Citizens Electoral Council of Australia

Postal Address: PO Box 376, Coburg Vic 3058
Phone: 1800 636 432 Fax: 03 9354 0166
Home Page: www.cecaust.com.au **Email:** cec@cecaust.com.au

Authorised by R. Barwick, 595 Sydney Road, Coburg, Victoria 3058. Printed by Citizens Media Group Pty Ltd., 595 Sydney Road, Coburg, Victoria 3058.

Independent Political Party

14th of March 2013

Why Australia urgently needs a Glass-Steagall banking separation

The U.S. Congress is now considering a bill, House Resolution 129, to re-enact the *Glass-Steagall Act 1933*, which split commercial banks that hold deposits off from risky investment banks. The *Glass-Steagall Act* protected America's depositors until its repeal in 1999 led directly to the Wall Street megabanks, their reckless gambling losses that caused the global financial crisis, and the trillions of dollars in government and central bank bailouts.

Politicians in Italy, Iceland, Belgium, Sweden and Switzerland are working on Glass-Steagall laws; and more than 60 per cent of British MPs support a full-scale Glass-Steagall-style separation for the U.K.

Australian politicians must recognise that the financial danger their international counterparts are acting to avert is a global threat from which Australia is not immune, and move urgently to enact a Glass-Steagall separation for the Australian financial system.

Risky business

By the Glass-Steagall standard, Australia's banks are a nightmare.

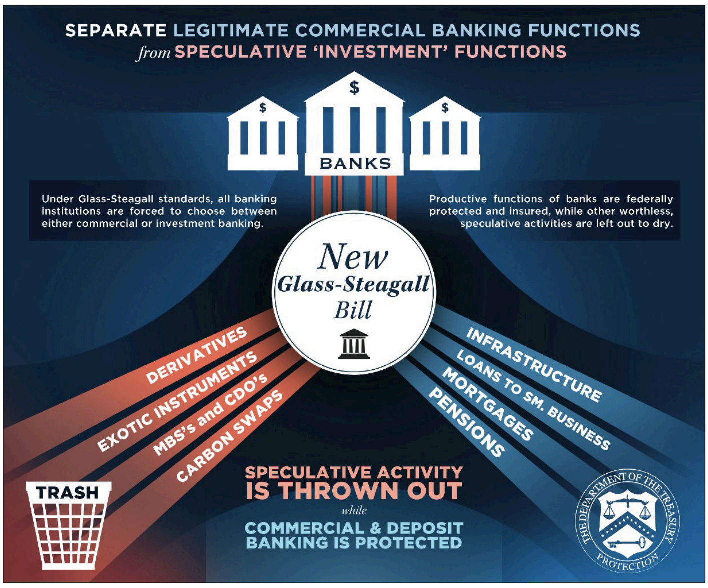
Four major banks—CBA, ANZ, NAB and Westpac—dominate Australia's financial system. The same banks dominate New Zealand. The IMF noted with concern in November 2012 that the level to which the domestic financial system is concentrated in these four banks, which between them hold 80 per cent of Australian residents' assets, makes them *systemic*—a crisis in these banks is a crisis for the entire system.

The big four banks are each conglomerates, combining the traditional banking of deposits and loans with the riskier financial activities of investment banking, funds management, stockbroking, and insurance. This structure is precisely what the architects of the *Glass-Steagall Act* recognised posed such a risk to the security of depositors.

There is an assumption that the big four won't get into crisis, as they are the strongest banks in the world. This is the same assumption that every nation presently in financial crisis held about their own banks when they were riding high. Not only was it proved wrong for those nations, *it has already been proven wrong for Australia*. The supposedly "sound" Australian banks almost went bankrupt when the GFC erupted in Sep.-Oct. 2008, unable to repay their enormous foreign debts, and had to beg the Rudd government to go guarantor for new foreign borrowings to roll over their existing loans. The banks told Rudd that without the government guarantee "they would be insolvent sooner rather than later", recounted Ross Garnaut and David Llewellyn-Smith in their book *The Great Crash of 2008*. They are still teetering on the edge. From its recent analysis of the Australian financial system, the IMF expressed concern that Australia's banks have only six per cent capital. This enables the banks to rack up bigger profits, but it leaves them extremely vulnerable—just a six per cent decline in the value of their assets will wipe them out.

Adding to the structural vulnerability, the four banks are very similar businesses:

- **They are each heavily exposed to the inflated domestic property market**, which accounts for more than 50 per cent of their lending. A property market decline in Australia similar to that suffered in every other economy whose property bubbles burst would be enough to collapse all four banks.



- **Each bank is dangerously exposed to toxic derivatives** contracts, with a notional value many times their assets. The Reserve Bank reports total derivatives exposure for all Australian banks is a fraction short of $20 trillion; total bank assets by comparison are $2.85 trillion. This exposure is kept "off-balance sheet". In August 2012, when former Citigroup Chairman and CEO Sandy Weill told CNBC television that Glass-Steagall should be restored, he added, mindful of the destruction that derivatives had wreaked on Wall Street in 2008, "There should be no such thing as off-balance sheet."
- **The four banks are also heavily reliant on foreign loans**. More than half, $802 billion as of Sep. 2012, of Australia's gross foreign debt is owed by banks, the majority of that by the big four. $513 billion is short-term debt, one year or less maturity; $340 billion is 90 days or less. It is this short-term debt which virtually bankrupted them in 2008.

Australians call for Glass-Steagall

A number of Australians with intimate knowledge of the Australian financial system have called for Glass-Steagall. The most prominent is former NAB CEO and BHP Chairman Don Argus. Argus told the 17 Sep. 2011 *The Australian*, "People are lashing out and creating all sorts of regulation, but the issue is whether they're creating the right regulation. What has to be done is to separate commercial banking from investment banking. I challenge any commercial bank board to really understand investment banking risk. It's different and needs to be properly priced. But you actually don't want it on a commercial bank balance sheet that comprises depositor funds."

The 6 Aug. 2012 *Australian Financial Review* reported an unnamed "retired senior local banker" who was raising "concerns about the potential for a local bank to get into strife". Under the headline "Big four might make a better eight", the *AFR* revealed that their source, careful to remain anonymous due to his present position, echoed Wall Street banker Sandy Weill's call for Glass-Steagall: "Australia's banks were too big and complex and should be broken up".

Australia Urgently Needs a *Glass-Steagall* Separation of Banks

TO THE HONOURABLE THE SPEAKER AND MEMBERS OF THE HOUSE OF REPRESENTATIVES

This petition of the Citizens Electoral Council of Australia draws to the attention of the House the threat facing Australia's banking system from the deepening global financial crisis, which puts at serious risk the bank deposits of the Australian people, and essential banking services for the real economy.

Australia is now vulnerable because our banking system is concentrated in just four banks, which between them hold the overwhelming majority of deposits and provide the majority of banking services, but which have dangerously exposed themselves to shocks in the global financial system, including through nearly $20 trillion in derivatives speculation.

We therefore ask the House to take immediate action to protect deposits and essential commercial banking services, by enacting strict banking separation as did U.S. President Franklin Roosevelt's *Glass-Steagall Act 1933*. *Glass-Steagall* split deposit-taking, standard commercial banks from Wall Street's speculative investment banks, creating entirely separate entities under different roofs, thus successfully protecting the U.S. banking system until *Glass-Steagall's* repeal in 1999. We ask the House to apply the *Glass-Steagall* principle to Australia through legislation to divide each of the four major banks into two parts: 1) normal commercial banks as per *Glass-Steagall* standards, and 2) institutions involved in investment banking and other forms of speculation. Banks that speculate will then do so with their own money and at their own peril, with no government protection whatsoever.

Name	**Signature**	City/Town/State*	Phone*	Email*
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				

Please post back to CEC Australia, PO Box 376 COBURG VIC 3058

* Voluntary information