

Bash banks, bash the economy

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Shareholders and customers are just two of the groups likely to end up paying the cost of the government's \$6.2 billion cash grab from the big banks. But the effects of the new bank tax — and more intrusive regulation — go beyond any immediate list of losers. The vigour of the banking sector, and the economy at large, is at stake.

Although the banks have upped their reliance on domestic deposits, they also depend on offshore sources of funding. Those sources will want to know why relations with the government have soured so suddenly, why banks were given no notice, and some may even wonder whether our financial sector faces nationalisation. The banks cannot offer any policy reason for what has happened. It seems the case that politics made fiscal repair look too hard, so the government decided to gouge money from a profitable but unpopular sector.

Foreign backers of our banks, as well as foreign investors more generally, recognise sovereign risk when they see it. Former ANZ chief executive Mike Smith put it neatly when he said the new tax was “reminiscent of less well-managed countries in Africa and South America”. Former prime minister John Howard and BHP-Billiton's former chairman Don Argus see the unflattering parallel with Labor's 2010 resources super-profits tax, which was an infamous blow to investor confidence. Australia is vulnerable to a sudden loss of confidence among foreign creditors because a large share of our public debt is held offshore.

Scott Morrison pinched the idea for a banking tax coupled with more regulation from Britain, but the financial history there was quite different. During the 2008-09 banking crisis, the British government nationalised Northern Rock bank and bailed out Lloyds Banking Group and Royal Bank of Scotland. RBS was about to run out of cash for its ATMs. A winding back of executive bonuses and new controls on risky borrowings were demanded as a quid pro quo for the taxpayer-funded rescue package.

Australia, by contrast, came through the global financial crisis in good shape, thanks to a government guarantee of deposits and the strength of our banking sector. If the Treasurer feels capital levels should be higher to protect taxpayers from future bailouts, that is a separate issue. As for customer complaints, any bank will generate those but there is no evidence of systematic abuses across the sector.

However, the government wants a more intrusive regulator. The Australian Prudential Regulation Authority would be given greater influence over the appointment of senior bank executives, the fate of their bonuses and the lending they can pursue. Senior executives would have to be registered with APRA, which could claw back bonuses and banish miscreants from the industry. The regulator's say in the appointment of senior executives and board directors would call into question the role of an independent board. And APRA would be able to impose fines up to \$200 million for the nebulous charge of failing to operate “consistent with good prudential outcomes”. The government has not made the case for these significant changes.

If they go through, the likely effect will be to create APRA as a shadow manager of the banking system, while senior bank executives will shy away from necessary risk. Banks need enough encouragement as it is to lend to new business. Solid business investment is a key missing element in today's economy. And the government, remember, has promised to serve its twin goals of "jobs and growth" by cutting company tax, thereby releasing funds for investment and job creation. Its rhetoric would accelerate the economy; in practice, its bank tax would pull on the handbrake.

David Murray, head of the Financial System Inquiry, says if the cost of the new impost is passed to customers, it would be equivalent to a 15 to 25 basis point rise in interest rates. And if the banks did absorb the cost, it would strip capital out of them — not a sensible result given their exposure to home loans at a time of high household debt.

As Mr Morrison may soon find out to his cost, the trouble with bank-bashing is that everyone ends up bruised.