MAKING BANKING BETTER

THE GREENS' PLAN TO MAKE BANKS PAY THEIR FAIR SHARE

Australia's biggest banks are some of the most profitable in the world. They enjoy billions of dollars' worth of public protection without contributing their fair share back. As the Banking Royal Commission has shown banks care more about making their mega-profits than putting people first.

Australia's big banks are some of the most profitable in the world[i] [ii], this is partly because they enjoy public protection that gives them advantages over other banks around the world and even to other industries.

The public protection that banks have enjoyed for years has allowed them to make mega-profits without contributing their fair share back to our society.

OUR PLAN

The Greens will ensure banks are contributing their fair share of tax by implementing a Victorian Bank Levy on the biggest banks operating in Victoria. The Victorian Bank Levy will:

- **Apply to all banks that operate in Victoria and that are liable for the Commonwealth Government's Major Bank Levy: NAB, ANZ, Commonwealth Bank, Westpac, and Macquarie.**
- **Be set at 0.015% per quarter (or 0.06% annually) of Victoria's share of bank liabilities that are subject to the Commonwealth's Major Bank levy.**
- **Victoria's share will be calculated using Victoria's share of the national economy (currently about 23.6%[iii]).**
- **Raise about $345 million per year, this could be used to improve our schools, public transport, public housing, and hospitals.**

By implementing this levy we make sure that the big banks contribute their fair share as well as improve competition in the banking sector for everyone.

BANKING IN AUSTRALIA

Government regulation and public guarantees have allowed Australia's big banks to become the most profitable banks in the world. Because they are so big and profitable they are perceived as being more creditworthy which allows them to borrow money cheaply which they lend out for a profit allowing them to get bigger and bigger. And if it all goes wrong the community is expected to pick up the tab like we did during the Global Financial Crisis.

This situation creates what economists call a "moral hazard" where there is no incentive for banks to demonstrate good, ethical behaviour because bad, irresponsible/ unethical behaviour is rewarded too. Banks know this too, as the Baking Royal Commission has shown banks have behaved badly and irresponsibly, sometimes illegally, destroying livelihoods in the process.

Banking in Australia is big business, bank profits in Australia equate to about 3% of Australia's GDP, put another way for every $100 dollars that is made in Australia $3 goes to the owners of the big banks[iv]. Compare this with the world's largest economy, the USA, where banks account for only 1.2% of GDP, or the UK where banks account for just 0.9% of their GDP[v].

BIG BANK'S PROFITS

The big banks in Australia are so profitable for two main reasons, firstly the big banks control 80% of the market, and this large market power translates to larger profits. Secondly, the big banks benefit from being heavily guaranteed by the public.

Banks operate in a highly regulated area and they benefit from this regulation, by being protected from being taken over by foreign banks, for example. Furthermore, banks are implicitly guaranteed by public funds.

The implicit public protection that banks in Australia enjoy is equivalent to somewhere between $1.8 billion and $3.75 billion per year[vi]. Because the big banks are deemed too big to fail, they know that the government will use public funds to prevent them from collapsing, just like happened during the Global Financial Crisis. Banks continue to benefit from the knowledge that the government will step in again if there is another downturn.

Introducing a bank levy would mean that banks make a fair contribution in return for their public guarantees. A levy would also give smaller banks a more level playing field to compete with the larger banks as the levy only applies to the major banks.

THE COMMONWEALTH'S MAJOR BANK LEVY

In 2017, the Commonwealth introduced a Major Bank levy on banks with over $100 billion in total liabilities- currently only the big five banks pass this threshold. The Commonwealth Major Bank Levy also does not apply on everyday household deposits or mortgages.

The Commonwealth Major Bank Levy rate is set at 0.015% per quarter on the balance of a bank's liabilities (which are its main sources of funding) with a number of exclusions.

The Commonwealth Government introduced the levy to:

- Ensure that the banking sector makes a fair contribution to the economy and the associated systemic risks that banking imposes (in the case of collapse, for example)
- Improve competition and accountability in the sector and to
- Complement prudential reforms.

The Victorian Bank Levy also does not interfere with the Commonwealth's ability to charge its own levy and banks could not avoid the levy by not carrying business out in Victoria.

BANK LEVIES IN OTHER COUNTRIES

After the Global Financial Crisis, many European countries like the UK, France, and Germany, introduced similar bank levies[vii] [viii]. Eventually many of these levies will merge into a single fund that is run by the European Union[ix].

Bank levies in Europe were imposed after advice from the International Monetary Fund following the Global Financial Crisis. The International Monetary Fund has previously recommended a maximum levy of 20 basis points: (0.20%)[x]. The Victorian Bank Levy, not even when combined with the Commonwealth's levy is still below the IMF's recommended safe maximum.

WILL CONSUMERS PAY MORE?

Ultimately this is a business decision for the banks. A bank could either absorb the cost, raise prices or make savings elsewhere in their business.

There is no mechanism that can compel a bank to not pass on the cost to consumers. Since the levy is payable only by the biggest banks it means that smaller banks, who do not have to pay the levy, can better compete with a large bank that does pass the cost on making banking better for everyone.

The Greens will have a fully costed election platform. Our policies will be submitted to the Parliamentary Budget Office for costing.

[i] Reserve Bank of Australia, Financial Stability Review, 14 April 2016: https://www.rba.gov.au/publications/fsr/2016/apr/pdf/financial-stability-review-2016-04.pdf

[ii] Reserve Bank of Australia, Financial Stability Review, 12 April 2016: http://www.rba.gov.au/information/foi/disclosure-log/pdf/151609.pdfhttps://www.rba.gov.au/publications/fsr/2018/apr/australian-financial-system.html

[iii] Invest Victoria, Economic Indicators, 13 May 2018: http://www.invest.vic.gov.au/resources/statistics/economic-indicators

[iv] Matt Grudnoff, Bank Levy in South Australia: Doing as the Treasurer Says, Doing as the Treasurer Does, July 2017, The Australia Institute.

[v] Matt Grudnoff, July 2017

[vi] Reserve Bank of Australia, Parliamentary Briefing, 21 February 2012

[vii] Małgorzata Twarowska, Taxation Of Financial Sector – Risk Assessment Based On The Experiences Of Selected Countries, 25 May 2016

[viii] Michael P Devereux, Niels Johannesen and John Vella, Can taxes tame the banks? Evidence from European bank levies, 2013

[ix] European Council, Council of the European Union Single Resolution Mechanism, 10 November 2017: http://www.consilium.europa.eu/en/policies/banking-union/single-resolution-mechanism

[x] Matt Grudnoff, July 2017