FSI Submissions: End TBTF & theft-by-stealth!

Here are some examples of submissions made to the Financial System Inquiry, in response to our FSI Media Release Thanks to everyone who sent us a copy of their submission—keep them coming.

Too Big to Fail

The current system, as I understand it, allows banks to get involved in the derivatives markets so gambling the money of depositors. As such they expose themselves to risk of failure, not only to depositors but to other banks—a feature of derivatives—and hence the economy as a whole when loss of liquidity is the issue.

This is completely unacceptable.

An alternative measure when a bank cannot meet its obligations to its depositors/creditors, adopted in Greece, to take money from depositors, does nothing to stop the gambling and still leaves depositors heavily exposed.

What I, as a depositor wants is for my money to be safe when I deposit it in a bank. If I'm prepared to take risks with my money they I will invest in other options. I certainly don't want the bank to be taking risks with my money so that they do well should they have luck with their investments. We saw that happen—illegally—in some Commonwealth Bank scheme. Currently it is quite legal for banks to invest in derivatives using ordinary deposits.

At the time of the GFC, derivative arrangements involved about three quarters of a quadrillion dollars. Now I understand that it stands at 2 quadrillion! Hardly seems a safe arrangement, yet our banks have such investments. Indeed I recall the Commonwealth Bank removing its reports on such investments from their annual report on the grounds that it "wasn't relevant." Surely it is relevant when discussing the topic of "Too Big to Fail."

The gambling of depositors' money in ordinary bank accounts must be regulated against. A method existed in the USA, which, had it not been 'de-regulated' would have saved us from the Global Financial Crisis. It was the Glass-Steagall Act which protected depositors and the economy by separating commercial and investment banking—the only robust way to do so.

Under such a system, the Big Four and Macquarie would be split up into entirely separate institutions—commercial banks and investment banks. No joint ventures would be permitted. Anybody depositing their money with an investment bank would know they were taking a risk and, furthermore, would expect to share the dividends in the event of good investments—rather than the banks taking all the benefit while the going is good. If they fail there should be no need for a bail-out as investors would know that their investments were at risk. Liquidity would not be an issue. If there is criminal activity then it should be easier to prosecute.

The GFC seemed to indicate a high degree of criminality involved, but I don't know of many prosecutions. The derivatives market seems to be quite open to manipulation by criminals and depositors not only need to be protected from them but the criminals should not be protected from prosecution when ordinary depositors are affected.

I understand that the Glass-Steagall option was considered in the interim report but that it was dismissed as being "expensive." It would certainly be expensive to those who can invest depositors' money in risky schemes that pay good dividends for the moment. They will no longer be able to do so. Indeed they would have to share any gains with depositors in the investment banks. Thus it is certainly more expensive to them than the alternative of being allowed to access depositors funds in the case of serious difficulties.

Thank you for the opportunity to have my say.

Warwick J. Boardman, Salter Point, WA

The "too big to fail" banks are now effectively "too big to bail...by government"

Government has created the environment that has enabled this. Government therefore has an obligation to create the environment that disables this.

It is possible to separate savings banking from investment banking a la Glass-Steagall. All it requires is the will of the Government.

The argument that it is expensive to do so, is invalid. Since when has expense been a concern for banks? They will simply pass on the expense to the customer. It will be expensive for the banks only because their profits will be affected. For the customer any passed on cost will be cheap insurance, securing their savings deposits, compared to the "expense" of outright loss of money.

To not separate the banking industry will be tragically expensive for the customer in the event that the bank fails and the customers' funds are forfeited to the bank, so that the bank may continue its gambling, unimpeded and without penalty as evidenced by recent "bail-in" events in Europe.

The proposed "bail in" legislation jeopardises all Australians. It is a complicated, corrupt contemplation, bred by greed of the banks and of fear by the Government. It warrants no place in Australia's history. We ought to demonstrate courageous right action to the rest of the world by providing every Australian protection from the predatory behaviour of those charged with the safekeeping of ordinary Australians' savings, simply by separating the banking industry so that "investment" banking cannot jeopardise "savings" banking.

It might not be good for bank profits but it sure as hell will be good for every single Australian's savings bank deposits.

Harvey Raven, Monkey Mia, WA

Government must legislate to keep depositors' money safe

The rumour is going around that a Cyprus-style bail-in is contemplated by banking cartels in Australia. Depositors should be seriously concerned and strongly condemn such a move as nothing else but financial terrorism.

Australia's banks have been the most profitable businesses in the past. Laws have virtually forced people to keep their money in the banks yet banks have never been required to declare what they have been doing with depositors' funds. TBTF banks have been investing deposits freely in derivatives even after the GFC without declaring the risks to their depositors when they are just as likely to fail as other businesses which gamble.

There is only one solution to TBTF banks to protect both the economy and bank deposits: the introduction of the Glass-Steagall Act in Australia, to separate investment banking from commercial banking, as mandated in America's 1933 Glass-Steagall Act.

Under Glass-Steagall, the Big Four banks and Macquarie would be split up into separate new institutions: commercial banks that hold deposits and perform the safe banking functions that service the community; and investment banks that engage in risky financial speculation. The two types of banking should have no cross-ownership, no shared directors, no joint ventures. The commercial banks should be super-safe, and the investment banks should be taken as any other business venture. If their financial gambling goes bad, they should not be bailed out!

Murray's interim report noted that Glass-Steagall is an option, but argued the bankers' case, that a separation would be "expensive". This is nonsense when we are talking about multi-billionaire enterprises which currently deceive depositors. Had banks declared their dicey investments to depositors most likely people would not leave their life savings in their banks.

Banks should not be allowed to gamble with deposits left for safe keeping and not for gambling. Government must legislate to keep depositors' money safe.

Agnes Adorjan, Chevron Island, Qld

Governments cannot compel citizens to support gambling behaviour

I am very concerned that the government might even consider stealing the deposits of ordinary citizens, the majority of us, to prop up banks that are gambling with our money.

In no case should a bank be considered too big to fail when their business conduct is so much based on unsecured (imaginery) money. I invest on the stock market but never in gambling stocks. Gambling is choice that people can make. It should not be the case that the government compels citizens to support gambling behaviour and take their money to cover the losses.

Bail-in did not work to improve people's lives in Greece. It impoverished them. I have Greek relatives. Does the government work for the people? If so, then the welfare of the people is the government's business, not supporting banks that make bad decisions by taking our hard earned money.

I have heard of a solution that worked in the past. That was to separate the speculation/gambling and commercial aspects of their business from the savings and investment in infrastructure aspects. That would keep our savings in real assets and let them gamble with their own money and take the associated risks. Singapore has such a savings and investment setup for banks in which people's superannuation is use for real projects and assets. It is even growing it's land mass using these savings . No business unless it is a national defence project should be disassociated from the consequences of its choices.

What worked in the past was called the Glass-Steagall Act in USA. This was in the 1930's in the Depression. Several countries have now supported this idea with action and I believe we could do this too. I am amazed at how naïve our government is and how often we follow failed trends overseas and so seldom work out our own solutions to suit Australians. At least we could follow successful methods and protect our own citizens. Defence is not only military in nature. Keep the focus on the citizens who elect you to look after them.

I suggest set up two systems

1. Commercial banks for ordinary saving and real asset production
2. Investment banks with no Too big to Fail security
3. These banks to have no cross ownership or cross business or joint ventures

Patricia M Slattery, Dandenong, Vic

Reconsider global theft-by-stealth plan!

There is no such thing as 'too big to fail', if an entity has become 'too big' then that can only be the result of poor management on behalf of the government and irresponsibility on behalf of the entity itself.

Any moves to confiscate (steal) depositors money in order to compensate, or lessen the damage caused by the irresponsible parties is totally immoral and unconscionable. What should happen is that the government puts in place legislation to separate the banking business from the investment side of any particular entity. That way any losses will be limited to those who have willingly and with full prior disclosure chosen to take certain risks with their own finances. I urge you all to reconsider this global theft-by-stealth plan immediately.

Paul Harry

Glass-Steagall for the Common Good!

In response to the call by the Financial Systems Inquiry (FSI) for a second round of submissions, we the undersigned submit the following statement:

The purpose of an economy is to serve the common good of all of the citizens taking part in it. That common good is a moral imperative, which ranks above the supposed rights of a "free market" to rule at the expense of the increasing impoverishment and unemployment of an ever-growing number of Australians. What is the purpose of a "financial system", if not to serve that common good? Is it just, for instance, or moral that the speculation in derivatives by Australia's banks led by the Big Four and Macquarie, now exceeds $24 trillion as against a GDP of only $1.6 trillion? We do not need more of the same financial deregulation which has helped cause the present crisis, both in Australia and worldwide, nor the "bail-in" of Australian depositors in order to bail-out that worthless $24 trillion.

Therefore, we as Australian citizens demand the following:

1) That there be no bail-in of depositors in order to "save the banks".

2) That Australia must separate legitimate commercial banking functions from the speculative activities of "investment banks", as did the Glass-Steagall law in the United States so successfully from 1933 until its repeal in 1999. Such commercial banks serving the interests of the average Australian should be backed by the government, but the speculative banks should be left on their own to sink or swim.

3) That to anchor such a system of private commercial banks, Australia must also establish a national bank typified by our old Commonwealth Bank, where our government directs credit into the real physical economy of agriculture, manufacturing, and infrastructure projects which provide for the common good, including employment opportunities for all.

In making this submission, we take note of the recent call by Pope Francis for a sweeping reform of the global financial system based upon the "primacy of the human person" rather than the "dictatorship of an impersonal economy lacking a truly human purpose", and that "it is the responsibility of the state to safeguard and promote the common good of society".

Whether one holds a professed religious outlook of any persuasion, or is simply a person of good will, those universal principles which emphasise the dignity, worth, and physical well-being of every single human being—in this case every single Australian—must be the basis upon which any financial system must be constructed.