



## Australian Citizens Party

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### MEDIA RELEASE

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## A true 'People's Bank' is a national bank, not the Greens' mortgage lending scheme

Australia desperately needs a "People's Bank", but the scheme announced by the Greens on 4 April is not such a bank. The Greens' finance spokesman Senator Peter Whish-Wilson is a former investment banker, and he has distorted the People's Bank concept into a typical investment banker's scheme to effectively funnel even more credit into the over-stretched housing bubble.

The Greens propose using the publicly-owned Reserve Bank to provide no-frills bank accounts, and to lend directly to owner-occupiers 60 per cent of the value of their home, up to a maximum of \$500,000, at 3.5 per cent interest, with the homebuyers borrowing the balance from a private bank. This will initially enable more people to buy homes at the over-inflated prices of Sydney and Melbourne, but the extra sales will push prices even higher, further inflating the bubble and making housing even more unaffordable than it already is—exactly what happened when the Rudd government poured more public money into mortgages by tripling the First Home Owner Grant in 2008.

Apart from being a stupid scheme to feed the bubble, it is *not* what a People's Bank is for.

The term People's Bank has its origins in the Australian public's enormous support for the original Commonwealth Bank. Founded in 1911, the Commonwealth Bank was envisioned by its great champion, American-born Labor MP King O'Malley, to be a national bank modelled on the USA's First Bank of the United States designed by George Washington's Treasury Secretary Alexander Hamilton. O'Malley declared, "I am the Hamilton of Australia. He was the greatest financial man who ever walked this earth, and his plans have never been improved upon." O'Malley campaigned for a national bank of "issue, reserve, exchange, and deposit"—both a commercial bank and central bank carrying the full authority of the Commonwealth government. Initially, due to the bitter opposition of the private banking cartel, the Commonwealth Bank was not as O'Malley envisioned, but it soon proved itself to be the most important and reliable financial institution in Australia. Under founding Governor Denison Miller it commenced operations without actual capital, Miller proclaiming an important principle of national banking at the opening of the Commonwealth Bank head office in Sydney on 20 January 1913: "This bank is being started without capital, as none is required at the present time, *but it is backed by the entire wealth and credit of the whole of Australia.*" (Emphasis added.)

In the global banking crisis that started in London at the outset of World War I in 1914, the Commonwealth Bank was a tower of strength, both in London and in Australia. It stopped a run on Australia's private banks by Miller announcing that the Commonwealth Bank stood behind the deposits in *all* banks. Its stellar performance consolidated the public's support for the People's Bank, but private bankers continued to use their political influence to hamper its functions, especially during the Great Depression. It wasn't until WWII that the Curtin-Chifley Labor government equipped the Commonwealth Bank with the full powers of a national bank, and the result was the spectacular economic mobilisation for the war, which transformed Australia from an agrarian backwater into an industrial powerhouse and was crucial to victory in the Pacific theatre.

The functioning of the People's Bank under John Curtin and Ben Chifley defines how national banking should work. First, it is controlled by the elected government, which makes it democratically accountable. The 1937 Banking Royal Commission report found that the government was the ultimate authority over the bank, and in the 1937 federal election campaign John Curtin insisted that the government is not really in charge unless it directs the financial system through the Commonwealth Bank. "If the Government of the Commonwealth deliberately excludes itself from all participation in the making or changing of monetary policy", Curtin said, "it cannot govern except in a secondary degree."

Second, it harnesses and creates credit to direct into nation-building infrastructure and productive industries. The original People's Bank funded infrastructure all over Australia in both world wars, and massive capital investments in crucial industries, including the development of a machine tool industry virtually from scratch in WWII. Ben Chifley used the Commonwealth Bank to provide the key investment that launched the Australian car industry after the war, and also legislated for the Snowy Mountains Scheme to be funded by national credit from the Commonwealth Bank (although Robert Menzies, on behalf of his Collins Street banker friends, put a stop to this when he took power from

Chifley in 1949).

Today, for instance, a true People's Bank would fund a transformation of Australia's energy grid to nuclear power, for which Australia has the most plentiful supplies of fuel—not as commercial scams that gouge consumers, but as government utilities that provide plentiful, reliable and cheap electricity. A national bank would also fund the development of high-speed rail all over Australia, and provide cheap credit to the steel and other productive industries that will need to gear up to supply materials to these projects, and to the agricultural and manufacturing industries that will be able to capitalise on the economic opportunities created by the new infrastructure.

Third, it tightly regulates and protects the private banking system, as the Commonwealth Bank did in WWII. The private banks complained, but they were never unprofitable. By contrast, the present regulation regime split between the Reserve Bank and the Australian Prudential Regulation Authority (APRA) has been a fig leaf for neoliberal self-regulation that has allowed the banks to make massive profits on paper, but through looting their customers, serious crimes such as drug and terrorism money laundering, and inflating a massive property bubble that threatens the whole economy.

Fourth, it takes deposits and lends to individuals and businesses, providing important competition to the private banks, especially on customer service. The run of record profits enjoyed by the Big Four banks followed the final privatisation of the Commonwealth Bank in 1997—with no meaningful competition; the big banks closed thousands of branches, laid off tens of thousands of staff, and gouged customers every way they could.

Just as the USA's *Glass-Steagall Act* is historical proof of the importance of separating commercial banks with deposits from all forms of speculation, Australia's People's Bank, the Commonwealth Bank, proves the importance of a true national bank. The Citizens Electoral Council, as the leading authority on both policies among Australian political parties, is fighting to implement them before the economy implodes under record debt, the massive bubble in housing, and over \$37 trillion in bad derivatives bets.