

Glenn Stevens: Brief history of the Reserve Bank of Australia

Address by Mr Glenn Stevens, Governor of the Reserve Bank of Australia, to the Reserve Bank of Australia's 50th Anniversary Gala Dinner, Sydney, 8 February 2010.

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Treasurer, Shadow Treasurer, former Prime Ministers, former Treasurers, distinguished guests, ladies and gentlemen, colleagues and friends, welcome.

I welcome former Reserve Bank Governors Bob Johnston, Bernie Fraser and Ian Macfarlane; former Deputy Governors; and current and past members of the Reserve Bank Board and the Payments System Board.

I welcome also the Governors, Deputy Governors and other representatives of 30 central banks from the Asia-Pacific region and around the world; our colleagues from the Bank for International Settlements; and past and present friends and colleagues from the public and private sectors. It is a very great pleasure indeed to welcome you all to Sydney and to this occasion.

Fifty years ago, the Reserve Bank of Australia commenced operations as Australia's central bank. That occasion, though, was the end of a long journey.

The history of the RBA actually began much earlier. Not many people realise that the RBA is, by a different name, in fact the entity that opened its doors for business in Melbourne on 15 July 1912, as the Commonwealth Bank of Australia. Conceived as a publicly owned commercial bank that would compete with the private banks, but act in a more stable fashion, the Commonwealth Bank quickly became a significant force in the banking landscape.

The story of how central banking evolved in Australia in the 20th century is told in the monograph prepared specially for this occasion by Professor Selwyn Cornish of the Australian National University. The early part of the story is bound up with the history of the young Federation, itself dating only from 1901. At that time, Australia had no central bank. Notes issued by private banks circulated, and reserve balances were held in sterling accounts in London.

The financial system serving the Australian colonies had been notoriously unstable during the 1890s. After a speculative property boom rivalling anything we have seen in recent times, the ensuing collapse saw more than half of the deposit-taking institutions close their doors.

With Federation, the new Federal Parliament gained constitutional power over currency and banking matters. The Australian Labor Party's platform included a pledge to establish a "Commonwealth Bank" to be "a bank of issue, deposit, exchange and reserve". When the ALP won office in 1910, the Government duly brought forward a bill to establish the new Bank. Indeed, Prime Minister Andrew Fisher opened the first savings account.

Initially, the functions were limited to commercial ones. Over many years, the Commonwealth Bank slowly acquired central banking functions. As with many central banks, war financing brought the Bank to prominence in the 1914–18 conflict. The note issue, initially a function of the Treasury, was transferred to the Bank in the 1920s.

In the 1920s and early 1930s, further legislative attempts were made to strengthen the Commonwealth's role as central bank. At least one Federal Treasurer (Theodore) made the case for a pure "central reserve bank".

But major progress was not made until an inquiry after the Great Depression outlined the intellectual foundations for the conduct of the modern central bank. The 1937 Royal Commission's findings led in due course to major legislative change, culminating in the Commonwealth Bank being given explicit macroeconomic policy goals in the 1945 Act.

The charter given to the Commonwealth Bank in that Act obliged it to conduct policies as to best contribute to:

- a. the stability of the currency of Australia;
- b. the maintenance of full employment in Australia; and
- c. the economic prosperity and welfare of the people of Australia.

They are the same words that are set in stone in the foyer at 65 Martin Place today.

The same legislation, I might add, abolished the Bank's Board, in favour of a system that effectively made the Governor the sole decision-maker. The Board was re-instituted in 1951 and today's Board in fact is the continuation of that Board, with the same mix of internal and external members.

Yet the Commonwealth Bank was still also a commercial bank. Various arguments were made, including by the Governor of the day, as to why it was acceptable, even desirable, for the central bank both to regulate, and to compete with, the private banks. But by the late 1950s, the opposition of the private banks was intense, and our position as poacher and gamekeeper was no longer tenable.

And so, at least 30 years after the discussion began about the merits of having a separate institution dedicated solely to central banking, the Reserve Bank of Australia was established to continue the central banking activities, while the commercial functions were placed in the Commonwealth Banking Corporation. Interestingly enough, whereas in the 1930s the Labor Party was inclined to move ahead with developing central banking and the conservative parties had resisted it, in 1959 it was a conservative government that introduced legislation to create the Reserve Bank and the Labor opposition voted against it. So, both parties have been on both sides of this debate! And no-one could say that Australia rushed into the decision.

The Reserve Bank opened for business on 14 January 1960. It had the same policy charter as the Commonwealth Bank had had, and an almost identical Board, including the Governor, who had been appointed to the post in 1949, and was eventually to retire in 1968 after a tenure of almost 19 years – longer even than Alan Greenspan. I confidently predict that this record will never be equalled in Australia.

While the early leaders of the RBA sought to make it a distinctive institution, they also stressed the continuity of the central banking functions that had carried over from the Commonwealth Bank. One legacy of that history is that we not only have some old silver teapots carrying the CBA inscription, we also hold many of the very valuable archives of the early Commonwealth Bank. Some items from those archives – which date back to the convict era – are being shown this year for the first time in a modest display in our Currency Museum at head office.

Over 50 years, the RBA has been present at, and part of, some of the great ups and downs of the Australian economy and the financial system. It has engaged in many arguments about public policy within its sphere of responsibility and competence. It won some of those arguments, and lost others. It has had its share of critics, and still does. Through all that it sought to call things as it saw them, even if it tended to put its views a little obliquely at times.

It has always had a Board a majority of whose members have been drawn from outside the organisation, from commerce, academia and the broader community. A part-time Board with the decision-making power over monetary policy is unusual among central banks – I can think of no other major country with that structure. Yet that broader representation has given the Bank a degree of legitimacy that we might otherwise have struggled to achieve in Australian society. And I can say that in the 140 or so meetings of the Board in which I have participated, the members have always carefully set aside sectional and personal interest to act in the national interest.

There are still some with us – even some here tonight – who were present at the creation in 1960. They and others worked hard over the years to establish and nurture a culture and an institution. Many others here have had a connection with the Bank in some way – political leaders, professional colleagues in government, counterparts in the financial sector, or colleagues from abroad. All of you have played a part in creating an institution.

Some of you won't have agreed with things we have said or done at one time or another! But you nonetheless sustained support for the Bank as an institution and for the arrangements under which we operate. Whatever success we may have had over the years owes a lot to the support and trust that the financial sector, the political leadership and our community – whom we serve – have been prepared to give us, even on occasions when they didn't agree with us. We have also benefited greatly from the support of our international colleagues.

Thank you for that support. We shall continue to do our utmost to be worthy of it. Thank you all for coming to be part of this celebration. Please enjoy your evening.