

### **SUBMISSION TO THE FINANCIAL SYSTEM INQUIRY**

In 1791, Mayer Rothschild said "Give me control of a nation's money, and I care not who writes its laws".

In 1924, Henry Ford said "If the people understood how the banking system operates, there would be a revolution in 24 hours".

Presumably Ford's comment was based on his observation of banking practice in the decade that led to the Great Depression.

- After the Great Depression, in response to public desperation and anger, Roosevelt enacted the Glass-Steagall Act, among many banking reforms.
- Under Glass-Steagall, a bank could choose to be a commercial bank or an investment bank, but not both.

Glass-Steagall held until 1999, when it was repealed.

- There were no systemic failures in the period 1933-1999, although there were some failures arising from fraud [for example, the Savings & Loans scandals of the 1980s].

In 2007, the Global Financial Crisis started, and by 2008 it was in full swing.

- In other words, it took only 8 years after the repeal of Glass-Steagall for major world-wide banks to wreak havoc on the financial system.

During the GFC, too-big-to-fail banks [TBTF] were bailed out at tax-payer expense, creating "moral hazard".

- That is, a TBTF bank knows it will be bailed out if it fails, but will retain its bonuses if it wins.
- So, it has nothing to lose, and everything to gain.

On 21 January 2009, President Obama announced his intention of ending the mentality of "Too Big To Fail".

- But, the TBTF banks flooded Washington with about 3000 lobbyists [about 5 per legislator].

On 21 July 2010, the Dodd-Frank Act [Wall Street Reform and Consumer Protection Act] was signed into law.

But, Dodd-Frank bears almost NO resemblance to the spirit of Glass-Steagall.

- Dodd-Frank gives the TBTF banks virtually everything they could hope for.
- There is no move to split TBTF banks.

The preamble to the Dodd-Frank Act claims "to protect the American taxpayer by ending bailouts."

- HOWEVER, protecting the American taxpayer is done through bail-in procedures [called cross-border bank resolution].
- Under the Dodd-Frank bail-in provisions, unsecured creditors [bank depositors] will be required to make good losses of a TBTF bank.

Thus, Dodd-Frank ensures that "moral hazard" will continue, but in a slightly modified form.

- If a TBTF bank becomes insolvent, neither traders nor senior management will suffer.
- Under bail-in, the bank survives but depositors may not.

On a 24 October 2013 speech celebrating the 125th anniversary of the Financial Times, London, Mark Carney, Head of the Bank Of England, and Head of Financial Stability Board, said the date for completion of a global "bail-in" regime was at the G20 Summit in Brisbane in 15-16 November 2014.

Australians are told that our banking system is very strong.

- But, it appears that our banking system is much weaker than our public officials disclose.

For example, we are not told that a Government Accountability Office audit [July 2011] of the US Federal Reserve<sup>[1]</sup> revealed \$16 Trillion in Secret Bailouts to prevent global TBTF banks from failing.

- In this audit, it was revealed that NAB borrowed USD\$4.5 billion from the US Federal Reserve and WBC borrowed USD\$1.09 billion in 2008 and 2009.

Australia's GDP is \$1.4 trillion, while equity in Australia's Big Four is about \$2 trillion.

- But, Australia's Big Four have a nominal \$22.4 trillion exposure to derivatives.
- A significant loss in those derivative positions could bankrupt the Big Four.

Australia's four major banks are *leveraged* 24 to 30 times their capital.

- The tier one *capital ratios* quoted in the media are often higher because they assume heavily discounted asset values [risk-weighted].
- Use of these discounted values understates true leverage.

If there is another GFC, how far would the value of the Big Four mortgages fall?

- A 4% fall in asset values could bankrupt any of the Big Four.

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

An economy should serve the common good of all of its citizens, not merely the supposed rights of "Too Big To Fail" banks who demand that any losses they incur be made good via "bail-in" procedures, rather than allowing that bank to go bankrupt.

By what right do TBTF banks expect to be allowed to keep their profits when their excessive risks pay off, but to transfer their losses to bank depositors when those risks fail?

As Australian citizen, I demand the following:

1. That TBTF banks be forced to comply with legislation similar to the United States Glass-Steagall Act such that there will be no bail-in of depositors in order to "save the banks".
2. That Australia must separate ordinary commercial banking functions from the speculative activities of "investment banks", as the Glass-Steagall Act did so successfully from 1933 until its repeal in 1999. Commercial banks that serve the interests of the average Australian should be backed by the government, but speculative banks should be allowed to go bankrupt if they become insolvent.
3. That Australia must establish a national bank such as the Commonwealth Bank as it existed in World War II, whereby our government directs credit into the real physical economy of agriculture, manufacturing, and infrastructure projects. This provides for the common good, including employment opportunities for all. To do this will provide a foundation for a system of private commercial banks.

Yours Faithfully,  
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