

Submission to


**Banking System Reform enquiry (2019)**


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I wish to make the following points:

- It is critically important to have an OPEN discussion on this topic.
- It is not easy in the mainstream newsprint to determine the genuine state of the situation in financial sector of this country. No politician appears to genuinely wish to be open and honest on this area.
- **The main point I wish to make is that the major banks of Australia need to be broken up and that Glass-Steagall like legislation (that was introduced into the US in 1932 and provided stability for the next 70 years for the global financial system) be introduced so that we do not have too big to fail banks that have the potential to cause a major financial crisis in Australia.**
- The major issues that lead me to this assessment are the following:
  - The enormous global debt that is currently 2 times what existed at the GFC in 2008.
  - The household debt situation in Australia which is at almost 120% of GDP.
  - The focus of the debt is more than 67% in the housing market and is the basis of the assets of the loan books of the 4 major banks that have a disproportionate weighting on the Australian Stock Exchange.
  - The current decline in the housing market, at a time of high employment and low interest rates, is of major concern to the financial stability of the country.
  - The focus of the banks loans to the (non-productive) housing sector has deprived funds for business development. This has limited encouragement for a knowledge and sophisticated manufacturing based economy. What jobs for the future?
  - This decline in funds for business has led to minimal change in the top 20 companies of the country in the past 2 decades whereas in progressive business countries (eg USA) there has been a major change in the make-up of the top 20 companies.
  - The absence of complexity in the products we export. The latter are dominated by mining and agricultural products even to a greater degree than ever before. Even NZ is well ahead of us in this area.
  - I am extremely concerned by the “bail-in” legislation that was rushed through parliament last year. Also the additional pressure from the IMF to prevent the parliament (treasurer) from having to give the green light for such a process.
  - Another issue is the extent of the derivative market that our banks, and thus our bank deposits along with the government and people of Australia, are exposed to. Breaking up the banks would reduce this risk.
  - Breaking up the banks would largely remove the conflicts of interest within the various parts of the big banks that were so clearly exposed in the royal commission.

Sincerely,

  
Michael V Swain, (Emeritus Professor, The University of Sydney).

  
5<sup>th</sup> March 2019