

Economic Reform Australia Inc
For a Just and Sustainable Society
PO Box 505, Modbury, SA 5092

Monday 25 August, 2014

The Chairman
Inquiry into the Australian Financial System

Dear FSI chairman,

Economic Reform Australia is responding to the second call for submissions in regard to the Inquiry into the Australian Financial System. There are several aspects of modern banking operations which concern our association, and these concerns include those listed below:

1. The "too-big-to-be-allowed-to fail" aspect of modern banking is well recognised by well informed economic opinion to constitute a threat to democratic institutions and good government. We share this view.
2. We regard the "bail in" proposals which are currently being lobbied for by powerful banking interests as an unacceptable practice and breach of trust for depositors, who expect security for their deposited money. If governments were ever foolish enough to allow banks the privilege of either commandeering or directly lending out any part of their retail customers' deposits (especially transaction deposits), then they would (a) expose the banking system to great additional risk and eventual collapse, and (b) ensure abandonment of the conventional banking system by the public in droves, with the strong likelihood of alternative depository systems being set up. In other words, we would lose the banking system, as the public currently understands it.
3. It is important for the sake of financial stability to maintain a firm demarcation between retail banking operations and investment banking practices. And although we support the reasoning which underpins recent proposals for 'ring-fencing' of the trading operations of banks from their retail banking operations we prefer to go further than this. Simple ring fencing allows inventive financial manipulations under the cover of the financial institution's operations. Thus regulatory oversight would be limited to the capability of the regulators and their capacity for oversight - i.e. their ability to access all relevant information, which in reality is not possible. It is much better to fully separate the two functions, along the lines of the Glass-Steagall legislation.
4. We also believe that it would also be in the interests of greater financial stability to oblige banks to hold a greater amount of regulatory capital - in relation to their risk-weighted assets - than is allowed for under the current BIS arrangements.

Yours Sincerely,

John Hermann

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