

In October 2008, as credit markets seized up around the world, then-Labor Prime Minister Kevin Rudd and Treasurer Wayne Swan introduced the Australian bank deposit guarantee, to ensure that no depositor in an Australian bank could lose their money. Since at least the 1980s, some academics and many commentators had been calling for such a scheme to prevent bank runs. In 2008, the Rudd government satisfied those demands.

However, [my research](#) has found that Australia already had what was believed to be, at least at the time of its introduction, a fully-fledged guarantee of deposits at Australian banks, and has had since 1945.

This deposit guarantee was forgotten, either accidentally or deliberately, by the agency that was intended to implement it - then the Commonwealth Bank, and now the Reserve Bank of Australia – even though the provisions passed in 1945 remain in substance today.

This episode is more than an historical curiosity. It tells us some interesting things about the fallibility of government, the need for careful, clear legislative drafting, and (possibly) the dangers of independent agencies disagreeing with parliament.

The guarantee emerges

Banking was largely unregulated in Australia before the Great Depression. The 1937 Royal Commission on Monetary and Banking Systems was the first time the Commonwealth seriously considered how the government ought to respond if a bank failed under its watch.

The Royal Commission recommended that illiquid or insolvent banks ought to be taken over by the Commonwealth Bank, which was being reconstituted as a warts-and-all central bank. If the bank was merely illiquid, then the Commonwealth Bank should try to revive it. One possible action might be to temporarily guarantee the stricken bank's deposits. But if the bank was truly insolvent, the Royal Commission recommended it then be liquidated and the Commonwealth Bank ought to "announce its estimate of the amount which the depositors may expect to receive".

In 1938 the conservative Lyons government translated this recommendation faithfully into legislation, however political turmoil prevented the bill from passing. The Curtin government introduced banking controls through national security regulation in 1941, although did not immediately consider the question of failed banks. Concerned these regulations would expire at the end of the war, John Curtin and his Treasurer Ben Chifley turned their mind to a new Banking Act at the end of 1944.

It is clear from cabinet papers and the Commonwealth Bank's archives that the Curtin government had a drastically different idea of the government's responsibility to depositors. Advocates for the new Banking Bill in cabinet told the assembled ministers that the government would offer depositors a "guarantee against loss which would be incorporated into the Banking Act".

The cabinet debated the consequences of this guarantee – including how it might undermine the competitive advantage of the Commonwealth Bank's deposit services – but finally agreed that "the depositors shall be guaranteed the security of their deposits".

This shocked Commonwealth Bank officials, who, when informed of the Curtin government's intention in late January 1945, realised that if they took over a bank whose assets were less than its liabilities, it might have to backstop depositors' funds out of its own pocket. The post-war regulatory apparatus of prudential supervision – the system of inspections and controls over private banks – came from the demands of the Commonwealth Bank in response to its new responsibility for depositors' funds.

Yet in practice the legislation was deeply ambiguous as to the Commonwealth Bank's responsibility for deposits in failed banks. The only difference between the Lyons government legislation and the Curtin government's legislation was the heading of the provision and marginal notes, which changed from "provisions with respect to Banks unable to meet their obligations" to "protection of depositors", and from "supply of information" to "Commonwealth Bank to safeguard depositors".

Nevertheless Labor members claimed throughout the parliamentary debate over the Banking Bill that it offered "real and an effective guarantee of the safety of bank deposits". Cabinet, the Commonwealth Bank, and parliament believed that it had introduced a deposit guarantee in 1945.

The guarantee disappears

Indeed, the idea that the Curtin government had guaranteed the banks remained Labor lore for decades. In 1973, Gough Whitlam told parliament:

“No bank registered under Australian Parliament legislation can go bankrupt. In return for that guarantee against loss, banks pursue a lending policy which the government of the day approves”.

The relevant provision in the Banking Act did not change, yet by the mid-1980s the Reserve Bank was explicitly denying any deposit guarantee existed.

So what happened? The Commonwealth Bank might have just forgotten about the guarantee. Central banks are human institutions, and to be fair the legislation on the page is deeply ambiguous. A more concerning explanation is that the Commonwealth Bank might have *deliberately* forgotten about the guarantee – contrary to the intention of parliament - given how unhappy it was with its introduction.

Until the global financial crisis, academics and commentators used to bemoan the stubborn belief held by the public that bank deposits were guaranteed by the government, apparently contrary to Australian law.

But rather than demonstrating the ignorance of the public, the story of the 1945 deposit guarantee reveals more the fallibility of government, as the Commonwealth government either accidentally or intentionally forgot its own policy.

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Kevin Rudd guaranteed bank deposits and gave us something we already had

Written by The Conversation

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