Citizens Electoral Council of Australia

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Independent Political Party

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Former ANZ director: no solution to Australian banking problems without Glass-Steagall structural separation

The former director of ANZ Bank and chairman of Woolworths John Dahlsen has intervened in the banking turmoil in Australia to denounce the Australian Prudential Regulation Authority (APRA) and call for structural separation of the banks "following the principle of the US *Glass-Steagall Act*".

Mr Dahlsen expressed his views in a column in the 21 August *Australian Financial Review*, "APRA's incestuous rule comes at too high a price", which is an edited version of an article he has written for the *IPA Review*, the publication of free market think tank the Institute of Public Affairs, of which he was formerly on the board.

"APRA is among the least accountable federal agencies", the former chair of the ANZ Bank board's audit and risk committee wrote of the bank supervisor.

"There is an incestuous relationship between APRA and the banks. There is no separation of influence and nearly all senior staff are ex-bankers, so you are unlikely to get any independent and innovative thought."

Mr Dahlsen is a longstanding critic of APRA's risk models and risk-weighting of lending, which has incentivised the banks to concentrate their lending on mortgages at the expense of the rest of the economy. Mortgages account for more than 60 per cent of the lending of each of Australia's Big Four banks—a far greater concentration on mortgages than any other banks in the world—which has inflated a world record housing bubble that will inevitably crash the banks and the economy when it bursts.

"APRA's use of the secrecy provisions in its governing legislation prevents an informed market, and it uses this massive information imbalance to maintain the fictions that risk is a science, that everything is quantifiable and that all material required by APRA is intelligently reviewed", he explained.

"It is simply not possible for APRA to intelligently review the vast amount of data it demands from the banks. *The risk-based models used by banks and regulators must be externally reviewed as a matter of urgency*." (Emphasis added.)

Structural separation

After calling for a revised mandate for APRA to reform its function and effectiveness, Mr Dahlsen turned to a more fundamental and far-reaching reform—structural separation.

He wrote: "Problems in banking will not be solved until the structure is changed, which means more than merely reshuffling responsibilities around the existing club of regulatory institutions."

The experienced banker is convinced that a Glass-Steagall separation would be beneficial to shareholders, and therefore advocates for banks to do it voluntarily. He acknowledged, however, the political momentum in Australia for legislation to forcibly break up the banks, which some banks would require. "With barriers removed it is possible that banks and the investment market will move to unlock shareholder value in structural separation, following the principle of the US *Glass-Steagall Act*, which kept commercial and retail banking separate", he wrote.

"Voluntary demergers would threaten the gravy train of 'coupon clipping' for fee extraction, but enforced separation in Australia seems inevitable, and the mere threat of it could prompt demergers.

"The alternative of further complex regulation is frightening. Complex regulation (such as Dodd-Frank) never works because of the extreme difficulty of interpretation and enforcement. Simple regulation is simply better."

(Dodd-Frank is the 848-page US banking legislation that Barack Obama enacted in 2010 after the global financial crisis, instead of restoring the simple Glass-Steagall separation, a 37-page law, which had protected Americans from systemic banking crises for almost 70 years, but which his Wall Street sponsors such as Goldman Sachs desperately opposed.)

John Dahlsen has added his voice to the chorus of calls for a full structural separation of Australia's banks. The Citizens Electoral Council has led a campaign for Glass-Steagall in Australia since 2009. The late former prime minister Malcolm Fraser called for Glass-Steagall in a submission to the 2014 Financial System Inquiry. Leading National Party politicians Senator John Williams, and the Member for New England Barnaby Joyce, responded to the April hearings of the banking royal commission by calling for the banks to be broken up. On 25 June 2018 the Member for Kennedy Bob Katter moved, and the Member for Denison Andrew Wilkie seconded, the introduction into Parliament of the Banking System Reform (Separation of Banks) Bill 2018, which is based on the US *Glass-Steagall Act*. The Greens have long said they opposed the vertical integration that the royal commission has shown enables the banks to fleece and gouge their customers, and on 9 August they detailed a policy for a full, Glass-Steagall-style structural separation of the banks. The former Australian Competition and Consumer Commission (ACCC) chairman Allan Fels endorsed the Greens' policy, emphasising the importance of ending both vertical integration and so-called horizontal integration which enables the government's guarantee of deposits to flow through to risky investment banking and trading activities.

Liberal-National Coalition politicians especially should take note of Mr Dahlsen's views, which contradict their government's reasons for opposing Glass-Steagall. The Treasury has claimed that "Australia's banks already exhibit a high degree of structural separation", while the Member for Goldstein, Tim Wilson, a former policy director at the IPA, repeats to constituents that he won't support the Separation of Banks bill because "Mr Katter's legislation is designed for American conditions, not Australian conditions."

Now an experienced Australian banker, who shares the Coalition's and Tim Wilson's preference for free market policies, has identified a structural separation of the banks based on the *Glass-Steagall Act* as precisely what is needed to solve the undeniable problems in Australia's banking system.

Will the government pay attention? Will they respond to the truth being exposed at the royal commission, and the wise advice of John Dahlsen, or will they, as they did for years leading up to the royal commission, continue to protect the conflicts of interest, dangerous speculation, and outright criminality in Australia's banks?

What you can do

- Forward this release to your local MP and as many Senators as you can. (You can find the Senators from your state by visiting https://www.aph.gov.au/Senators_and_Members/Parliamentarian_Search_Results?q=&sen=1&par=-1&gen=0&ps=0, and clicking on your state under the heading State/Territory on the right-hand side.)
- Include a message, or call their offices, asking for confirmation that they received the email, and for a written response.
- Share this message widely on email and social media.