

## Submission To The Financial System Inquiry

It is fantastic that the government has set up this Financial System Inquiry. The recent Senate Inquiry recommendation that the Government should instigate a Royal Commission into ASIC and the Commonwealth Bank is most timely. It is very clear that lack of regulation was a major contributor to what has come to be known as the GFC. Regrettably the attempts of the Obama Administration to bring in regulation have been largely thwarted by an army of lobbyists unleashed by the biggest U.S. banks. It is therefore inevitable that GFC 2 will happen. Based upon recent public comments Martin Parkinson would have us believe that dealing with the budget will help Australia prepare for any future GFC. Although there may be some truth in this view wouldn't it be more appropriate to *deal with the causes* and thereby ameliorate any potential crisis?

The GFC did not originate in Australia so we must buffer our financial system from these international forces. After the massive speculative bubble of the 1920s and the subsequent collapse and Great Depression that followed, it was the banking reform legislation that helped turn things around and bring renewed confidence in the system. When consumers knew that their savings could be safely deposited with banking institutions and would not be used for speculation calm and stability returned. This Financial System Inquiry must recommend that there be a separation of regular banking operations from those that are of a speculative nature so that depositor's funds are safe. Legislation along the lines of Roosevelt's 1933 Glass-Steagall legislation would appear to be the logical approach. Adoption of this should ensure that depositor's monies are guaranteed. If the GFC has proved anything it's the fact that deregulation does not work!! This was the lesson of the 1920's, but alas the mistakes were not learnt and hence the GFC. The Australian Government should not be shy about regulation. If other countries choose to have more systemic risk within their financial systems that's their choice but we must not allow these countries to force us to have the same systemic risks. Neither should we align ourselves too closely with countries whose economies contain these risks.

*If an institution is too big to fail then that is a failure in and of itself.* This is an unnecessary systemic risk that should be eliminated. Further it is totally contrary to real competition and therefore necessitates policy changes to promote more competition. Allowing recent takeovers such as that of CBA taking over Bank West is an example of bad policy outcomes that need to be reviewed. This takeover should never have been allowed and suggests that the government is not serious about promoting competition in the banking sector.

In the U.S. we see a financial system culture which has resulted in major banking institutions having a long history of law breaking with little concern for the consequences to the consumers or business environment within which they operate. They settle out of court for some financial penalty with no acceptance of liability, and

then continue on their merry way until next time. In effect nothing ever really changes. This white collar crime is not being dealt with appropriately. These institutions believe themselves to be above the law. This is hardly surprising given there are no real personal consequences for their actions. It is my concern that this culture is being increasingly adopted by Australia's banking institutions as well. The recent revelations of what has transpired in the Commonwealth and Macquarie Banks in regards to their financial planning operations seems to bear this up. We cannot have a sound financial system that people can have confidence in if these matters are not being properly addressed. Banking is all about confidence and yet the banks, the regulators, and the government do not appear to fully appreciate this fact. It is my hope that this inquiry will draw attention to this and that appropriate changes be made to help rebuild community respect for the industry.

If an institution gets into difficulty then there has clearly been a failure on the part of the board. Indeed criminal actions may have taken place and the full weight of the law should be brought to bear upon the CEO, CFO, Chairman, board members etc and all breaches prosecuted to the fullest extent of the law. This must include criminal charges and prosecutions resulting in gaol time for all individuals responsible for breaking the law. White collar crime must no longer be swept under the carpet with a slap on the wrist and a fine. This approach has clearly failed both here and overseas. It has also proven to have been one of the major causes of the GFC. It is time for a zero tolerance approach so that the desire to bend or break the rules can be kept in check. An enduring cultural change is required. We need more resources for the relevant regulators so that all institutions will have an healthy respect for financial system legislation. ASIC's poor performance has not been helpful in this regard.

When institutions get into trouble they should be allowed to fail, but not to the detriment of the depositors. There was a recent example in Portugal where a failing bank was broken up into two entities. One part with depositors' funds was to continue trading and the other part with the toxic assets ..etc, was to be wound up. This seems only fair as the reason for the failure lay not with the depositors. *Why should they bear any loss for something which was clearly not their fault?* It is for this reason that the proposed 'bail-in' legislation must not proceed. The Portuguese example is the model that should be adopted whereby the people are put first. They should always be the creditors first in line and must be protected as any banking failure is not their fault. The responsibility lays elsewhere. The application of 'bail-in' in Cyprus last year was nothing more than a form of economic terrorism!! The immense, *unnecessary hardship* inflicted upon an innocent population, creating Great Depression like conditions was unconscionable and reprehensible. Any financial system that would do this to a group of people is something Australia needs to keep at arm's length. This is not the Australian way; it's not 'a fair go' and is undermining basic human rights. This is another reason why a Glass-Steagall approach is preferable and indeed more humane.

It is time for another Royal Commission on banking and the financial system in Australia, including how effective regulation has been. It has been too long since the last banking Royal Commission. Further the recommendations of the last commission should also be revisited in the light of the GFC.

It is starting to appear that this inquiry is not really taking the concerns of Australians seriously. If David Murray is not prepared to take his banking hat off whilst conducting this inquiry and really have a good look at what is best for Australians at large then maybe he should have stood aside and let someone else undertake this brief.

The banking industry has often failed the community and yet they continue to resist reform. The banking industry has been given a privileged position in the business community under fractional reserve banking arrangements and with this position comes immense responsibility. If they are not prepared to wield this responsibility for the interest of the public good then maybe it's time to consider government re-entry into this sector. A national government bank could be set up relatively cheaply and run through the post offices around Australia with only a few major branches required to be set up in each capital city. Such a bank could be set up along the lines originally proposed for the Commonwealth Bank. This would clearly bring the competition that is so sadly lacking and eliminate some systemic risk. If institutions are going to continue resisting real competition then maybe we should give them what they want and eliminate competition altogether. Do they really want the banking system within Australia to be nationalised?? A strong case could be made arguing that the current arrangement is merely a form of '*corporate welfare*' that does not really serve Australians very well at all.

In short the following are a summary of my suggestions to this inquiry;

-A Royal Commission into the banks, regulation and the financial system must proceed.

-Zero tolerance for white collar crime. A do the crime do the time approach is needed, not a do the crime pay a fine!

-Bail-in legislation must not proceed as it is an unjust approach.

-Work toward enhancing Australia's financial sovereignty and independence so we maintain greater control of our future and will be better able to deal with any future crisis.

-The banking sector has resisted real reform and clearly abused the special position they hold, being held in contempt by most Australians. It is time for a new Government bank to be set up to bring competition and increased stability. This new institution could be used to create credit for infrastructure projects as well.

We can have a real inquiry with real consultation and real solutions or we can have a pretend inquiry. Only your final report with its recommendations will reveal the truth of the matter. If you and your fellow inquiry panel do not desire to listen to the community and address their genuine concerns in your report then you have clearly taken your remuneration under false pretences and should return said remuneration and resign from this inquiry. It is my hope that this is not the case and that the concerns and interests of the community will be taken seriously and put foremost in your final report. Most major financial crises have had their origins overseas. It is therefore crucial that Australian interests be put first and our financial sovereignty be maintained as well as it can be so that we can manage whatever comes our way and plan for a prosperous future for all Australians. Then this nation really will continue to be the 'Common Wealth' of Australia.

Yours Sincerely