

## Submission to Competition within the Australian banking sector Inquiry

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This brief submission will concentrate on the impact of banking competition on the Australian housing market because, after all, this is the prime motivation for the conduct of this inquiry. And contrary to what is frequently said, the issues are relatively straightforward and can be illustrated concisely.

The suggestion that there is not enough competition is ludicrous in light of what has occurred in our housing market over the last decade, very much including the last 3 years.

If we do not have enough competition, then how come banks provided enough credit to cause our capital city house prices to surge nearly 20% in the year to March 2010 according to the Australian government statistician?

WE ALL KNOW THE TRUTH, that what really is motivating current efforts is not concern about competition in banking - it is that our house price bubble has reached such proportions that even relatively low interest rates is ramping up political pressure to add even more moral hazard to the system to delay its bust.

Regrettably for the Australian public, our political fraternity wishes to concentrate on the symptoms - trying to be seen to be doing something about mortgage stress - rather than treating the disease which is a banking system, and in fact an economy and successive State and Federal Governments, that has become heavily dependent on a very dangerous housing bubble.

This is incredibly cynical because it ignores all of the pain of the many Australians that have already been incredibly hurt by the housing bubble, the Australians squeezed by the rental affordability crisis, many of whom have lived on the brink of homelessness for years now.

And the reason that the political fraternity will not admit to this is because it had a major hand in its genesis. The following formula, with the catalyst of bank deregulation and abundant cheap credit especially from foreign sources, had a very obvious outcome.

negative gearing

+

CGT concessions

+

First home owners grant

+

temporary doubling of first home owners grant

+  
leveraged purchase by SMSFs  
+  
State government distortions (e.g. duty concessions for first home buyers)  
+  
First Home Owners Boost (doubling and trebling of the FHOG)  
+  
(in some states) additional State Government grants to first home buyers  
+  
Government purchases of RMBS (via the AOFM) - the very cause of the US subprime crisis  
  
=

## MASSIVE HOUSING BUBBLE

The real problems in the banking sector lie in their conflicts of interest. Recently we had the situation where the CEO of our biggest bank - the Commonwealth Bank - went on a world tour to meet with foreign investors concerned about our housing bubble. Mr Norris attempted to allay their fears by saying that there will not be a sharp correction in Australian house prices as long as there is no strong response to add additional housing, whilst he suggested at the same time that we had a major shortage of housing and actually needed that housing (and that has been argued also by Government.) Of course, the banks are the major providers of capital to the development industry so they can be relatively certain that there will be no supply side response if they so choose.

Again, honestly how cynical is that for good Australian families that have been squeezed for so long by the housing affordability crisis?

Another potential conflict of interest that requires examination is the role of the Banks' wealth management arms in property investing, and potential for conflicts and even illegal behaviours with respect to the their mortgage lending businesses.

### Suggested ways to move forward

1. Admit that Australia has a housing bubble and seek to deal with it immediately (e.g. by consulting Prof. Steve Keen who, as I understand it, advocates debt forgiveness - with measures to manage moral hazard - while introducing measures to prevent future speculation on our homes and which return home prices relative to incomes to levels which have historically been considered fair by the Australian people and which will flow through to lower rents),
2. Hold a thorough inquiry into the banks, and as a part of the terms of reference look into the conflicts of interests held by banks with respect to our housing markets, and
3. Above all else, begin to work honestly for the good of the Australian people over the

long term. We need to think progressively about how in our democracy we can re-incentivise our politicians, and thus the apparatus of Government, to genuinely act in the long term national interest and remove our political system from the iron grip of wealthy and powerful vested interests.