THE TRADE UNION RESPONSE TO THE PARTIAL PRIVATISATION OF THE COMMONWEALTH BANK[1]

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In late August, 1990 the then Federal Treasurer, Paul Keating announced that the Commonwealth Bank of Australia (CBA) was to undergo a partial privatisation to fund that institution's takeover of the State Bank of Victoria. The news of the partial privatisation of the Commonwealth Bank produced little public acrimony. This has much to do with the fact that the Treasurer had gained approval for the partial privatisation from the leaderships of both the ACTU and the Commonwealth Bank Officers' Association (CBOA) prior to his announcement. This paper will examine why the trade union movement, in particular the CBOA, was willing to support an initiative which ran counter to its own policy and to labour movement principles generally. The chief point of concern is whether the CBOA actually defended the Commonwealth Bank against privatisation or whether it surrendered meekly to the Federal Government's plan.

The People's Bank

Support within both the trade union movement and the ALP for the establishment of a publicly owned bank is as long as the history of those

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organisations. Since its establishment in 1911 the Commonwealth Bank has remained something of a 'sacred cow' of public ownership to the labour movement. Labour orthodoxy has followed the view of early public ownership protagonists, such as former New South Wales premier W.A. Holman, that a government owned Bank would operate in the 'national interest' (Love, 1984:44). It has only been in the latter period of the Hawke Government, accompanied by the rise of economic rationalism, that some sections of the labour movement have challenged this orthodoxy. The most notable critic being the then Federal Treasurer Paul Keating who touted the idea of a market consisting of three private super banks. This would necessitate a virtual privatisation of the Commonwealth through a merger with one of the existing private banks. Before coming to the events of August 1990 and seeing how Keating's plan unfolded, it is useful to consider the Commonwealth Bank as a matter of 'national interest'.

The ongoing 'national interest' assumption is based on one of the key objectives specified for the CBA by the revised Commonwealth Banking Act of 1945. Here it was clearly defined that the Bank is to operate for the 'economic prosperity and welfare of the people of Australia' (Evatt Research Centre 1988:22). This objective largely provides the rationale for the existence of the CBA today. If it can be shown that the Commonwealth Bank meets this objective then it can be said to serve a 'national interest' as its defenders would argue. In terms of providing for the 'economic prosperity and welfare of the people of Australia' the Commonwealth Bank has been prominent in a number of areas. For example, the Commonwealth Bank was instrumental in the development of Australian industry by underwriting loans for both BHP and GMH (Evatt Research Centre, 1988: 22). Also, the Bank made loans to other government and quasi-governmental bodies for infrastructural provisions. This was an unattractive area of business which private banks were reluctant to enter. Most importantly, the Commonwealth Bank became a major financier of loans to private housing, thus providing a vital community service which was seen as unprofitable by private banks.

Actual assessments of the utility of the Commonwealth Bank have been made largely with reference to its ability to fulfil its official objective.

In making assessments however, the objective has been interpreted differently. From one perspective, it has been assessed in terms of the impact that the Commonwealth Bank has had on the free enterprise banking system. Other assessments have been made in terms of the Bank's ability to operate successfully as a commercial endeavour. Thirdly, the Bank has been assessed in terms of its ability to provide a 'community service obligation' to the people of Australia.

The first type of assessment was most prominent after the Commonwealth Bank attained central bank powers in 1924. The private banks were always opposed to this move on the grounds that such control by a competing bank would encumber free market principles in the banking industry. These protestations eventually resulted in the removal of the central banking function from the Commonwealth Bank, with the establishment of the Reserve Bank in 1959 by an obliging conservative government. With this, objections to the Commonwealth Bank inhibiting the operation of free enterprise became passé. Assessments of the latter two types mentioned above continue to be of relevance.

Most assessment or criticism of the Commonwealth Bank has focussed on the commercial success of the Bank. The argument has been that if the Commonwealth Bank cannot operate viably in the marketplace, then it does not serve the objective of providing 'economic prosperity' for the community, but rather risks imposing a cost. This line of argument is raised by the private banking sector and its advocates and is the most popular type of criticism because most assessment of the CBA has been done within economic and management circles. The image currently presented by the Bank management leaves it open to criticism based on this type of assessment. For example, in an interview in 1988 the deputy chief executive of the Commonwealth Bank, Ian Payne stated, 'we regard ourselves as being 100 percent commercially driven as an organisation' (Singh, 1988: 18). This type of claim also assists the privatisation lobby, because it creates a view of the Commonwealth Bank as a purely commercial concern. As such it can be legitimately questioned why the Bank need remain a public enterprise. Further on it will be argued that the Commonwealth Bank is more than just a commercial institution, but in what follows the

commercial viability of the Bank as a publicly owned enterprise will be briefly examined.

A major criticism in relation to the commercial viability of the Commonwealth Bank is that the maintenance of its market position requires vast capital injections from Government coffers. In so far as this is true it may impose unacceptable fiscal strain. However, the central point must surely be whether the Bank could earn a satisfactory return on funds. In fact the CBA has returned substantial dividends to the Government. A recent survey of a number of key performance indicators has shown the Commonwealth (although lagging behind major commercial rivals in some years, on some indicators) to be a key player in the domestic banking market (Howard, 1991: 9-11). In any case, vast capital injections may not be required[2]. Management consultant Alan Kirkwood, for example, has argued:

> If the Bank continues to grow at the same or similar rate as it has done over the last two financial years, then the future capital requirements of the Bank will be fully satisfied by its own profitability (Kirkwood, 1988: 20).

Kirkwood (1988: 20) suggests that assessments of the Bank which see it as an unprofitable operation, are lacking in 'detailed analysis' of performance indicators and valuation methods. Indeed, differences in use of data have seemingly much to do with differences in conclusions drawn. A 1988 Federal Government Caucus paper which found that 'continuing government investment in the Commonwealth Bank represents a net cost to the taxpayer' was based on a comparison of the after-tax return on shareholders funds with the government's pre-tax funding cost. As noted in another paper commissioned by the CBOA to address the Caucus paper findings, a fair assessment would compare an after-tax return on shareholders funds with an after-tax funding cost

2 See citations for the following reports in the bibliography: Bain and Co. (1988), Mercer et. al. (1988), Kirkwood (1990), Howard (1991).

(Mercer, 1988: 1)[3]. This would give a more accurate account of the 'cost' of the Bank to the Government, and, importantly, would dispute the Caucus paper's central finding mentioned above (Mercer, 1988). Overall, the various independent reports commissioned by the CBOA indicate the Commonwealth Bank to be a much more viable commercial concern than its detractors would have it. As a commercial concern it affords the Federal Government substantial dividend return and might be regarded as an 'unencumbered asset' rather than a burden.

Assessments of the Commonwealth Bank in terms of its ability to provide a 'community service obligation' have been less popular[4]. This is partly because social objectives of the Bank have never been explicit (Howard, 1991:18) but has more to do with the fact that assessments have been done by commercial analysts. As such most analyses have focussed on only one part of the Commonwealth Bank, the Commonwealth Bank of Australia, known prior to 1984 as the Commonwealth Trading Bank. This overlooks the other 'banks', the Commonwealth Development Bank and the Commonwealth Savings Bank, which make up the corporation which is the Commonwealth Bank. Importantly, it is these two parts of the Commonwealth Bank which are chiefly responsible for meeting the 'community service obligation'.

The Commonwealth Development Bank which is the most recently established arm of the Corporation has taken on the important responsibility of providing finance to producers in the rural sector and small business operations unable to gain loans from private institutions (Evatt Research Centre, 1988: 15). The Commonwealth Development

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3 This is to suggest that there is a contradiction in the methodology of the Caucus paper. According to the Mercer Report: An after-tax return on shareholders' funds is compared with a pre-tax bond rate. The marginal cost to the government of raising funds by borrowing is less than the coupon paid on debt raised, as any interest paid will be taxable in the hands of some or all of the bond holders. Any comparison of an investment's after-tax return with the cost of funding the investment should, in order to be consistent and valid, examine the after-tax funding cost (Mercer, 1988, 2).

4 See citation for the following reports in the bibliography: Australian Consumers Association (1990), Evatt Research Centre (1988), Howard (1991)

Bank therefore provides a service to the community in areas of lending which are considered to be too risky or unattractive for private institutions.

The Commonwealth Savings Bank essentially exists as a savings bank for the people of Australia. As such it has fulfilled a number of important community service functions. Most prominently, the Commonwealth Savings Bank has been the largest institutional lender for housing (Evatt Research Centre, 1988: 114). Up until the middle 1980s the rates of interest on these housing loans were significantly lower than those offered by private competitors. In the contemporary competitive market this is no longer the case, but the Commonwealth Savings Bank tends to be quicker to reduce interest rates and slower to increase them than private institutions (Howard, 1991: 18). The Commonwealth Savings Bank has also been inclined to maintain high rates of lending when the commercial market has contracted (Howard, 1991: 18). The Commonwealth Savings Bank is also a major lender to local council and quasi-governmental bodies. This allows these bodies to fund programs which would be unlikely to attract loans from private banks. Similarly, the Commonwealth Savings Bank has been a major lender to charity and non-profit making private bodies. Previously, the Commonwealth Savings Bank made such loans at concessional rates, but this now applies to charitable organizations only (Howard, 1991: 18). Again though, the Commonwealth Savings Bank is providing an important community service by facilitating the funding of projects undertaken by both governmental and non-governmental bodies.

A final point on the Commonwealth Savings Bank is that it services the majority of people at the lower end of the socio-economic ladder. It has been estimated that sixty percent of pensioners and beneficiaries hold accounts with the Commonwealth Savings Bank (Howard, 1991: 19). Similarly, people receiving unemployment support and other social security provisions are largely represented in the Commonwealth Savings Bank's customer base. Importantly the Commonwealth Savings Bank exempts the above mentioned categories of customers from paying monthly account service charges. It was estimated in 1986 that this provision was costing the Bank $36 million per year (Howard, 1991: 19). The main point to be made here is that the Commonwealth

Savings Bank has provided a banking service accessible to all Australians[5].

The conclusion drawn thus far is that the Commonwealth Bank has endeavoured to meet its stated objective of providing for the 'economic prosperity and welfare of the people of Australia'. Historically, the Bank has fulfilled a 'community service obligation' (Howard,1991) and, to an extent, continues to do so. In the contemporary context though more emphasis has been placed on the CBA as a viable competitor in the market place. A number of independent reports have declared the Commonwealth a success in this field[6]. The argument for privatisation is therefore rather tenuous. The CBA continues to provide a limited 'community service obligation' and its economic performance is comparable with private competitors. Also of importance is the defacto regulatory role that the Commonwealth Bank provides by its mere presence as a public enterprise in a private market place. Irrespective of such evidence the privatisation bandwagon rolled on.

Still the People's Bank

By comparison with overseas examples the privatisation issue made a somewhat belated entrance into mainstream political debate in Australia. However, privatisation is now accepted as part of the economic rationalist agenda which enjoys a considerable degree of bipartisan political support. The Liberal-National parties have handled this development rather comfortably. They have released an emphatic, if not detailed, privatisation policy document entitled *Privatisation the Australian Way*. The document lists twelve key publicly owned enterprises for sale, including the Commonwealth Bank. Conversely,

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5 There has been a public perception over the years that the Commonwealth Bank has paid low rates of interest on savings accounts, thus challenging the claim to be a people's bank. This has, however, much to do with the limitation on interest payable placed on banks prior to deregulation in the early 1980s. This was likely to lead to more criticism of the Commonwealth Bank than private banks because of the public expectation that Commonwealth will operate in a community interest.

6 Bain and Co. (1988), Mercer et. al. (1988) and Kirkwood (1990)

the trend towards an acceptance of privatisation has left the ALP in something of a policy-making quandary. Indeed, it has been said that 'the handling of the privatisation issue is one of the spectacular failures of the Hawke government' (Wiltshire, 1990: 34). The party has remained divided on the issue with prominent sections of the right and centre in favour of privatisation, while the left is entirely opposed.

The dissension over privatisation within the ALP culminated in a specially convened policy conference held in September, 1990. At this conference a limited privatisation policy was adopted with application to the airline and telecommunication industries. Significantly, the announcement of the partial privatisation of the Commonwealth Bank occurred approximately one month prior to the special conference on privatisation. This was because of the very special set of circumstances which accompanied the partial privatisation of the Bank. Whatever the circumstances though, the Commonwealth Bank issue was effectively shielded from the thoroughgoing privatisation debate within the ALP.

The partial privatisation of the Commonwealth Bank was announced in the Australian media on Monday 27 August, 1990, following the sealing of a deal between the Commonwealth Bank, the State Bank of Victoria, the Victorian State Government and the Federal Government. This followed a joint statement released by the then Federal Treasurer Mr. Keating and the Victorian Premier Mrs. Kirner the previous day, revealing details of the deal between the above mentioned parties. The partial privatisation was announced as a necessary means of funding a $1.6 billion takeover of the State Bank of Victoria by the Commonwealth Bank. Importantly, the Commonwealth Bank takeover of the State Bank of Victoria was at the centre of the decision, the partial privatisation of the Commonwealth Bank being merely a means of facilitating the takeover. This, at least, was how the official story was presented (Australian Financial Review 27/8/90: 1).

The need for the Commonwealth Bank to takeover the State Bank of Victoria was explained as a necessary means of ensuring the stability of

the national financial system[7]. The State Bank of Victoria had incurred losses to the extent of $2.7 billion through the disastrous dealings of its merchant bank, Tricontinental. When the extent of the bad debts became apparent to the chairman of the SBV, as far back as April, 1990, he touted the possibility of selling the bank to Treasurer Keating (Wilkinson, 1990)[8]. One of his suggestions was to sell the SBV to the Commonwealth Bank. This was made in preference to the less palatable option of selling the SBV openly on the commercial market. Keating accepted the sale to the Commonwealth Bank option after imposing certain conditions. Of relevance to this discussion, he specified that the SBV would have to be open to offers from private banks as well as the Commonwealth. Also, if an offer was forthcoming from the Commonwealth it would have to be based on a partial privatisation funding scheme. This was to avoid the Commonwealth Government's having to foot the bill from budget.

The proposed deal was grudgingly accepted by the newly installed Victorian Premier, Mrs. Kirner. After managing to gain equally grudging acceptance from her Socialist Left factional colleagues for the sale, Mrs Kirner set about calling for expressions of interest in the SBV. Six such expressions were duly received. The highest bid came from Westpac exceeding the next highest, that of the Commonwealth Bank, by $55 million. In light of the internal dealing which had been done, Mrs. Kirner and her Treasurer, Mr. Roper, accepted the offer from the Commonwealth Bank and wrote off the shortfall. This was aided by the Federal Treasurer Mr. Keating, who offered the Victorian Government a tax compensation package. This sweetened the deal by a further $413 million (Australian Financial Review, 28.8.90: 1).

The focus of the announcement made to the public was on the salvaging of the State Bank of Victoria. The partial privatisation of the Commonwealth Bank and the implications this would have for the Bank as a public enterprise was seemingly of secondary concern. The main

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7 This interpretation of the takeover in terms of a solution to national crisis was widely accepted.

8 Information on 'behind the scenes' events has been gleaned from the article by Wilkinson (1990) and interviews with CBOA and other union officials.

point to be made was that the partial privatisation was a necessary course of action in saving the SBV from collapse. An implication, intended or otherwise, was that it was preferable to allow the partial privatisation of one key public enterprise than to allow the complete demise of another. Through the takeover as arranged, the SBV would remain in public hands by becoming a part of the Commonwealth Bank.

This was heralded as something of a fillip to the Commonwealth Bank's commercial standing. Rather than concentrating on the point that the Commonwealth Bank would be partially privatised the announcement stressed that the new arrangements would make the Commonwealth Bank the biggest in the banking system. After the SBV takeover the Commonwealth Bank would have domestic assets well in excess of its nearest rival, Westpac. So the overall impression being given by the Treasurer in announcing the deal was that, not only were the Victorian Government and people to benefit from the arrangement but so would the Commonwealth Bank and the Australian public.

The actual privatisation arrangement was to involve an issue of thirty per cent equity in the newly established bank structure. The share issue was to be made in the new year with certain stringent conditions pending. The claim was made by the Treasurer, Mr. Keating, that such a partial privatisation of the Commonwealth Bank was an economic necessity if that institution was going to be able to fund a takeover of the SBV. This claim, although widely accepted, has been challenged in some circles. The main point of contention is Mr. Keating's argument that the Commonwealth Bank would have been in breach of the Reserve Bank's guidelines on capital adequacy if it had taken over the SBV without an injection of capital to fund the takeover. As the Federal Government was unwilling to provide such a large injection, a private share float would provide an acceptable alternative. It is interesting to note that detailed criticism of this rationale first appeared in the conservative press, in the pages of the Australian Financial Review (Australian Financial Review, 5.9.91: 15).

In some detail it was explained that the Commonwealth Bank would not be in breach of the Reserve Bank capital adequacy guidelines by taking over the State Bank of Victoria. The Reserve Bank stipulates that all

banks need to hold certain levels of capital in support of accumulated assets. After an examination of different facets of the Commonwealth Bank's capital base, the critic concluded that the $1.6 billion private capital injection was not really required to fund the takeover of the SBV (Rogers, 1990). The Commonwealth Bank has a heavy weighting towards 'core' capital or investments and profit, rather than 'supplementary' capital which is basically provisions held against debt. It was argued that the Commonwealth may have been able to finance the takeover without bringing the 'core capital' component of its capital base below the level stipulated by the Reserve Bank guidelines (Rogers, 1990). However, even if the CBA could not have financed the SBV takeover in practice, it certainly appears that the Federal Treasury overstated the capital needs of the Bank.

This supports the view that the Federal Treasury and its Minister were set on the privatisation plan irrespective of other options available to the Commonwealth Bank. Commercialisation plans for the Commonwealth Bank had been on the Treasury agenda since late 1987. A number of options including partial privatisation had been placed on the table for consideration. The early favoured option was a merger with one of the 'big three' domestic banks (Australian Financial Review, 15.4.88). This option was actually put to the Federal Council of the Commonwealth Bank Officers' Association in April 1988, by both Mr. Keating and the ACTU secretary Mr. Kelty, with minimal support from some senior officers of the union, but was overwhelmingly rejected in this forum (Australian Financial Review, 20.4.88: 1-2). The Treasurer responded to this rejection by releasing a statement the following day which declared that the Commonwealth Bank would not be able to look to the Federal Government for increased capital injection. The implication was that if the Bank's board were to obtain an increase in equity, it would have to do so through an alternative means such as a public share float (Australian Financial Review, 21.4.88). At this point, partial privatisation seemed to emerge as Treasury's favoured option for the Commonwealth Bank. However, pursuit of this option was stalled for a number of apparent reasons. One of these was that the left of the ALP was openly hostile to privatisation of any public enterprises, to any degree. To bring the Commonwealth Bank into the general privatisation debate would have roused the same kind of ire which was

roused by suggestions to privatise Telecom and Qantas. A second reason was that, even if successfully put on the policy agenda, the actual implementation of the Bank's privatisation would have ensured that the assuredly controversial event would have coincided with a federal election. The SBV crisis answered both of these problems of having to avoid the next federal election and a tie-up of the CBA'S privatisation with other such moves. It occurred after the 1990 election and reduced the issue of privatisation in relation to the Commonwealth Bank to a strategy of crisis relief. Thus the SBV crisis provided an opportunity for the introduction of privatisation through the 'back door'.

The whole issue was presented to the Labor Party Federal Caucus as something of a fait accompli, having been approved by Cabinet and announced to the public the previous day. So on the 28 August the Parliamentary Caucus was asked to endorse the Commonwealth Bank's takeover of the State Bank of Victoria via an injection of private equity. To say that the Party was having a gun held to its head would not be overly dramatic. There was little time for Caucus members to consider alternative options and the deal had already been announced publicly. Not to endorse it would not only have caused significant embarrassment to the Treasurer, but would have placed the Victorian State ALP in greater political jeopardy than it was already. The resolution as passed, imposed a number of conditions on the partial privatisation. Inter alia, it was required that (i) the Government would retain majority ownership in the Bank; (ii) the non-government equity component be restricted to thirty percent; (iii) that proceeds of the share issue be channelled into the Bank's capital, rather than government coffers; (iv) that domestic and foreign banks would not be permitted to acquire shares; (v) that foreign purchase of shares upon float would be prohibited; (vi) that individual shareholdings would be limited to five percent; and (vii) that an employee shareholding scheme would be established (Federal Parliamentary Caucus Paper 28.8.01). Most of these conditions were enshrined in legislation with the passing of the Commonwealth Bank Restructuring Bill in December, 1990. The imposition of these conditions watered down the impact of the privatisation, and must have helped quieten some of the dissent expected from the left of the ALP.

The Role of the CBOA

These special conditions also paved the way, it would seem, for trade union acquiescence to the partial privatisation of the Commonwealth Bank. Before looking at the role of the CBOA it might be appropriate to briefly consider the official position taken by the ACTU on the partial privatisation announcement.

When privatisation came onto the Australian political agenda the ACTU provided a strong voice of dissent. As privatisation was against the ACTU's policy this was to be expected. When the Federal Opposition published its document *Privatisation - The Australian Way*, the ACTU responded with a report entitled, *Privatisation - Not the Australian Way*. After presenting a general critique of the privatisation practice, this document examines in turn the various enterprises listed for privatisation by the Opposition parties. The piece on the Commonwealth Bank, like others, concludes overwhelmingly that the Bank would be better left in public ownership. However, despite this, when the partial privatisation plan was announced in August, 1990, the ACTU endorsed the Federal Government's actions. This was done all too easily by passing the buck on to the CBOA. Speaking after the public announcement, Mr. Martin Ferguson, President of the ACTU, claimed that the CBOA had been consulted prior to the finalisation of the deal and had been agreeable to the proposed arrangements. This being the case, Mr. Ferguson believed it appropriate that the ACTU should support the view of its member union. He declared, "in a democracy the union movement has to, at times, accept arrangements contrary to union policy" (Australian Financial Review 28.9.90: 4). With this convenient interpretation of democratic principles the ACTU was effectively removed from further participation in the debate. While on the one hand it acknowledged the sovereignty of one of its constituent groups, on the other hand the ACTU neglected its own responsibility as a 'watchdog' of the wider public interest. Whereas the CBOA is limited by its charter to protect the industrial interests of its membership, the ACTU has a much broader responsibility in terms of representing a 'community interest'. Such concerns have become

increasingly important for the ACTU since its elevation into the corporatist decision-making network during the Hawke period of Government. The emphasis placed by the Accord on non-wage issues such as health and education are indicative of a concern which goes well beyond the particular industrial concerns of ACTU affiliated unions. Whilst giving lip-service to the Commonwealth Bank as a matter of community interest in the *Privatisation - Not the Australian Way* document, when the issue came to a head, the ACTU neglected its broader representational role by shunting responsibility for the defence of the CBA on to the CBOA.

Further to this, it is questionable just how deeply the ACTU leadership was concerned about the privatisation issue in relation to the Commonwealth Bank. Mr. Kelty, the ACTU Federal Secretary, was on public record as a supporter of Mr. Keating's merger plan as far back as 1988. Indeed, as already mentioned, he spoke to the Federal Council of the CBOA at this time, in an attempt to gain support for Keating's early option. Despite the failure of this endeavour it casts some doubt on the sincerity of ACTU concerns about the CBA as a public enterprise.

Up to the time of the SBV takeover, the CBOA remained resolutely opposed to privatisation of the Commonwealth Bank, to any degree. Drawing on evidence from the Bain, Mercer and Kirkwood reports which had been commissioned at intervals since 1988, the union position was that the Commonwealth Bank could meet its funding requirements without resort to privatisation. This argument was put most concertedly during the 1990 federal election campaign when the union canvassed openly against the privatisation policy of the Liberal-National Coalition. The CBOA at this time published an information kit entitled, Keep Which Bank, Our Bank, which included a copy of the Kirkwood Report and a broadsheet attacking the policy stance of the Federal Coalition. The kit also contains a letter to members contrasting the privatisation policies of the major political parties. The CBOA gave tacit support to the ALP's re-election by lauding its non-privatisation position. The CBOA is not an affiliate of the ALP and would not usually lend such overt support to that party during an election. It appeared that the ALP was officially committed to the full maintenance of the Commonwealth Bank as a public enterprise, despite the lingering

objections of the Federal Treasurer. This was the CBOA's interpretation of Labor policy as can be seen from a pre-election update issued to its membership:

> ALP policy is totally committed to retaining the Commonwealth Bank as an important, efficient public enterprise. CBOA officials held recent discussions at senior Government level and are satisfied with the commitment received from the Government supporting continued public ownership of the Bank... (CBOA Newsletter 1.3.90).

The SBV crisis had not unfolded as an issue at this stage, so the CBOA leadership could not have been expected to anticipate what was coming. The CBOA leadership was not to gain knowledge of the possible takeover and partial privatisation until 21 June, 1990, when advised directly by Treasurer Keating[9]. At this point the CBOA leadership was bound to confidentiality because of the parlous state of the SBV. It was believed that any leakage of the news of the SBV's insolvency would have resulted in a run on that bank, in turn creating a national financial crisis. It was not until mid August that the proposal surfaced for debate within the CBOA when a special meeting of the National Conference was urgently convened. At the meeting the CBOA adopted the following policy:

> ...the CBOA supports and endorses the acquisition of the State Bank of Victoria by the Commonwealth Bank of Australia (CBOA, unpublished correspondence.)

The CBOA was less supportive with regard to the partial privatisation aspect of the arrangement. The union requested that the takeover be funded by 'a direct Government investment in the Commonwealth Bank' (CBOA, unpublished correspondence). Nonetheless the conference recognized that the Government may need to 'access additional capital to retain a satisfactory capital adequacy'. However, the union demanded that the Government would have to give evidence that private equity was essential. Further to this the CBOA requested

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9 Interview with Mr. Kevin Scott, Federal Secretary of the Commonwealth Bank Officers Association, 11th June, 1991.

that a number of stringent conditions apply to any injection of private equity. These conditions provided the basis for those adopted by the Federal Parliamentary Caucus in its resolution of 28 August, 1990. This is indicative of the important role played by the CBOA in defending the Commonwealth Bank. Indeed, the CBOA provided the only semblance of labour movement defence against the partial privatisation.

On 29 August the CBOA received a letter from the Treasurer's Office in response to the federal conference resolutions. The letter advised that the takeover would be funded by an injection of private equity, while meeting the special conditions requested by the CBOA. To confirm this a copy of the previous day's Caucus resolution was appended. The letter also attempted to justify the partial privatisation by giving the requested evidence that the Government had no other realistic option. It advised firstly that the Government would be unable to fund the takeover with a direct capital injection, because this would upset the current Budget strategy. Secondly, the possibility of funding the takeover through debt capital was also dismissed by the Treasury on the grounds that the combined debt capital of the SBV and the CBA would place the newly formed organisation in a parlous position in terms of debt to capital ratio.

The CBOA accepted this advice without further question. In ensuing advice to members, the union reported the Government's decision to fund the Commonwealth Bank's acquisition of the SBV via an injection of private equity (CBOA News Bulletin, No. 22). Members were here advised that the union's preferred option had been found by the Federal Cabinet to be 'not achievable'. No explanation was given as to why it had done so, but the major conditions accompanying the partial privatisation were highlighted, seemingly in an attempt to reassure the membership that the privatisation was indeed to be partial.

The CBOA's chief concern in events was with how privatisation would affect its members. The union's long standing commitment to public ownership of the Commonwealth Bank is based on the view that member's interests are best served by such an arrangement. In this indirect sense the CBOA has taken up an issue of 'community interest' through its defence of the Bank as a public enterprise. The

extraordinary events of winter 1990 required some modification of this position. The linkage of the SBV crisis to the privatisation issue placed the CBOA in something of a dilemma. It could support the expansion of the Commonwealth Bank, but would do so at the expense of full public ownership. Initially, the CBOA was in favour of the Victorian Government's retaining control of the SBV (CBOA News Bulletin, no. 21), but changed this view once the SBV was put up for sale. A situation had arisen whereby the SBV would have been taken over by a private bank if the Commonwealth had not stepped into the tendering arena. In effect, the Commonwealth Bank intervention did two things: it kept the SBV in the public field; and it thwarted any attempt by a private bank to gain the enormous market advantage that a takeover of the SBV would have afforded. If the Commonwealth had not effected the takeover its 'arch rival' Westpac might well have done so.

By supporting the SBV takeover the CBOA was intending to protect its members interests. As a result of the takeover the Commonwealth becomes the largest domestic bank in Australia. This not only increases the Commonwealth's status in financial markets generally, but greatly enhances the Bank's market position in Victoria which had been comparatively weak (CBOA News Bulletin, no. 21). This expansion of the Commonwealth's market share was viewed positively by the CBOA. It both strengthened the Commonwealth Bank as an institution and provided the union with a larger membership via the recruitment of SBV staff. The most controversial aspect of the CBOA's support of the SBV takeover relates to the manner of funding. Firstly, it needs to be reiterated that the CBOA argued for the takeover to be funded without recourse to private capital. In the likelihood that this option would be ruled out by the Government, the union argued for a number of specific conditions to apply to any private equity option. These conditions (outlined earlier) which were subsequently built into the new legislation, are important to the extent that they place barriers against the complete intrusion by private interests into the erstwhile public enterprise. Most significantly by restricting ownership to thirty per cent of shareholdings.

The type of privatisation of the Commonwealth Bank is different from the type of full-scale or unconditional privatisation practised by the

Thatcher Government over the last decade in Britain. The Commonwealth Bank example is more minimal in that private equity is to remain as a minority percentage and proceeds from the sale are redirected into the organisation itself, rather than into the government's consolidated revenue. This type of plan was not new to the CBOA. The union received a recommendation along these lines in 1987 in a report which argued that a partial privatisation scheme would provide the Bank with a viable and harmless (in terms of public ownership) option for capital injection (Crough, 1987). Interestingly, the author of the report suggests the CBOA would face considerable difficulty in waging an 'ideological campaign' against partial privatisation, should the Government choose such an option for the Commonwealth Bank (Crough, 1987, 8). The partial privatisation model, unlike Thatcher's full privatisation, is more likely to be perceived by the public as being consistent with the community interest. The report concluded from this that it might be more useful strategically for the CBOA to accept such an arrangement and play a role in its implementation, rather than to fight a losing battle against the Government. By following such a strategy the union would be able to 'ensure that the most desirable outcome is reached' (Crough, 1987: 8). This early contribution to the Commonwealth Bank privatisation debate proved portentous even to the point of listing a number of conditions that should be pursued in negotiations over a partial privatisation. These conditions closely resembled those promoted by the CBOA in August 1990.

Although retreating from its favoured position of full public ownership of the Commonwealth Bank, the CBOA was able to extract significant concessions which limited the extent to which the Bank could be privatised. In so doing it defended the standing of the Commonwealth as an ongoing public concern and protected the interests of its members. One notable condition accepted by the Federal Government was the establishment of a shareholding scheme which would reserve a certain portion of the float for employee purchase. Furthermore, by accepting the partial privatisation plan the CBOA has presented an image of the trade union movement as being co-operative and reasonable. As such the union would be well placed to mount a campaign against proposals from either the current Labor Government or a future Coalition government to extend or complete the privatisation of the

Commonwealth Bank. By tying the partial privatisation of the Commonwealth Bank to the State Bank of Victoria crisis/takeover, Mr. Keating gave the CBOA leadership little room for manoeuvre. While the actions of the then Federal Treasurer might be viewed with some cynicism, the CBOA can be said to have made the best of a bad situation.

The wider significance of this case is that it highlights the dilemma which privatisation poses for trade unions. As privatisation becomes increasingly accepted as economic 'conventional wisdom' trade unions will be hard placed to counter business and government endeavours to hasten the sell off of public enterprises. Sadly, the best that might be hoped for is that unions will be able to extract compromises of the kind achieved by the CBOA which at least avoid full privatisation and hinder further encroachments.

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