

Date: Sat 23rd March 2019

To: Senate Standing Committees on Economics

Re: Submission to the Banking System Reform (Separation of Banks) Bill 2019

Dear Committee Members,

I wish to make a submission and make comment on the above Bill that the Senate Committee are currently dealing with.

I am a self funded retired Australian born citizen living in Melbourne, Australia and have been a private investor in predominately the stock and bond markets for approximately 35 years. My early work background commenced in the early 1960's in assisting my parents in running a Newsagency small business for 10 years as I completed my high school and tertiary education in IT at Caulfield Institute of Technology as it was known in those days – now Caulfield Campus of Monash University.

Following that I worked as a Computer Programmer/Analyst in the Victorian State Electricity Commission for 18 years and after that institution was disbanded I worked again in a small business retail franchise as a Tattersalls Agent for another 18 years from which I retired.

My 35 years of investing experience showed me clearly that for any country to build it's wealth and encourage it's citizens to save and invest during their working career, **these citizens MUST have a stable and reliable financial system on which they can depend.**

Once confidence begins to erode on this stability, investors and savers can quite easily, in today's global system, direct their funds where they will be treated more securely and profitably or alternatively they can **not** save and invest at all and simply spend all of their earnings. That is not in the best interests of the country. I certainly believe in the adage "pay yourself first" and invest that portion. Availability of this domestic capital for both governments and private enterprise is essential for the development of a country's economy as well as reducing the need for overseas funding.

The arrival of the Global Financial Crises (GFC) was the catalyst for many of the rules and regulations and orderly markets that had been operating for many decades to be put aside and the solution was to, via TARP and 3 lots of Quantitative Easing (i.e. printing money) in the world's major economies, to "kick the can down the road" with these liquidity injections in the hope that growth would arrive some time in the future.

Anyone worth their salt in the financial industry with economic credentials would be aware that the new growth cycle ahead can't start without a majority of the debt being removed from the previous cycle. To think pumping more debt into the economy "to save it" would bring about a new cycle of growth is simply fanciful. And that is why the world is limping through one of the weakest "recoveries" ever and the law of diminishing returns is now starting to take effect where \$5 of injected liquidity into the system is now needed to create \$1 of GDP growth. QE has run its race and yet we find ourselves with the cash rate still at emergency low levels for the last three years of 1.5% and –

- current accumulated budget debt levels of approx \$600 Billion which has to be funded each year
- An accumulated Current A/c deficit which has just reached the \$1 Trillion mark which also has to be serviced each year
- Household debt to income approaching 200% - Nearly the highest of any country in the world
- Household debt to GDP in excess of 120% and
- An out of control derivatives exposure which all our banks have created and which, possibly, many of our savings and investments could be supporting from a completely unregulated market also approaching \$40 Trillion. (Yes, that's Trillion with a "T"). Any counterparties to these derivatives - from anywhere across the globe - that might get into trouble could see Australia and its banking system in a lot of serious trouble.

Just the interest payment amounts each year at say, 4%, on some of the above figures is now approaching \$70 Billion **per year**. WOW!! Wouldn't that be helpful to be able to inject that into some infrastructure spending on roads, trains, tunnels hospitals etc. Heaven help us if interest rates, because of credit tightening amongst Central Banks which is now occurring, unexpectedly move up higher.

This is the result of what Alan Greenspan's "Irrational Exuberance" statement in the mid 1990's, over 20 years ago, was about and nobody in any regulatory body did anything to address it or bring it under control. Now we are running out of options. I believe that anybody with a sound logical mind and some knowledge of finance and economics would appreciate the severity of what this nation would confront if another crisis like 2008 was to occur. It's been 27 years since Australia experienced a recession and in my own experience I witnessed scores of businesses go to the wall in the early 1990's. At that time, the country's and individuals **debts were no where near what they are today and lending rates had a long way to fall from around 16% at the time to help ease the burden**. That help is no longer with us to assist us through an adjustment period this time. Credit (debt) has simply begun to overwhelm the world's economies and caused demand and consumption to be dragged forward from the future. We have now arrived at that future - thus the drop off in demand.

I believe sitting back and doing nothing or simply repeating already failed solutions (i.e. QE and suppressed interest rates), is no longer good enough and certainly no longer effective. We need to become proactive and implement other more effective and proven measures that will go towards resolving these major hurdles (and have no doubt – they are MAJOR HURDLES) and protect people's savings, wealth and standard of living if a second GFC crises should emerge. If these debts and activities that enable them to continue to grow are not reined in, the younger generation that are yet to enter the workforce will find their standard of living to be lower than what their parents enjoyed. If we open our eyes and look carefully we may even be able to see this occurring now. These debts will most likely be with us for decades to come which hampers both our economic and wages growth and the ability to grow our way out of the situation. Let's hope higher interest rates don't add burden to that challenge.

The adoption of this Glass-Steagall style Separation of Banks Bill to separate the banking activities of Commercial banking from those of Investment banking will go a long way to preventing the re-occurrence of the activities that led us into this position. We all have to finally realize that the period of "Laissez Faire" finance has ended and the party **IS** over, the punchbowl is being removed from the table and the hangover lies ahead. Let's not let it happen again

I also believe that this issue is by far the most important issue that is presently facing this nation. The fact that the press hardly ever mentions, informs or educates the public on this issue is in my mind quite an irresponsible and unprofessional stance to adopt.

If GFC 2.0 was to emerge and it was seen by the public that this legislative opportunity of introducing this **Separation of Banks Bill** was let slide and was passed over, the public reaction could be very unsettling and socially disruptive especially if many people, at the same, time had their assets caught up in the Bail-In legislation that is also now in vogue despite denials that it is no longer active.

Let it be quite clear that if GFC 2.0 was to arrive, and many pundits are seriously considering it, confidence would take a tremendous hit and very possibly enter an extended period of negative GDP with further falling property and asset values.

What the outworkings of the derivatives market might deliver is anybody's guess – I'm sure nobody really fully understands it. It's scary to even think about it.

The people of our nation don't need their future burdened with this anxiety and stress so let's take out some risk insurance now and ensure this Bill is debated and seriously considered. Other countries have adopted it – maybe we need to join them.

Thank you for providing the opportunity for the public to have their thoughts and comments included in this important discussion.

