November 2010 was not available at the time of writing).

Figure One: Difference between the RBA cash rate and standard variable rates



Source: RBA

While it is true that the differential has increased since January 2008, it is also the case that the cost of capital has increased since that time and it is now widely recognised that risks were under priced prior to the global financial crisis.

⁷ See Schedvin (1992).

Recommendations

- Australian banks do not have monopoly power and should not be treated as such. Normal consumer protection legislation should apply to the banking sector.
- The business of banking is complex and risky. Government officials, regulators and politicians should not consistently and persistently second-guess private decisions.
- Profitability in and of itself is not a measure of monopoly. An unprofitable banking sector would have deleterious effects on the Australian economy. Government should focus on establishing the conditions under which the private sector can seek out and earn profits through meeting the needs of the Australian community.
- Policy makers and regulators should adopt an evidence-based approach to regulation. Pure panics seldom, if ever, cause banking crises. Financial institutions should be allowed to fail if insolvent and be subject to the well-known Bagehot Rule if illiquid.
- The Australian government should not seek to own a bank (either outright or through the Post Office), nor seek to set prices at any bank (including the Reserve Bank).

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