Citizens Electoral Council of Australia

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Independent Political Party

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Treasurer proves why Australia needs Glass-Steagall banking separation NOW!

Treasurer Scott Morrison has fudged his latest attempt to defend Australia's banks against calls for a full Glass-Steagall separation of deposit-taking commercial banking from riskier financial activities.

In a 28 April letter to the Liberal Member for Longman Wyatt Roy, in response to a query from a Longman constituent about Glass-Steagall, Morrison claimed that Australia didn't need Glass-Steagall as "the Australian financial system already exhibits a high degree of structural separation".

That claim is a tacit admission that structural separation is necessary, so the only question is whether it is true—is Australian banking sufficiently demarcated to protect innocent bank customers from risky financial activities?

Morrison's example of structural separation was that foreign banks in Australia are largely investment banks with "only a small presence in retail and commercial banking", while "Australia's major banks dominate retail and commercial banking but do not have large investment banking businesses."

Putting aside for a moment that the legislators of Glass-Steagall in the USA in 1933 felt it necessary to mandate that, for the sake of depositors, commercial banks should have no contact with investment banks whatsoever—not even a little—Treasurer Morrison has ignored a glaring issue: Australia's major banks not only have investment banking divisions, however small, but they are fully *vertically integrated*, which means they also have insurance, stockbroking and wealth management divisions—all of which Glass-Steagall strictly forbade for deposit-taking banks.

Vertical integration dangerous

It is unclear exactly how much risk depositors in the major banks are exposed to from investment banking activities, except it is known that the Big Four each hold, *off balance sheet*, risky gambling bets called financial derivatives that run to many trillions of dollars, and the collective Australian banking system is exposed to more than *$30 trillion* in such derivatives obligations. However, it is also known that Australian bank customers have already been hurt badly by this vertical integration of the banks. As Joanne Gray observed in the 13 May *Australian Financial Review*, "The conflicts [of interest] are made more acute by vertical integration in the industry which sees products manufactured by insurance and wealth management divisions sold to bank customers."

The cases of Timbercorp and Comminsure, to take just two, prove the dangers of this conflict, as thousands of Australian retail bank customers lost heavily on investment and insurance products that were designed and sold by other divisions of their bank. (Incidentally, an identical scandal involving America's biggest bank in the late 1920s, National City Bank, preying on its own customers with dodgy investment products—exposed by Ferdinand Pecora's 1933 US Senate Committee investigation—led directly to the *Glass-Steagall Act* to stop it happening again.)

Gray quoted Westpac chairman Lindsay Maxsted admitting that bank staff can feel pressured to aggressively sell these conflicted products: "I can remember times from when I was a CEO and the pressure is on the last quarter, so you are saying things to groups of staff [like]: 'It's really important you meet your targets this month. Do this, this, this and this'," Maxsted said. "And that can be misinterpreted [*sic*]: perhaps Lindsay is telling me, 'Whatever it takes'."

Maxsted's line is that this is unintended; the truth of that is for a proper investigation to determine. But by insisting on this point, the Westpac chairman proved a) that Scott Morrison's claim that Australia's banks have sufficient structural separation is dead wrong; and b) the case for Glass-Steagall.

Claiming that bank staff are taught to put the customer first, but can get confused when the pressure is on to boost earnings, Maxsted said defensively, "That's what makes it really hard and complex, and really annoying when people come in from outside and say, 'Oh, this is a really bad culture.' *These are really big complex organisations to run and people can get mixed messages*." (Emphasis added.)

That is precisely the reason Glass-Steagall is necessary! Ordinary bank customers should not be exposed to the risks inherent in running "really big complex organisations"; as US Senator Elizabeth Warren, who is pushing for a *21st Century Glass-Steagall Act* in the US Congress, insists: "Banking should be boring!"

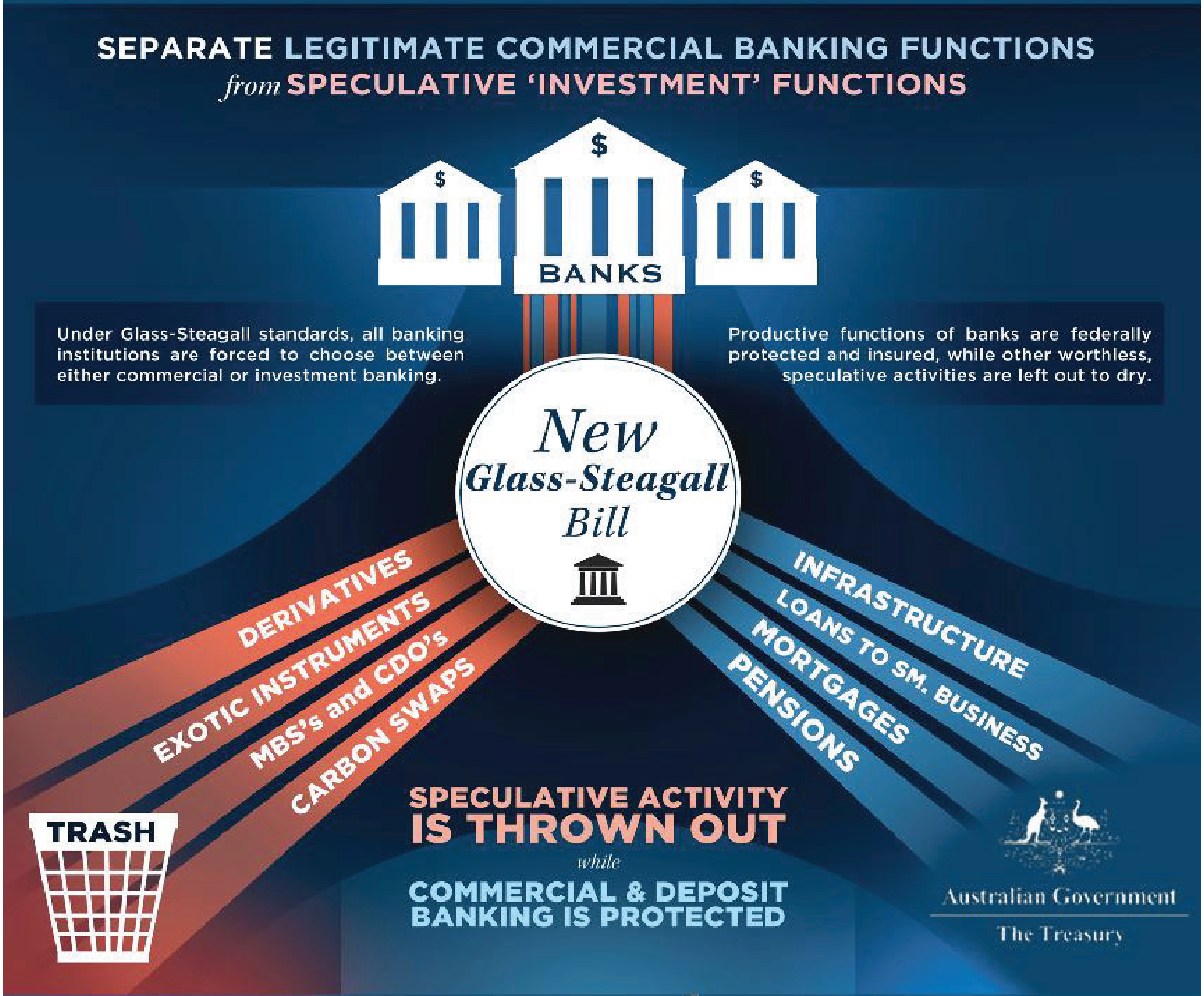
Operation Glass-Steagall

Every time Treasurer Morrison comments on this issue he demonstrates his ignorance and proves the CEC's case; the ALP under Bill Shorten, who has flatly ruled out Glass-Steagall, is no better. This is in glaring contrast to the USA and UK, where Glass-Steagall is front and centre in the political debate.

If you support this policy, get involved in Operation Glass-Steagall, the CEC's campaign to turn Election 2016 into a debate on how to protect Australians from the inevitable crash of the vertically-integrated conglomerates of banking, speculation, insurance, funds management and stockbroking that we call banks. Write to your MP now, demanding to know where he or she stands on this issue.

Call **1800 636 432** and join the fight!

TELL YOUR MP to separate commercial & investment banking NOW!



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