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The Campbell Committee Report [Australian

Financial Systems Inquiry]

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• Relaxed Government controls could make

bank rural lending policies more flexible.

**The Campbell Committee report**

*The well-publicised 'Campbell Committee' was set up by the Federal*

*Government to inquire into the efficiency of the operation of the Australian*

*financial system. The last such inquiry was conducted in 1936 when the*

*Federal Government appointed a Royal Commission on Money and Banking.*

*The Committee comprised four private sector persons experienced in finance,*

*plus one Reserve Bank officer. Its Chairman was Mr Keith Campbell,*

*Chairman of Hooker Corporation Ltd.*

*The inquiry's terms of reference required the Committee to look at the*

*structure and methods of operation of Australia's banking system, non-bank*

*financial intermediaries, the money market, the securities industry, the*

*Reserve Bank and other financial institutions.*

*Also the Committee was asked to evaluate the form and extent of Government*

*regulation and control of the financial system.*

*Borrowed finance has always played an important part in farming, but more*

*so in recent years. Consequently the recommendations of the Campbell*

*Committee which impinge directly on the financial system will be of importance*

*and interest to farmers.*

*It is this consideration that motivated the following comments on the Campbell*

*Report* ***\*from the Marketing and Economics Branch.***

· The Committee examined three main

aspects in its investigations:

*• Efficiency* of the financial system,

particularly where existing areas of

Government intervention

significantly affected the efficiency of

the system. As a result the

Committee recommended that where

practicable, the degree of official

intervention be reduced.

*• Competitiveness* of the financial

system. The Committee considered

that a competitive financial system

should allocate funds in an efficiently

neutral fashion, with investments

priced according to risk/ return

trade-offs.

*• Stability* of the financial system.

The Committee believed that its

recommendations in this area would

result in a more stable, better

informed and fairer financial system.

The Committee's view of the *role of*

*Government* also has had a major

influence on its recommendations.

This view is reflected in the first

paragraph of the Report which says

" ... the most efficient way to organise

economic activity is through a

competitive market system which is

subject to a minimum of regulation

and Government intervention".

Nevertheless the Committee has

recognised some rationale for

Government intervention. It was

concerned, in particular, with the

\* *The final report of the Committee of Inquiry*

*into the Australian Financial System.*

• Department of Agriculture economist N. F.

Brown with the Campbell Committee report.

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the banks must hold a minimum of

18 per cent of their deposits as cash

and Government securities.

The Committee argued that the

controls-particularly interest rate

and lending controls-have

encouraged depositors to place their

money in non-bank institutions,

thereby forcing banks to ration loans.

In addition the controls have

encouraged the banks to circumvent

the controls by buying controlling

shareholdings in other financial

organisations such as finance

companies and merchant banks,

which either are not subject to any

controls or to fewer controls.

Consequently, the banks have lost

some of their significance in the

financial sector. Thus the extent to

which the Government can control

the total financial sector by

controlling the banks alone is· being

diminished by the controls

themselves.

The Committee believed that relaxing

controls on interest rates would result

in less stable bank and official

interest rates, but was unlikely to

increase the instability of other

interest rates which might even

become more stable. Indeed, if other

interest rates did become more stable,

then interest rates, on average, could

be more stable than at present.

However, the Committee suggested

that a form of reserve asset controlvariable

reserve asset ratio-should

be retained. This would be similar to

the current SRD requirement, but

would be less flexible. Also, nearmarket

interest rates would be paid on

the deposits with the Reserve Bank.

1981

$m % of total

469 II

860 20

1199 27

2528 58

325 7

337 8

1057 24

106 3

43.53 JOO

312 7

1971

$m % of total

I. Major trading banks

- Term loans 122 6

-Farm development loans 90 4

-Overdraft 782 37

-Total 994 47

2. Pastoral finance companies 333 16

3. Commonwealth Development Bank 192 9

4. Other Government agencies

(incl. State banks & R.A.A.) 374 18

5. Other 212 JO

Total institutional indebtedness 2104 100

P.l.B.A.

Rural institutional indebtedness

*Regulation of banks*

The Committee recommended that

all existing controls on banks should

be abolished.

Current Government controls on

banks include:

• Interest rate controls, which

include maximum interest rates on

overdrafts under $100,000, savings

bank housing loans, and personal

loans; and the requirement that

banks do not pay interest on most

current accounts.

• Maturity controls which prevent

banks from accepting interest-bearing

deposits for periods of less than 30

days or greater than four years.

• Lending controls, which limit the

growth of bank advances.

• Reserve asset controls. These are

of two types. The first is a Statutory

Reserve Deposit (SRD) requirement.

Under this reqirement banks must

lodge a certain proportion of their

deposits with the Reserve Bank. The

second is the Liquid Assets and

Government Securities (LGS)

requirement. The LGS is the ratio of

a bank's holdings of cash and

Government securities to its total

deposits. Under this requirement by

agreement with the Reserve Bank,

extent of Government intervention,

as members felt too much regulation

would hinder the competitiveness and

efficiency of the financial system.

Recommendations on the bank

sector

The main recommendations of the

report concerned the banking sector.

Banks traditionally have been the

major sources of finance for

agriculture. As indicated in the

following table, banks at present

represent almost 60 per cent of total

rural institutional indebtedness, and

together with State banks and the

Rural. Adjustment Authority

represent more than 80 per cent of

institutional rural indebtedness.

The Committee's main

recommendations on the bank sector

rel~vant to agriculture covered three

main areas:

• regulation of the banks;

• entry into the bank sector; and

• Term and Farm Development

Loan Funds.

• Farm development .. a traditional area for

farm loans ... here featuring the blade plough.

Photo R. Hann.

referred to the C.D.B. by one of

those sources.

The C.D.B. differs from trading

banks in that it assesses applications

for loans on the basis of ability to

repay\_ the loan rather than just

secunty and banking history.

The Committee recommended that

the C.D.B. should be absorbed into

the Commonwealth Bank over a

period of time. It argued that

following the relaxation of controls

on them, banks should be able to

provide the type of service to the

rural community that the C.D.B. was

set up to provide.

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*Commonwealth Development Bank*

*(C.D.B.)*

The C.D.B. provides long-term loans

to farmers for farm development and

other purposes, generally at

commercial interest rates. However,

the C.D.B. is a lender-of-last-resort

in that to be eligible for loans from it

applicants must have applied to othe;

sources of funds and then have been

were the Commonwealth

Development bank, the Primary

Industry Bank of Australia and the

Rural Credits Department of the

Reserve Bank. Apart from the Rural

Adjustment Authority these are the

only organisations that have any

Government involvement.

**Recommendations on other rural**

**financial organisations**

The only other rural financial

organisations on which the

Committee made recommendations

*Term and Farm Development Loan*

*Funds*

The trading banks have provided

long-term loans to the rural sector

through the Term Loan and Farm

Development Loan Funds since 1962

and 1966 respectively. The funds for

these loans have been provided

mainly from the banks' own

resources, but until late 1978 were

supplemented by funds released from

Statutory Reserve Deposits.

The Committee recommended that

the Government should not assist the

banks to provide these loans through

S.R.D. releases.

*Entry into the bank sector*

At present, anyone wishing to

establish a bank first must obtain a

licence from the Government.

However, few licences have been

issued since 1945-the only one in

recent times being for the Australian

Bank-indicating substantial

disincentives.

The Committee recommended:

• Much freer entry to the bank

sector by largely removing

Government disincentives including

relaxing the controls on the banks

repealing the Bank (Shareholding;)

Act and reducing the criteria for

obtaining a licence to prudential

requirements only, and setting out

the criteria clearly and unequivocally.

• That individuals or organisations

should be able to apply for two types

of licences-one to undertake the

"general business of banking" and

one for "specialised banks".

• Rescinding the embargo on entry

by overseas organisations. However,

the Committee suggested that the

rate of entry by these organisations

s\_ho\_u!d be carefully controlled by

limiting the number of licences issued

to them.

If these recommendations are

implemented, and as a result the

number . o. f ban.k s . increase ' cornpetrtion within the bank sector

should be greatly enhanced.

Deregulation of interest rates would

result in less stable bank interest

rates.

If interest rates do become less stable

farmers-like other borrowers-will

have to be more concerned about the

size of the loans they can service, not

only at current interest rates, but also

at possibly higher interest rates in the

future. Farmers, therefore, will need

to be able to assess their ability to

repay loans not only in an

environment of fluctuating incomes,

but also with variable interest ratesunless

fixed interest rate loans

become available. In addition, there

will be greater need for bank

managers to be better trained in rural

finance and to understand the

financial needs of farmers so they can

assess better the ability of farmers to

repay loans and to provide the best

loan package for a particular

situation.

Implementation of a managed float

exchange rate system will mean that

the exchange rate will better reflect

market forces. Consequently, it may

become even more volatile than at

present.

If this does occur, then the

Commonwealth Development Bank

will no longer be required. However,

although the banks will be better

able, and will have greater pressure

on them, to be more flexible in the

types of loans they offer, and to assess

loans more on the basis of ability to

repay, there is no guarantee that they

will do this. The major trading banks

have provided long-term loans to the

rural sector-in the form of either

Term or Farm Development Loanssince

1962. In July 1981, these were

worth $1,329 million, almost four

times the lending of C.D.B. Yet so

far, these banks have done little to

develop any expertise in rural

lending.

As a consequence, the C.D.B. should

not be absorbed into the

Commonwealth Bank until the banks

fill the C.D.B's current role. While

retention of the C.D.B. could hamper

the rate at which banks develop

better loan packages and turn to

more appropriate assessment criteria,

it would be preferable to removing

the C.D.B., then finding that the

banks were not prepared to fill the

gap.

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Implications for agriculture

Deregulation of the bank sectorespecially

of interest rates and

maturity controls-could enable the

banks to be more flexible in the types

of loans and loan packages they

offer. Also if liberalisation of entry

requirements into the banking sector

results in a greater number of banks

and, hence, more competition

between banks, there will be greater

pressure on them to be more flexible

in the types of loans and loan

packages they offer.

Relaxation of the controls on banks,

and the resulting increase in

competition could also encourage the

banks to place greater emphasis on

the ability of an applicant to repay

the loan and less on security and

history of deposits with the bank

concerned.

rate of exchange. Therefore exchange

rate policy is of particular

importance to rural industries.

Australia presently has a managed,

flexible exchange rate, supported by

a framework of exchange controls.

The Australian dollar is fixed or

pegged in relation to a 'basket' or

group of currencies, weighted in

importance mainly by the amount of

trade conducted with Australia in

each currency. The exchange rate is

reviewed daily and adjusted by

official action. This exchange rate

system is often called a flexible peg.

The Committee was concerned about

the flexibility of the present system,

and therefore recommended a change

to a more flexible r:, stem called a

lightly managed float.

Under such a system the exchange

rate is determined in c\1e market and

can change continuously. However,

the Government can intervene (by

open market purchases and sales of

foreign exchange) to influence the

exchange rate. The Committee also

recommended the liberalisation of

exchange controls to allow the

foreign exchange market to become

more efficient. Exchange controls

take the form of restrictions on

speculative transactions and capital

transfers, limits to holdings of foreign

currencies by residents and

constraints on non-resident

borrowings in domestic markets.

Exchange rate policy and exchange

control

A big proportion of Australia's

agricultural output is exported.

Consequently rural income is affected

by world commodity prices and the

*Rural Credits Department*

The Rural Credits Department of the

Reserve Bank provides short-term

loans to statutory marketing

authorities and primary producer cooperatives

to assist with the

marketing, processing, and

manufacture of primary products.

In the past, it has mainly provided

funds to marketing authorities at

concessional interest rates to finance

'first advance' payments on

commodities such as wheat.

In view of the impact of these

borrowings on the seasonability of

the liquidity of the Australian

financial market, and its belief that

these funds could be obtained from

the commercial market, the

Committee recommended that the

Rural Credits Department should be

abolished. The Committee also

suggested that if the Government

wishes to assist these borrowings it

should do so through direct budget

allocations rather than through

concessional loans.

*The Primary Industry Bank of*

*Australia (PIBA)*

PIBA was established in November

1978 as a joint venture between the

Commonwealth Government, the

major trading banks, and some State

Government banks. PIBA is a refinance

bank. It does not lend direct

to farmers, but through primary

lenders such as the trading banks,

State Government banks, C.D.B.,

and pastoral finance companies.

PIBA borrows most of its funds from

the public. However, the

Commonwealth has provided some

funds at concessional interest ratesincluding

some from the Income

Equalisation Deposit Fund.

The Committee recommended that

the Commonwealth Government

should sell its shareholding in PIBA

and that any assistance to PIBA

should be through direct budget

allocations rather than concessional

loans from the Government.