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Salaries and Career Opportunities in the Banking Industry: Evidence from the Personnel Records of the Union Bank of Australia[1]

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This paper uses personnel records to examine the importance of seniority-based personnel practices in the Australian banking industry during the late 19th and early 20th centuries. It is shown that internal labor markets were well established by the 1880s as limited ports of entry, internal promotion, shielding from the external economy, and seniority-based wages were commonplace throughout the industry. Finally, it is argued that these practices were motivated by efficiency and attracted quality workers, reduced turnover, screened workers, and promoted honesty and effort.

Key Words: internal labor markets; Australian banking industry.

Banks were the most important financial intermediaries in the 19th century because, unlike other intermediaries, they provided information services and monitoring of debtors in addition to capital.[2] The role of banks in the late 19th and early 20th century development of Australia was perhaps even greater than in the United States. Trading banks played an essential role in capital formation, channeling deposits collected in London and the major Australian cities into rural investments in the primary sector.[3] Unlike the United States, Australia permitted its banks to operate multiple branches. Branching had several advantages over

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[2] White (1998).

[3] Butlin (1961, pp. 221–225).

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unit banking. A branch bank could better pool risks, through spatial diversification of its lending. The Australian economy of the late 19th and early 20th centuries was dependent on primary production, which was subject to shocks in both output and prices. By diversifying across locations and commodities, a bank could mitigate against the risks of poor harvests or adverse commodity price shocks. In addition, a branch bank could respond to regional changes in the demand for financial services by opening offices at new locations or closing existing offices. Finally, branching allowed individual offices to specialize, thus the loans that they could issue were not strictly constrained by the deposits they collected.

However, branching had an enormous potential drawback inasmuch as it compounded the problems of information inherent to banking. Borrowers had inherent information advantages over lenders concerning their credit-worthiness. Under the American system, the extent of information asymmetry was limited because bank directors often possessed an intimate knowledge of local business.[4] However, in Australia, where branches were spread over an area larger than the continental United States, this was not possible. Consequently, directors needed to delegate much of their work to their subordinates, who further delegated work to locally based employees. The need to delegate meant that banks depended heavily on their employees' honesty and capabilities. Bank employees worked with large amounts of cash or gold bullion and thus faced a constant temptation to steal. To a certain extent employees' performance could be controlled through rules and monitoring.[5] Branch managers in particular were considerably constrained on the loans that they could issue and were required to frequently provide the branch's balance sheet and detailed reports concerning the performance of their staff and loans and the local economy.[6] However, despite large and expensive inspection staffs, rules and monitoring alone were not sufficient to ensure employee performance for several reasons. First, the rules themselves did not increase individuals' capabilities or ensure that they could adequately perform the duties of their position. Second, the rural location of the majority of Australian branches meant that inspections were costly and slow. Third, even though the directors laid down basic guidelines for decision-making, record keeping, and work practice, these directives were, by nature, incomplete and could not cover all foreseeable circumstances or replace the interpersonal relationship between employees and customers. Finally, even where rules and monitoring were comprehensive, banks needed to recruit and retain quality employees in a country desperately short of educated labor.

As a consequence of these factors, banks relied heavily on their employees. One way for them to recruit quality workers, reduce turnover, motivate effort,

[4] White (1998, pp. 20–22).

[5] See Merrett and Seltzer (2000) and Seltzer (2000) on the monitoring system in Australian banking.

[6] U/195/1, pp. 132–137.