

# US experts respond to Australian Senate banking inquiry

*The Senate Economics Legislation Committee is currently conducting an inquiry into the Banking System Reform (Separation of Banks) Bill 2019 tabled in the Senate by Senator Pauline Hanson on 12 February. The investigation has generated interest from Glass-Steagall bank separation advocates, who are well aware that if Australia were to adopt the policy it could spread worldwide. Below are two reactions from American banking experts. The first, from former IMF economist Mrs Alphecca Muttardy, is a formal submission to the inquiry which included attachments (not published here) detailing the history of Glass-Steagall, how it would work today to protect the economy, the disastrous attempts at so-called regulation since its repeal, and a compilation of articles from experts warning how ill-prepared we are for a new, oncoming crisis. The second item is an Open Letter published by financial website Wall Street On Parade's Pam Martens, a Wall Street veteran and tireless campaigner against financial corruption, calling on Australians (and Americans) to urgently revive the principle of Glass-Steagall in bank regulation.*

## Submission from former IMF economist

This is in response to your invitation for submissions from US experts that affirm the importance of provisions of the 1933 Glass-Steagall Act, from the standpoint of the US experience, and the consequences of its repeal.

My name is Mrs Alphecca Muttardy, and I am a macro economist with 25 years' experience at the International Monetary Fund. Since retirement, I have been working with a coalition of partners — including Americans for Financial Reform (AFR) — on the urgent need to reinstate Glass-Steagall, in order to prevent another devastating financial crisis and world economic recession. You can view

- my summary of the US experience with Glass-Steagall, in a 4-page report attached below;
- a webinar I helped organised with AFR on Glass-Steagall (at <https://www.youtube.com/watch?v=SbLjsv5mvg4>); and
- a set of recent articles collected for my Newsletter, on the evolution of the financial sector and its relation to the economy, also attached below.

As to specific provisions that are needed to effectively regulate banks, my comments are as follows:

1. During Glass-Steagall's 66-year history, there was never a systemic failure of all banks at once. However, within 9 years of repealing the Act, 12 out of 13 of the largest US banks were within one day of being closed, before they were bailed out by the US government and the Federal Reserve.
2. The US Dodd-Frank Act has failed to moderate banking risk, in particular as its provisions are being: watered down (the Volker Rule, as well as underwriting standards for corporate debt), ignored (requirements to move all types of derivatives from secretive over-the-counter contracts to central clearing systems, as well as dark pools where banks illegally trade their own stocks), or rolled back (capital adequacy ratios for banks that were bailed in 2008). In the meantime, nonbank finance remains beyond the perimeter of any regulation.
3. The source of the dysfunction is Wall Street's undue political influence in the policies and operations of the Federal Reserve, the US Treasury Department, and its regulatory agencies. Thus, not only is a new Glass-Steagall Act needed to separate Federally insured bank deposits and bank operations from risktaking speculation, but so too is Campaign Finance Reform, and a re-charter of the Federal Reserve to make it more accountable to Congress and the public.
4. From a macroeconomic point of view, the new financial architecture remains vulnerable and untested, particularly as the 10-year experiment with low interest rates may be coming to an end. In that environment, any one of a number of non-financial debt holders—with global recorded debt of \$182 trillion, or 224 per cent of global GDP—could default, with the potential to bring the global banking system down in domino fashion. Therefore, Glass-Steagall is an imperative start to putting our world financial house in order. I sincerely hope that these comments are of help, and wish you the very best success in enacting a 21st Century Glass Steagall Act in Australia. Sincerely, Alphecca Muttardy, Macro Economist Fairfax, Virginia, USA

## An Open Letter to Australians: Only Glass-Steagall can save you from the banks

*By Pam Martens, Wall Street On Parade, 4 April 2019*

Dear Engaged Citizens in Australia:

As both the interim and final reports from your Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has confirmed, the good, decent, hardworking people

of Australia are under attack from their own banking system in a manner reminiscent of an attack from a foreign invader that wants to destroy the will and financial resources of the citizens in order to gain absolute control of the country.

Americans, more than any other people in the world, can understand and relate to the precarious predicament in which you now find yourselves. The devious vices and devices of your bankers to transfer the meagre savings of the common man and woman to their own greedy pockets have been laid bare by your Royal Commission. But just as happened here in the United States following the report of the Financial Crisis Inquiry Commission, no concrete measures to end the domination of the banks has occurred.

Australians, like Americans, remain on the road to financial ruin at the hands of predatory banking behemoths that are using their concentrated money and political power to attack each and every democratic principle that we cherish as citizens—from repealing consumer-protection legislation to installing their own shills in government to regulatory capture of their watchdogs to corrupting the overall financial system that underpins the stability of our two countries. Sadly, citizens at large do not understand that their own deposits at these mega banks are being used to accomplish these anti-democratic goals.

What has now occurred in Australia is precisely what has occurred in America. Last year Bob Katter, MP in your House of Representatives, introduced the Banking System Reform (Separation of Banks) Bill 2018 in the Australian Parliament. This year, Senator Pauline Hanson introduced a bill of the same name in the Australian Senate. The legislation is tailored after the 1933 legislation that was passed in the United States, the Glass-Steagall Act, to de-fang the banking monster that brought on the 1929 stock market crash and ensuing depression by separating commercial banks, which take in the deposits of risk-averse savers, from the globe-trotting, risk-taking, derivative-exploding investment banks. (An unsavoury group of bank shills succeeded in repealing the Glass-Steagall legislation in the USA in 1999 and then enriched themselves from the repeal. One year later the USA experienced the dot-com bust and eight years after that the country experienced the greatest financial crash since the Great Depression—what you call the GFC or Global Financial Crisis but US bank lobbyists prefer to dub The Great Recession.)

US Senator Elizabeth Warren, a Democrat, and the late Senator John McCain, a Republican, had been introducing the 21st Century Glass-Steagall Act for the past five years in the US Congress. Just like the legislation proposed in Australia, it would have restored integrity to deposit-taking commercial banks by separating them from the predatory investment banks that financially incentivize their employees to fleece unsuspecting customers while using the deposits to engage in high-risk gambles that regularly implode. The powerful mega banks in the USA and their legions of lobbyists have worked hard to prevent this legislation from gaining momentum.

Despite the critical need for this legislation in both countries, mainstream media has not done its share to inform and educate the public about the pending legislation. We know this to be true in Australia because the Royal Commission received more than 10,000 submissions from the Australian public while the Senate's request for public comment on the Glass-Steagall legislation has thus far received just 350 responses. The Senate Committee has elected to publish just a sliver of those responses.

You can submit your comments on the Australian legislation using an online form; or you can email your submission to [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au); or you can mail your submission to Senate Standing Committee on Economics, PO Box 6100, Parliament House, Canberra ACT 2600, Australia. The deadline for submissions is a week from this Friday, 12 April 2019.

It is already clear where Australia is heading without this legislation. Australia will become the plaything of a global banking cartel just as is occurring in the United States. See Goldman Sachs' Top Lawyer Is Part of a Secret Banking Cabal as CEO Blankfein Denies One Exists; and Citigroup, Deutsche Bank Face Australian Court in Landmark Cartel Case; and Banking Fraternity Felons. Your children will become the debt slaves to the banks in order to get an education; the banks will carve out their own private justice system to hear customers' claims against them, effectively closing the courthouse doors for bank fraud claims; and your country will end up with the greatest wealth inequality since the 1920s.

Or, you can mobilise to pass the Glass-Steagall Act legislation. The choice is yours. (Americans, I hope you're listening too.)

*Wall Street On Parade is a financial news site created and maintained by Russ and Pam Martens.*

*Ms Martens worked on Wall Street for 21 years. The last decade of her career was spent as an outspoken critic of Wall Street's corrupt practices, its private justice system and the repeal of the Glass-Steagall Act. Ms Martens' earlier career was in publishing, including editor-in-chief of a national trade magazine.*

*Wall Street On Parade hopes to level the playing field between Wall Street and the 99 percent. Wall Street is a jungle of devices to effect an institutionalised wealth transfer system. The goal of this web site is to provide the jungle guide to the 99 percent in the hope of bringing about citizen-inspired*

*change.*