State premiers should unleash the power of state banking!

By Elisa Barwick

With the federal government refusing to lead the way out of the economic crisis with national banking solutions, it is time for the states to take up the challenge. Facing economic ruin and desperate for cash, the states need public banking as a tool to invest in the infrastructure that will facilitate a desperately-needed shift to a more productive economy and create jobs in the process.

Australia has a long history of successful state banks, but they were all eventually taken over by the even more successful federal public bank, the Commonwealth Bank. Tasmania enthusiastically merged its State Savings Bank with the Commonwealth Bank as soon as the latter started in 1912, and the Queensland Government Savings Bank merged with the Commonwealth in 1920. Some of the takeovers were rescues during financial crises: the Commonwealth took over the collapsing Government Savings Bank of NSW and State Savings Bank of Western Australia in the Depression in 1931, and the Commonwealth stepped in to rescue the collapsing State Bank of Victoria in 1991. As the Commonwealth Bank was able to maintain and expand the public banking function in the Australian economy these takeovers didn't matter, but it too went under the hammer within a decade of the Fraser-Howard government's 1981 financial inquiry, the Campbell Committee, which effectively outlawed public banking.

The case of Victoria

Victoria's Bank, which had started as the Savings Bank of Port Phillip by an Act of the NSW Parliament in 1841, was the longest running state bank. In the very early days after opening, the State Savings Bank of Victoria earned a reputation as "the people's bank", primarily lending to workers and labourers in an expanding economy. The Bank offered mortgage loans and funded construction of low-cost housing estates, becoming the largest home builder by the mid-1920s. With its growing deposits it purchased government securities, thus providing loans to governments, including local councils and public authorities, for works and utilities.

The eventual demise of the state bank was not due to government involvement, as ideologues believe, but to the ending of the traditional separation between commercial and merchant banks. The inflation and economic slump of the 1970s meant deposits were harder to come by, and a series of amendments to the Act which prescribed the Bank's functions made it almost equivalent to trading banks. The bank was able to trade in the short-term money market, taking in overnight surpluses and investing in bills of exchange to provide temporary liquidity to business; and it expanded into merchant banking, which includes investing, trade financing and issuing commercial paper—all to aid its competitive position. This escalated after the Hawke-Keating financial deregulation of 1983.

The general manager of the state bank at the time, Harry Torrens, appeared in front of the Campbell Committee, committing the bank to the new "deregulation" doctrine sweeping the nation and the globe. The Collins Street bankers who had campaigned relentlessly with their City of London colleagues to stop the Commonwealth Bank functioning as a national bank, also had their hand in the ruin of state banking. It was the Bank's association with Westralian, a small Perth merchant bank in which it purchased an interest, which started its course towards collapse. Troubles at Westralian saw the Bank taking a larger role, and Westralian was ultimately forced into a merger with Tricontinental, which by the late 1980s was the country's largest merchant bank. By 1985 the Victorian State Bank had unenthusiastically bought out Tricontinental's other partners, to try to make good on its investment.

Ironically, Tricontinental had been founded by a vehement opponent of public banking, Ian Potter, a powerful Melbourne stockbroker and key figure in the Institute of Public Affairs (IPA), a local arm of the British Mont Pelerin Society which ushered in financial deregulation and the neoliberal takeover of economic policy ("The 'free market' subversion of Australia", *AAS,* 15 Aug. 2018). Potter had fought Prime Minister Ben Chifley's attempt to nationalise the banks in 1947 ("Chifley to Menzies: the fascists served the bankers", *AAS,* 2 Sept. 2020). When Tricontinental collapsed in 1989, it came down on the Victorian State Bank's shoulders, leading to its takeover by the Commonwealth Bank at the start of its 150th year.

As well as providing a pretext for then-federal Treasurer Paul Keating's plan to privatise the Commonwealth Bank, the fall of Victoria's state bank contributed to the election of Liberal Premier Jeff Kennett at the 1992 state election. Kennett was the star of Mont Pelerin Society think tanks and made Victoria the poster child for the neoliberal reforms—privatisation and deregulation—which hollowed out the productive economy and made the state vulnerable to the economic crisis it's in today.

Public options

The privatisation of the Commonwealth Bank ended public banking in Australia. If the federal government blocks the return of a national bank, the states can revive state banking. Short of re-launching full state banks, however, there are mechanisms still available to states, which under existing legislation could be used to initiate infrastructure spending. All states have treasury corporations and subsidiary investment or development corporations which direct investment and funding mechanisms, such as bond issues by which the states raise cash from domestic and foreign capital markets. These bodies could immediately begin investing in local infrastructure. For instance, the Queensland Investment Corporation, a privately run but government-owned funds manager, invests globally in property and infrastructure assets that generate profit, such as toll roads, but the Act under which it operates permits it to invest in any way, including building infrastructure ("To the Qld government: 'Borrow to build' is best done through a State Bank", *AAS,* 20 June 2018). Even better, these corporations could provide the seed capital for new state banks, which can create credit and multiply the impact of the investment ten-fold.

All state and local government bodies could be compelled to bank with the state bank, increasing the deposit base and credit capacity. As local government comes under state authority, Ben Chifley was not able to compel local councils to bank with the Commonwealth Bank when he tried in 1946, but state governments can. In addition, state banking is reserved as a state power in the Constitution, so the federal government could not interfere with such plans. A return to state banking will allow states to independently initiate economic recovery projects, and will put pressure on the federal government to move in the same direction.

Who's buying Australia? Oh, Canada!

By Elisa Barwick

Even ahead of realisation of the CANZUK dream to revive British imperial ambitions in the post-Brexit era[1]—to create a free trade and free movement zone throughout Canada, Australia, New Zealand and the UK—Canada's "shared culture, language and legal system" has already given it a foot in the door for a massive buy up of Australian assets. Canada's buying spree stands in stark contrast to Chinese investment in Australia, which despite falling in recent years is highly controversial, whereas the same figures who characterise Chinese investment as undermining Australia sovereignty don't bat an eyelid about Canada.

Former Prime Minister Tony Abbott—who was recently appointed to the British Board of Trade to assist the UK in establishing a free trade deal with Australia and has supported a CANZUK free trade zone including "full mutual recognition of standards and credentials, and free movement of people"—spruiked opportunities to invest in Australian infrastructure when he visited Canada as Prime Minister in 2014. He dined with representatives of the Ontario Teachers' Pension Plan (OTPP) in Ottawa, and according to the 9 June 2014 *Australian Financial Review* he "said he wants Canada's renowned pension funds to look more towards Australia and help his government realise its infrastructure plans".

The problem is while Abbott and Australia courted Canadian pension investment into Australia, Australia has its own massive pool of superannuation funds, almost a quarter of which is being invested overseas. Australia has just $113 billion of the national $3 trillion pool of super invested in local infrastructure, yet we invest $700 billion in infrastructure around the world! This infrastructure funding model is a fraud that only benefits paper-shufflers. In today's financial climate, pension funds are geared towards high returns and thus their investments more closely approximate a predatory corporate takeover model than investment in infrastructure as a public good. They work in packs, forming consortia and joint ventures to access new markets and pull off takeovers, across borders. They often appear to compete for assets, but in reality they collude.

Macquarie Bank, an Australian bank with British origins, has cornered the market with this model, making a fortune out of Public-Private Partnerships (PPPs), whereby governments subsidise schemes to unlock huge private profits. It was Prime Minister Paul Keating's compulsory super scheme that turned Macquarie Bank into a mammoth money spinner, going all over the world buying and building private infrastructure with public assistance that the public would pay to use—and generating big profits for its investors.

Canadian holdings

The following survey of Canadian pension fund investments in Australia is not exhaustive, but it reveals how the Macquarie model has taken off. Bear in mind, *these investments are from only the pension sector of just one country!*

The **Public Sector Pension Investment Board** (PSP Investments), which manages pension funds for Canada's federal public servants, is the single biggest investor in Australian agriculture "with a land and water portfolio valued at more than $3 billion", according to a 20 May *Weekly Times* investigation, "Who owns Australia's farms 2020—the full list". Funds operated by Macquarie Bank and a US-based company came in in second and third place, according to the piece.

Summarising PSP investments, the article reported:, "In the past year alone it has been involved in two of the biggest deals in the nation's history, each worth more than $850 million." It purchased 12,000 hectares of almond orchards in Sunraysia, Victoria and permanent water rights worth $490 million for irrigation. It purchased the water from the Singapore agribusiness company, Olam, for 25 years with the option to extend it to 50 years. The orchards were previously owned by a consortium of international investors, according to the 3 December 2019 *Sydney Morning Herald*, which included European private equity manager Schroder Adveq. Almond producers saw up to a 160 per cent increase in profit in 2018-19, over the previous year. PSP has permanent crop investments around the world.

While a similar Chinese purchase would have generated controversy, Canada's buying spree doesn't. Chairman of the Victorian Farmers Federation's water council Richard Anderson told the *SMH*: "Really, all you've got is a change of ownership, it (the water) has gone from a Singapore-owned company to a Canadian pension fund. It's a big bulk of water but it's still being used in agriculture."

In a joint venture with Australian Food & Fibre, in 2018-19 PSP bought a 15 per cent stake in agribusiness Webster Limited, snapping up three NSW farms, and completed its takeover of Webster with a share buy-up in 2020. Webster is one of the largest irrigated farming operations in the southern hemisphere, producing nuts, cotton, cattle and sheep, and running an apiary business.

PSP purchased a majority stake in NSW cropping business BFB, and a Victorian vineyard, in 2018. In 2020 in a joint venture with Warakirri Asset Management it purchased the iconic Erregulla Plains farm in WA, adding to its existing stable of farming operations. In another joint venture with Hewitt Cattle Australia, PSP owns 13 cattle stations worth over $120 million, and 15 per cent of organic beef company Arcadian Organic & Natural Meat. It also owns avocado orchards.

The **Ontario Teachers' Pension Plan** has around $1 billion worth of investments in Australia. This includes some half a billion dollars' worth of almond and avocado farms in South Australia and Victoria, according to the *Weekly Times*. It also owns the country's second largest avocado farm in WA. Morgans agribusiness analyst Belinda Moore told *Farm Online* on 9 October 2019 that Canadian pension funds were interested in large-scale investments in corporate agriculture and infrastructure rather than family-farm investments. Money has also gone into pipelines and roads; in 2013 OTPP "took a 70 per cent stake in three telecommunications companies", *AFR* reported in 2014.

In 2015 Australia was "the target of a record $34 billion in acquisitions" by Canadian investors "who are applauding the nation's strategy of selling state assets to fund new railways, roads and hospitals", reported Canada's *Globe and Mail* on 16 December 2015. This was an eightfold increase according to Bloomberg data. Australia is the destination of choice for Canadian investment after its neighbour, the USA.

The Australian model involves the "Asset Recycling" privatisation initiative (an extension of the disastrous

1. "Australian MPs push CANZUK British Empire reboot", *AAS*, 2 Sept. 2020.

economic strategy of selling the family silver rather than fixing the economy), devised by Liberal Treasurer for the Abbott government Joe Hockey in 2014, and heavily promoted in the USA ("Australian fund managers attempt to swindle Trump", *AAS,* 20 July 2017; "Union super funds back Liberals' privatisation scam", *AAS,* 2 Aug. 2017). The plan offers states 15 per cent of the value of any asset sold to fund new infrastructure. The *Globe and Mail* cites Ron Mock, chief executive officer of OTPP, which manages about $155 billion: "We're there to invest in infrastructure, and they are the model. They've figured out how to attract capital from all over the world."

In 2019, Australia's largest super fund, AustralianSuper, teamed up with OTPP, to embark on a major investment in India's National Investment and Infrastructure Fund which invests in transportation, energy and urban infrastructure.

From electricity to rail grids Canadian pension funds are squeezing the profit out of Australian infrastructure. (National Pacific train in South Australia; TransGrid servicing electricity substation.) Photos: Wikipedia; LinkedIn/TransGrid

Caisse de dépôt et placement du Québec, Canada's second-largest pension fund, has around 20 per cent of its infrastructure portfolio invested in Australia. Caisse is part of the NSW Electricity Networks consortium which contracted a 99-year lease of TransGrid, the NSW electricity transmission network, in late 2015. The pension fund holds 25 per cent of the asset. Caisse is part of Pipeline Partners Australia, a consortium which includes investment fund the Hastings Funds Management trust, also a member of the NSW electricity consortium. Caisse has increased its shareholdings in Hastings operations to gain control of the gas pipelines and hubs at Moomba in South Australia and Gladstone in Queensland. Through a joint venture with Melbourne-based Plenary Group in 2013, Caisse acquired 30 per cent of the Port of Brisbane. In 2019 it acquired a 25 per cent stake in the PPP contract for Sydney Metro train systems. It has also invested in office buildings, military barracks, hospitals, health projects, courts, science and exhibition facilities in major cities.

Brookfield Asset Management Inc., Canada's largest alternative asset manager, was part of a consortium through its Brookfield Infrastructure arm that took over Asciano Limited in 2016 for $9 billion. Asciano ran railways, ports and bulk and automotive ports services (BAPS), through Pacific National and Patrick Corporation. The company was split into three separate operations upon sale.

Brookfield competed for nine months with Australian logistics company, Qube, to take over Asciano. To address Australian Competition and Consumer Commission (ACCC) concerns about their plan to acquire all of Asciano, Brookfield, which already owned transport and port infrastructure in Australia, *joined forces with Qube*, forming a consortium with six international investment funds. The ACCC questioned the cross-ownership stakes of the new consortium but approved the sale after the group detailed a complex split of ownership of the spoils.

Canada Pension Plan Investment Board (CPPIB) joined with Australian investment management company Challenger to enter the shadow banking sector in Australia and New Zealand, offering credit to property developers, according to the 1 August 2018 *AFR*. CPPIB's Asia Pacific head Suyi Kim said the new partnership "is a further step in the expansion of CPPIB's investment activities into new asset classes across Asia-Pacific". CPPIB also invested $1 billion in the Barangaroo development precinct at Sydney Harbour.

In 2018 CPPIB purchased a 51 per cent stake in the WestConnex toll road project through the Sydney Transport Partners consortium. According to a CPPIB release, at the end of the 2018 financial year CPPIB had "C$11.0 billion invested in Australia across real estate, infrastructure, public equities, real estate investment funds, and direct investments". These include a "25 per cent interest in the NorthConnex tunnel project in North West Sydney; a 25 per cent interest in the Westlink M7 toll road in Sydney; a majority ownership stake in BAI Communications, a communications infrastructure provider; and a 33 per cent interest in rail freight operator Pacific National."

Canada Pension, the nation's largest pension plan, has some $6.7 billion of investments in Australia. International head Mark Machin told the *Globe and Mail* that the Australian system's "creativity" should provide a global model: "It's excellent policy", he said. "They're getting tremendous interest and tremendous value from international capital and domestic capital." Echoing arguments for the CANZUK alliance, he added that the common history, culture and legal system shared by the two countries made Canadian investment in Australia very straightforward.

OMERS, the Ontario Municipal Employees' Retirement Scheme, was part of the Lonsdale Consortium which leased the Port of Melbourne in 2016 for 50 years. They have other investments through subsidiaries, including in a Victorian soil treatment facility, and coal export terminals in Queensland and NSW.