Ideology or Economics: Government Banking in New Zealand

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Abstract

We argue that in the short history of New Zealand banking, political experimentation, based at first upon socialist ideology of the 1940's led to the nationalisation of The Bank of New Zealand (BNZ), followed by a period of neo-liberalism in the 1980's and early 1990's in which the bank was privatised. We further argue that the establishment of Kiwibank Ltd (Kiwibank) in New Zealand at the dawn of the 21st Century was a return to the political ideology of the 1940's. In this article we discuss the nationalisation and subsequent privatisation of the BNZ and draw a parallel between the perceived banking environment as it existed in New Zealand in the 20th Century and as it existed at the establishment of Kiwibank. By way of context setting we also discuss the political environment as it relates to the nationalisation of the Bank of England. We find that in New Zealand political experimentation, not commercial pragmatism was the underlying motivating factor for the state's involvement in banking. The article contributes to the pool of knowledge regarding the political motivations behind nationalisation and state ownership of banking assets. The article is of interest to economic and political historians as well as those who study New Zealand political party history. Future policy makers could do well to reflect upon the motivations for state ownership of banking assets by asking if their decisions are driven by ideology or economics.

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Introduction

Building upon work undertaken by Wilson (2009), this research expands upon three small episodes in New Zealand banking history. The first of these is the social and political environment that led to the nationalisation in the 1940's of the Bank of New Zealand (BNZ) and by way of comparison, the Bank of England. This was followed in the 1980's by the privatisation of the BNZ. The third period concerns events surrounding the establishment of Kiwibank Ltd (Kiwibank). While much has been written regarding the history of banking in New Zealand a great deal of such commentary has been 'technical' and lacking in social analysis of the phenomenon. For example see Chappell (1961), Matthews K (2003), Matthews C and Tripe (2006) and Wilson (2009).

The historiography presented by Wilson, touches upon, without actually stating the three examples referred to above are in some way circular. For example banks in New Zealand started out as outposts of Australia, and then as the colony developed there were 'home-grown' elements. Towards the end of the 2nd quarter of the 20th Century there is an instance of nationalisation followed some decades later by privatisation. By the close of the 20th Century New Zealand banks are fundamentally offshoots of Australian concerns. As New Zealand entered the 21st Century, the New Zealand government once again entered the banking market. However, both the technical narrative and historiography of the BNZ fails to take into account the specific social or political events that led to the establishment of both

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the BNZ and Kiwibank. Wilson has, possibly unwittingly exposed a gap for future research. It is this gap that provides an interesting accompaniment to the technical discussion of the New Zealand history of banking.

The remainder of this paper presents a review of pertinent literature regarding state involvement in banking before giving an overview of the history of both the BNZ and Kiwibank. From this history of New Zealand banking the apparent circularity of the New Zealand Government's banking policy will be discussed. This highlights the similarities between the establishment of the BNZ and Kiwibank with particular reference to the rhetoric around the need for government provision of banking services. The important role played by banks' in economic development of New Zealand makes the study of their history fascinating, however the history of both the BNZ and Kiwibank provides an opportunity to investigate both privatisation and nationalisation issues.

Literature - Government ownership of banking assets

> "At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments, and, thanks to the privileges they received, were in a position to advance money to the State" (Marx, 1887/2010, p. 508).

Banks since they were first formed have always had a close relationship with the state. In general the monarch issued a license for them to operate and a large portion of a bank's business was financing the business of the monarch. Banks have also been pivotal in economic development with arguably the first two modern banks, the Wisselbank in 1609 and Bank of England in 1694, funding colonial expansion by Dutch and English in the 17th and 18th centuries. The resultant increase in trade led to Amsterdam and London becoming financial centres (Irwin, 1991). However it has been noted that a significant reason for the establishment of the Bank of England was to finance William of Orange in his war against Louis XIV (Webber, 1981). In the political period under review, that is the UK and New Zealand between the two great European wars of the 20th Century the major banks of both countries were still in the hands of private speculators – although by the early 20th Century they were no longer seen as associations of private speculators but rather respectable business organisations.

Ownership of and the nationalisation of banks and the banking industry has not therefore been confined just to New Zealand. In the mid 20th Century and especially after the war of 1939-45, nationalisation of Banks was seen by left wing governments as a desirable political aim. For example during the decade 1936–1946 governments in France, United Kingdom and New Zealand nationalised banks. The thesis of this paper is that such nationalisation was a political 'fashion' motivated more by political theory than of economic necessity. In other words the nationalisation of the Bank of England and the Bank of New Zealand was political experimentation based upon entrenched political ideology. In both New Zealand and the UK incoming Labour governments, heavily influenced by socialist philosophy had been given the opportunity to deliver on their socialist ideology.

The United Kingdom general election of 1945 resulted, like New Zealand in the election of a Labour government. Such an outcome should not have been a surprise as in both countries there had been a Labour government before the outbreak of war in 1939. The similarities between the parliamentary Labour Party in the United Kingdom and the incoming Labour government in New Zealand are close. In both cases there was a clear indication that nationalisation of the central bank was a certainty and this occurred in New Zealand with nationalisation of the Reserve Bank in 1936. In New Zealand the path for the nationalisation of the BNZ was laid initially by the publication "The Case for A State Bank" by Walter Nash

(1926), a member of the New Zealand Labour Party in 1926, and a future minister of finance, in which he overtly advocates state control of the BNZ.

In the United Kingdom the nationalisation of the bank of England had been Labour Party policy since 1918 (Medlicott, 1976). In the UK arguments for the nationalisation of banking had been put forward by economists such as Hawtrey, who writing in 1926 suggested that nationalisation of banks would eliminate wastage and provide transparency for lenders (1926, p. 365). In addition, unlike the accepted economic orthodoxy of the early 21st Century, Hawtrey argues that the state is an instrument of welfare and that nationalised banks would be more efficient (Hawtrey, 1926, p. 353). Singleton and Verhoef (2010) also raised the efficiency argument in relation to the nationalisation and privatisation of the BNZ. It is therefore not too difficult to identify within the writing of Hawtrey, and contemporaneously in New Zealand, within the writing of Nash (1926) an intellectual argument for nationalisation of banking. Like the New Zealand Labour Party, the British Labour Party was a progressive party with a desire for change. For the British Labour Party the 1945 election platform was one of reform. Specifically the election campaign for Labour centred around the manifesto "*Let Us Face the Future: A Declaration of Labour Policy for the Consideration of the Nation*" (British Labour Party, 1945). Most pertinent for the purposes of this paper was the phrase "Fourthly, the Bank of England with its financial powers must be brought under public ownership, and the operations of the other banks harmonised with industrial needs" (British Labour Party, 1945). In addition, as the British Labour Party was acting on instructions from its annual conference in 1937 (Harris, 1982, p. 137), so too was the New Zealand Labour Party acting on instructions from the 1945 conference in terms of bank nationalisation.

The political rhetoric at the time was one that would appeal to the 'the people'. In the United Kingdom and New Zealand political speeches emphasised the notion that "the land should belong to the people" (Harris, 1982, p. 137; NZ Parliament, 1945a, p. 322). In New Zealand a major political idea was that a public bank would not charge the same fees or have the same restrictive policies as banks in private hands (Otto, 1945, p. 3). In addition Otto (1945) suggests that state banks would be able to be utilised as a means of employment – the great depression being in living memory. In both cases there is a clear indication that nationalisation of the central bank was undertaken for political rather than purely economic reasons. However in both countries, the respective Labour governments, despite a long held political belief that nationalisation be undertaken, had no real blueprint for how such an activity would be undertaken. O'Hara (2009) suggests that there was a acknowledgement within the British Labour Party that the state should own but not control major national infrastructure. Such an attitude was also to be seen in the actions of the New Zealand Labour Party in the years 1984 –1990. However, for New Zealand in 1945 there was not a great deal of future planning as a result of owning the BNZ. The lack of such forward planning could have served as a catalyst for eventual privatisation in the late 20th Century.

O'Hara (2009) and Singleton and Verhoef, (2010) build upon a literature that attempts to explain the nationalisation of banks as political expedience. In a survey paper dealing with the government ownership of banks La Porta, Lopez-De-Silanes, and Shleifer (2002) cite two main reasons for government ownership of banking assets. Firstly, the view of Gerschenkron (1962) (Cited in La Porta, et al., 2002, p. 265) was that while privately owned commercial banks were crucial to the economic development of some industrialising countries, the lack of economic development in countries such as Russia, with few trustworthy private banks, meant that the vital capital needed would not be forthcoming. In such countries the government should step in and encourage financial and economic development through its own financial institutions. As an alternative La Porta, et al., (2002) reports the view that the government's participation in finance is orientated toward controlling investment for political rather than social objectives. They point to the work of Kornai (1979) and Shleifer and Vishny (1994) who argue that governments acquire banks in order to provide employment, subsidies and other benefits to their supporters in return for support at the ballot box.

However in both of the above views outlined by La Porta et al, government ownership of banks is believed to have more impact in less developed countries. La Porta, et al., (2002) in their survey of 92 countries in 1995 and 1970 find that while government ownership of banks is widespread, "*it is higher in countries with lower per capita income, underdeveloped financial systems, interventionist and inefficient governments and poor protection of property rights*" (p. 290). Furthermore government ownership of banks is associated with slower future financial development and lower growth of income and productivity (La Porta, et al., 2002). Similarly, a survey of bank regulation and supervision by Barth, Caprio, & Levine, (2001, 2004) finds free market control of banking assets is preferable (Barth, et al., 2004), suggesting bank fragility is increased in countries in which governments rely on direct supervision and regulation of banks. Instead they argue regulations which "*1) force accurate information disclosure, 2) empower private sector corporate control of banks, and 3) foster incentives for private agents to exert corporate control, works best to promote bank development, performance and stability*" (Barth, et al., 2004, pp. 245-246). Government ownership of banking assets and deposit guarantees or insurance is obviously counter to these three policy objectives and counter to the arguments posited by the mid 20th Century progressive governments of New Zealand and the UK.

Bank of New Zealand: A Brief History

The Bank of New Zealand (BNZ) was originally established in Auckland and from its inception in 1861 the BNZ had a close government relationship, including holding the government's accounts. Incorporated in Auckland (the seat of government at the time) by an Act of the General Assembly of New Zealand its founders included the politicians Thomas Henderson and Thomas Russell as well as the "Father of Auckland" John Logan Campbell. At the time it was believed a locally incorporated bank would better meet the needs of the rapidly developing colony than the two foreign owned commercial banks, the Union Bank and the Bank of New South Wales. The Bank of New South Wales had recently expanded into New Zealand to take over the banking assets of the Oriental Bank which was withdrawing from New Zealand (Sinclair & Mandle, 1961). The Union Bank was a British overseas bank. According to Sinclair and Mandle (1961) some local newspapers weighed in heavily in opposition to foreign ownership. Two main arguments were advanced in support, firstly; banks that operated in other colonies by necessity restricted capital to New Zealand businesses when monetary conditions were stringent in Australia, and secondly; it was believed that any profits from a locally owned bank would remain with New Zealand (Chappell, 1961; Sinclair & Mandle, 1961). An alternative motive was suggested by Sinclair & Mandle (1961) who argue that Russell, in particular, was stimulated to support the BNZ by his unsatisfactory relationship with firstly the Oriental Bank and subsequently the Bank of New South Wales.

The BNZ initially prospered along with the young colony; the European population grew rapidly and investment was made in agriculture which led to increased exports. However most beneficial to the country and BNZ was the discovery, in 1861 of substantial gold deposits in Gabriel's Gully in the South Island province of Otago. In the period 1860 to

1885 the BNZ’s total assets initially grew from £1.1 million in 1862 to £29.7 million in 1885. This enabled the bank to secure an estimated 50% of total trading, or commercial, bank business within the colony (Colgate, Sheppard, Guerin, & Hawke, 1990, p. 1). From 1871 until 1885 significant funds flowed to New Zealand banks from British depositors, attracted by higher interest rates on New Zealand deposits. These funds enabled banks to satisfy the demand for loans to buy land. So great was the demand for land in New Zealand that Stock and Station agents were established in the UK with close connections with New Zealand banks to fund the increased demand for development of land in New Zealand. Utilising the Stock and Station agents in this way was a means of overcoming some of the restrictions placed on banks by existing legislation. There was a close relationship between the Board, Stock and Station agents and the New Zealand government treasury benches. BNZ board members, in the 1880’s, served on the boards of land and other development companies who had borrowed funds from the bank. For example Thomas Russell was serving on eight other boards.

Export prices for New Zealand agricultural commodities generally fell in the 1880’s and New Zealand entered a period of stagnation. Chairman of the BNZ in the 1880’s, James Williamson, in reporting to shareholders warned of increased land speculation which he likened to land gambling (cited in Colgate, et al., 1990, p. 3 Appendix VI). However the Bank, sustained with overseas deposits and with few other productive investment opportunities, continued to lend for land development. It was not until 1887 the Bank recognised the predicament they faced, moving to sell down London investments and build up cash reserves while transferring £125,000 from reserves to a debt suspension account in anticipation of loan write-downs (Colgate, et al., 1990). The difficult task then fell to bank president John Logan Campbell to explain to shareholders in October 1888 that for the first time in the history of the Bank, the board was not warranted in paying a dividend. Campbell went on to tell shareholders the predicament they were in was a result of their previous prosperity saying "*as we can now see, it would have been better if we had not carried so much canvas*"(Campbell cited in Chappell, 1961, p. 102). The resultant disquiet among shareholders led to an inevitable decline in the share price of the Bank. To make matters worse, at this time the Bank's balance sheet was shrinking, with assets and liabilities falling by 35% between September 1887 and March 1891 (Colgate, et al., 1990, p. 15).

The BNZ board was unable to turn around the fall in deposits the London market and the Bank was forced to restrict New Zealand lending. In June 1894, despite the directors' claim in the March Gazette that reported the Bank had a satisfactory position, the Bank informed the Colonial Treasurer the Bank would, on 2 July, be forced to close if it did not receive state support (Colgate, et al., 1990). The Government responded by passing the Bank of New Zealand Share Guarantee Bill on 30 July 1894. The bill allowed the BNZ to issue £2 million of stock protected with a Government guarantee and call on £500 thousand of existing shareholders' reserve liabilities. In return the head office of the Bank was transferred from London to Wellington and the New Zealand Government was given the right to appoint the president of the Bank, with power of veto. In addition the government was given the power to appoint the BNZ auditors (Colgate, et al., 1990).

The new board worked to rectify the Bank's problems, calling up reserves and investing the some of the proceeds of the recent share issue in liquid securities. However, in 1895 the board of the BNZ revealed serious problems with an associated entity, the Estates Company, which was not only failing to make a profit but also had a negative net worth of £472,938. This was a potential financial disaster for the BNZ, as the Estates Company had its liabilities and debentures guaranteed by the BNZ. This situation had arisen from the bankruptcy of the Auckland Agricultural Company which was a subsidiary of the BNZ

Estates Company. Not only were debentures of Auckland Agricultural Company guaranteed by the BNZ but the Estates Company had BNZ borrowings of £1.422 million on which no interest was being paid. When combined with another £1.235 million of loans on which no interest was being paid (half of which were deemed unrecoverable) the future of the BNZ was looking quite ‘hazy’; (Colgate, et al., 1990, p. 17), again the BNZ’s position was dire and required Government support.

The Bank of New Zealand Act 1895 allowed the BNZ to write off £900,000 of capital and £450,000 of the proceeds of the previous call. The Government then subscribed for £500,000 of six year 3.5% preference shares while shareholders were required to subscribe anther £3/6/8 per share, bearing 5% interest. An Asset Realisation Board was formed which purchased the Estate Company from the BNZ for £2.732 million, using 3.5% debentures guaranteed by the Colony (Colgate, et al., 1990, p. 17). The expectation was for the Asset Realisation Board to recover more than their cost by selling assets as the economy improved.

In summarising the early history of the BNZ, Colgate et al.,(1990) are critical of the BNZ board, pointing to examples of the board’s failure to report related party transactions such as the BNZ absorbing the interests held by Thomas Russell in the Auckland Agricultural Company. The optimistic statements made by board chairmen in 1889 and 1894 may have been a result of the board members having much of their own fortunes dependent on land prices. While difficulties may have been apparent to all in New Zealand the reporting of problems in the UK press resulted in a loss of confidence by off-shore depositors. The history of the BNZ throughout the early 20th Century was one of government oversight and ongoing financial insecurity. It was therefore no great surprise when in 1945 the Government nationalised the BNZ.

Since the election of New Zealand’s first Labour government in 1935 Nationalisation of the BNZ had been Labour Party policy. The road to nationalisation was cemented by both a Labour Party remit and the report of a government inquiry into banking held in 1944. The report recorded that there should be complete state ownership of the BNZ due to the influence of the Australian banks on the New Zealand banking industry (NZ Parliament, 1945b). In November 1945 after much political discussion the Bank of New Zealand was nationalised by the Labour led wartime government. In contrast to the long social and economic debates that preceded this action the Bank of New Zealand Bill, was passed through the house under urgency on November 8 1945 (NZ Parliament, 1945a). One of the reasons for such action may have been an impression that there was an increase in insider trading of the BNZ shares (BNZ Staff, 1945b). At the time the proposer of the motion, Walter Nash stated that the Bill was to “bring into operation a trading bank system, under government control for the purpose of promoting the welfare of the general Dominion” (NZ Parliament, 1945a). This is in contrast to Hawke (1985) who suggests that by that stage, Nash was no longer a strong proponent of such strong control of the banks. However the underlying political reasons were suggested as helping post war servicemen obtain friendly loans and assist in the Labour Party goal of full employment. Driven by a long held desire by Walter Nash (1926) the eventual nationalisation of the Bank could not be seen as a surprise. Elements within the Labour Party had been agitating for nationalisation as far back as the early 1920’s. Such agitation was supported by popular opinion that saw the BNZ as not only a Bank of privilege but also as a vehicle in which successive governments rewarded loyalty (Staff, 1920). In addition during the war the government utilised arguments of strategic importance to assist in their efforts to sway the public as to the necessity of nationalisation. Amongst the popular concerns were government concerns that the banking in New Zealand was dominated by Australian owned banks and the BNZ itself had lending and fees policies that were more harsh than the competitors (Nash, 1926, p. 16).

The eventual nationalisation of the Bank could also be placed within a Commonwealth trend for nationalisation of key banking institutions. C. Matthews & Tripe, (2006) draw attention to the Reserve Bank being initially established as a private company before it was nationalised in 1936. Butlin (1961) also reports at the same time there were proposals for the nationalisation of banks in Australia. Nevertheless at a Labour Party conference in 1944 Frank Langstone was successful in his remit to nationalise the BNZ. He reportedly ended his statement by saying “Here’s the lever, Mr Nash. It will make it possible for the sunshine of economic prosperity to shine in even the darkest places” (Condliffe, 1957, p. 933). As a result the party passed a resolution to instruct the government to acquire all shares in the Bank of New Zealand. This was quickly followed by the establishment of a committee to inquire into banking policy. The committee not surprisingly recommended the complete state ownership of the BNZ (NZ Parliament, 1945b, p. 13).

However, from a review of documents in the BNZ archive it is clear that the nationalisation was not supported by all. For the General Manager at the time Chalmers, the move seemed to be purely political and lacking in economic justification. For example, in a letter to all managers written 26th July 1945 Mr Chalmers advises managers that there will be a loss of accounts due to nationalisation.” (BNZ Staff, 1945a). Such a claim was not without foundation. Within the minutes of the BNZ Board are numerous references to depositor backlash. On the 19th April it is recorded that the Bank had already lost over 30 accounts, two of which were the “the best and most valuable accounts in the Australian business” (BNZ, 1945). Further, as a consequence of being identified as a ‘state bank’ the BNZ also lost farming accounts as part of a dual protest by farmers. As a result of the Electoral

Amendment (1945), the farmers had lost their ‘Country Quota’. The Country quota was intended to redress a population imbalance existing between urban and rural constituencies. As a result of the loss farming advocates recommended farmers withdraw their funds from any government institution, which necessarily involved the BNZ (BNZ, 1945). Apart from the management and groups of depositors of the BNZ, the voices against nationalism were quiet. Only sporadic opposition was recorded. The New Zealand Herald, one of the leading daily newspapers carried the story only as it happened. There was little discussion of the BNZ within the pages of the Herald before November 1945. However once the act was introduced to parliament the Herald carried the story for a few days before moving on. The Herald was of the view that nationalisation did not need to occur. In an editorial, the New Zealand Herald Editor (1945) reported that Nash himself was not that keen on nationalisation writing that “*Mr Nash is recorded in New Zealand and overseas declaring that the trading banks in New Zealand were doing a better job than government could do*”. The editorial went on to say that Nash had disclaimed any intention to enter the commercial banking field. Such comments appear to be isolated for the ‘letters to the editor’ columns appear to be silent as to the nationalisation of the BNZ. Following World War II, New Zealand enjoyed a twenty-five year period of sustained prosperity supplying cheap agricultural commodities to the United Kingdom. The BNZ also enjoyed a period of sustained growth, with the 292 branches and 2140 staff the BNZ had in 1950 growing to 430 branches and 5500 staff by 1975 (BNZ Staff, 2009). Further stimulus to growth was provided in 1964 when banking regulations were relaxed allowing Trading Banks like the BNZ to compete against Savings Banks for retail customers. However, the 1970’s saw the New Zealand economy dealt twin blows, with the loss of its primary market when the UK joined the European Economic Community and substantial increase in the price of petroleum imports.

In response, Robert Muldoon who became Prime Minister as well as Minister of Finance in 1975, attempted to increase export receipts by offering subsidies to farmers who provided the bulk of New Zealand’s exports and reduce imports by protecting New Zealand’s developing manufacturing sectors from cheap imports. At the same time the Government embarked on a number of large scale development projects, which came to be known as “Think Big” projects, designed to make New Zealand less dependent on imported energy. Muldoon’s attempts to shelter the New Zealand economy from the outside world were largely unsuccessful and New Zealand entered into an inflationary spiral. Muldoon’s response to increasing inflation was the introduction of a wage and price freeze. The unpopularity of the wage and price freeze was a significant contributor to the landslide election win by the fourth Labour government of David Lange in 1984 (Massey & Cameron, 1999).

When the Labour government of David Lange came to power in 1984, change came quickly, precipitated by a foreign exchange crisis. Prior to the election, there had been increased demand for foreign currency as speculation increased that an overvalued New Zealand dollar would be devalued. The day after the election, the Reserve Bank announced that it was ceasing to convert New Zealand dollars to foreign currency (Evans, Grimes, Wilkinson, & Teece, 1996). After a brief ‘constitutional’ crisis where Muldoon refused at first to follow normal convention by carrying out the instructions of the incoming government, the New Zealand dollar was devalued.

The government then embarked on a neo-liberal agenda which was intended to improve the competitiveness of New Zealand. They accepted the advice of officials, that the previous administrations interventionist policies should be changed as New Zealand was living beyond its means (Lattimore & Wooding, 1996). Subsequently, a wage and price freeze brought in under the previous administration was ended, interest rate limits were lifted and the exchange rate was allowed to float freely. The Labour government of the time subscribed to the view that business should run businesses and set about converting government trading departments into state-owned enterprises, which in many cases were then privatised. In establishing the State Owned Enterprises the Labour government was echoing the attitude of the British Labour Party in that they were owners of business but not the controllers of the business (O'Hara, 2009). The proceeds gained by privatisation were used to reduce public debt, which had risen from 5% of GDP to 32% in the 10 years to 1984 (Evans, et al., 1996). In pursuit of the neo-liberal agenda, little thought was given to the short-term social costs of reform, with the catch cry throughout the period being *let the market decide*.

Dalziel (2002) however finds, that 17 years after the reform program began, the objectives of New Zealand's economic reform had not been achieved, with the country having higher rates of unemployment and lower real incomes than before. The competitiveness of New Zealand is still troubling the minds of New Zealand politicians, with a recent iteration being the interim report to Rodney Hide of the 2025 Taskforce. The taskforce chaired by Dr Don Brash was charged with closing the *gaps* (improve New Zealand's productivity and income) between Australia and New Zealand by the year 2025 (Hide, 2009). It remains to be seen if anything will come of this report as many of its recommendations may be unpalatable to the current National- led government.

However, in 1984, the government had a substantial investment in banking assets such as the BNZ, Post Office Savings Bank, (POSB), Development Finance Corporation (DFC), Rural Bank and Housing Corporation, many of which were considered suitable for privatisation. The BNZ was partially privatised in 1987 when 15% was listed on the New Zealand Stock Exchange (NZSX). When in 1988, the government decided to sell its remaining 85% holding in the BNZ, it became clear the bank would incur a substantial loss in that year, so sale plans were placed on hold. The Reserve Bank (RBNZ), warned the government that the BNZ’s situation was becoming dangerous and recommended that it offer an unconditional guarantee to BNZ depositors and announce restructuring plans for the bank (Singleton, Grimes, Hawke, & Holmes, 2006). When the BNZ announced a loss of $648 million for the 1989 year, the government moved to recapitalise it by way of a rights issue, with 30% of the bank being taken by Capital Markets Ltd and 4% going to the public, leaving the government with 51% (Singleton, et al., 2006).

The RBNZ then began to monitor the BNZ more closely, sometimes checking liquidity daily. Despite the Reserve Bank initially thinking the BNZ’s asset quality had stabilised, additional losses were revealed in Australia in 1990. Sykes (1996) reports total bad debt write-offs and provisions for the period 1989 to 1993 of AUD $1,338 million (although this may include losses in New Zealand). The Reserve Bank concluded that the BNZ was making inadequate provision for loan losses, but was unable to convince the bank or its auditors of this. The RBNZ and the Treasury were concerned that any adverse news about the BNZ would spark a run on the bank during the election campaign then taking place and warned the government to be prepared to respond to any adverse rumours. Problems at the BNZ were kept from the public and opposition members of Parliament at least until the Sunday after the election, when the RBNZ and Treasury told the just-elected National government of Jim Bolger that the BNZ was technically bankrupt (Bolger, 1996). The government, which still owned a majority stake in the BNZ, was forced to inject an additional NZ$640 million into the bank in order to maintain it as a going concern and protect its franchise value.

In 1992, the National Australia Bank successfully mounted a full takeover bid for the BNZ (BNZ Staff, 2009). Of other government bank assets, the Rural Bank was first sold to Fletcher Challenge in 1989 before the National Bank acquired it in 1992, and the POSB was sold to the ANZ Bank in 1989. The DFC was firstly semi-privatised (in 1988), but then collapsed (in 1989) following a significant deterioration in the quality of its loan portfolio in the aftermath of the 1987 share market crash (Brash, 1991). The sale of the BNZ was not based upon economic reasons alone; however the economic argument is there in the background. Rather the sale of the Bank was an inevitable outcome of the neo-liberal approach adopted by the Lange government. By way of illustration the Finance Minster Roger Douglas in announcing the 1988 budget states that “Government has an abysmal record of running business”. He goes on to say that “the mix of politics and commerce has proved to be a failure” before announcing that the government will sell, among other assets, the BNZ (New Zealand Government, 1988). Further, in a Press Release (Prebble, 1989) dated 28 July, the Minister for State Owned Enterprises, Richard Prebble announced that “private sector ownership of the bank is in the best interest of New Zealand”. Such statements tended to disagree with economic reality. In the BNZ Annual Report 1988 the CEO of the Bank, Robert McCay claimed that in the 1987/88 year the BNZ had a record level of achievement. He reported that there had been return on shareholder funds of 20.41% and earnings per share up to 22.66% from 18.56% the year before (BNZ, 1988). Far from having an “abysmal” record the government owned BNZ, in 1988 at least was a financially successful state owned bank. It would therefore appear that the Lange government following a neo-liberal agenda led to the sale of the bank. By 1992 the Bank had been sold in its entirety to National Australia Group Limited. With the sale to National Australia Group Limited, the New Zealand government had left the retail banking arena. However before long, a different New Zealand Labour led government would once again, for political reasons, re-enter the retail banking scene. Their vehicle of choice would become known as Kiwibank.

Kiwibank: A Brief History

There were essentially two reasons for the promotion of Kiwibank as a state-owned bank. One reason for its promotion was the dismay that arose in some circles with the acquisition of Trust Bank New Zealand by Westpac in 1996, and related changes in the banking sector. The other factor behind its establishment was a reaction to the splitting up of the old Post Office in the 1980s, which saw New Zealand Post (responsible for postal services) separated from Telecom and the Post Office Savings Bank, with both of the latter entities being subsequently sold/privatised. The government for its part was, by now, very comfortable with the notion of owning and not controlling the state owned enterprises with New Zealand.

New Zealand Post was thus a stand-alone state-owned enterprise, with its core business in mail distribution, supported by a network of retail outlets in place to sell stamps and undertake some other mail-handling activities. To bolster its business, and in part an attempt to utilise/justify its extensive network, it also undertook a range of counter services for various other parts of government. This gradually expanded into providing a range of counter bill payment services for other entities, chiefly utilities and the like, with some of this being a continuation of activities it had previously undertaken when it was still the Post Office, such as the processing of telephone accounts for Telecom. By the mid-1990s, the management of New Zealand Post could see, however, that postal volumes were shrinking and likely to shrink further as new technologies gained acceptance: there was a risk that they could be left to wind down a business whose volumes were steadily shrinking. Against such a background, they were therefore keen to look at other opportunities which could push business through their network: an obvious possibility was banking.

The changes that had been occurring in the banking sector during the 1990s also impacted on many customers' perceptions of the banks that they used to deal with. After the partial privatisation of the Bank of New Zealand in 1986, and later substantial losses rendered the Bank into something of a white elephant, and the government was pleased to sell the rest of it to the National Australia Bank group in 1992. The Post Office Savings Bank (by now re-branded as PostBank) had been sold to the ANZ Banking Group, and as the 1990s progressed, its business was gradually merged and the ANZ began to very substantially reduce the number of branches. The Westpac acquisition of Trust Bank New Zealand removed most of the remaining New Zealand-owned banking sector, and as this merger also led to further branch closures, there was an increasing clamour over the disappearance of banking services from many rural and suburban communities. Another change in banking in the 1990s was a renewed emphasis on fees for account operations, with these fees impacting on many bank customers who had not had to pay them previously. There was thus a groundswell of public sentiment in favour of the establishment of a new state-owned bank, which could look after the "little" people of New Zealand, rather than leaving them at the mercy of what were perceived to be nasty, Australian-owned banks who lacked sensitivity to the needs of the New Zealand people.

The new government elected in 1999 was dominated by the Labour Party. Labour however was in coalition with the Alliance Party and was generally perceived as a left leaning coalition. The Alliance Party in particular was not sympathetic to the Australian banks, with its leader, Jim Anderton having a leaning towards the establishment of a new bank, first called Newbank, then informally ‘the peoples bank’ and finally - Kiwibank, within New Zealand Post.

In early 2000, the Chairman of New Zealand Post, Dr Ross Armstrong and his CEO, Elmar Tomey, approached the Minister of Finance Dr Michael Cullen with a business proposal. Armstrong pitched the idea of a New Zealand owned bank – “Newbank” that would take advantage of the existing New Zealand Post branch network. However, Armstrong did not initially envisage the government providing the funding. He had sought a merger with TSB Bank and the Southland Building Society (SBS), the two largest New Zealand-owned financial institutions, both of which had turned him down. It was only then that New Zealand Post approached the government for funding. The funds however were not quickly handed over. Armstrong needed to build a business case and find political support. He found political support with the Alliance MP and Cabinet minister, Jim Anderton, who never tired of popularising the idea. With Armstrong constantly assailing Cullen with reasons why the plan would work, and Anderton doing the political spade work, Anderton and Armstrong set about building the case for ‘Newbank’.

By mid 2000 The idea that the government should set up a bank inside Post Shops was apparently not that widely supported, after all it was not that long ago that the POSB was taken *out* of the Post Office Branches. Besides which, the Finance Minister is reported as saying that “financing of the peoples bank would not come out of his back pocket” (John Leper, 2000). In addition notable New Zealand banking commentators such as Tripe were on record as disagreeing with the establishment of the bank (Radio New Zealand, 2000). Further within the Cabinet minutes of 19 June 2000 it is noted that “the government would not support a proposal that requires a Crown equity injection, or ongoing financial support from the taxpayer” (NZ Cabinet, 2000). A great shame as Armstrong had presented a business case that needed $80 million New Zealand Dollars to establish ‘Newbank’.

While political argument was raised about the need for the crown to establish a bank, Cullen had received feedback on the business case from an independent private sector consultant – Cameron and Co. The advice was, the business case was ‘flawed’. Industry commentators such as Tripe (2001) also provide arguments against the establishment of the bank. However New Zealand Post was able to counter the arguments put forward by the detractors, and on 15 December 2000 issued a press release to the effect that they had put a business case to cabinet for the establishment of a New Zealand Owned Bank. On the 17th of January 2001 the Deputy Prime Minister, Cullen writes a minute requesting that “the government provide additional funding for the purposes of financing the formulation of a new banking venture – the peoples bank” (Cullen, 2001). The reasons for establishing a government owned bank are strangely familiar, including the dominance of Australian owned banks, access to bank services and the estimated $1.47 billion dollars of profit earned by the major banks in 1998/99 of which $1.3 billion was repatriated to overseas owners (Cullen, 2001). As a consequence of his memo, on 19 February 2001 Cabinet voted to extend $78.2 million dollars to establish ‘Newbank’.

Thanks to the popular political rhetoric of Jim Anderton, Kiwibank became a reality. It is clear however that the decision to proceed with Kiwibank was a political decision. The business case was considered weak by the independent auditor and by banking commentators. It was the appeal to popular opinion and the image of being a New Zealand bank for New Zealanders that was the turning point. Like the BNZ and BOE nationalisation, the appeal to the ‘people’ was more successful than the appeal to economics.

Kiwibank was formally announced in 2001, obtained initial registration with the Reserve Bank of New Zealand in November 2001, and commenced business out of the main Palmerston North Postshop in February 2002. By the end of 2002, it had 279 branches, compared with 819 branches for all the other banks combined.

Since the launch Kiwibank has grown relatively quickly, although its growth has been more striking in respect the number of customers rather than in the volume of assets. Nonetheless, by the end of March 2010 the market share of total bank assets had grown to 3.23%, which made it the fifth largest banking group in the country. To this stage it has also avoided developing any major asset quality problems, and the proportion of its assets that were impaired and past due as at that date was only 0.55%, compared to 1.53% across the New Zealand banking sector as a whole. However, the debate over the privatisation of state assets is now on the political agenda in New Zealand. Prior to the 2009 election the stated policy of the National Party was for no assets sales in its first term. National has now signalled that it could look at selling shares in Kiwibank to New Zealand investors if it won a mandate from the voters to do this in the 2011 election.

Conclusion: Full circle

In the early years of the 20th Century, within New Zealand and the United Kingdom, the political rhetoric of the left advocated nationalisation of ‘significant’ industry. In both countries the significant banks: Bank of New Zealand and Bank of England were specifically targeted for eventual public ownership. We have argued that such nationalisation was political ‘fashion’ or political experimentation based upon ideology. We have demonstrated that such rhetoric was at the core of both the British Labour Party and the New Zealand Labour Party. However it was not until 1945 that either group was able to affect their nationalisation policies. When eventually the Bank of England and the Bank of New Zealand was nationalised, we have asserted that such events were only carried out due to political, rather than economic factors. It has been demonstrated that at the time of the nationalisation in New Zealand and the United Kingdom there was a popular mandate for public ownership of the banking assets. One of the major benefits of nationalisation was to ensure that the banks were controlled and managed for the benefit of the ‘the people’. In 1945 there was a belief by the left leaning governments of the United Kingdom and New Zealand that the profits made by the private investors of the Bank of England and the Bank of New Zealand were not widely beneficial to the country and that the ‘people’ were being denied opportunities as a result. This was especially marked in New Zealand where the government, backed by elements of the popular press, were critical of the influence that Australian owned banks were having on the domestic banking industry. In short the New Zealand government wanted to ensure there was a New Zealand owned bank, owned by the people for the people. Such a cry was also heard in New Zealand some 60 odd years later in very similar circumstances.

For the people of the United Kingdom and the ‘colonies’, the period of history just prior to the outbreak of WWII saw one of the greatest world economic depressions in the 20th Century. As a result, once the ‘aberration’ of the war was behind them it is no surprise that labour governments were returned in New Zealand and the United Kingdom. Towards the end of the 20th Century New Zealand was emerging from another economic downturn. Again like the mid 20th Century a reforming Labour government had worn much of the criticism and the blame for the resulting downturn. Similar attitudes, as seen in the ‘40’s, towards banking had also started to raise their head. So much so that by the beginning of the 21st Century the public and in particular, elements within the minority Labour led government had started agitating for a state owned bank. The rhetoric employed by the main cheerleader Jim Anderton MP would not have been out of place 60 years earlier. Again the spectre of foreign owned banks was used as a rallying cry. Jim Anderton was able to point to the very dominant position that Australian banks held in New Zealand. It would be fair to comment that Australian banking interests controlled the retail banking market in New Zealand at the time. Again Jim Anderton was able to use the rhetoric of a ‘people’s bank’ – the same phrase first used by Nash when campaigning to nationalise the BNZ. Finally Anderton was able to suggest that a state owned bank would be more sympathetic to the plight of ‘ordinary’ new Zealanders than the large Australian owned banks.

As a result of political, and to a certain extent, marketing pressure from the New Zealand Post Office, Kiwibank was established. The new bank grew a presence quickly by utilising the branch network of new Zealand Post retail outlets. In establishing Kiwibank as a state owned bank, the government acted in a politically expedient manner rather than out of economic necessity. It is at this point that we can ‘close the loop’ on our argument. The nationalisation of the BNZ and the subsequent establishment of Kiwibank were undertaken to meet the same political ends. They are both a result of political experimentation. In addition they were undertaken within a very similar social climate.

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