



BANK MORTGAGE RATE RISES

The big banks aced Wayne Swan while he was still warming up in the locker room. Wayne Swan's lame response to the recent flurry of bank rate rises demonstrates a lack of mastery of the treasury portfolio for which Australians with mortgages will soon be paying.

Swan failed his first test as Treasurer. The major banks had long wanted to widen the margin between the official cash rate set by the Reserve Bank and their own mortgage rates. The American sub-prime crisis, which started six months ago, was the latest pretext. The banks had only been held in check by the fear of former treasurer Costello's response. ANZ chief economist Saul Eslake confirmed this recently when he admitted the reason the banks hadn't put up their mortgage rates earlier was because of Costello's jaw-boning. A new untested treasurer arrives and the rates go up. With margins increased Australians with mortgages will always be paying more than they should thanks to Wayne Swan. The banks won the opening set 6-0.

Bank behaviour is pretty straightforward. They'll price their products at a level the market will bear and at a level they can politically sustain. An effective treasurer needs to be respected and feared in equal measure by corporate Australia, particularly the domestic banks. Keating was. Costello was. Wayne Swan isn't.

The banks don't fear Wayne Swan. And why would they? In the weeks following the election Swan was silent on the possibility of mortgage rate rises and then actually defended the NAB rate hike. And before he would venture out to comment on the ANZ he dragged the Reserve Bank and Treasury to Brisbane for a day of confidence-building tutorials and briefings. When he finally emerged to say something it was too little, too late. The horse had bolted.

The fact is the domestic banks were confident they had Swan's measure. They knew he was soft, lacked confidence and craved their approval. It's not the Treasurer's job to defend the pricing decisions of banks. It's the Treasurer's job to challenge the banks to justify their decisions. It's his job to cause them pause for thought. Perhaps a timely reminder by

Swan to the banks on why we have the four pillars policy would have been enough, but that may have required yet another round of regulatory briefings.

Treasurers have many formal powers, but often their greatest power is the force of their personality and, sometimes, the bully pulpit. An example of this persuasive power occurred several years ago when one of the big four banks decided to retrospectively devalue its expensive and unsustainable credit card loyalty program. This decision, which was met by justified customer outrage, was promptly condemned by then Treasurer Costello and referred by him to the ACCC for investigation. The bank concerned then immediately reversed its decision – reinstating all loyalty points. The decision was reversed not because of fear of action from the ACCC, nor because it feared potential legal action, but because of the massive reputational damage an irate treasurer can inflict.

Labor have failed to honour their election undertaking to tackle the prices of groceries, petrol and mortgages. Swan promised to be the cop on the beat. But his muted response to the banks gave the green light to mortgage price hikes and possibly some price gouging. Wayne Swan is shaping up as the best friend the banks have ever had. And if Wayne Swan can't handle the domestic banks, he has no hope of defending consumer interests in other spheres like telecommunications.

If Wayne Swan can't quickly master his role and infuse his treasurer's office with some authority he'll go the way of John Kerin. John who? John Kerin was the Labor treasurer in 1991 whose lack of command of the portfolio saw him deliver just one budget and serve only six months. How many sets will Treasurer Swan play?

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