

GLASS-STEAGALL NOW!



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Coburg Vic 3058
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First Printing: November 2013
Second Printing: February 2014

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Printed by Ego Print Mt Waverley Victoria

Cover and typesetting: Glen Isherwood

Citizens Electoral Council of Australia

CEC Australia is a national political party, established in 1988 in Queensland. In the early 1990s, the CEC became closely associated with the LaRouche organisation in the U.S., based upon physical economist Lyndon LaRouche's concepts of achieving peace and national sovereignty through economic development, both for Australia, and for all regions of the world.

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Letter of Transmittal

Dear Fellow Citizen,
The world today, and our nation along with it, faces an existential choice: either nation-states decide to scrap the entire City of London/Wall Street “globalist” dictatorship of privatisation, deregulation, and free trade which has increasingly brutalised mankind since the end of the Bretton Woods fixed exchange rate system in August 1971, or, the entire world will soon plunge into a crisis which will dwarf the GFC of 2007-08. My friend and associate, the American physical economist and statesman Lyndon H. LaRouche, Jr. has long warned of this reality, and even leading spokesmen for the City of London and Wall Street-centred financial oligarchy have recently chimed in to the same effect.

But do you really need experts to tell you this? Just look at the global trade in derivatives—the speculative instruments concocted out of hot air and statistical hocus-pocus which lay at the heart of the 2007-08 GFC. Their total now stands at an estimated \$1.5 quadrillion, 21 times the world’s GDP. This is a bubble, and therefore identical in essence to all bubbles, which survive only by expanding exponentially. Classic examples include the tulip bubble of the early 17th century when a single tulip commanded the equivalent of \$17,000 before the bubble burst; or the legendary early 18th century South Sea and Mississippi bubbles of England and France respectively; or of the London and Wall Street bubbles of the early 20th century which burst in 1929. There is one difference, of course: the present bubble is far, far larger than any of its predecessors, and encompasses almost the entire globe. Do you really think that there is any way that this present bubble will not pop?

Therefore, the pamphlet you now hold in your hands was written as a battle manual. It provides you with the essential background to more fully understand this crisis, including a snapshot of how the City of London and Wall Street intend to survive at the expense of the rest of us. But, more importantly, it provides you with a summary of the weapons you need to defeat this oligarchy: the principle of Glass-Steagall legislation to separate the speculative, derivatives-laden Too Big To Fail (TBTF) banks (including our Big Four) from normal commercial banking, and the outline of legislation to establish a new National Bank dedicated to the Common Good, in the footsteps of King O’Malley’s original Commonwealth Bank.

As we prove herein, Australia’s Big Four are nothing but local branch offices of London and Wall Street’s TBTF behemoths. They are therefore doing exactly what their masters tell them. This includes staging the new Financial System Inquiry (FSI), whose expressed intent is to further deregulate Australia’s financial system in order to allow still more speculation and the creation of a still larger bubble—all in the hope of postponing the crisis by a few more weeks or months, and in the meantime strengthening the financial oligarchy’s control over whatever is left of Australia when it hits. Treasurer Joe Hockey’s choice of David Murray to head the FSI bespeaks its intent: Murray headed the Commonwealth Bank from 1992-2005 when its derivatives exploded from \$166 bil-

lion to \$894 billion, and is an opponent of Glass-Steagall. Further deregulating Australia’s financial system along the trajectory established by Hawke and Keating following the Campbell/Martin Committees of the early 1980s, will allow a new round of looting of whatever is left of Australia’s agro-industrial physical economy and of Australian citizens themselves. Typical is the new mortgage bubble which Hockey et al. are now creating, on top of the decades-long bubble unleashed by Campbell/Martin almost three decades ago. That bubble is why the ratio of Australian household debt to disposable income is now either the highest in the world or very close to it. A central purpose of the FSI, as noted even in the media, is to figure out more ways to “fund the banks”. But since the banks lend overwhelmingly into the property market, that will only pump more air into what is often already described as “the worst mortgage bubble in the world.”

The real intent of the FSI—to further loot the population to the benefit of the Big Four and their owners in London and Wall Street—is also evident in the FSI’s de facto sibling, the National Commission of Audit, whose announced purpose is to slash any and all government spending at the expense of the general welfare of average Australians.

So here is the choice for members of the Australian Parliament and for Australian citizens in general: Will you submit to another, even more vicious round of looting for the benefit of the City of London and Wall Street and their local appendages in the Big Four, enforced by the brutal austerity and ultimately police-state measures that inevitably come with that, as in the 1930s? (Just look again at the draconian “Anti-Terror” laws passed by Howard in 2002-03.) Or, will you demand that the sole focus of any new FSI must be to enact Glass-Steagall banking legislation for Australia, and to establish a new National Bank?

Only so can we re-establish national sovereignty, revive our agro-industrial base, and provide for the general welfare of all Australians. That is the challenge now before you, and before your conscience. This pamphlet arms you with the weapons you need.

Sincerely,



Craig Isherwood
National Secretary
Citizens Electoral Council
15 January 2014



1. Stop the Bail-In/Bail-Out Plot against Australians

On 3 June 2013 an article appeared in the *Australian Financial Review* under the title, “Shareholders, creditors must pay if banks fail: BIS”. Little noticed by most, the article contained the ominous assertion that the Swiss-based Bank for International Settlements has proposed that “faltering ‘too big to fail’ banks, such as Australia’s big four lenders in the event of a crisis, be wound up over a weekend and their assets carved up and sold, so shareholders and creditors—not taxpayers—incurred losses. ... Under the BIS plan, shareholders and creditors whose claims were ranked below other bond holders in the failing bank’s capital structure would bear the brunt of the losses” (Fig. 1). That rang alarm bells at the Citizens Electoral Council. A short but intensive investigation developed voluminous proof that legislation for a “bail-in” was indeed being prepared for Australia, just as the Financial Stability Board (FSB) had stated (Fig. 2). By July the CEC had launched an extensive mobilisation to expose this plot, to stop it in its tracks, and to instead initiate a great national debate on the necessity for Australia to enact legislation for a Glass-Steagall bank separation and for a National Bank. One feature of this mobilisation was the full-page advertisement which appeared in *The Australian* on 3 December,

“Don’t seize our bank accounts—pass Glass-Steagall!” (page 20), which followed on the heels of the CEC’s petition for Glass-Steagall (page 19), tabled in the Parliament on 3 June. (The content, history, and current status of Glass-Steagall banking laws are set forth in Chapters 5 and 6.)

Bombarded with queries from local councillors, MPs and others whether bail-in were indeed being prepared, the Abbott government and Treasurer Joe Hockey in particular, assured everyone that “no such legislation was being contemplated.” But the bail-in plotters were once again caught with their pants down on 14 November when an article appeared in *The Australian*, “S&P warns of ‘bail-in’ dangers for lenders” (Fig. 3), which followed one on 6 September in the same paper, “Moody’s fulfils vow to downgrade bank debt” (Fig. 4). Both confirmed in spades, that the bail-in plot was “live”.

The Australian journalist Michael Bennet made clear that rating agencies like Standard & Poor’s consider bail-in so likely to be implemented in Australia, that they have plans to downgrade the debt rating of the country’s Big Four banks because of it. In the September article, Bennet reported that Moody’s had already downgraded the Big Four’s subordinated debt for the same reason.



Fig. 1

The argument goes, that lenders and depositors would be so afraid of their funds being seized in a crisis, for bail-in purposes, that they would not lend to or make deposits in these banks in the first place. Bennet wrote in November, "The credit ratings of the big four banks and Macquarie Bank could come under pressure if creditors were at risk of taking losses after being 'bailed in' following banking collapses, Standard & Poor's has warned."

Bennet confirmed that the bail-in policy that the ratings agencies anticipated would be applied in Australia, is the same policy of seizing deposits to prop up banks that was imposed on Cyprus in March: "In Cyprus, uninsured depositors were this year 'bailed in' as part of a recapitalisation of the nation's biggest banks."

The confirmation that the global bail-in plot is a live issue for Australia should catch the attention of every citizen. Not because we should be overly concerned about what ratings the international agencies hand out to the Big Four, but because the bail-in powers put every business and household in the country in jeopardy of having their funds seized to prop up those big banks. Bail-in is not the solution we need! What we need, as this pamphlet outlines, is Glass-Steagall banking separation, which will secure and protect normal banking functions against derivatives speculation. And then we must establish a National Bank.

Fig. 2

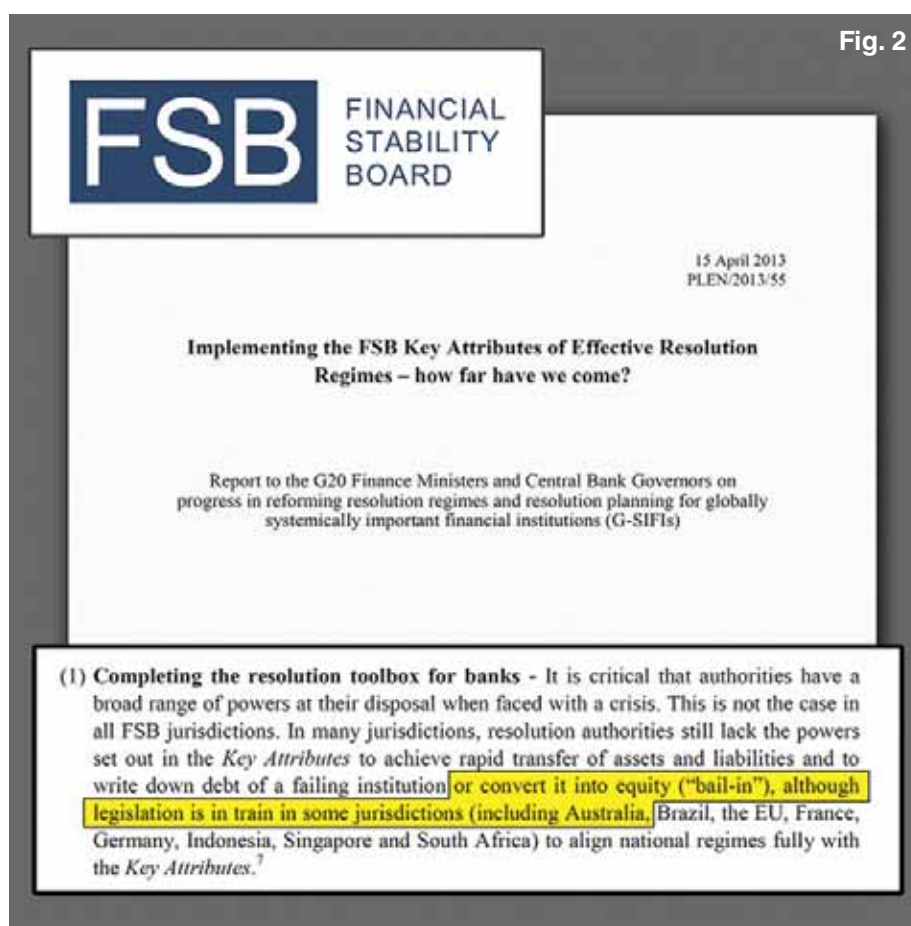


Fig. 3



Fig. 4



2. Joe Hockey: Flunky for London and Wall Street

Joe Hockey has bragged that he has been calling for a “root and branch” inquiry into Australia’s financial system since 2010. His intent behind what he has called a “granddaughter of Campbell” or a “son of Wallis” inquiry, is to fully consolidate control over Australia’s finances by his masters in the City of London and Wall Street; to seize Australians’ bank deposits; to ruthlessly cut their living standards; and to sweep aside any traditions of “democracy” which get in the way.

Let us look at the evidence for these charges, much of which comes right out of Hockey’s own mouth. First of all, as chairman of the G20 group of finance ministers as of 1 December 2013, he has publicly committed to implementing the G20 financial agenda. This was designed by the Swiss-based Bank for International Settlements (BIS), the notorious “central bank of central banks”, and features the “bail-in” seizure of individual bank deposits. The BIS was founded by the Bank of England (BoE) in 1930 and played a crucial role in financing Hitler’s regime throughout the 1930s and 1940s, as leading financiers of the Gestapo and SS sat on the BIS’s governing board. The BIS’s Financial Stability Board (FSB) is today chaired by BoE head Mark Carney, and it is the FSB which is leading the charge internationally for “bail-in” in order to save London and Wall Street’s Too Big To Fail banks. In a 24 October 2013 speech entitled “The UK at the heart of a renewed globalisation”, Carney noted that “At the St. Petersburg summit in September, G20 leaders mandated the FSB to develop these proposals [for BIS dictatorship over the world financial system, and for bail-in legislation to be passed in every G20 country]. The BoE is now working intensively with other authorities and the financial industry [i.e. London and Wall Street]. Our aim is to complete the job by the next G20 Summit in Brisbane.”

And the man charged with enforcing all this is Joe Hockey, chairman of the G20’s finance ministers.

These measures constitute a literal dictatorship over sovereign nation-states by the City of London and Wall Street, and if this dictatorship requires a return to the actual fascism of the 1930s to enforce its diktats, these bankers say, so be it. Besides the BoE and the BIS, no one better exemplifies this tradition than JPMorgan Chase, heir to the JPMorgan bank

which financed an attempted coup against President Franklin Delano Roosevelt, when he was reining in Wall Street in the 1930s via Glass-Steagall and other measures.

Joe Hockey gave his first foreign address as Treasurer, at JPMorgan Chase in New York City, on 15 October 2013 under the title “Open for Business”, parroting the five-word mantra most strongly associated with BoE Governor Mark Carney in connection with Britain and the City of London: “We are open for business.” On 28 May, some months before Hockey’s appearance at JPMorgan Chase, the bank had issued a report entitled “The Euro Area Adjustment: About Halfway There”. There it argued that the main obstacle to consolidating a BoE/European Central Bank (ECB) dictatorship over the countries of the European Union was the existence of anti-fascist constitutions which had been adopted in Europe following World War II, in particular the “national legacy” guarantees of a decent standard of living, guaranteed pensions, affordable healthcare, etc. After bemoaning these expensive “national legacy” problems, the report continued, “In the early days of the crisis, it was

The American Australian Association
is pleased to present a

Welcome Lunch for
The Hon Joe Hockey MP
Treasurer of the Commonwealth of Australia



TUESDAY, 15 OCTOBER 2013
12 noon - 12:30pm - Registration & Refreshments
12:30 - 2:00 pm - Lunch and Address

Mr. Hockey’s lunch address will be his first major speech in the United States since being sworn in as Treasurer on 18 September 2013. The inaugural address will outline Australia’s economic prospects and highlight the policy priorities of the new Abbott Coalition Government.

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New York, NY

thought that these national legacy problems were largely economic But, over time it has become clear that there are also national legacy problems of a political nature. The constitutions and political settlements in the southern periphery [Spain, Portugal, Italy, Greece], put in place in the aftermath of the fall of fascism, have a number of features which appear to be unsuited to further integration in the region" (i.e. to the consolidation of a London/ECB dictatorship).

The report then specified the particular problems embodied by the "Constitutions ... gained after the defeat of fascism", which must now be eliminated: "Political systems around the periphery typically display several of the following features: weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus building systems which foster political clientalism; and the right to protest if unwelcome changes are made to the political status quo."

A BIS study around the same time echoed those same themes. Now shift to the Institute of Economic Affairs (IEA) in London on 17 April 2012. The featured speaker is Joe Hockey, and his theme is "The End of the Age of Entitlement". The IEA first achieved notoriety in the 1970s as the author of Margaret Thatcher's brutal privatisation/deregulation/union-busting agenda, the leading world think tank arguing for dismantling the nation-state in favour of "freedom of the marketplace". Its key ideologue for many years was the pro-fascist Austrian nobleman Friedrich von Hayek. The IEA's progeny in Australia such as the Centre for Independent Studies (CIS), the Institute of Public Affairs (IPA), and the HR Nicholls Society spearheaded the same anti-state crusade here beginning in the 1980s. Indeed, upon the election of the Abbott government, Hockey gave his first public address at the CIS in Sydney.

That day in 2012 in London, Hockey took the lectern to proclaim his full solidarity with the IEA's pro-fascist philosophy. By the "entitlements" featured in the title of his speech, Hockey explained that he meant government spending on "education, health, housing, subsidised transport, social safety nets and

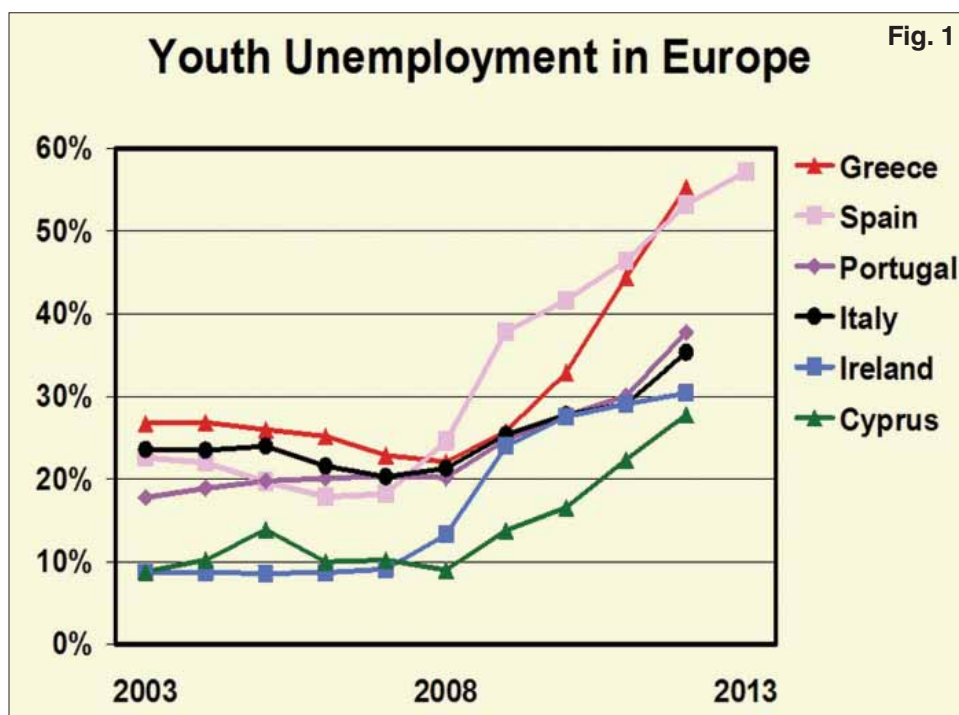
retirement benefits". These, he said, must be cut back ruthlessly; but, he also noted, "As we have already witnessed, it is not popular to take entitlements away from millions of voters in countries with frequent elections." Nonetheless it must be done, because "entitlement is a concept that corrodes the very heart of the free enterprise that drives our economies."

Hockey's solution? A strong government that can resist democratic pressures: "A weak government tends to give its citizens everything they wish for. A strong government has the will to say NO!"

Except it's not the government that's strong, it's the multinational bankers whose lending to governments Hockey believes entitles them to dictate government policy:

"In today's global financial system it is the financial markets, both domestic and international, which impose fiscal discipline on countries", Hockey said. "Lenders have a more active role to play in *policing public policy* and ensuring that countries do not exceed their capacity to service and repay debt. This is playing out most dramatically in Europe where the European Commission and the European Central Bank are either directly or indirectly heavily influencing public policy in Greece, Italy, Spain and Portugal to name a few." (Emphasis added.)

In each of these countries where Hockey cites approvingly the role of the EC and ECB, unemployment has soared, particularly among youth (**Fig. 1**), as have hunger, suicides, and business and personal bankruptcies, while the provision of health care is being slashed and people are being forced out of their homes because they can no longer pay the rent or mortgage.



This is what Hockey intends to bring to Australia. Note the phase shift up from the 2008 GFC.

Hockey is obviously aware of that, and of the unrest which goes with it: "It is likely to result in a lowering of the standard of living for whole societies as they learn to live within their means. ... Already in the U.K. and parts of Europe we have seen the social unrest that can result when fiscal austerity bites. But the alternative is unthinkable. *Adam Smith's free hand is perfectly capable of forming a fist to punish nations who ignore the fundamental rules.*" (Emphasis added.)

Now is this the same Joe Hockey who is presently crusading to build a lot of new infrastructure, which is certainly expensive, and might well fall under the heading of "national legacy" or "entitlements"? The contradiction is only apparent. While demanding that the Federal and state governments pawn off whatever infrastructure they have left, Hockey intends not so much to build new infrastructure, as to launch a financial bubble, Macquarie-style, on whatever little public-private partnership (PPP) infrastructure does happen to get built. (Macquarie has long been one of the world's most notorious derivatives traders.) It is lawful, therefore, that the man Hockey chose to oversee the Financial System Inquiry, Future Fund chairman and ex-CBA boss David Murray, also happens to be a close collaborator of leading elements of the financial oligarchy grouped in the Europe-based Long Term Investors' Club (LTIC), whose 20 or so state savings banks and sovereign wealth funds hold an estimated \$4.5 trillion among them. The LTIC's agenda has little to do with actually building infrastructure, but a great deal to do with lobbying to change the regulations, tax laws and other obstacles which presently stand in the way of freeing up the \$93 trillion in super funds, insurance companies and sovereign wealth funds, which can then be poured into "project bonds" and other financial instruments to be floated in the name of "infrastructure"—invariably "user-pays", PPP-style looting à la Macquarie.

Pope Francis vs. Joe Hockey on Christian Morality

Joe Hockey is alleged to be a Catholic, one who even speaks out from time to time on radio or TV about God and the importance of religions for maintaining human values. But compare what Hockey had to say at the IEA about the "financial markets imposing discipline on countries", in "policing public policy", and on the need to end entitlements and democracy be damned, with Pope Francis' first encyclical, *Evangelii Gaudium*. In this 224-page document, the Pope calls upon financial experts and political leaders from around the world to bring about a financial reform which defends the common good, and replaces the tyranny of a "survival of the fittest, where the powerful feed upon the powerless", where

"the ancient golden calf is worshipped", and where human beings are "considered consumer goods to be used and then discarded" (Appendix C, page 61).

In diametric opposition to Hockey and his masters, the Pope admonishes that "it is the responsibility of the State to safeguard and promote the common good of society."

He writes: "The worship of the ancient golden calf (cf. Exodus 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human purpose. ...

"This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules. ...

"A financial reform open to such ethical considerations would require a vigorous change of approach on the part of political leaders. I urge them to face this challenge with determination and an eye to the future Money must serve, not rule!"

Pope Francis also specifies that welfare measures, while needed, are not sufficient, but that changes must be structural and far-reaching: "Just as goodness tends to spread, the toleration of evil, which is injustice, tends to expand its baneful influence ... an evil embedded in the structures of a society has a constant potential for disintegration and death. It is evil crystallised in unjust social structures, which cannot be the basis of hope for a better future. ...

"As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation, and by attacking the structural causes of inequality, no solution will be found for the world's problems, or, for that matter, to any problems. Inequality is the root of social ills.

"*The dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies.*" (Emphasis added.)

As we demonstrate in this pamphlet, the centrepiece of the ruthless financial system which the Pope so powerfully attacked, and to which Hockey is fanatically committed, is the trade in *derivatives*. Does Joe Hockey himself, perchance, have any personal connection to derivatives? Well, you could say it's a family affair.

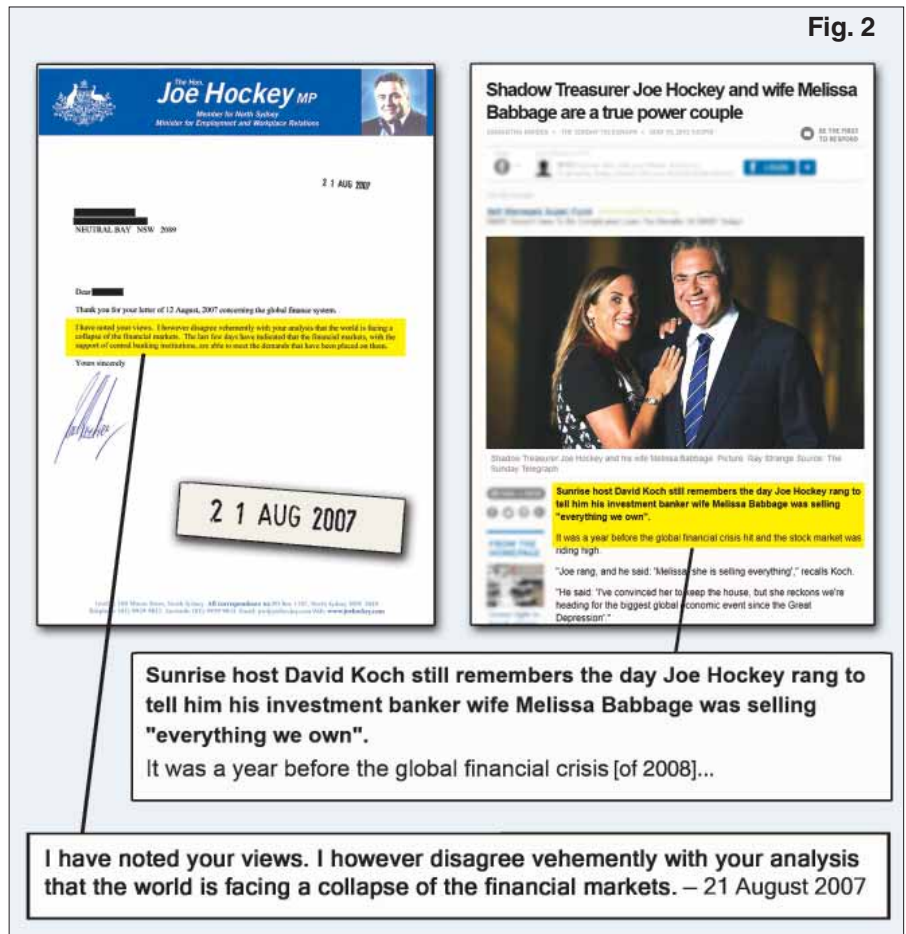
It just so happened that on the eve of the GFC, his wife Melissa Babbage was a top derivatives specialist for Deutsche Bank, the world's largest derivatives trader, as their Head of Global Finance and Foreign Exchange for Australia and New Zealand. With insider

knowledge that a crash was coming, she sold all the family investments except their house, *even as her husband simultaneously assured his constituents and others that there was definitely no international financial crisis on the way* (Fig. 2).

Joe himself, it turns out, has also had his fingers in the derivatives pie. He was a financial lawyer with Corrs Chambers Westgarth where he worked on the privatisations of the State Bank of NSW and the Government Insurance Office, and also handled the securitisation of David Jones' credit-card business (i.e. constructed derivatives upon credit card debt) in company with later Australian Securities & Investments Commission (ASIC) chief Greg Medcraft. And when Wayne Swan introduced and oversaw the passage of legislation for covered bonds in 2011, Hockey bragged, "I originally proposed this initiative in October 2010 as part of my nine point plan for banking reform". "Covered bonds" are a form of mortgage-backed securities, the same kind

of derivatives which unleashed the 2007-08 GFC. And despite the *Banking Act 1959* enshrining "depositor preference" in case of bank failure, these new covered bonds are placed ahead of repaying depositors.

Fig. 2



(Advertisement)

The world is now on the verge of a financial crash far greater than that of the 1930s Depression. When it hits, there will be only one question on the table: who will eat the hundreds of trillions of dollars of bad debt? Will it be the general population, through unimaginable cuts in their living standards, health care and education, or will it be the global financial oligarchy, whose policies have caused this crash? Living standards have already been slashed through "IMF conditionalities", economic rationalism and globalisation; far, far worse is still to come if the oligarchy succeeds.

This extraordinary, 68-page 2004 issue of *The New Citizen* documents how British-backed financiers and corporate leaders in Australia in the 1930s created mass fascist armies to enforce their policies of brutal austerity and private control over national finances. After World War II that same elite (the "Synarchy") kept pushing those policies—revamped since the Hawke/Keating era as privatisation, deregulation, and globalisation.

Available from the CEC, PO Box 376 Coburg VIC 3058. Cost: \$10 (postage/handling included). Ph: 1800 636 432

3. Without Glass-Steagall, Australia's Banks Will Crash

Derivatives—the Deadly Cancer of the Financial System

Australia's banks are riddled with derivatives. Australian bank deposits—their obligations to their customers—currently total \$1.64 trillion. But the same banks have another obligation that is about 14 times larger—derivatives. The total amount of off-balance-sheet derivatives contracts that Australia's banks are locked into is \$23 trillion (Fig. 1).

What Are These Derivatives?

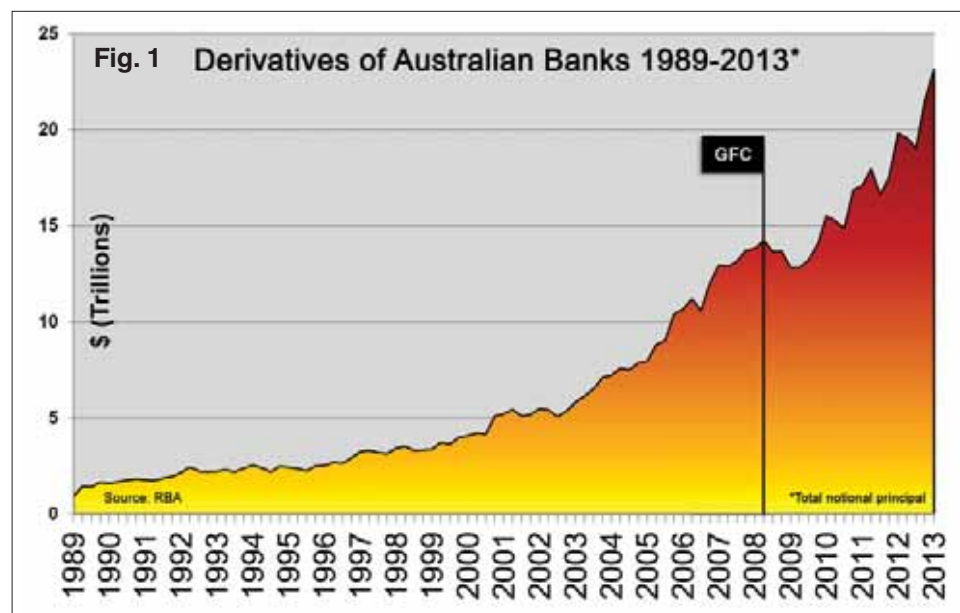
The standard definition is “a financial instrument whose value is linked to, or derived from, some other security”, such as a commodity, stock or bond. The most basic forms of derivatives are options and forwards (futures). An option is the *right* to buy or sell something in the future; a forward is the *obligation* to buy or sell something in the future. All more complex derivatives are a combination of forwards and options.

Derivatives, therefore, involve no real product changing hands. From a technical standpoint, they are nothing but gambling side-bets in the financial markets. But in reality, they are instruments of calculated fraud, wielded to loot an unsuspecting population of their livelihoods. Though very few people actually deal in derivatives, since the early 1980s virtually everyone has become intimately involved with them, because their banks, their superannuation funds, and their insurance companies are, and because derivative speculation has unleashed skyrocketing prices for electricity, food and fuel.

Derivatives have starved the physical economy of the investment in manufacturing, agriculture, infrastructure and other tangible wealth which allow growth in the size of the population, and an increase in its living standards.

In *Tax Derivatives Speculation*, a pamphlet which his movement issued already back in 1993, American economist Lyndon LaRouche summed up the reality: “Derivatives are an investment in something for which there is really no security, which takes wealth—money in the form of wealth—out of the productive and trading process, and never puts anything back in. What we have, is the prospect of a derivatives bubble which grows like a cancer at the expense of its host, and shrinks its host, at the same time that its appetite is growing, while the means of satisfying that appetite are collapsing. Not a very sound investment.” Shortly afterwards, LaRouche developed his famous “Triple Curve” pedagogy to explain the process of the destruction of the physical economy by financial speculation, and why that process must explode at some point (Fig. 2).

Derivatives were a minor part of the financial system prior to the 1987 stock market crash, the worst in history until that point. Mostly, these derivatives were futures contracts traded in such places as the Chicago Mercantile Exchange and the Chicago Board of Trade, originally on commodities, and then, following the 1971 collapse of the Bretton Woods system of fixed exchange rates, and the ensuing global push for deregulation,



Australian banks' exposure to toxic derivatives gambling increased rapidly until the 2008 global derivatives meltdown. After that hiccup, their exposure took off at an even faster pace, hitting \$23 trillion as of June 2013.

futures trading started on currencies, interest rates, and government bonds.

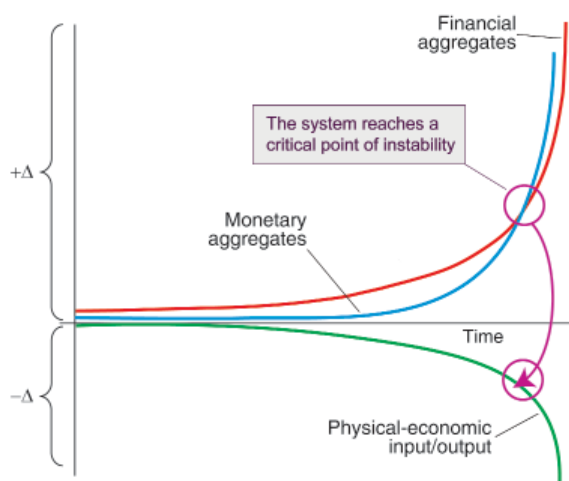
But following that 1987 stock market crash, incoming U.S. Federal Reserve chairman Alan Greenspan supervised a shift in the trade of derivatives away from exchange-traded futures and options, to wilder, riskier “over-the-counter” (OTC) products, typically conducted privately between one bank and another. From this beginning, OTC derivatives trading has rapidly grown into an enormous bubble, as LaRouche had forecast (Fig. 3).

The Derivatives Experience

In 1997 a former derivatives salesman for Bankers Trust and Morgan Stanley, Frank Partnoy, wrote a book on his personal experience selling derivatives from 1993-95, *F.I.A.S.C.O.: Blood in the Water on Wall Street*. At the time, hardly anyone outside the inner sanctums of the City of London and Wall Street knew anything about derivatives. Partnoy confirmed, from his privileged vantage point, everything LaRouche had charged several years earlier about derivatives being used to loot unsuspecting individuals, institutions and the physical economy in general. Partnoy’s key revelations:

- **Derivatives trading banks overtly encouraged a vicious, primal trading culture.** The banks recruited head traders from military backgrounds, the better to inject a killer-instinct into trading

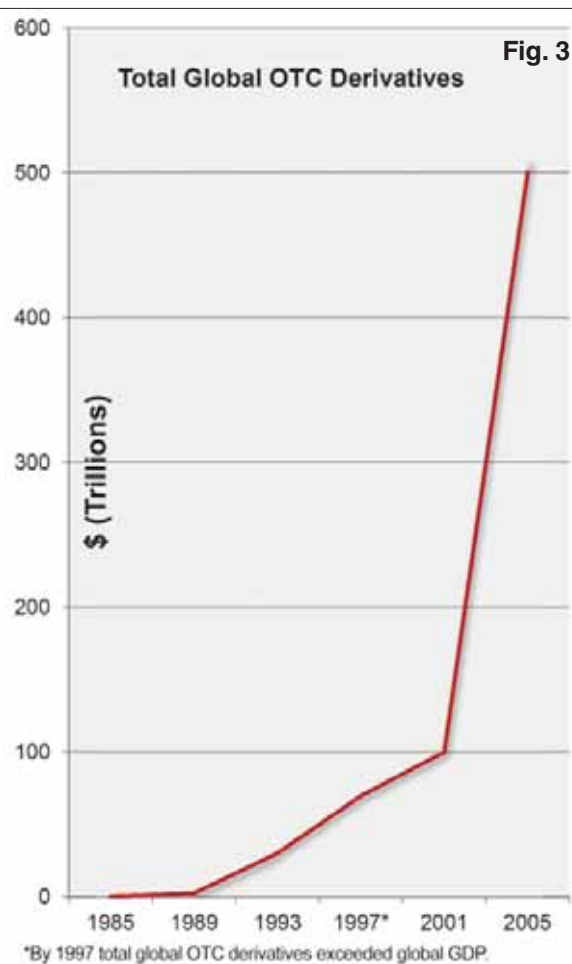
Fig. 2 Lyndon LaRouche’s Triple Curve Function



LaRouche developed this “Triple Curve” pedagogy in 1995, to illustrate the process of the destruction of the physical economy under a non-Glass-Steagall, speculative financial system. The curves are not separate, but are one function, in which the system is heading toward a discontinuity, a crash. The explosion of “financial aggregates” is typified by derivatives. “Monetary aggregates” include the hyperinflationary money-printing by central banks trying to prop up the derivatives bubble. The expansion of these two aggregates collapse the physical economy at an accelerating rate.

rooms. Morgan Stanley CEO John Mack ordered his traders to take advantage of the bank’s own clients who were losing massively by buying derivatives of which they had no hope of understanding. Mack exhorted his minions: “There’s blood in the water. Let’s go kill someone.” The standard jargon of derivatives traders for earning a huge commission from a client who lost a lot of money, was “I ripped his face off”.

- **Derivatives traders targeted fund managers.** The easiest targets for banks to sell derivatives to, and the source of most of the massive growth in derivatives deals, is the managers of pension funds, superannuation funds, insurance funds, municipal funds etc. The fund managers are betting other people’s money, mostly have no idea what they are buying, and in all likelihood get a kickback, while the bank siphons off massive commissions. The derivatives are structured so as to evade regulations intended to ensure that all investments are reasonable, and basically safe.

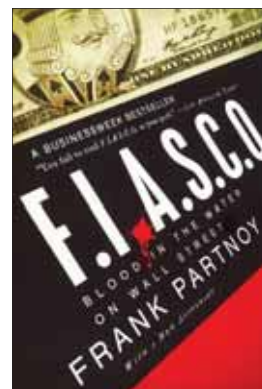


The biggest bubble in history: global OTC derivatives have grown exponentially, from virtually zero in 1987. The BIS claims it reached \$650 trillion in 2008, and has stayed around that mark, but other analysts insist it is now more than \$1.5 quadrillion (\$1,500 trillion). Source: BIS

- **Derivatives are designed to hide losses, and make losses appear as profits.** Partnoy explains Morgan Stanley's legendary MX missile derivative, which it sold to Japanese banks in 1995 to enable them to hide their massive losses arising from the February 1995 bankruptcy of Barings Bank, caused by derivatives. Partnoy simplifies the highly complex MX derivative through an analogy with a bucket of gold.

Say you own a bucket of gold worth \$100. But only half of the gold is real, and that is worth \$90. The other half is fool's gold, worth only \$10. If you sold the real half for \$90, you would break even, and make no profit. However, you can use accounting trickery to conjure up a profit by averaging the value of the two halves of the bucket, so both halves are valued at \$50. Then, by selling the real half for \$90, you can claim a \$40 profit. You can get away with this fraud, as long as you don't sell the other half of the bucket, for which you'll only get \$10, and will therefore have to record a \$40 loss, which will cancel out the profit. These fool's gold half-buckets can and regularly are parked for years either on the bank's books, or more likely off-balance-sheet inside accounting tricks known as "special purpose vehicles". This enables the banks to hide losses indefinitely, even as they declare huge profits year after year after year.

Frank Partnoy's 1997 book, *F.I.A.S.C.O.*, should have triggered a crackdown on derivatives that would have averted the 2008 crisis, but U.S. Federal Reserve chief Alan Greenspan (formerly of JPMorgan Chase) intervened to protect the racket.



Australian Bank Derivatives

Following the 1987 crash, Australia's banks, like the rest of the world, moved into OTC derivatives in a big way. This move coincided with a crisis in the three big private banks—NAB, ANZ, and Westpac. According to then Treasurer Paul Keating, all three had been virtually wiped out in the speculative frenzy of the mid- to late-1980s, which was unleashed by the Campbell/Martin Committees' deregulation of the financial system (page 67-72), and would have collapsed had the Treasury and Reserve Bank not propped them up behind the scenes.

By March 1993, Australian banks' total derivatives obligations totalled \$2 trillion, six times Australia's GDP. Concern was growing in the country about this rapidly-expanding bubble, and according to a

Case Study 1. Enron

Enron is a perfect case study in derivatives, involving witting criminal fraud, and high-level political corruption, the latter a typical feature of the derivatives business. Enron started in 1985 as an energy company, owning natural gas and electricity assets. But by the time of its spectacular bankruptcy in 2001, it had transformed itself into primarily a derivatives trader. This shift was enabled by the chairperson of the U.S. Commodity Futures Trading Commission (CFTC), Wendy Gramm, whose final act as CFTC chair at the end of her six-year term (1987-93) was to exempt over-the-counter derivatives, including Enron's particular energy trading derivatives, from regulation. Within weeks, the shameless Gramm joined Enron's board, and even sat on its Audit Committee as Enron expanded its derivatives on all fronts, on electricity, natural gas, weather, and even internet

bandwidth. By 1999, Enron declared earnings that were split roughly half and half between physically delivering electricity and natural gas, and trading derivatives, around \$20 billion from each. That year, Wendy Gramm's husband, Texas Senator Phil Gramm, sponsored the *Gramm-Leach-Bliley Act* through Congress, which repealed the 66-year old *Glass-Steagall Act* that separated commercial banking from speculative investment banking. A year later in 2000, Enron claimed a massive increase in revenue from derivatives trading, of \$80 billion. But less than a year after that, Enron collapsed, wiping out \$70 billion in shareholder value, de-

faulting on tens of billions of dollars of debt, and throwing 20,000 employees out of work. Bankruptcy proceedings revealed that Enron's derivatives traders would shut down the company's power generators in California during heat waves in order to drive the electricity spot price through the roof, because it made more money speculating on the energy market than in selling energy.

Only derivatives had made all this possible. Enron used them to hide its escalating debts and losses, while inflating its claimed profits. Through derivatives deals known as "swaps", conducted with its own arms-distance front companies called special purpose entities (SPE), Enron was able to use ultimately worthless shares in various dot.com companies as collateral for huge loans; to run up massive debts through its SPEs that it kept off its own balance sheet; and to sell assets to its SPEs at massively inflated prices, which prices Enron then used to value-up the remainder of similar assets still on its books. Partnoy's "bucket of gold" analogy raised to the n th power.



Former U.S. Commodity Futures Trading Commission chair and Enron director Wendy Gramm, and her husband Senator Phil Gramm.

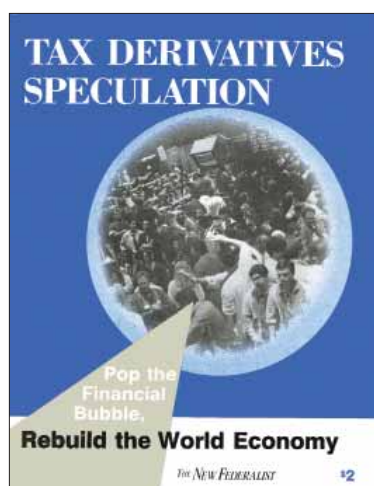


Fig. 4

Everyone was warned: LaRouche's *New Federalist* newspaper produced this 1993 pamphlet (left), which the CEC mass distributed into Parliament and across Australia. On 27 January 1994, the *Australian Financial Review* newspaper (right) quoted LaRouche's warning about derivatives. LaRouche was right then, and he's right now.

Draft Report of the Australian Securities Commission (ASC), there was a real possibility of criminal sanctions being applied against Westpac, Macquarie Bank, Bankers Trust Australia and other big derivatives speculators. The corporate legal firm Mallesons Stephen Jacques provided advice to their clients in April of that year, that most derivatives trading in Australia was probably illegal. But the public campaign against the growing derivatives menace to the Australian financial system was led by the CEC, which mass distributed LaRouche's 1993 pamphlet, *Tax Derivatives Speculation* to every Federal MP, while the Attorney-General's office requested extra copies. In 1994, the CEC provided background on derivatives to the *Australian Financial Review* for its special feature on derivatives, which opened by quoting Lyndon LaRouche as probably the best-known opponent of derivatives (Fig. 4).

When the third and final tranche of the privatisation of the Commonwealth Bank was completed in 1997, it joined the ranks of the private banks, but with a much lower derivatives exposure than the other three. Without a public bank to compete with, private bank profits shot up, and so did their derivatives exposure. In 2001, Australia experienced an economic shock, part of the global shock following the collapse of the dot.com bubble which precipitated a wave of massive bankruptcies, including Enron, Tyco, Global Crossing, and in Australia, Ansett Airlines. A panicked Howard-Costello government responded by establishing a first home buyers grant in order to stimulate the property market. Property prices zoomed, as did Australian household debt. And so did the Australian banks' short-term foreign borrowings, which they were using to fuel the property market, along with the

Case Study 2. The Goldman Sachs derivatives fraud to hide Greek public debt

The creation of the single European currency, the euro, which was designed to force sovereign nations to submit to supranational controls by London and Wall Street, also led to a derivatives bonanza for the latter's benefit. Exploiting legal and accounting loopholes, the derivatives may have been technically legal, but their intent was fraud. For instance, for European nations to qualify to join the eurozone, they had to reduce their annual budget deficits to a maximum of three per cent of GDP.

So Goldman Sachs in 2001 approached Greece with a derivatives

deal that would do two things: shift debt off Greece's books, so the country would appear to be in compliance with E.U. requirements, and make Goldman Sachs massive profits. The deal was a foreign currency swap, using a fictitious exchange rate, by which Goldman Sachs gave Greece 2.8 billion euros up front, to be repaid much later. Though obviously a disguised loan, this cash was not recorded as debt, so it allowed Greece to hide 2.8 billion euros of its public debt in that single transaction. Goldman Sachs earned a huge commission on the deal, and profited later even more when the real exchange rate shifted, and Greece's hidden debt to Goldman Sachs ballooned to 5.1 billion euros.

Goldman Sachs, JPMorgan and other Wall Street and London banks

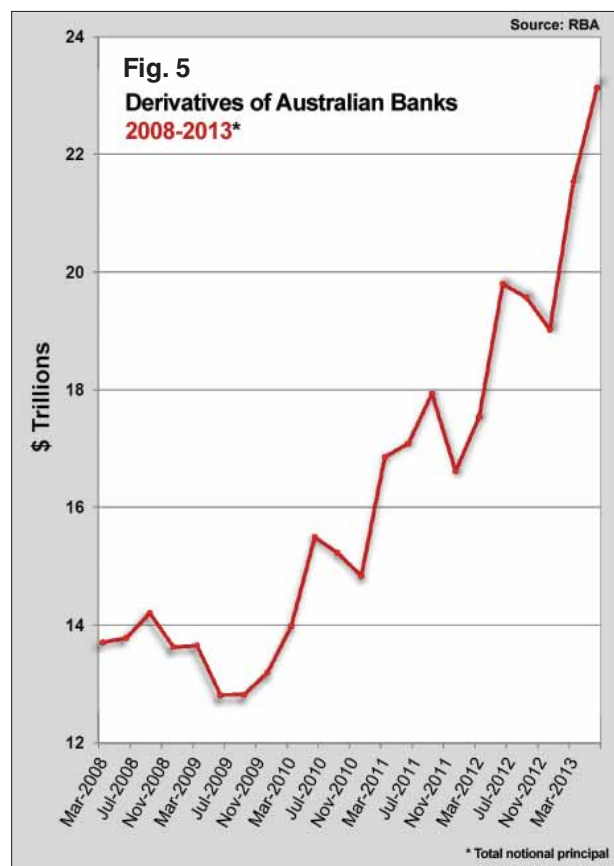
pulled the same trick all across Europe, plunging prospective E.U. members further into debt. Another notorious case was Italy. Investigators at London's *Financial Times* revealed in June 2013 that Italy had used derivatives in the 1990s to make its deficit appear to reduce in time to join the euro, but only by committing to even heavier obligations in the long-term. In 2012 Italy wore a loss on those derivatives of 31 billion euro. Italy's Treasury boss at the time of the deals was Mario Draghi; in 2002 Draghi left the Italian Treasury to join Goldman Sachs, whose London office he headed for several years. Today he heads the European Central Bank, enforcing brutal austerity against the nations (including his own) which were stung by these derivatives deals.

banks' derivatives, mostly in the form of interest rate and foreign exchange swaps. By mid-2008, the total derivatives exposure of Australia's banks had reached \$14 trillion.

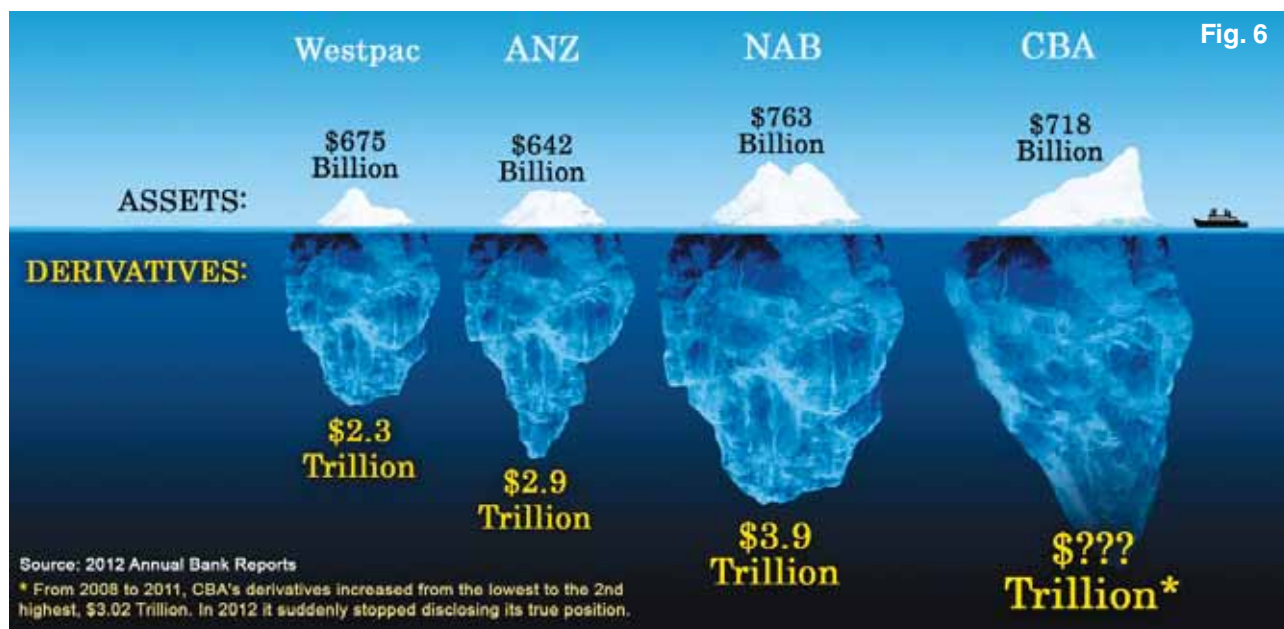
Then, in September 2008, the global derivatives bubble, which by then had expanded to well over \$1 quadrillion (\$1,000 trillion), went into meltdown. The trigger was the derivatives on the mortgages ("mortgage-backed securities") that had fuelled property bubbles all over the world.

Contrary to the official line that Australia's banks are and have always been fundamentally sound, the ensuing banking crisis, in which hundreds of banks in the U.S. and many more in Europe collapsed, virtually wiped out Australia's banks too. On the weekend of 11-12 October 2008, Australia's banks had an emergency meeting with the Rudd government, and demanded government guarantees for their foreign liabilities—the hundreds of billions in short-term borrowings they were unable to roll over, upon which were based trillions of dollars of exchange rate and interest rate swap derivatives. Without guarantees, the banks warned Rudd they would "be insolvent sooner rather than later", according to Ross Garnaut and David Llewellyn in *The Great Crash of 2008*. Rudd announced two things: government guarantees for both bank deposits and foreign borrowings (which also constituted a guarantee of the derivatives based on those borrowings), and a massive boost to the first home buyers grant to push up the price of property, which also shored up the mortgage-backed securities and related derivatives based on the banks' mortgages.

Since that point of crisis, Australia's banks have ex-



perienced a record-breaking run of profits. This growth in profits is not supported by a boom in the Australian economy; it is matched only by an unprecedented increase in the banks' derivatives obligations, an increase that defies the global trend of a marginal decrease in derivatives (Fig. 5). Australian banks' derivatives exposure far outstrips their assets (Fig. 6). This raises the question: are the profits of the Big Four banks actually



What lurks beneath? The enormous derivatives exposure of Australia's Big Four banks is hidden away off-balance sheet, and unregulated. In the case of CBA, it is now fully hidden. The customers of these banks, and indeed everyone dependent upon the domestic financial system that these four banks dominate, are unaware that they are exposed to risks of the kind that melted down the global financial system in 2008.

real? It is no small question, given that those combined profits ballooned to a record \$27.4 billion in 2013 (even as Westpac, NAB and ANZ have slashed 1900 fulltime jobs, replacing domestic workers with lower-paid workers overseas). That total, according to the Bank for International Settlements, makes them “the most profitable in the developed world for the third year running”, as reported in the 24 June 2013 *Sydney Morning Herald*.

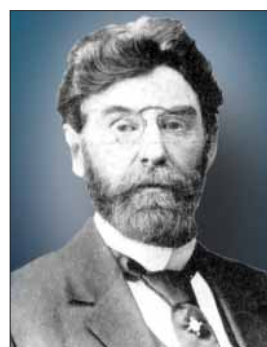
But take the most profitable among them, CBA. Since the 2008 crisis it has leapt to the front of the pack in profits, even as its derivatives obligations have zoomed from being the lowest of the Big Four, to the second-highest as of 2011. The derivatives growth was so rapid that it was on track to overtake NAB as having the highest derivatives exposure, when CBA suddenly decided to stop disclosing its full derivatives exposure* (Fig. 7). Under questioning by the CEC, CBA executives initially tried to claim they took the decision because the full derivatives figure would be confusing to investors, but when pressed they admitted they no longer wanted the figure to be made public.

CBA falsely claims the true picture of their derivatives exposure is reflected in their much smaller “fair value” assessment, of around \$30 billion. The Australian Prudential Regulation Authority (APRA) concurs. In fact, in 2008 when APRA acknowledged that Australian banks held \$13.8 trillion in off-balance sheet derivatives, the agency also claimed that “these figures have been discounted to \$112 billion using internationally accepted accounting standards”, reported a 4 November 2008 article in *The Age*. Such “writing down” using “internationally accepted standards” and “off-balance sheet

accounting”, has been variously denounced or ridiculed by many experts in the field, among them Pauline Wallace, the top specialist in Financial Instruments for the London office of PricewaterhouseCoopers. Wallace said, shortly after the 2008 meltdown, “I’ve always regarded [off-balance sheet accounting] as a bit of a magic trick. Magicians come to parties and they make things seem to disappear. The risk is somewhere, but you never knew where.” In 2008, the world found out where.

Conclusion

Based as they are upon pure speculation and outright fraud, derivatives are really nothing new. In his



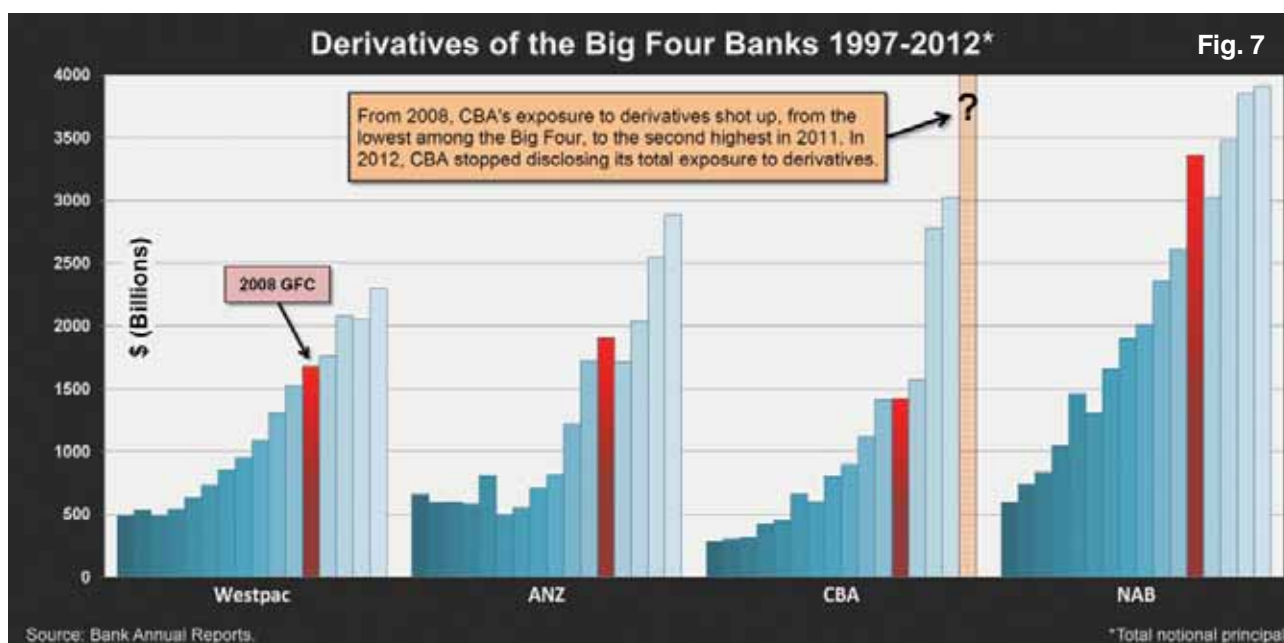
King O'Malley

1939 pamphlet *Big battle*, issued as a rallying cry to restore the power of the Commonwealth Bank, King O'Malley penned a withering attack on what he called “fog wealth”:

“Permanent wealth is produced by the slow process of industry, combined with skill and the manipulation of capital. Fog wealth is

produced by the rapid process of placing one piece of paper in the possession of a bank as a collateral security for two pieces of paper. Some of the enormous quantity of paper which is being created now will sooner or later collapse. But with the Commonwealth Bank capable of sustaining legitimate credits, there can be no panic which will again destroy the market value of intrinsic values, ruin debtors, deprive workers of work, and produce general distress.”

*Total notional principal, aka face value



While the 2008 GFC put a brake on derivatives growth globally, Australia's banks have binged, which puts a big question mark over the record profits they have claimed in the same period.

4. Australia's Real 'Big Four': HSBC, JPMorgan, National, Citicorp

Australia's financial system is dangerously concentrated in just four banks—NAB, CBA, ANZ and Westpac—known as the four “pillars”; they account for 80 per cent of the entire financial system.

But that's not the full picture. The financial system is even more concentrated than it looks, because in truth these four banks should be regarded as one single banking entity. This is because the four largest shareholders in each of Australia's Big Four banks are the same companies: *HSBC Custody Nominees*, *JPMorgan Nominees Australia*, *National Nominees*, and *Citicorp Nominees*, in that order. In fact, almost all of the minor banks should be included in that single entity as well, because the same companies are the four largest shareholders in Bendigo Bank/Adelaide Bank, and effectively in St. George, BankSA, Bankwest, and even Rams and Aussie Home Loans too, because the latter are all wholly-owned subsidiaries of ANZ, Westpac, NAB, and CBA. Bank of Queensland and Suncorp each have three of the four nominee companies in their top four shareholders.

Between them, these four global entities control Australia's banking system, because no other single force could even come close to challenging their combined shareholdings in the Big Four banks:

ANZ	53.00 %
CBA	39.34 %
NAB	49.07 %
Westpac	44.08 %



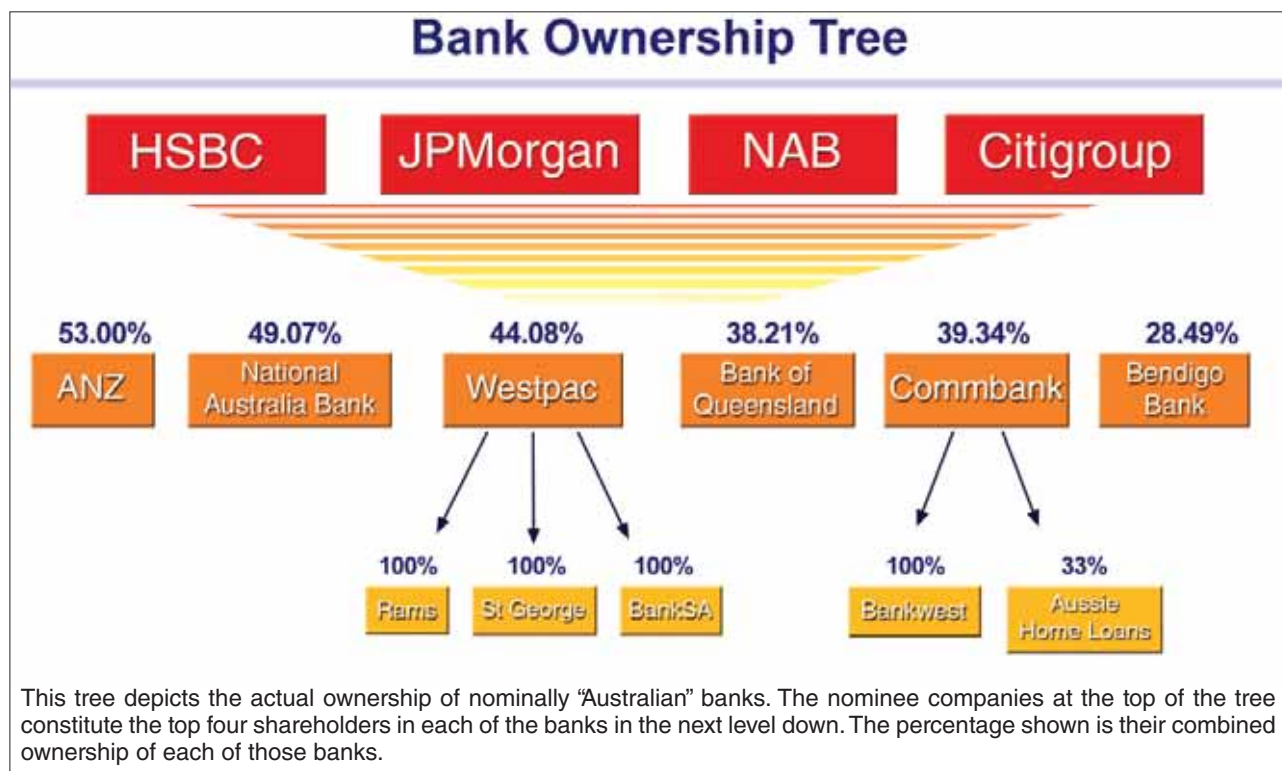
And that's not all. These four global entities are also the top four shareholders in virtually every major Australian corporation, with combined shareholdings in the following corporations:

AMP	50.20 %
BHP-Billiton	53.21 %
Brambles	77.17 %
Fosters Group	70.01 %
Goodman Group	83.43 %
Origin Energy	55.02 %
Rio Tinto	54.98 %
Tabcorp	56.72 %
Telstra	56.27 %
Wesfarmers	44.45 %
Westfield Group	71.04 %
Woodside	40.92 %
Woolworths	42.89 %

So who are these entities? They are nominee companies which are wholly-owned subsidiaries of the banks they are named for:

HSBC—Hong Kong Shanghai Banking Corporation, Britain's biggest and dirtiest bank, which was born out of Britain's two mid-19th century opium wars against China, when Queen Victoria in the name of “free trade” waged war to force China to open its ports to British opium, which the Emperor of China had banned because it was destroying Chinese society. The British took Hong Kong as its spoils of those wars, which became the centre of British drug-running for over a century, financed by HSBC. In 2012, the U.S. government found HSBC was involved in laundering drug money, and in acting as a conduit of Saudi funds to al-Qaeda-linked terrorist groups, but HSBC escaped with only a minor fine, because Barack Obama's Attorney General Eric Holder deemed a more serious





punishment could destabilise the fragile global financial system; i.e. HSBC was “too big to jail”.

JPMorgan Chase—the most British bank on Wall Street, the biggest derivatives gambler in the U.S., and the bank that is taking the lead to crush any moves to restore a Glass-Steagall banking separation. Under current boss Jamie Dimon, JPMorgan Chase has gambled aggressively on derivatives through its London office, leading to a massive \$2 billion loss in 2012. Incorporated in the U.S. state of Delaware, JPMorgan bared its fangs in June when the Delaware State Legislature tried to debate a motion endorsing a return to Glass-Steagall. The bank sent along a delegation to intimidate the elected legislators into shutting down the proceedings. It has since employed 1,500 lobbyists to swarm the U.S. Congress building, to use intimidation and/or bribery to ensure U.S. politicians do not support a return to Glass-Steagall.

National Australia Bank—NAB is Australia’s most powerful establishment bank, boasting extensive political connections; it’s also the biggest derivatives gambler. Its major stake in all the other Australian banks makes a farce of its recent publicity stunt, when it announced it was “breaking up” with the other banks.

Citigroup—formerly Citicorp, is the Wall Street bank that in 1999 spent \$300 million bribing American politicians to scrap the *Glass-Steagall Act*, so it could merge with Travelers Insurance and its associated investment bank Salomon Smith Barney. This act led directly to the 2008 global financial meltdown. (In 2012 former Citigroup chairman Sandy Weill declared the repeal of Glass-Steagall was a mistake, and in September 2013 the former CEO John Reed declared likewise.)

Technically it is not the case that these four banks are themselves the owners of the shares that their nominee companies hold, but they fully own, and therefore control, the nominee companies. The nominee companies themselves are like huge investment funds that HSBC etc. manage on behalf of investors. What characterises a nominee company is that the investors remain anonymous. It is these anonymous investors who are the major shareholders in all of Australia’s banks and major companies. This raises many questions: why do they wish to be anonymous? And why do so many investors who wish to be anonymous invest through the same four banking institutions? Who exercises the power associated with these shareholdings, the nominee company, or the anonymous investors?

This last question is important, because many times small shareholders in corporations have tried to engage in “shareholder activism”, and join together to use their collective shareholdings to convene extraordinary general meetings in order to force the board of directors to change a certain policy. Invariably, however, the chairman of the board will be holding a majority of “proxy” votes that he/she can use to outvote any motion that the board doesn’t support. The small shareholders never have a chance. The fact that four nominee companies control all of Australia’s banks and major corporations means the real power in Australia’s corporate economy can remain both anonymous, and locked tight.

It is also the more reason that Australia too needs a Glass-Steagall banking separation—not just to split up the concentration of the Big Four banks, but to break up the even more concentrated ownership and control of the entire Australian financial system.

5. The Glass-Steagall Solution

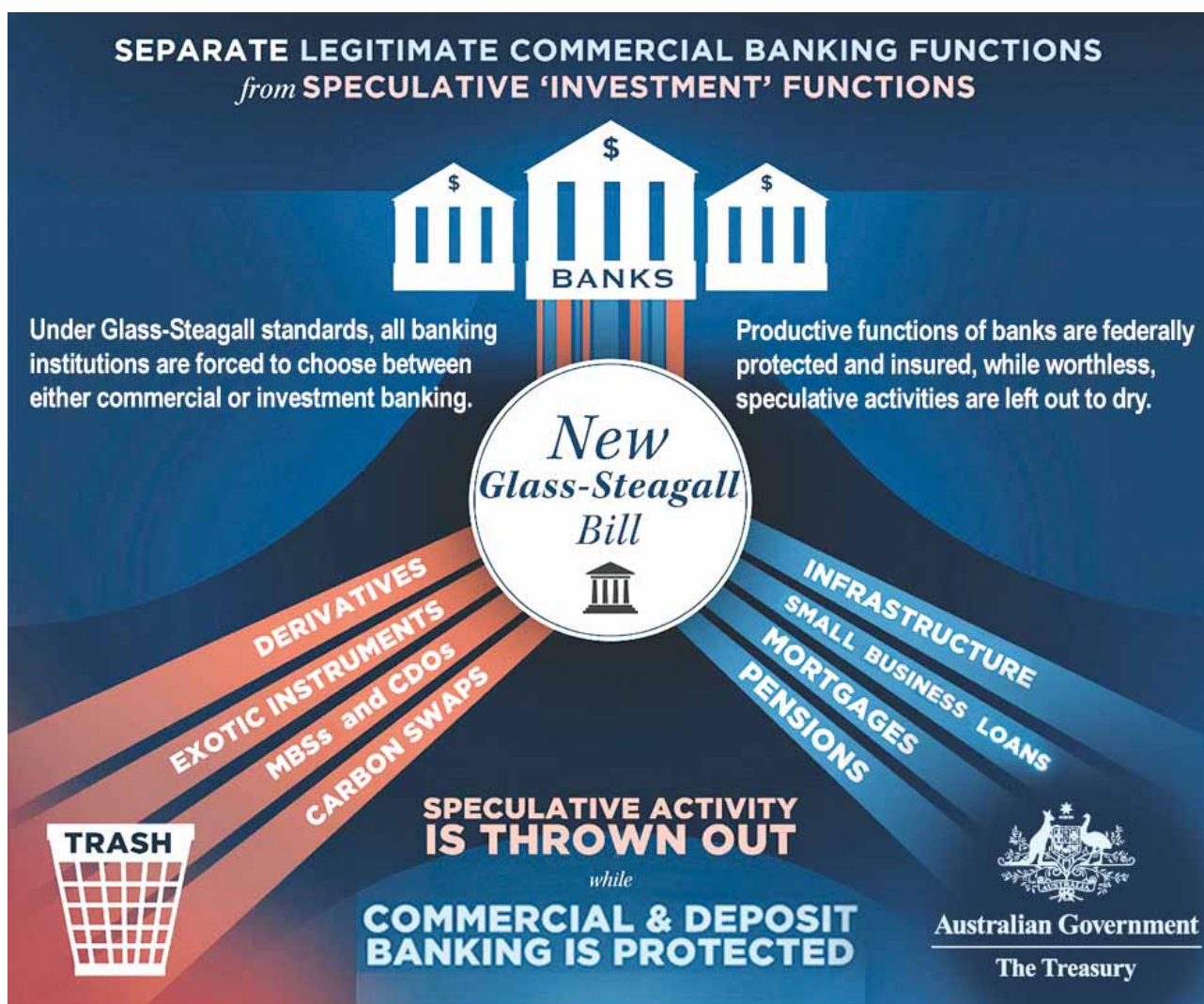
The original *Glass-Steagall Act of 1933* (page 18), named for its sponsors in the U.S. Congress, was a crucial instrument in President Franklin Roosevelt's program to lift the United States out of the Great Depression. Barring savings and deposit banks from engaging in financial activities traditional for investment banks, it protected the function of the former as lenders to the real economy: agriculture, home construction, businesses and industries. The final demise of Glass-Steagall in 1999, after years of its being weakened through deregulation legislation, was a turning point in the takeover of banking worldwide by financial speculation.

Around the world, the return of Glass-Steagall is an idea whose time has come, as we report in Chapter 6. In Australia, the CEC has led the fight to protect our economy and our nation, starting with Glass-Steagall

banking separation.

The CEC petition "Australia Urgently Needs a Glass-Steagall Separation of Banks" (page 19) was drafted in March 2013, and circulated nationwide. A concerted CEC mobilisation used the petition to educate Australians about Glass-Steagall, which found widespread support from people of all political persuasions and backgrounds. On 3 June, the petition bearing thousands of signatures was tabled in the House of Representatives of the Commonwealth Parliament.

On 3 December 2013 the statement to the Australian Parliament "Don't Seize Our Bank Accounts—Pass Glass-Steagall" (page 20) appeared as an advertisement in *The Australian* with 450 signatures of current and former elected officials, political party officials from the full spectrum of parties, election candidates, union leaders, academics and community leaders.



Franklin Roosevelt's 1933 Glass-Steagall Act

Below are excerpts from the 37-page U.S. *Glass-Steagall Banking Act of 1933*.

An Act

To provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes. ...

[Sec. 3 (a)] Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information. The chairman of the Federal reserve bank shall report to the Federal Reserve Board any such undue use of bank credit by any member bank, together with his recommendation.

[Sec. 7] ...the Federal Reserve Board shall have power to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by loans secured by stock or bond collateral made by member banks within such district ... it shall be the duty of the Board to establish such percentages with a view to preventing the undue use of bank loans for the speculative carrying of securities. ...

[Sec. 11 (a)] No member bank shall act as the medium or agent of any non-banking corporation, partnership, association, business trust, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in stocks, bonds, and other investment securities. ...

[Sec. 20] After one year from the date of the enactment of this Act, no member bank shall be affiliated in any manner described in section 2 (b) hereof

with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities. ...

[Sec. 21 (a)] After the expiration of one year after the date of enactment of this Act it shall be unlawful—(1) For any person, firm, corporation, association, business trust, or other similar organization, engaged in the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor...

[Sec. 32] From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no

such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.



U.S. President Franklin Delano Roosevelt

PETITION

Australia Urgently Needs a Glass-Steagall Separation of Banks

TO THE HONOURABLE THE SPEAKER AND MEMBERS
OF THE HOUSE OF REPRESENTATIVES

This petition of the Citizens Electoral Council of Australia draws to the attention of the House the threat facing Australia's banking system from the deepening global financial crisis, which puts at serious risk the bank deposits of the Australian people, and essential banking services for the real economy.

Australia is now vulnerable because our banking system is concentrated in just four banks, which between them hold the overwhelming majority of deposits and provide the majority of banking services, but which have dangerously exposed themselves to shocks in the global financial system, including through nearly \$20 trillion in derivatives speculation.

We therefore ask the House to take immediate action to protect deposits and essential commercial banking services, by enacting strict banking separation as did U.S. President Franklin Roosevelt's Glass-Steagall Act 1933. Glass-Steagall split deposit-taking, standard commercial banks from Wall Street's speculative investment banks, creating entirely separate entities under different roofs, thus successfully protecting the U.S. banking system until Glass-Steagall's repeal in 1999. We ask the House to apply the Glass-Steagall principle to Australia through legislation to divide each of the four major banks into two parts:

- 1) Normal commercial banks as per Glass-Steagall standards, and
- 2) Institutions involved in investment banking and other forms of speculation.

Banks that speculate will then do so with their own money and at their own peril, with no government protection whatsoever.

6. Glass-Steagall Legislation Pending in Major Countries

In this chapter we shall document the surge of support for a reinstatement of Glass-Steagall, starting in its home country, the United States, and extending around the globe—including within the British Parliament. Our documentation includes statements by the leading U.S. Congressional supporters for renewing Glass-Steagall protections, as well as the text of the most thorough draft bill, S. 1282, introduced in the U.S. Senate. Beginning on page 36, we present a roster of prominent supporters of Glass-Steagall reinstatement from many countries.

There are four bills presently before the U.S. Congress to restore the strict separation of commercial banking from investment banking, which was in force for 66 years, 1933-99, under the original *Glass-Steagall Act*. The bill before the House of Representatives, House Resolution 129, the *Return to Prudent Banking Act of 2013*, was introduced in January 2013, and has 78 cosponsors (page 32). In May of 2013, on the 80th anniversary of the 1933 law, Senator Tom Harkin (Democrat) introduced a companion bill into the Senate (Senate Bill 985). On 11 July, four senators, led by former financial regulator Elizabeth Warren (Democrat) and former presidential candidate John McCain (Republican), introduced a separate bill to the same end, the *21st Century Glass-Steagall Act* (below). In December 2013 Representatives John Tierney and Walter Jones introduced an identical bill into the House of Representatives (H.R. 3711).

The U.K. Parliament, although Glass-Steagall legislation is not yet before it, has been the scene of intense debate of this principle (page 34). The day after introduction of the Warren-McCain bill in the U.S. Senate, the *Financial Times* of London, the City's flagship paper with 2.2 million daily readers worldwide, endorsed it in an editorial titled, "Split the banks: A new Glass-Steagall Act is needed—not just in the US."

The giant Wall Street banks have reacted to the U.S. bills with terror and rage, knowing that if they

pass, the game is up. Hitherto the Wall Street culprits, whose gambling and fraud caused the worst financial crisis since the Great Depression, have got off scot-free. The Obama administration, dominated by Wall Street bankers, has protected them from any legal repercussions of their crimes; Attorney General Eric Holder admitted in the case of giant British bank HSBC, caught in multiple proven crimes including drug money laundering on a staggering scale, that he had decided not to take legal action because it could destabilise the fragile financial system. To date, the bankers who are "too big to fail" have also been "too big to jail". Restoring the *Glass-Steagall Act's* separation of banking will solve both problems—and Wall Street knows it.

The giant banking conglomerate JPMorgan Chase, which last year made a \$13 billion settlement with Holder's Justice Department in order to halt any further investigation of its role in the mortgage fraud that triggered the 2008 meltdown, is leading Wall Street's frantic efforts to stop Glass-Steagall. It employs an army of high-powered lobbyists to pressure Washington politicians not to support the bills. It is even trying to intimidate state politicians, who have no power themselves to re-enact Glass-Steagall, but who have organised resolutions in 25 states calling on their federal counterparts to do so (page 33). Beginning in the 1980s, JPMorgan Chase had spearheaded the drive to repeal Glass-Steagall, which finally succeeded in 1999.

Standing against the wealth and power of JPMorgan and Wall Street is the political movement founded and led by the American physical economist Lyndon LaRouche, one of the very few economists to forecast the present global financial crisis. The growing political support for Glass-Steagall that so terrifies Wall Street, is largely due to the tireless work of LaRouche and his associates. They have also catalysed the explosion of support for Glass-Steagall in Europe, where a number of Glass-Steagall bills have been introduced into national parliaments (page 33).

The 21st Century Glass-Steagall Act

113TH CONGRESS
1ST SESSION

S. 1282

To reduce risks to the financial system by limiting banks' ability to engage in certain risky activities and limiting conflicts of interest, to reinstate certain Glass-Steagall Act protections that were repealed by the Gramm-Leach-Bliley Act, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 11, 2013

Ms. WARREN (for herself, Mr. MCCAIN, Ms. CANTWELL, and Mr. KING) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To reduce risks to the financial system by limiting banks' ability to engage in certain risky activities and limiting conflicts of interest, to reinstate certain Glass-Steagall Act protections that were repealed by the Gramm-Leach-Bliley Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “21st Century Glass-Steagall Act of 2013”.

SEC. 2. FINDINGS AND PURPOSE.

(a) **FINDINGS.**—Congress finds that—

- (1) in response to a financial crisis and the ensuing Great Depression, Congress enacted the Banking Act of 1933, known as the “Glass-Steagall Act”, to prohibit commercial banks from offering investment banking and insurance services;
- (2) a series of deregulatory decisions by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, in addition to decisions by Federal courts, permitted commercial banks to engage in an increasing number of risky financial activities that had previously been restricted under the Glass-Steagall Act, and also vastly expanded the meaning of the “business of banking” and “closely related activities” in banking law;
- (3) in 1999, Congress enacted the “Gramm-Leach-Bliley Act”, which repealed the Glass-Steagall Act separation between commercial and investment banking and allowed for complex cross-subsidies and interconnections between commercial and investment banks;
- (4) former Kansas City Federal Reserve President Thomas Hoenig observed that “with the elimination of Glass-Steagall, the largest institutions with the greatest ability to leverage their balance sheets increased their risk profile by getting into trading, market making, and hedge fund activities, adding ever greater complexity to their balance sheets.”;

(5) the Financial Crisis Inquiry Report issued by the Financial Crisis Inquiry Commission concluded that, in the years between the passage of Gramm-Leach Bliley and the global financial crisis, “regulation and supervision of traditional banking had been weakened significantly, allowing commercial banks and thrifts to operate with fewer constraints and to engage in a wider range of financial activities, including activities in the shadow banking system.”. The Commission also concluded that “[t]his deregulation made the financial system especially vulnerable to the financial crisis and exacerbated its effects.”;

(6) a report by the Financial Stability Oversight Council pursuant to section 123 of the Dodd-Frank Wall Street Reform and Consumer Protection Act states that increased complexity and diversity of financial activities at financial institutions may “shift institutions towards more risk-taking, increase the level of interconnectedness among financial firms, and therefore may increase systemic default risk. These potential costs may be exacerbated in cases where the market perceives diverse and complex financial institutions as ‘too big to fail,’ which may lead to excessive risk taking and concerns about moral hazard.”;

(7) the Senate Permanent Subcommittee on Investigations report, “Wall Street and the Financial Crisis: Anatomy of a Financial Collapse”, states that repeal of Glass-Steagall “made it more difficult for regulators to distinguish between activities intended to benefit customers versus the financial institution itself. The expanded set of financial services investment banks were allowed to offer also contributed to the multiple and significant conflicts of interest that arose between some investment banks and their clients during the financial crisis.”;

(8) the Senate Permanent Subcommittee on Investigations report, “JPMorgan Chase Whale Trades: A Case History of Derivatives Risks and Abuses”, describes how traders at JPMorgan Chase made risky bets using excess deposits that were partly insured by the Federal Government;

(9) in Europe, the Vickers Independent Commission on Banking (for the United Kingdom) and the Liikanen Report (for the Euro area) have both found that there is no inherent reason to bundle “retail banking” with “investment banking” or other forms of relatively high risk securities trading, and European countries are set on a path of separating various activities that are currently bundled together in the business of banking;

(10) private sector actors prefer having access to underpriced public sector insurance, whether explicit (for insured deposits) or implicit (for “too big to fail” financial institutions), to subsidize dangerous levels of risk-taking, which, from a broader social perspective, is not an advantageous arrangement; and

(11) the financial crisis, and the regulatory response to the crisis, has led to more mergers between financial institutions, creating greater financial sector consolidation and increasing the dominance of a few large, complex financial institutions that are generally considered to be “too big to fail”, and therefore are perceived by the markets as having an implicit guarantee from the Federal Government to bail them out in the event of their failure.

(b) PURPOSE.—The purposes of this Act are—

(1) to reduce risks to the financial system by limiting banks’ ability to engage in activities other than socially valuable core banking activities;

(2) to protect taxpayers and reduce moral hazard by removing explicit and implicit government guarantees for high-risk activities outside of the core business of banking; and

(3) to eliminate conflicts of interest that arise from banks engaging in activities from which their profits are earned at the expense of their customers or clients.

SEC. 3. SAFE AND SOUND BANKING.

(a) INSURED DEPOSITORY INSTITUTIONS.—Section 18(s) of the Federal Deposit Insurance Act (12 U.S.C. 1828(s)) is amended by adding at the end the following:

“(6) LIMITATIONS ON BANKING AFFILIATIONS.—

“(A) PROHIBITION ON AFFILIATIONS WITH NONDEPOSITORY ENTITIES.—An insured depository institution may not—

- “(i) be or become an affiliate of any insurance company, securities entity, or swaps entity;
- “(ii) be in common ownership or control with any insurance company, securities entity, or swaps entity; or
- “(iii) engage in any activity that would cause the insured depository institution to qualify as an insurance company, securities entity, or swaps entity.

“(B) INDIVIDUALS ELIGIBLE TO SERVE ON BOARDS OF DEPOSITORY INSTITUTIONS.—

- “(i) IN GENERAL.—An individual who is an officer, director, partner, or employee of any securities entity, insurance company, or swaps entity may not serve at the same time as an officer, director, employee, or other institution-affiliated party of any insured depository institution.
- “(ii) EXCEPTION.—Clause (i) does not apply with respect to service by any individual which is otherwise prohibited under clause (i), if the appropriate Federal banking agency determines, by regulation with respect to a limited number of cases, that service by such an individual as an officer, director, employee, or other institution-affiliated party of an insured depository institution would not unduly influence the investment policies of the depository institution or the advice that the institution provides to customers.
- “(iii) TERMINATION OF SERVICE.—Subject to a determination under clause (i), any individual described in clause (i) who, as of the date of enactment of the 21st Century Glass-Steagall Act of 2013, is serving as an officer, director, employee, or other institution-affiliated party of any insured depository institution shall terminate such service as soon as is practicable after such date of enactment, and in no event, later than the end of the 60-day period beginning on that date of enactment.

“(C) TERMINATION OF EXISTING AFFILIATIONS AND ACTIVITIES.—

- “(i) ORDERLY TERMINATION OF EXISTING AFFILIATIONS AND ACTIVITIES.—Any affiliation, common ownership or control, or activity of an insured depository institution with any securities entity, insurance company, or swaps entity, or any other person, as of the date of enactment of the 21st Century Glass-Steagall Act of 2013, which is prohibited under subparagraph (A) shall be terminated as soon as is practicable, and in no event later than the end of the 5-year period beginning on that date of enactment.
- “(ii) EARLY TERMINATION.—The appropriate Federal banking agency, after opportunity for hearing, at any time, may order termination of an affiliation, common ownership or control, or activity prohibited by clause (i) before the end of the 5-year period described in clause (i), if the agency determines that—
 - “(I) such action is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices; and
 - “(II) is in the public interest.
- “(iii) EXTENSION.—Subject to a determination under clause (ii), an appropriate Federal banking agency may extend the 5-year period described in clause (i) as to any particular insured depository institution for not more than an additional 6 months at a time, if—
 - “(I) the agency certifies that such extension would promote the public interest and would not pose a significant threat to the stability of the banking system or financial markets in the United States; and
 - “(II) such extension, in the aggregate, does not exceed 1 year for any one insured depository institution.
- “(iv) REQUIREMENTS FOR ENTITIES RECEIVING AN EXTENSION.—Upon receipt of an extension under clause (iii), the insured depository institution shall notify its shareholders and the general public that it has failed to comply with the requirements of clause (i).

“(D) DEFINITIONS.—For purposes of this paragraph, the following definitions shall apply:

- “(i) INSURANCE COMPANY.—The term ‘insurance company’ has the same meaning as in section 2(q) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(q)).
- “(ii) SECURITIES ENTITY.—Except as provided in clause (iii), the term ‘securities entity’—
 - “(I) includes any entity engaged in—
 - “(aa) the issue, flotation, underwriting, public sale, or distribution of stocks, bonds, debentures, notes, or other securities;
 - “(bb) market making;

“(cc) activities of a broker or dealer, as those terms are defined in section 3(a) of the Securities Exchange Act of 1934;

“(dd) activities of a futures commission merchant;

“(ee) activities of an investment adviser or investment company, as those terms are defined in the Investment Advisers Act of 1940 and the Investment Company Act of 1940, respectively; or

“(ff) hedge fund or private equity investments in the securities of either privately or publicly held companies; and

“(II) does not include a bank that, pursuant to its authorized trust and fiduciary activities, purchases and sells investments for the account of its customers or provides financial or investment advice to its customers.

“(iii) SWAPS ENTITY.—The term ‘swaps entity’ means any swap dealer, security-based swap dealer, major swap participant, or major security-based swap participant, that is registered under—

“(I) the Commodity Exchange Act (7 U.S.C. 1 et seq.); or

“(II) the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.).

“(iv) INSURED DEPOSITORY INSTITUTION.—The term ‘insured depository institution’—

“(I) has the same meaning as in section 3(c)(2); and

“(II) does not include a savings association controlled by a savings and loan holding company, as described in section 10(c)(9)(C) of the Home Owners’ Loan Act (12 U.S.C. 1467a(c)(9)(C)).”

(b) LIMITATION ON BANKING ACTIVITIES.—Section 21 of the Banking Act of 1933 (12 U.S.C. 378) is amended by adding at the end the following:

“(c) Business of receiving deposits.—For purposes of this section, the term ‘business of receiving deposits’ includes the establishment and maintenance of any transaction account (as defined in section 19(b)(1)(C) of the Federal Reserve Act).”

(c) PERMITTED ACTIVITIES OF NATIONAL BANKS.—Section 24 (Seventh) of the Revised Statutes of the United States (12 U.S.C. 24 (Seventh)) is amended to read as follows:

“Seventh. (A) To exercise by its board of directors or duly authorized officers or agents, subject to law, all such powers as are necessary to carry on the business of banking.

“(B) As used in this paragraph, the term ‘business of banking’ shall be limited to the following core banking services:

“(i) RECEIVING DEPOSITS.—A national banking association may engage in the business of receiving deposits.

“(ii) EXTENSIONS OF CREDIT.—A national banking association may—

“(I) extend credit to individuals, businesses, not for profit organizations, and other entities;

“(II) discount and negotiate promissory notes, drafts, bills of exchange, and other evidences of debt; and

“(III) loan money on personal security.

“(iii) PAYMENT SYSTEMS.—A national banking association may participate in payment systems, defined as instruments, banking procedures, and interbank funds transfer systems that ensure the circulation of money.

“(iv) COIN AND BULLION.—A national banking association may buy, sell, and exchange coin and bullion.

“(v) INVESTMENTS IN SECURITIES.—

“(I) IN GENERAL.—A national banking association may invest in investment securities, defined as marketable obligations evidencing indebtedness of any person, copartnership, association, or corporation in the form of bonds, notes, or debentures (commonly known as ‘investment securities’), obligations of the Federal Government, or any State or subdivision thereof, under such further definition of the term ‘investment securities’ as the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of

the Federal Reserve System may jointly prescribe, by regulation.

“(II) LIMITATIONS.—The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock. The association may purchase for its own account investment securities under such limitations and restrictions as the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System may jointly prescribe, by regulation. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 percent of its capital stock actually paid in and unimpaired and 10 percent of its unimpaired surplus fund, except that such limitation shall not require any association to dispose of any securities lawfully held by it on August 23, 1935.

“(C) PROHIBITION AGAINST TRANSACTIONS INVOLVING STRUCTURED OR SYNTHETIC PRODUCTS.—A national banking association shall not invest in a structured or synthetic product, a financial instrument in which a return is calculated based on the value of, or by reference to the performance of, a security, commodity, swap, other asset, or an entity, or any index or basket composed of securities, commodities, swaps, other assets, or entities, other than customarily determined interest rates, or otherwise engage in the business of receiving deposits or extending credit for transactions involving structured or synthetic products.”

(d) PERMITTED ACTIVITIES OF FEDERAL SAVINGS ASSOCIATIONS.—

(1) IN GENERAL.—Section 5(c)(1) of the Home Owners’ Loan Act (12 U.S.C. 1464(c)(1)) is amended—

(A) by striking subparagraph (Q); and

(B) by redesignating subparagraphs (R) through (U) as subparagraphs (Q) through (T), respectively.

(2) CONFORMING AMENDMENT.—Section 10(c)(9)(A) of the Home Owners’ Loan Act (12 U.S.C. 1467a(c)(9)(A)) is amended by striking “permitted—” and all that follows through clause (ii) and inserting “permitted under paragraph (1)(C) or (2).”

(e) CLOSELY RELATED ACTIVITIES.—Section 4(c) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c)) is amended—

(1) in paragraph (8), by striking “had been determined” and all that follows through the end and inserting the following: “are so closely related to banking so as to be a proper incident thereto, as provided under this paragraph or any rule or regulation issued by the Board under this paragraph, provided that the following shall not be considered closely related for purposes of this paragraph:

“(A) Serving as an investment advisor (as defined in section 2(a)(20) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(20))) to an investment company registered under that Act, including sponsoring, organizing, and managing a closed-end investment company.

“(B) Agency transactional services for customer investments, except that this subparagraph may not be construed as prohibiting purchases and sales of investments for the account of customers conducted by a bank (or subsidiary thereof) pursuant to the bank’s trust and fiduciary powers.

“(C) Investment transactions as principal, except for activities specifically allowed by paragraph (14).

“(D) Management consulting and counseling activities.”;

(2) in paragraph (13), by striking “or” at the end;

(3) by redesignating paragraph (14) as paragraph (15); and

(4) by inserting after paragraph (13) the following:

“(14) purchasing, as an end user, any swap, to the extent that—

“(A) the purchase of any such swap occurs contemporaneously with the underlying hedged item or hedged transaction;

“(B) there is formal documentation identifying the hedging relationship with particularity at the

inception of the hedge; and

“(C) the swap is being used to hedge against exposure to—

“(i) changes in the value of an individual recognized asset or liability or an identified portion thereof that is attributable to a particular risk;

“(ii) changes in interest rates; or

“(iii) changes in the value of currency; or”.

(f) PROHIBITED ACTIVITIES.—Section 4(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(a)) is amended—

(1) in paragraph (1), by striking “or” at the end;

(2) in paragraph (2), by striking the period at the end and inserting “; or”; and

(3) by inserting before the undesignated matter following paragraph (2), the following:

“(3) with the exception of the activities permitted under subsection (c), engage in the business of a ‘securities entity’ or a ‘swaps entity’, as those terms are defined in section 18(s)(6)(D) of the Federal Deposit Insurance Act (12 U.S.C. 1828(s)(6)(D)), including, without limitation, dealing or making markets in securities, repurchase agreements, exchange traded and over-the-counter swaps, as defined by the Commodity Futures Trading Commission and the Securities and Exchange Commission, or structured or synthetic products, as defined in section 24 (Seventh) of the Revised Statutes of the United States (12 U.S.C. 24 (Seventh)), or any other over-the-counter securities, swaps, contracts, or any other agreement that derives its value from, or takes on the form of, such securities, derivatives, or contracts;

“(4) engage in proprietary trading, as provided by section 13, or any rule or regulation under that section;

“(5) own, sponsor, or invest in a hedge fund, or private equity fund, or any other fund, as provided by section 13, or any rule or regulation under that section, or any other fund which exhibits the characteristics of a fund that takes on proprietary trading activities or positions;

“(6) hold ineligible securities or derivatives;

“(7) engage in market-making; or

“(8) engage in prime brokerage activities.”

(g) ANTI-EVASION.—

(1) IN GENERAL.—Any attempt to structure any contract, investment, instrument, or product in such a manner that the purpose or effect of such contract, investment, instrument, or product is to evade or attempt to evade the prohibitions described in section 18(s)(6) of the Federal Deposit Insurance Act, section 21(c) of the Banking Act of 1933, paragraph (Seventh) of section 24 of the Revised Statutes of the United States, section 5(c)(1) of the Home Owners’ Loan Act, or section 4(a) of the Bank Holding Company Act of 1956, as added or amended by this section, shall be considered a violation of the Federal Deposit Insurance Act, the Banking Act of 1933, section 24 of the Revised Statutes of the United States, the Home Owners’ Loan Act, and the Bank Holding Company Act of 1956, respectively.

(2) TERMINATION.—

(A) IN GENERAL.—Notwithstanding any other provision of law, if a Federal agency has reasonable cause to believe that an insured depository institution, securities entity, swaps entity, insurance company, bank holding company, or other entity over which that agency has regulatory authority has made an investment or engaged in an activity in a manner that functions as an evasion of the prohibitions described in paragraph (1) (including through an abuse of any permitted activity) or otherwise violates such prohibitions, the agency shall—

(i) order, after due notice and opportunity for hearing, the entity to terminate the activity and, as relevant, dispose of the investment;

(ii) order, after the procedures described in clause (i), the entity to pay a penalty equal to 10 percent of the entity’s net profits, averaged over the previous 3 years, into the United States Treasury; and

(iii) initiate proceedings described in 12 U.S.C. 1818(e) for individuals involved in evading the prohibitions described in paragraph (1).

(B) CONSTRUCTION.—Nothing in this paragraph shall be construed to limit the inherent authority of any Federal agency or State regulatory authority to further restrict any investments or activities under otherwise applicable provisions of law.

(3) REPORTING REQUIREMENT.—Each year, each Federal agency having regulatory authority over any entity described in paragraph (2)(A) shall issue a report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, and shall make such report available to the public. The report shall identify the number and character of any activities that took place in the preceding year that function as an evasion of the prohibitions described in paragraph (1), the names of the particular entities engaged in those activities, and the actions of the agency taken under paragraph (2).

(h) ATTESTATION.—Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843), as amended by section 3(a)(1) of this Act, is amended by adding at the end the following:

“(k) Attestation.—Executives of any bank holding company or its affiliate shall attest in writing, under penalty of perjury, that the bank holding company or affiliate is not engaged in any activity that is prohibited under subsection (a), except to the extent that such activity is permitted under subsection (c).”

SEC. 4. REPEAL OF GRAMM-LEACH-BLILEY ACT PROVISIONS.

(a) TERMINATION OF FINANCIAL HOLDING COMPANY DESIGNATION.—

(1) IN GENERAL.—Section 4 of the Bank Holding Company Act of 1956 (12 U.S.C. 1843) is amended by striking subsections (k), (l), (m), (n), and (o).

(2) TRANSITION.—

(A) ORDERLY TERMINATION OF EXISTING AFFILIATION.—In the case of a bank holding company which, pursuant to the amendments made by paragraph (1), is no longer authorized to control or be affiliated with any entity that was permissible for a financial holding company on the day before the date of enactment of this Act, any affiliation, ownership or control, or activity by the bank holding company which is not permitted for a bank holding company shall be terminated as soon as is practicable, and in no event later than the end of the 5-year period beginning on the date of enactment of this Act.

(B) EARLY TERMINATION.—The Board of Governors of the Federal Reserve System (in this section referred to as the “Board”), after opportunity for hearing, at any time, may terminate an affiliation prohibited by subparagraph (A) before the end of the 5-year period described in subparagraph (A), if the Board determines that such action—

- (i) is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices; and
- (ii) is in the public interest.

(C) EXTENSION.—Subject to a determination under subparagraph (B), the Board may extend the 5-year period described in subparagraph (A), as to any particular bank holding company, for not more than an additional 6 months at a time, if—

- (i) the Board certifies that such extension would promote the public interest and would not pose a significant risk to the stability of the banking system or financial markets of the United States; and
- (ii) such extension, in the aggregate, does not exceed 1 year for any one bank holding company.

(D) REQUIREMENTS FOR ENTITIES RECEIVING AN EXTENSION.—Upon receipt of an extension under subparagraph (C), the bank holding company shall notify its shareholders and the general public that it has failed to comply with the requirements of subparagraph (A).

(3) TECHNICAL AND CONFORMING AMENDMENTS.—

(A) BANK HOLDING COMPANY ACT OF 1956.—The Bank Holding Company Act of 1956 (12

U.S.C. 1841 et seq.) is amended—

(i) in section 2 (12 U.S.C. 1841)—

(I) by striking subsection (p); and

(II) by redesignating subsection (q) as subsection (p);

(ii) in section 5(c) (12 U.S.C. 1844(c)), by striking paragraphs (3), (4), and (5); and

(iii) in section 5 (12 U.S.C. 1844), by striking subsection (g).

(4) FDIA.—The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended—

(A) by striking sections 45 and 46 (12 U.S.C. 1831v, 1831w); and

(B) by redesignating sections 47 through 50 as sections 45 through 48, respectively.

(5) GRAMM-LEACH-BLILEY.—Subtitle B of title I of the Gramm-Leach-Bliley Act is amended by striking section 115 (12 U.S.C. 1820a).

(b) FINANCIAL SUBSIDIARIES OF NATIONAL BANKS DISALLOWED.—

(1) IN GENERAL.—Section 5136A of the Revised Statutes of the United States (12 U.S.C. 24a) is repealed.

(2) TRANSITION.—

(A) ORDERLY TERMINATION OF EXISTING AFFILIATION.—In the case of a national bank which, pursuant to the amendment made by paragraph (1), is no longer authorized to control or be affiliated with a financial subsidiary as of the date of enactment of this Act, such affiliation, ownership or control, or activity shall be terminated as soon as is practicable, and in no event later than the end of the 5-year period beginning on the date of enactment of this Act.

(B) EARLY TERMINATION.—The Comptroller of the Currency (in this section referred to as the “Comptroller”), after opportunity for hearing, at any time, may terminate an affiliation prohibited by subparagraph (A) before the end of the 5-year period described in subparagraph (A), if the Comptroller determines, having due regard for the purposes of this Act, that—

(i) such action is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices; and

(ii) is in the public interest.

(C) EXTENSION.—Subject to a determination under subparagraph (B), the Comptroller may extend the 5-year period described in subparagraph (A) as to any particular national bank for not more than an additional 6 months, if—

(i) the Comptroller certifies that such extension would promote the public interest and would not pose a significant risk to the stability of the banking system or financial markets of the United States; and

(ii) such extension, in the aggregate, does not exceed 1 year for any single national bank.

(D) REQUIREMENTS FOR ENTITIES RECEIVING AN EXTENSION.—Upon receipt of an extension under subparagraph (C), the national bank shall notify its shareholders and the general public that it has failed to comply with the requirements described in subparagraph (A).

(3) TECHNICAL AND CONFORMING AMENDMENT.—The 20th undesignated paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335) is amended by striking the last sentence.

(4) CLERICAL AMENDMENT.—The table of sections for chapter one of title LXII of the Revised Statutes of the United States is amended by striking the item relating to section 5136A.

(c) REPEAL OF PROVISION RELATING TO FOREIGN BANKS FILING AS FINANCIAL HOLDING COMPANIES.—Section 8(c) of the International Banking Act of 1978 (12 U.S.C. 3106(c)) is amended by striking paragraph (3).

SEC. 5. REPEAL OF BANKRUPTCY PROVISIONS.

Title 11, United States Code, is amended by striking sections 555, 559, 560, 561, and 562.

“It’s time to act” against Wall Street

by U.S. Senator Elizabeth Warren

12 November 2013

In what the *American Banker* magazine disapprovingly noted was “a fiery speech” to the Roosevelt Institute/Americans for Financial Reform conference in Washington, D.C. on 12 November 2013, U.S. Senator Elizabeth Warren (Democrat, Maine) delivered a clarion call for the immediate passage of Glass-Steagall legislation. Of particular note, she declared that waiting for the 2010 Dodd-Frank legislation (the so-called “*Wall Street Reform and Consumer Protection Act*”) to solve the problem of “too big to fail”, is futile. Instead, she declared, “It’s time to act” to restore the *Glass-Steagall Banking Act of 1933*.

Senator Warren concluded her remarks with the following summation:

“So let’s put the pieces together: 1. It has been three years since Dodd-Frank was passed, the biggest banks are bigger than ever, the risk to the system has grown, and the market distortions have continued. 2. While the CFPB [Consumer Financial Protection Bureau] has met every single statutory deadline—so we know it’s possible to get the job done—the other regulators have missed their deadlines and haven’t given us much reason for confidence. 3. The result is that the Too Big to Fail remains. I add that up, and it’s clear to me: it’s time to act. The last thing we should do is wait for more crises—for another London Whale or LIBOR disgrace or robo-signing scandal—before we take action.

“For that reason, I partnered with Senators John McCain, Maria Cantwell, and Angus King to offer up one potential way to address the Too Big to Fail problem—the *21st Century Glass-Steagall Act*.

“By separating traditional depository banks from riskier financial institutions, the 1933 version of Glass-Steagall laid the groundwork for half a century of financial stability. During that time, we built a robust and thriving middle class. But throughout the 1980s and 1990s, Congress and regulators chipped away at Glass-Steagall’s protections, encouraging growth of the megabanks and a sharp increase in systemic risk. They finally finished the task in 1999 with the passage of the *Gramm-Leach-Bliley Act*, which eliminated Glass-Steagall’s protections altogether.

“The *21st Century Glass-Steagall Act* would reinstate many of the protections found in the original *Glass-Steagall Act*. It would wall off depository institutions from riskier activities like investment banking,

swaps dealing, and private equity activities. It would force some of the biggest financial institutions to break apart and eliminate their ability to rely on federal depository insurance as a backstop for high-risk activities.

“In other words, the new *Glass-Steagall Act* would attack both ‘too big’ and ‘to fail’. It would reduce failures of the big banks by making banking boring, protecting deposits and providing stability to the system even in bad times. And it would reduce too big by dismantling the behemoths, so that big banks would still be big but not too big to fail or, for that matter, too big to manage, too big to regulate, too big for trial, or too big for jail.

“Big banks would once again have understandable balance sheets, and with that would come—greater market discipline. Now sure, the lobbyists for Wall Street say the sky will fall if they can’t use deposits in checking accounts to fund their high-risk activities. But they said that in the 1930s, too. They were wrong then, and they are wrong now. The *Glass-Steagall Act* would restore the stability to the financial system that began to disappear in the 1980s and 1990s. ...

“We should not accept a financial system that allows the biggest banks to emerge from a crisis in record-setting shape while working Americans continue to struggle. And we should not accept a regulatory system that is so besieged by lobbyists for the big banks that it takes years to deliver rules and then the rules that are delivered are often watered-down and ineffective.

“What we need is a system that puts an end to the boom-and-bust cycle. A system that recognises we don’t grow this country from the financial sector; we grow this country from the middle class.

“Powerful interests will fight to hang on to every benefit and subsidy they now enjoy. Even after exploiting consumers, larding their books with excessive risk, and making bad bets that brought down the economy and forced taxpayer bailouts, the big Wall Street banks are not chastened. They have fought to delay and hamstring the implementation of financial reform, and they will continue to fight every inch of the way.

“That’s the battlefield. That’s what we’re up against. But David beat Goliath with the establishment of CFPB I am confident David can beat Goliath on Too Big to Fail. We just have to pick up the slingshot again.

“Thank you.”



Senator Elizabeth Warren, sponsor of Senate Bill 1282, the *21st Century Glass-Steagall Act*.

The Economy Should Work for Americans, Not Just Wall Street CEOs

by U.S. Representative Marcy Kaptur

17 September 2012

After Wall Street's 2008 economic collapse led to the Great Recession, it has become evident that to move forward, we must return to the past to ensure a safe, viable financial system for a 21st-century American economy. We must reinstate the *Glass-Steagall Act of 1933*. Glass-Steagall is not a one-size-fits-all cure for the ills of the financial sector, but it is exactly the type of reform that Congress must implement against the pleas of Wall Street executives. This is why I have introduced H.R. 1489, the *Return to Prudent Banking Act of 2011* [reintroduced in the House as H.R. 129 in January 2013], which would reinstate Glass-Steagall's separation between commercial banking and the securities business.

From 1933 until 1999, American financial institutions were barred from acting as any combination of a commercial bank, investment bank, or insurance company. The American financial system was built on confidence and fairness, and it allowed for access to capital, protected consumer accounts, and paid depositors and investors a decent return. From 1933 until 1999, Gross Domestic Product grew from \$56.4 billion (in current dollars, according to the U.S. Bureau of Economic Analysis) to \$9.3 trillion in 1999. However, as Wall Street gained political and economic influence, Congress passed the *Gramm-Leach-Bliley Act*, which effectively removed the banking barriers and safeguards that had

been in place for more than six decades. We were told by Wall Street and its supporters that banks were "hamstrung by outdated restrictions of the 1930s." I was one of 57 members of the U.S. House of Representatives who would vote against Gramm-Leach-Bliley. As the anti-regulation move-

ment won the day, this legislation was a clear signal that Wall Street was in charge. Banks grew larger and riskier, and American taxpayers were given the bill when the deregulated financial sector fell apart.

In order to move forward, we must not build our financial system around the failed concepts of speculation and manipulation, but around the cornerstones that made it strong: confidence and fairness. Earlier this year, expert witnesses testifying before the House Financial Services Committee correctly stated that, "investor confidence in U.S. equity market structure is perhaps at its lowest point since the Great Depression," and the public believes "that the stock market was 'not generally fair' to small investors." It should be no surprise that consumer confidence is low. The economy may be complex, but Americans understand that the Wall Street banks control an outsized portion of the economy, and that they have an outsized interest in their own profits.

People who share my views are rapidly growing in number. ... The time is now to implement smart reforms to protect the American economy as well as the American consumer. Congress must act and reinstate Glass-Steagall so the public can be assured that the economy is working for them, not just for Wall Street's CEOs.

Source: U.S. News & World Report



Congresswoman Marcy Kaptur, sponsor of House Resolution 129, the *Return to Prudent Banking Act of 2013*.



U.S. President Franklin D. Roosevelt signs the *Glass-Steagall Act* into law, 16 June 1933 (left). Flanking Roosevelt are Senator Carter Glass (white suit) and Representative Henry B. Steagall. President Bill Clinton signs the *Gramm-Leach-Bliley Act* into law, 12 November 1999, repealing Glass-Steagall (right).

Return To Prudent Banking Act of 2013 (H.R. 129)

Cosponsors

1.	Marcy Kaptur	D	Ohio	41.	Barbara Lee	D	California
2.	Walter Jones	R	North Carolina	42.	Julia Brownley	D	California
3.	Michael Michaud	D	Maine	43.	Earl Blumenauer	D	Oregon
4.	James McGovern	D	Massachusetts	44.	John Dingell	D	Michigan
5.	James Moran	D	Virginia	45.	Keith Ellison	D	Minnesota
6.	Michael Capuano	D	Massachusetts	46.	Marcia Fudge	D	Ohio
7.	Eleanor Holmes Norton	D	District of Columbia	47.	Hank Johnson	D	Georgia
8.	Peter Welch	D	Vermont	48.	Michael Doyle	D	Pennsylvania
9.	Lloyd Doggett	D	Texas	49.	Janice Hahn	D	California
10.	David Cicilline	D	Rhode Island	50.	Alcee Hastings	D	Florida
11.	Judy Chu	D	California	51.	Sheila Jackson Lee	D	Texas
12.	Daniel Lipinski	D	Illinois	52.	Edward Markey	D	Massachusetts
13.	George Miller	D	California	53.	John Yarmuth	D	Kentucky
14.	Collin Peterson	D	Minnesota	54.	Jackie Speier	D	California
15.	Susan Davis	D	California	55.	Grace Napolitano	D	California
16.	Louise Slaughter	D	New York	56.	Danny Davis	D	Illinois
17.	Elijah Cummings	D	Maryland	57.	Tulsi Gabbard	D	Hawaii
18.	Loretta Sanchez	D	California	58.	Kyrsten Sinema	D	Arizona
19.	Peter DeFazio	D	Oregon	59.	John Garamendi	D	California
20.	Jim McDermott	D	Washington	60.	Zoe Lofgren	D	California
21.	John Tierney	D	Massachusetts	61.	Eni Faleomavaega	D	American Samoa
22.	Rodney Alexander	R	Louisiana	62.	Frederica Wilson	D	Florida
23.	Chellie Pingree	D	Maine	63.	Tim Ryan	D	Ohio
24.	Janice Schakowsky	D	Illinois	64.	Luis Gutierrez	D	Illinois
25.	Gene Green	D	Texas	65.	Cynthia Lummis	R	Wyoming
26.	Mike Coffman	R	Colorado	66.	Raul Grijalva	D	Arizona
27.	John Conyers	D	Michigan	67.	Kurt Schrader	D	Oregon
28.	Robert Brady	D	Pennsylvania	68.	Rick Nolan	D	Minnesota
29.	Donna Christensen	D	Virgin Islands	69.	Lucille Roybal-Allard	D	California
30.	Alan Grayson	D	Florida	70.	Stephen Lynch	D	Massachusetts
31.	Donald Payne Jr.	D	New Jersey	71.	Gregorio Sablan	D	Northern Mariana Islands
32.	Peter Visclosky	D	Indiana	72.	Emanuel Cleaver	D	Missouri
33.	Anna Eshoo	D	California	73.	Gloria Negrete McLeod	D	California
34.	Timothy Walz	D	Minnesota	74.	Rush Holt	D	New Jersey
35.	Rosa DeLauro	D	Connecticut	75.	Alan Lowenthal	D	California
36.	Charles Rangel	D	New York	76.	Ann Kirkpatrick	D	Arizona
37.	Eddie Bernice Johnson	D	Texas	77.	Mike Honda	D	California
38.	Paul Tonko	D	New York	78.	Karen Bass	D	California
39.	Donna Edwards	D	Maryland	79.	Ted Yoho	R	Florida
40.	Bennie Thompson	D	Mississippi				

21st Century Glass-Steagall Act (S. 1282)

Cosponsors

1.	Elizabeth Warren	D	Massachusetts	6.	Sheldon Whitehouse	D	Rhode island
2.	Maria Cantwell	D	Washington	7.	Tammy Baldwin	D	Wisconsin
3.	Angus King Jr	I	Maine	8.	Barbara Boxer	D	California
4.	John McCain	R	Arizona	9.	Edward Markey	D	Massachusetts
5.	Barbara Mikulski	D	Maryland	10.	Bernie Sanders	I	Vermont

U.S. States Support Glass-Steagall

State legislatures in the following 25 U.S. states have either passed, or are debating resolutions calling on the federal Congress to restore Glass-Steagall:

Alabama	Illinois	Maryland	New Jersey	Rhode Island
California	Indiana	Michigan	New York	South Dakota
Colorado	Kentucky	Minnesota	North Carolina	Virginia
Delaware	Louisiana	Mississippi	Oregon	Washington
Hawaii	Maine	Montana	Pennsylvania	West Virginia

Europe Debates Glass-Steagall

The European Union

While the ruling European Commission and the European Central Bank are fiercely opposed to Glass-Steagall, when the EU held a public consultation on Glass-Steagall in 2013, 85 per cent of all respondents were in favour of a full separation of investment and commercial banks.



Belgium

Draft legislation to break up the banks was first introduced into the House in September 2010. In October 2011 four members of the two green parties, Ecolo and Groen, reformulated and reintroduced the legislation. It remains filed with the Finance Committee. The members of the six-party ruling coalition government are debating whether to proceed with the weaker “ring-fencing” proposal from Britain, or a full separation. Belgian Prime Minister Elio Di Rupo, Deputy Prime Minister Laurette Onkelinx, and the chairman of the Walloon Socialist Party Paul Magnette have all endorsed Glass-Steagall-style banking separation. In November 2013 a national petition drive was launched to gather 100,000 signatures for Glass-Steagall legislation; 13,000 signatures have been gathered so far.



Greece

In December 2013, the leaders of the two main opposition parties, the Independent Greeks and SYRIZA, called for Glass-Steagall to



be implemented in Greece and throughout Europe, while the newly formed Drachma 5 Stars party, which calls for a return of Greece’s old currency, the drachma, also has called in its party program for bank separation along the lines of Glass-Steagall.

Iceland

On 24 October 2012, Motion 239 for the separation of commercial banks and investment banks was introduced into Iceland’s Parliament, the Althingi, sponsored by 17 of its 63 members, representing all parties but one. It was debated and referred to a committee, and then reintroduced into the new Parliament on 3 October 2013. It is the third such motion to be submitted to the Parliament.



Italy

There are four Glass-Steagall bills currently before the Italian parliament, two in the Senate and two in the Chamber of Deputies. The leading promoter of Glass-Steagall in Italy is the former Economics Minister Giulio Tremonti, who was one of the contenders for the office of Prime Minister in the February 2013 election. The major political party Lega Nord introduced the bill into the Chamber of Deputies. Lega Nord has also introduced resolutions into four regional parliaments (councils), including Piedmont, the Veneto, Tuscany and Lombardy (the economically most important region in Italy), where it passed unanimously. A nationwide petition campaign to get proposed Glass-Steagall legislation into the Italian Parliament is registered at the Italian Constitutional Court in Rome.



Sweden

In October 2013 Sweden's Green Party (Miljöpartiet de Gröna) for the third year in a row submitted a motion for bank separation titled, "Separate trading activity from regular banking activity". Supporters of the motion include the chairman of the parliament's business committee. The motion ensures that banking separation will be on the Parliament's agenda for 2014.



Switzerland

The Swiss National Council (lower house of parliament) voted on 9 September 2013 by a 3:2 majority for three distinct statements calling for a strict Glass-Steagall type of banking separation. The vote is not a legislative act, but it binds the Federal Council to give a formal answer to the request of whether a banking separation in Switzerland is possible. Social Democrats' representative Corrado Pardini announced that his group is preparing a request for a national referendum to be presented soon to the federal Chancellor. The referendum is an important institution in the Swiss political system: Referenda can be held if at least 100,000 citizens request one, on any issue, and the result becomes law. A referendum would make it possible to bypass the government's opposition to Glass-Steagall, as well as problems in the upper house of Parliament, where the pro-Glass-Steagall parties (Social Democrats, Swiss People's Party, and Greens) do not have a majority. Pardini is confident that a referendum will yield 60 per cent "yes" votes for a banking separation system. On 19 September, the Social Democrats and the Swiss People's Party filed two almost identical motions for banking separation, which provide guidelines to the Federal Council for producing a draft bill. Switzerland's Green Party also supports a Glass-Steagall banking separation, and were the first to submit a motion to that effect in September 2011.



United Kingdom

Although there is as yet no Glass-Steagall legislation in the U.K. Parliament, it is the scene of the fiercest debate and strongest support in Europe. The *Financial Times* on 27 December 2012 reported an Ipsos MORI public opinion poll showing that more than 60 per cent of the Members of the British Parliament, across all parties, "would support a full-scale separation in British banking, modelled on the Glass-Steagall reforms implemented in the 1930s in the United States". The poll followed Sir John Vickers' banking inquiry, the Independent Commis-



sion on Banking, which recommended that commercial and investment parts of British banks should be "ring-fenced" from each other, i.e. nominally separated into two separate banks, though both would remain subsidiaries of the same holding company, i.e. they would be separated in name only.

The chair of the joint Parliamentary Commission on Banking Standards, Conservative MP Andrew Tyrie, released his committee's final report on 21 December 2012. It called for "electrifying" the government's proposed ring-fencing by giving regulators a so-called "reserve power" to force an individual bank to fully separate, no longer keeping both types of banking within one holding company, if it were found to have violated the ring-fence and failed to protect its non-speculative operations.



Andrew Tyrie

Said Tyrie, "Parliament took the unprecedented step of creating its own inquiry into banking standards, in the wake of the first revelations about the Libor scandal. The latest revelations of collusion, corruption and market-rigging beggar belief. It is the clearest illustration yet that a great deal more needs to be done to restore standards in banking. The Commission welcomes the creation of a ring-fence. It is essential that banks are restructured in a way that allows them to fail, whether inside or outside the ring-fence. But the proposals, as they stand, fall well short of what is required. ... [W]e recommend electrification. The legislation needs to set out a reserve power for separation; the regulator needs to know he can use it."

The battle over Glass-Steagall in Britain reached a high point during a long debate in the House of Lords on the Cameron government's *Financial Services (Banking Reform) Bill*, 26-27 November 2013. The Lords debated measures to strengthen the bill even beyond electrification, by including what Lord Eatwell termed a "second reserve power". He, joined by Lord Lawson and the Archbishop of Canterbury, argued that if a review within the next few years found that "ring-fencing" had failed to keep retail and investment banking separate, then regulators should have the "second reserve power" to apply full separation to the whole banking industry—in effect, imposition of Glass-Steagall. The Cameron government argued almost hysterically against spelling out such a Glass-Steagall reserve power in the law. Treasury Commercial Secretary Lord Deighton protested in the debate, "Glass-Steagall is not a supplement to ring-fencing, it is a separate alternative which would replace it; it is a game-changer," and demanded that it be the subject of separate legislation.

The following excerpts capture the seriousness of this debate.

Lord Eatwell (Labour): ...I will argue that the “reserve power” of full separation, as it was described by the parliamentary commission [under Tyrie], is a logical and coherent part of the entire strategy of ring-fencing, which consists of three parts. First, there is the provision of the ring-fence itself. Secondly, there is electrification of the ring-fence in the case of individual groups that transgress and are subsequently required to separate. Thirdly ... there is full separation where the process has not been followed successfully or appropriately by the banking industry. The whole thrust of the commission’s report is about the need to maintain these three stages. Each reinforces the other.

Lord Barnett (Labour):

Frankly, we now have an incredible situation. Despite that, it [ring-fencing] may eventually work, but we will not know that for donkey’s years. There will be reviews in five years’ time and more reviews before we even have a chance to know whether the ring-fencing in the Bill will work and save us from what the noble Lord, Lord Lawson, called a meltdown. I certainly hope it will, but we do not know. It is, as my noble friend said, a leap in the dark. Is that what we should be doing? Should we be experimenting at this stage, when we have had a major crisis caused by the self-same bankers who are now in charge? ...



Lord Barnett

[W]e are told by others that the professionals do not think that the new system will work. We have heard that a firm of private consultants called Kinetic Partners surveyed 300 people [financial professionals], of whom 35 thought that it would work; the rest did not—and they are the people who know what it is all about. ...

The noble Lord, Lord Forsyth of Drumlean, who spent seven or nine years as an investment banker, told us that, “bankers are extremely adept at getting between the wallpaper and the wall. If they can find a way to get around something, they will”.

We have seen that succeed. The financial crisis has been too big for us now to experiment. Now is the time for action, otherwise the lobbyists will have won yet again.

As the noble Lord, Lord Lawson, said, Glass-Steagall—the separation regime in the United States—did not fail but succeeded for more than 60 years. It failed when the lobbyists in the banks eventually won. However, if we managed to introduce a UK form of Glass-Steagall, strengthened to prevent lobbyists succeeding, we will have achieved something that has never been achieved before. We cannot wait for another big financial crisis. We must do it now. I beg to move [the “reserve power” amendment].

Lord Lawson (Conservative) [former Chancellor of the Exchequer 1983-89]: I have always been in favour of full separation—I came out publicly in favour of it long before the Vickers commission was even set up. We know that this works. It worked in the United States for many, many years under the Glass-Steagall arrangements and it is no accident that serious problems emerged after the *Glass-Steagall Act* had been repealed. Indeed, the *Glass-Steagall Act* would have worked for a great deal longer had not successive American Administrations been lobbied by the banks to introduce loopholes in one place and another. Anyhow, that is water under the bridge.



Lord Lawson

What is the danger? The danger accepted by the Vickers commission and the Government is twofold. First, although my noble friend Lord Flight is absolutely right that ordinary, plain, vanilla banking is a very risky business and often goes wrong, there is one particular range of risks in lending: the bad lending. In investment banking you had a whole new and very complex range of risks. It is not the case that nothing has ever gone wrong there; for example, there have been huge problems with derivatives that are a product of the complexity of investment banking. So there is first the question of whether it is sensible—when straightforward, plain, vanilla banking is risking enough—to add to that a whole new range of risks, a whole new complexity, which can make it more likely that the retail deposit-taking banks will get into difficulties. It must be unwise to do that.

The other problem is about the cultures. The Vickers commission did not talk about this, or think about it; it did not raise the issue of culture. But culture is very important. I was glad that when my right honourable friend the Prime Minister introduced the setting up of the Parliamentary Commission on Banking Standards, he explicitly said that it needed to look at the culture of banking, because something had gone wrong with it.

The culture of retail banking and the culture of investment banking are two quite separate things. One is, or should be, a culture of caution and prudence; the other is a culture of ... risk-taking of a totally different order. That is another thing that the Vickers commission did not look at. ...

Another of the things that the Vickers commission did not consider is the problem of governance. The ring-fence is a curious system, because there is one company with two subsidiaries—the retail bank and the investment bank—and we are told that they are completely separate, yet they are together. There is a real question whether that model of governance

is workable. I know of distinguished bankers—at least one of whom is present in the Chamber as I speak—who have grave doubts on this score. ... A number of the Vickers commission are friends of mine, they are very clever, and I have nothing against them—but they do not know whether it will work either. It has never been tried anywhere in the world, whereas complete separation has been tried, and it has worked. So it is vital that if the system proves not to do the trick, we move to complete separation.

The Archbishop of Canterbury [Dr. Justin Welby]: The advantage of the second reserve power and the first reserve power together, in addition to the ones that the noble Lord, Lord Eatwell, put so eloquently, is that they give a second shot to the gun. If the first reserve power fails, and a bank or two has been forced into full separation but the whole industry is still gaming the system, then you have still got the second reserve power. It appears that the Government's policy on this is to have only one shot and then to say, following that, 'We'll do something. As yet, we know not what. But we will do something, and it will be something very, very serious.'

... The Government have argued, and will argue, that full separation is something of a game changer and that such change should and can only come through primary legislation.

Lord Hamilton of Epsom (Conservative): My Lords, I support my noble friend Lord Lawson's amendment as well. Like him and the noble Baroness, Lady Cohen, I have always been a believer in Glass-Steagall, and in the complete separation of investment banks from clearing banks as the only way in which you can guarantee that there will be no contamination.

My noble friend the Minister described the ring-fencing as robust. I do not know how he can speak with such confidence about the robustness of the ring-fencing. I do know that many people in the City today are, as we speak, working on ways to get round the ring-fence and to make sure that money held in clearing banks can be used in investment banks. The problem is that there is an enormous financial incentive to get round this ring-fence. If that incentive remains when you do not have separation, it is only a matter of time before the clever people employed in the City will find a way round it.

Leading Bankers, Economists, Legislators Call for Glass-Steagall

Bankers

Don Argus Former CEO, National Australia Bank, former Chairman, BHP Billiton	"People are lashing out and creating all sorts of regulation, but the issue is whether they're creating the right regulation. ... What has to be done is to separate commercial banking from investment banking." 17 September 2011, <i>The Australian</i>
Nikolaus von Bomhard CEO, Munich Re, world's largest insurance company	"I'm a fan of a separated banking system". 17 July 2012 <i>Der Spiegel</i>
Uwe Fröhlich President, Association of German Mutual Banks.	"Taxpayers should not be held responsible for the potential risks of speculative financial market transactions." 18 October 2011, <i>Deutschland Today</i>
Peter Hambro Chairman, Petropavlovsk PLC; scion of Hambros Bank family	"They should never have been together and now they should be split, completely." 6 July 2012, <i>London Evening Standard</i>
Mervyn King Former Governor, Bank of England	"There are those who claim that such proposals [for full separation] are impractical. It is hard to see why." 20 October 2009, speech to Scottish business organizations
David Komansky Former CEO, Merrill Lynch	"Unfortunately, I was one of the people who led the charge to try to get Glass-Steagall repealed. ... I regret those activities and wish we hadn't done that." 5 May 2012, Bloomberg Video

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Stephen J. Lewis City of London fund adviser	<p>“The reintroduction of bank regulation along the lines of the <i>Glass-Steagall Act</i> would materially strengthen the U.S. financial system. It would ensure that the banks’ essential function of providing credit to support productive activity was insulated from the risks that arise from speculative financial activities.”</p> <p>9 May 2013, www.larouchepac.com</p>
Jean Peyrelevade Former CEO, Credit Lyonnais, head of Leonardo & Co., France	<p>“Ring-fencing is an excellent idea if it’s an intermediary step. In my view, the final objective should be to completely separate retail and investment banking activities If we shy away from this, we will be exposed to a resurgence of risk contagion from investment to retail banking through new, unexpected channels.”</p> <p>11 January 2012, <i>La Tribune</i></p>
Philip Purcell Former Chairman and CEO, Morgan Stanley	<p>“Breaking these companies into separate businesses would double to triple the shareholder value of each institution.”</p> <p>25 June 2012, <i>Wall Street Journal</i></p>
John Reed Former Chairman, Citigroup	<p>“I’m quite surprised the political establishment would listen to groups that have been so discredited. ... It wasn’t that there was one or two or institutions that, you know, got carried away and did stupid things. It was, we all did... And then the whole system came down.”</p> <p>16 March 2012, Interview, Moyers and Company</p> <p>“There is no societal benefit from integrating them [investment and retail banks]”</p> <p>December 2011, ifs University College, <i>Financial World</i></p>
Terry Smith CEO, Tullett Prebon	<p>“The U.K. and the U.S. must enact a <i>Glass-Steagall Act</i> and separate retail and investment banks. The only people who seem to have lobbied against such separation are bankers. Why are we listening to them?”</p> <p>1 July 2012, <i>The Guardian</i></p>
Sir Martin Taylor Former CEO, Barclays	<p>“I had observed similar things going on elsewhere, and I decided that it was neither safe nor sensible to have trading businesses mixed up in a retail and commercial banking group. Vastly more evidence has since accumulated in favour of this argument.”</p> <p>8 July 2012, www.ft.com</p>
Sandy Weill Former CEO, Citigroup, principal organiser behind 1999 repeal of Glass-Steagall	<p>“What we should probably do is go and split up investment banking from banking, have banks be deposit takers, have banks make commercial loans and real estate loans, have banks do something that’s not going to risk the taxpayer dollars, that’s not too big to fail.</p> <p>“I’m suggesting that they be broken up so that the taxpayer will never be at risk, the depositors won’t be at risk, the leverage of the banks will be something reasonable, and the investment banks can do trading, they’re not subject to a Volker rule (the Volcker rule explained),they can make some mistakes, but they’ll have everything that clears with each other every single night so they can be mark-to-market,” Weill said.</p> <p>25 July 2012, CNBC</p>

Regulators/Institutional

Sheila Bair (USA) Former Chairman, Federal Deposit Insurance Corporation (FDIC)	<p>“I think that idea [the re-instatement of Glass-Steagall] will gain a lot of traction And I welcome it, because it puts directional pressure on the regulators, saying—from Congress on a bipartisan basis ... ‘We don’t think you’re doing enough. We think maybe more dramatic reforms are needed.’ ... I think it’s tremendous that the bill [<i>21st Century Glass-Steagall Act</i>] has been introduced. It’s a good—directionally it goes in the right place.”</p> <p>22 August 2013, Speech to the National Press Club, Washington</p>
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Ramsey Clark (USA) Former Attorney General	<p>“I hereby add my name to endorse the passage of H.R.129, to restore Glass-Steagall. H.R.129, cosponsored by Rep. Marcy Kaptur (D-OH), and Rep. Walter Jones (R-NC), is entitled: the ‘<i>Return to Prudent Banking Act</i>.’”</p> <p>www.larouchepac.com</p>
Richard Fisher (USA) President and CEO, Dallas Federal Reserve	<p>“There is noise of a Glass-Steagall 2.0 that is fashioned on what we [the Dallas Federal Reserve] suggested, and I think in October the argument on this will become more active. There is political momentum for sure, although some worry about getting it wrong. ... The large financial companies and their proxies are spending millions of dollars to buy Congressmen and Congresswomen and protect themselves. You can quote me on that.”</p> <p>5 September 2013, Interview with www.euromoney.com</p> <p>“Hordes of Dodd-Frank regulators are not the solution; smaller, less complex banks are. We can select the road to enhanced financial efficiency by breaking up TBTF banks—now.”</p> <p>4 April 2012, <i>Wall Street Journal</i></p>
Andrew Haldane (UK) Bank of England Executive Director for Financial Stability, Financial Policy Committee member	<p>“Contrast the legislative responses in the two largest financial crises of the past century—the Great Depression and the Great Recession. The Great Depression spawned the <i>Glass-Steagall Act</i> (1933)—perhaps the single most important piece of financial legislation of the 20th century. That ran to a mere 37 pages. More recently, the Great Recession has spawned the <i>Dodd-Frank Act</i> (2010). It runs to 848 pages Once completed, Dodd-Frank might run to 30,000 pages of rulemaking.”</p> <p>10 April 2013, Speech to the <i>International Financial Law Review</i> Dinner, London</p>
Thomas Hoenig (USA) Board member, Federal Deposit Insurance Corporation (FDIC)	<p>Rep. Michael Capuano, chairman of the House of Representatives Financial Services Committee, asked the witnesses at a 26 June 2013 hearing, “If you could restore the <i>Glass-Steagall Act</i> now as the solution, would you do it, if you had the power?” Federal Deposit Insurance Commission (FDIC) vice-chairman Thomas Hoenig answered, “Yes I would. That’s what I am proposing you [Congress] do.”</p> <p>“If we don’t make these changes, I think we’re destined to repeat the mistakes of the past When you mix commercial banking and high-risk broker-dealer activities, you increase the risk overall and as a result you invite new problems.”</p> <p>26 June 2012, <i>Bloomberg Businessweek</i></p>
Daisuke Kotegawa (Japan) Former Executive Director for Japan at the IMF; former Deputy Director-General, Finance Bureau and International Bureau, Ministry of Finance	<p>“The crisis now was triggered by the completion of the abolition of the <i>Glass-Steagall Act</i> in 1999. ... It is of vital need now that the <i>Glass-Steagall Act</i> be re-instated and investment banks be liquidated as soon as possible to save Europe.”</p> <p>14 April 2013, Address to the Schiller Institute Conference, Frankfurt, Germany</p>
David Stockman (USA) Former Director, U.S. Office of Management and Budget	<p>“That [Glass-Steagall] would be big time big help because one of the recommendations that I have in the end—I do have a pretty pessimistic diagnosis, I agree—but I do have some ideas that could be pursued at the end. And one of them I call super Glass-Steagall. And what that means is one, break up the big banks regardless. No bank should be more than 1 percent of GDP. That’s \$150 billion. That’s big enough for a bank. There’s no advantages beyond that. So the banks that are a trillion or 2 trillion today would be broken up.”</p> <p>3 April 2013, Interview with Diane Rehm, www.thedianerehmshow.org</p>

Politicians

Roseanne Barr (USA) Performer, writer, producer, Green Party candidate for President	“Congress! Pass the Glass-Steagall Bill to save our country! We need to regulate criminals on Wall Street!” <div style="text-align: right;">23 July 2013, Twitter</div>
Elio Di Rupo (Belgium) Prime Minister, leader of the Socialist Party	“The financial assets circulating in the financial world aren’t any longer, in a sufficient way, dedicated to the real economy. That isn’t normal. There exists a demand, in Belgium as in other countries—for example in the United States—to break up the banks: on the one side the deposit banks, on the other, the investment banks. Ideas are being worked out, in Belgium at the national bank and on the European level. ... The situation is untenable. It is madness. When [Belgian banks] Dexia, Fortis ... had difficulties, they knocked on the door of the State. To help them, the Belgian State had no other choice but to lend money and increase its volume of debt. But the same banks now are giving us lessons and claim the State is overly indebted! ... My conviction is that we have to break up the banks, reduce their size and protect the assets of the citizens, so that we can avoid States having to intervene. Legislation has to be adopted which makes it so that the consequences of all risk behavior go to those engaging in it.” <div style="text-align: right;">1 September 2012, <i>La Libre Belgique</i>, interview on banking reform.</div>
Jonathan Edwards (UK) MP, Treasury spokesman for Plaid Cymru (National Party of Wales)	Condemning Chancellor George Osborne’s announcement that there won’t be a full public inquiry into the LIBOR scandal: “This is a scandal of conspiracy, theft and fraud at the heart of the financial industries in London. ... There is a structural and cultural problem with the UK banking industry which requires a complete overhaul. Crucially, we need a complete separation of retail and investment banks [Glass-Steagall Act] which goes further than the recommendations of the Vickers Report.” <div style="text-align: right;">2 July 2012 <i>AberdareOnline</i></div>
Walter B. Jones Jr. (USA) Congressman, Republican representative from North Carolina	“The two worst votes I made in the 18 years I’ve been in Congress were, the Iraq war, which was very unnecessary and the repeal of Glass-Steagall. ... Isn’t it time to have a discussion and a debate about the reinstatement of Glass-Steagall?” <div style="text-align: right;">26 June 2012, <i>American Banker</i></div>
Lord (Nigel) Lawson (UK) Former Chancellor of the Exchequer during the “Big Bang” (the rapid deregulation in the 1980s)	“...investment bank[s] taking risks on the back of the taxpayer guarantee is a great scandal. I myself would have liked to see a complete separation between retail banking and investment banking.” <div style="text-align: right;">11 April 2011, BBC</div>
Andrea Leadsom (UK) Conservative MP; former senior banker, Barclays	“The issue of a complete separation of retail and investment banking should also return to the agenda. It is right that the government should be the ultimate guarantor of retail deposits but that guarantee should not extend to high-risk transactions.” <div style="text-align: right;">20 July 2012, www.andrealeadsom.com</div>
Claudio Morganti (Italy) Member of Parliament	The “simplest” solution would be “to go back to a clear separation between commercial and investment banks, on the model of the American <i>Glass-Steagall Act</i> , whose abolition has provoked a spiral of international financial crises.” <div style="text-align: right;">16 April 2013, Speech to the European Parliament Plenary Session</div>
Lord (Paul) Myners (UK) Former Labour MP and City Minister; former CEO, Gartmore Group	“We need to go to what is known as a Glass-Steagall model, which is a complete separation...” <div style="text-align: right;">4 July 2012, Channel 4 News</div>
Dr. Hector Claudio Salvi (Argentina) Former Governor of the Santa Fe Province	“Please, members of the U.S. Congress, it is urgent that you pass the proposed law to restore Glass-Steagall which, in my judgment, will represent the beginning of the wished-for moral and material recovery of our nations.” <div style="text-align: right;">9 May 2013, Letter to U.S. Congress</div>

Sir Peter Tapsell (UK) Tory MP, longest serving Member of the House of Commons	<p>“After a lifetime as a stock broker and fund manager, my instinct ... is that we are heading for another banking crisis My dismay is, you have not yet committed yourself to the total separation of investment and commercial banks, which I have been urging on you ever since you became Chancellor. I am absolutely convinced if we do not go back to something approaching Glass-Steagall, it will be an absolute disaster when the next banking crisis hits us.”</p> <p>24 June 2013, British House of Commons, questioning of Chancellor of the Exchequer George Osborne</p>
John Thurso (UK) MP, Liberal Democrat	<p>“I think we actually have to go further than Vickers. It is not just about ringfencing, it is about a total separation, and when bankers like Bob Diamond tell me, as he has done in committee, ‘Oh well, nobody in the universal bank has failed,’ I now say to him, that was because you were rigging the markets. If it had been a fair market you probably would have failed. The money that is going in from the high street is going into the City gambling dens instead of being available to be lent to businesses and I think there is no choice now than to, by law, separate investment banking from retail banking.”</p> <p>1 July 2012 <i>The Scotsman</i></p>

Economists/Journalists

Liam Halligan (UK) Chief economist, Prosperity Capital Management; Economics columnist, <i>The Daily Telegraph</i>	<p>“A Glass-Steagall split needs to happen and someone needs to get it done. There really is no alternative.”</p> <p>7 July 2012, <i>The Daily Telegraph</i></p> <p>“This Glass-Steagall battle isn’t over yet, on either side of the Atlantic. Not by a long chalk. We can only hope it doesn’t take another crash to force our governments to see sense.”</p> <p>12 January 2013, <i>The Daily Telegraph</i></p>
Thom Hartmann (USA) Veteran <i>Truthout</i> columnist	<p>“[H]ow do we stop big banks, like Bank of America, from dragging America into yet another financial collapse? First and foremost, we need to bring back Glass-Steagall”</p> <p>12 June 2013, www.alternet.org</p>
Harold Meyerson (USA) Opinion writer, <i>The Washington Post</i>	<p>“[W]e need to bring back something like the <i>Glass-Steagall Act</i>, which built a wall between depositor banks and investment banks...”</p> <p>24 July 2013, <i>Washington Post</i></p>
Robert Reich (USA) Professor, University of California Berkeley, former Secretary of Labor	<p>“The alternative is to be unflagging and unflinching in our demand that Glass-Steagall be reinstituted and the biggest banks be broken up.”</p> <p>8 July 2012, London <i>Guardian</i> commentary “Wall Street’s Link to LIBOR”</p>
Luigi Zingales (USA) Professor, University of Chicago Booth School of Business	<p>“Over the last couple of years, however, I have revised my views and I have become convinced of the case for a mandatory separation.”</p> <p>10 June 2012, <i>Financial Times</i></p>

7. Summary of Draft Legislation for an Australian National Bank

A New National Bank

In 1994, following extensive discussions with Lyndon LaRouche, the CEC composed draft legislation to re-establish the Commonwealth Bank as a national bank, with expanded powers and functions along the lines originally envisaged by King O'Malley first, and then by John Curtin and Ben Chifley. The following is a summary of the draft bank bill. The full legislation is contained in "*The Commonwealth National Credit Bank Bill*" pamphlet, available from the CEC.

Summary

A national bank dedicated to fostering the growth of the nation's physical economy is the cornerstone of national sovereignty. Beginning with the *Commonwealth of Australia Constitution Act* in 1901, and then the *Banking Act 1959* and the *Reserve Bank Act 1959*, it is clear that Australia was never intended to break free of the colonial yoke. By these laws, the Queen's representative, the Governor-General, is granted awesome powers:

- Section 56 of the Constitution gives the Governor-General total control over the appropriation of revenue or of money, by specifying that no revenue or money bill may be enacted or even debated without the Governor-General's prior written permission delivered to the Parliament on the day.
- The *Reserve Bank Act 1959* grants the Governor-General the right to appoint the governor of the Bank, and thus to control all Reserve Bank policy.
- Part 2 of the *Banking Act 1959* gives the Governor-General the absolute power to issue Authorities for the conduct of the business of banking, the application of any conditions attaching to such Authorities, and the power to determine the criteria and financial standing of an applicant for an Authority to become a bank.
- Part 3 of the *Banking Act 1959* gives the Governor-General power to impose a trade embargo on all exports from, and imports into, Australia. In addition, the absolutely untrammelled extent of his/her powers is specified in Section 39 of that Act. Note the italicised words in the concluding phrase of this section itemising his/her powers to make regulations:

39. (1) Where the Governor-General considers it expedient to do so for purposes related to:
- (a) foreign exchange or the foreign exchange resources of Australia;
 - (b) the protection of the currency or the protection of the public credit or revenue of Australia; or
 - (c) foreign investment in Australia, Australian investment outside Australia, foreign ownership or control of property in Australia, or of Australian property outside Australia, or Australian ownership or control of property outside Australia, or of foreign property in Australia; the Governor-General may make regulations, *not consistent* with this Act, in accordance with this Section (emphasis added).

In other words, even though this Act grants the Governor-General all-sweeping powers, he/she can in addition do whatever he/she likes, regardless of what is specified in this Act!

So far as possible (that is, without constitutional changes), the Commonwealth National Credit Bank Bill (CNCB) strips the Governor-General of these arbitrary powers. Since the new CNCB will be clearly acting in the nation's best interests, should the Governor-General choose to exercise his/her powers under Section 56 of the Constitution to thwart the will of the Parliament in establishing the new Bank, or in the Bank's functioning, a political crisis will follow in which the Governor-General will be exposed for the colonial dictator he/she really is, and can thus be defeated.

The CNCB Bill repeals the *Reserve Bank Act 1959*, completely replacing it. It amends the *Banking Act 1959*. In particular, it removes the Governor-General's powers and grants them to the board of the new Bank. It establishes a Bank which is responsible to Parliament, instead of to the private individuals who currently run the Reserve

Bank, and mandates, by law, the Bank to function in such a manner as to cause a rise in Australia's "potential population-density" through a "rise in the physical output of the nation" and in "the rate of introduction of new technologies into the economy." Precise measures to calculate such rises are specified, so that the Bank has no choice, but to so function, or an investigation is mandated.

All new credit creation by the new Bank shall, by the terms of this Bill, be tied to tangible hard commodity production. The present Reserve Bank's ability to create or extinguish credit by "open market operations"—is expressly forbidden.

The "power" of the proposed new Bank is greater than those of the existing Reserve Bank, and in addition to those of the Reserve Bank, include power:

1. to issue notes and establish credits to acquire, support and retain the sovereignty of Australia and for the defence of the lives, liberty, and happiness of the Australian people;
2. to control, and if necessary, prohibit, the movement and dealing in currency, of foreign exchange and financial instruments of the widest definition;
3. to plan, measure, and map the economic state of the nation;
4. to provide credits under a National Emergency Credit Issue Act to guarantee up to \$100,000 per individual person, the deposits of such persons in the event of a financial collapse of a substantial percentage of the existing trading banks. The confusing claim that the Reserve Bank, under the *Reserve Bank Act 1959*, has preference over depositors in the event of bank failure, when Section 16 of the *Banking Act 1959* states that, priority in the event of bank failure lies with the depositors, has been corrected in Section 55 of the CNCB Bill.

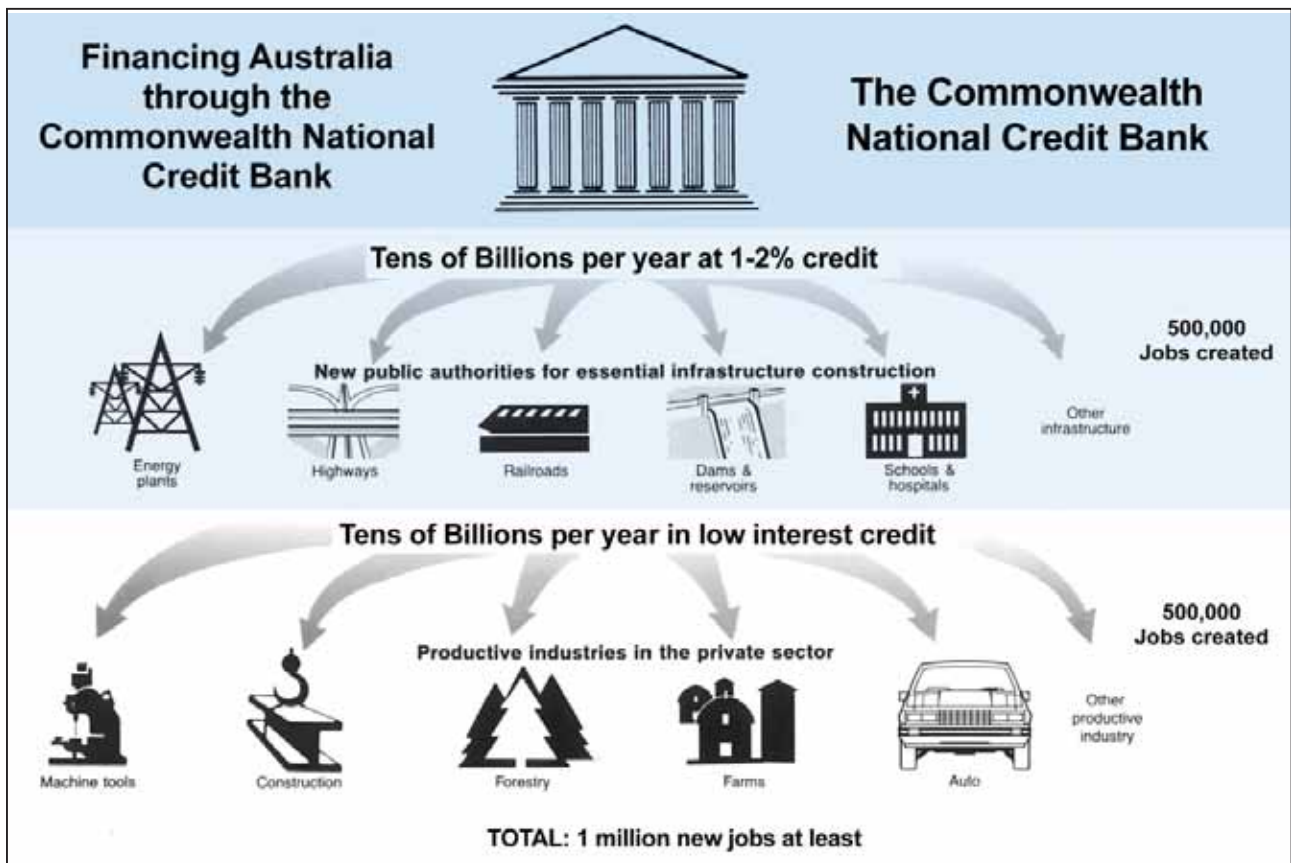
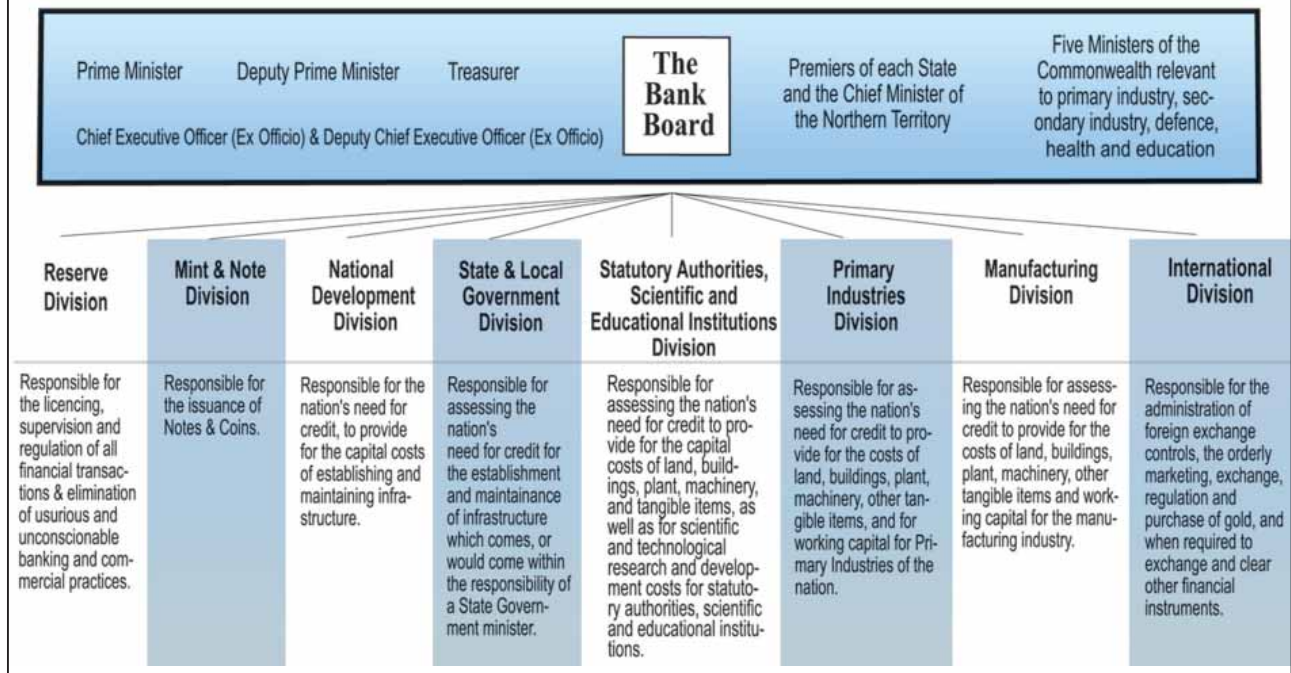
The new Bank will have eight divisions, as follows:

- *The Reserve Division*, responsible to licence, supervise, and regulate all financial institutions.
- *The Mint and Note Division*, responsible for the issuance of legal tender, i.e. notes and coins.
- *The National Development Division*, responsible to assess the nation's need for credit to provide for the establishment and maintenance of infrastructure of national importance and to provide such credit.
- *The Statutory Authorities, Scientific and Educational Institutions Division*, responsible to assess the nation's need for credit to provide for the capital costs of land, buildings, plant, machinery, and tangible items, as well as for scientific and technological research and development costs for statutory authorities, scientific and educational institutions, and to provide such credit.
- *The State and Local Government Division*, responsible for assessing the nation's needs for credit for the establishment and maintenance of infrastructure not specifically provided for by other divisions of the bank and to provide that credit at an annual interest rate not to exceed three per cent.
- *The Primary Industries Division*, responsible for assessing the nation's need for credit and the issuance of credit expressly for family farmers and other family producers of primary products who directly contribute to increasing the potential population-density of Australia.
- *The Manufacturing Division*, responsible for assessing the nation's need for credit and the issuance of credit for manufacturing industries of Australia.
- *The International Division*, responsible for the administration of exchange controls, and provisions of the Act relating to gold, and if and when required, the exchange and clearance of financial instruments and other international matters.

The existing informal regulation of trading banks has been formalised, and provisions have been included to stop banks and other financial institutions from engaging in or financing speculative activities relating to currency, foreign exchange, derivatives, and the like.

All activities of the CNCB are to be open for public scrutiny and statements of account and activities are to be laid before the Parliament within 30 days of the close of each calendar month.

The Commonwealth National Credit Bank



8. The Economic Recovery Program

Great Water Projects, Maglev Rail, Nuclear Fission Power

With a national bank, Australia can set out to rebuild its physical economy, which has been devastated by decades of disinvestment and outright looting through scams such as privatisation, as have most other nations. In 2011, Infrastructure Partnerships Australia, the nation's peak infrastructure body representing government and business, estimated that Australia had an infrastructure deficit of \$770 billion. Addressing this crisis is the key to Australia's economic recovery and prosperity. Millions of productive jobs will be created through infrastructure construction alone, and such projects will stimulate productive industries that will create millions more jobs.

Australian Treasurer Joe Hockey is presently gearing up to exploit this urgent infrastructure need with a massive expansion of infrastructure funded through the financial scam known as Public-Private Partnerships (PPPs). This is infrastructure built primarily to profit investment banks, through heavy tolls and charges etc., not to benefit the economy. They are called Public-Private Partnerships, because the government, i.e. the public, bears the risk of the investment, while the private investors rake in the profits. Australia is already one of the heaviest users of PPPs in the world, which were pioneered by Macquarie Bank, starting with Sydney's toll roads. Such PPPs increase the cost of everyday business in the economy, whereas infrastructure funded by a national bank isn't burdened by the demand to produce a commercial return for private investors, and therefore decreases the everyday costs of the economy.

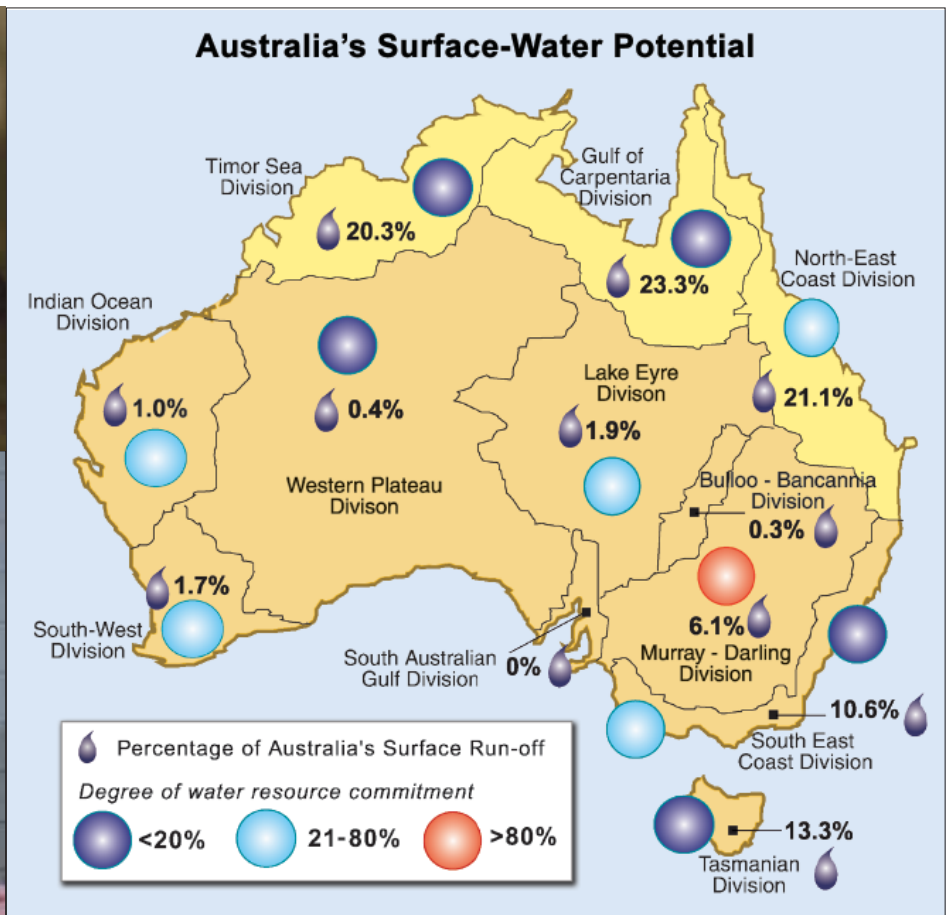
In 2002 the CEC collaborated with Lance Endersee, Emeritus Professor of Engineering at Monash University, to produce a comprehensive blueprint for infrastructure development in Australia called "The Infrastructure Road to Recovery", published in the February 2002 *New Citizen* and reprinted in *The New Citizen* of April 2006. This blueprint featured plans for 18 major water projects for flood control, drought-proofing Australia, and conquering salinity, along with plans for high-speed rail and shipping, cutting-edge nuclear power technology, and conquering space. Following are three of the key projects in water management, transport, and nuclear power which the CEC is committed to building immediately. As government projects funded by a national bank, they will put Australia on the path to prosperity.

The Bradfield Scheme

Dr. J.J.C. Bradfield, the engineer behind the iconic Sydney Harbour Bridge and Sydney's underground rail network, also designed a grand scheme for harnessing the immense rainfall of far-north Queensland to water the inland. The "Bradfield Scheme" was featured on the list of great Post-War Reconstruction projects planned by the Chifley government, of which only the Snowy Mountains Scheme was ever built. (Robert Menzies, who opposed even the Snowy, killed these plans together with Post-War Reconstruction Minister Nugget Coombs.) Promoting his idea in 1941, Bradfield wrote, "To populate and develop Australia, we must spend money to make money. The money spent



The Citizens Electoral Council's *New Citizen* newspapers from February 2002 and April 2006 (left) contained the special report "The Infrastructure Road to Recovery." The 1984 Bradfield Study Consortium report (right) was never formally published.



Dr. John Bradfield (top left) and the late Professor Lance Endersbee (bottom left) developed detailed infrastructure plans for Australia's great northern water basins, which account for 65 per cent of Australia's entire surface-water run-off (right).

would all be for labour and materials of Australian origin. ... Australia must control her own economic independence, not London. ... The nation without vision perishes, but the heart and mind of any vigorous people responds to the dreams of its national destiny and will endeavour to make full use of its heritage

The North-East Coast Division of Australia's water catchments, running the narrow length of the Queensland coast east of the Great Dividing Range, receives 21.1 per cent of Australia's surface run-off water. This compares with the much larger Murray-Darling Division, which receives just 6.1 per cent but produces the majority of the nation's food, and the Lake Eyre Division with only 1.9 per cent. Bradfield's scheme will dam and divert the headwaters of the Tully, Herbert and Burdekin rivers in the highest-rainfall area of the North-East Coast Division, across the Great Dividing Range through a series of tunnels and channels, and down into Central Queensland's Flinders and Thomson rivers and eventually into Lake Eyre. The water will irrigate an explosion of agricultural production and drought-proof inland Australia. In 1984, at the direction of Bob Katter Jr., then the Minister for Northern Development



The "Bradfield Scheme" was featured on the list of great Post-World War II reconstruction projects planned by the Chifley government. However, under Robert Menzies and the Post-War Reconstruction Minister and central banker Nugget Coombs, the plan was killed, together with pretty much all the other post-war development schemes.

in the Queensland state government, four of Australia's best known hydraulic engineering firms formed the Bradfield Study Consortium, but due to a change of government in Queensland the Consortium's report was never released. In 1993 the relevant Shire Councils of North and Central Queensland formed the Northern Australian Water Development Council, to fight for a revised version of the Bradfield Scheme, which at that time was estimated to cost a mere \$2.49 billion. Queensland's Office of Northern Development projected that the scheme would create \$2.02 billion annually in direct agricultural output, not to mention the billions saved in drought losses. Compare the pittance of \$2.49 billion to the financial and human cost of recent droughts and floods: The droughts of 1982-83, 1991-95 and 2002-03 cost Australia at least \$3 billion, \$5 billion and \$10 billion, respectively, while from December 2010 to January 2011, Western Australia, Victoria, New South Wales and Queensland experienced widespread flooding. There was extensive damage to both public and private property, towns were evacuated and 37 lives were lost, 35 of those in Queensland. Three quarters



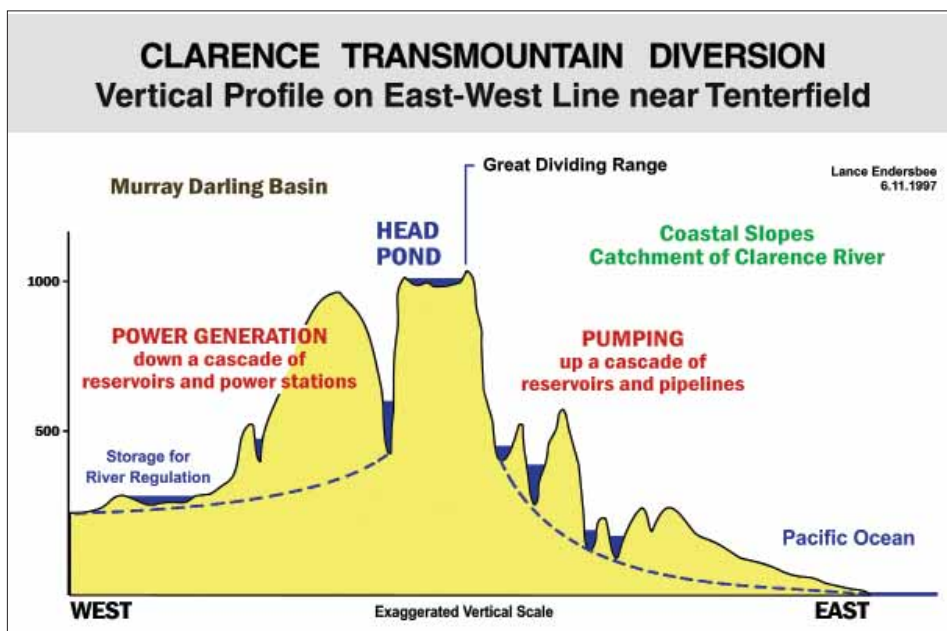
The Clarence River Scheme could potentially divert an annual 1,000 gigalitres of water across the Great Dividing Range into the Murray-Darling Basin, boosting much needed supply for agriculture and industry, while helping to solve flooding, salinity and blue-green algae problems too.

of Queensland was declared a disaster zone, an area greater than France and Germany combined, and the total cost to the Australian economy has been estimated at more than \$30 billion.

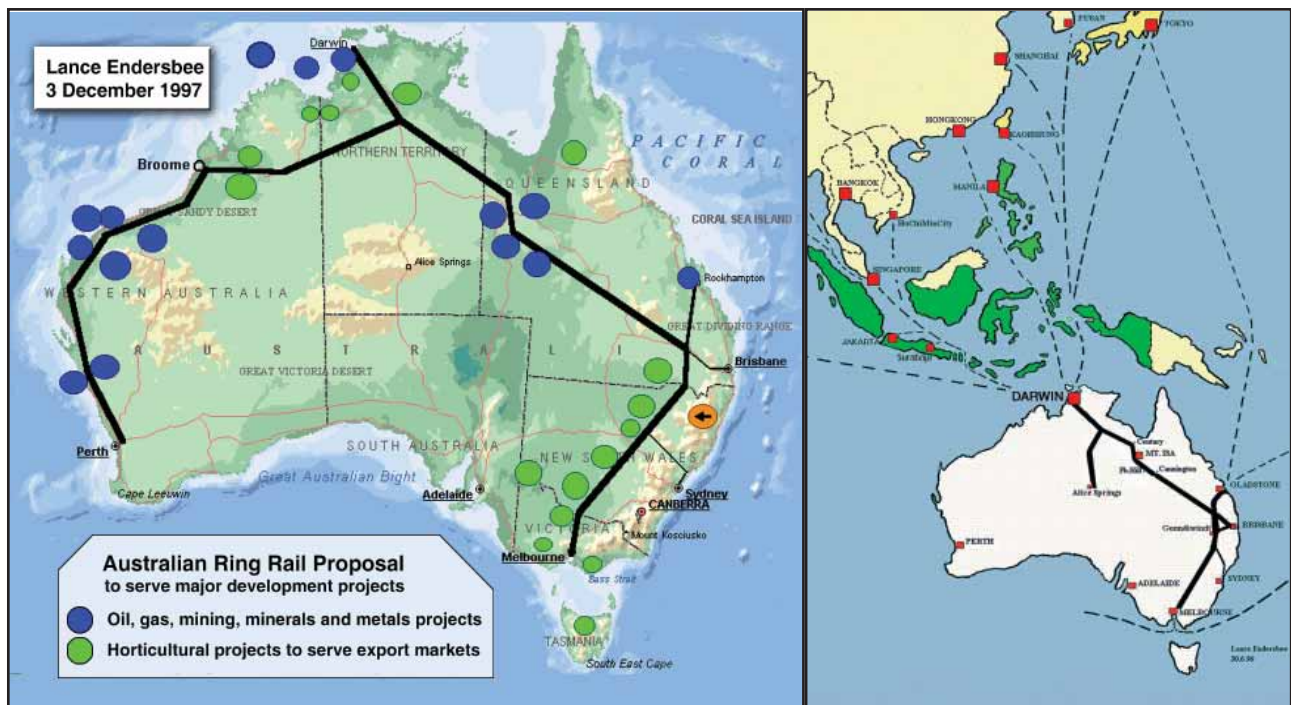
The Clarence River Scheme

Since 1839, the Clarence River Valley in Northern NSW has seen 73 moderate-to-major floods. The

most recent flood in January 2013 as a result of Cyclone Oswald set a new all-time record. The swollen Clarence River rose to 8.08 metres and the flow was 1,500 gigalitres a day, a flow that would fill Sydney Harbour in six hours. Located near Grafton and Tenterfield NSW, this subtropical zone receives both the northern tropical summer rains, as well as the central eastern rains that come from the Pacific Ocean in winter. Most of this rainfall flows out



A vertical profile of Lance Endersbee's proposed Clarence Scheme, from east to west near Tenterfield.



The original Australian Ring Rail proposal of Lance Endersbee (*left*). All the major ports of Asia (*right*) will be within one to four days' shipping from Australia. Shown here is the Melbourne-Darwin route of the Ring Rail, bringing freight from the east coast to Asia, through Darwin.

to sea. The Clarence River Scheme, as proposed by the late professor Lance Endersbee, would capture some of the flood waters that flow down the Clarence River's tributaries—the Mann, Nymboida, Timbarra and Upper Clarence rivers—and using a set of dams, pump-lifts and head ponds, would transfer this flood water over to the western side of the Great Dividing Range. This water would then flow down through the Dumaresq, Macintyre, Barwon, and Darling Rivers and serve as a source of water for agriculture and industry in the Murray-Darling Basin. The Scheme could add an additional one thousand gigalitres of water directly into these rivers annually, boosting much needed supply for this key food-bowl. Endersbee's proposal involves using off-peak electricity to pump the water up and over the Divide into a series of head-ponds at night, which could then generate hydroelectric power on demand during the day as the water is released down the other side of the range.

The Australian Ring Rail/Asian Express

Professor Lance Endersbee put five years professional work into developing a detailed proposal for a high-speed, double-tracked, Melbourne to Darwin Asian Express for fast freight, which he later expanded to go around the top end of the continent and terminate in Perth. Prof. Endersbee called it the Australian Ring Rail, and he envisioned it would serve major development projects in resources and horticulture for export markets. The railway could link with fast shipping in Darwin, to get goods into the huge ports of Southeast Asia in just three or four days.

Infrastructure of this quality would open up and develop Australia, in the way Abraham Lincoln's trans-continental railroads developed the United States in the 19th century. For example, it would transform the Murray-Darling Basin food bowl, because irrigators would not be limited to tyranny-of-distance crops



Maglev trains today, like the Japanese MLX01 (*left*) have achieved travel speeds of 581 km/h. In a vacuum tube (*right*), since there is no resistance from the air, maglev trains could reach speeds in excess of 6,000km/h.

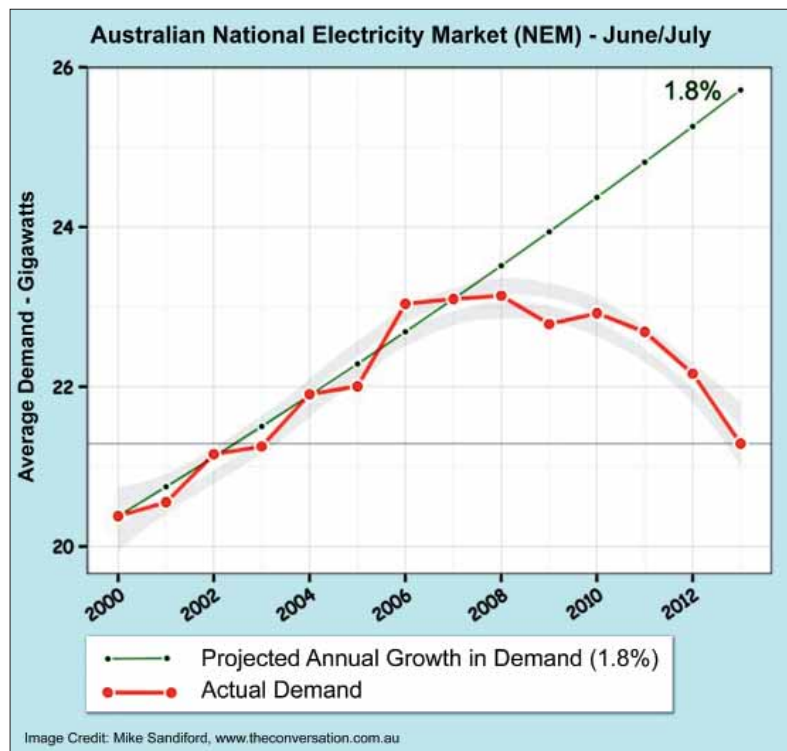
such as rice and cotton, but be able to produce high-value horticultural crops such as vegetables, for rapid distribution around Australia and into Asia. An Australian Ring Rail should also use the most cutting-edge technology, which is magnetic levitation, already operating in China, in which the trains travel on a frictionless magnetic field and can reach 580 km/h. China has had a maglev train operating commercially since 2004 from Pudong International Airport to the Shanghai Metro. The 30 km journey takes just 7 minutes and 20 seconds. An even further advance is vacuum-tube maglev technology, in which trains can reach 6,000 km/h in vacuum sealed tunnels which contain no air resistance. China has already started testing this technology. The Traction Power State Key Laboratory of Southwest Jiaotong University has developed a prototype model vacuum maglev train that ran at between 600 and 1,200 km/h, equal to the speed of a plane, according to Shuai Bin, Vice Dean of the university's Traffic School. This is just a prototype; longer evacuated tubes will allow more distance to build up speed.

Never in a million years would the private sector construct such projects. But built through a new public authority funded by 30-year, low-interest credit from a national bank, they would transform the economy.

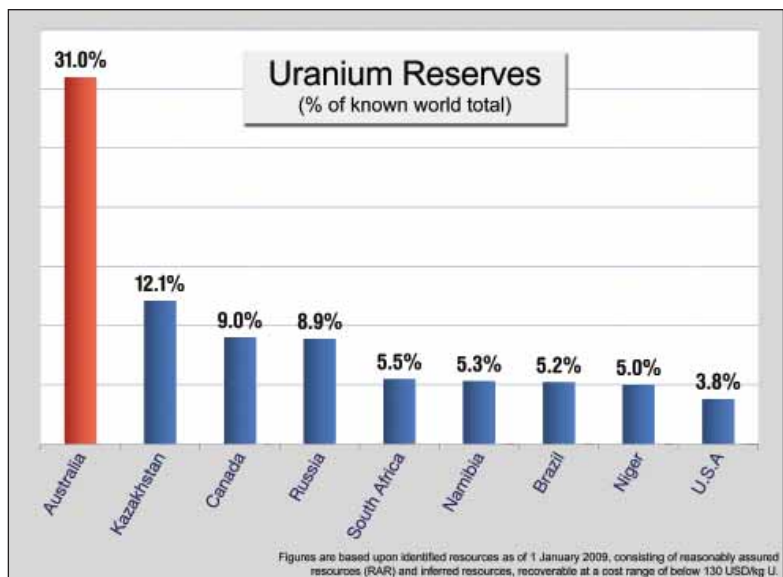
Expand Electricity Generation Capacity with Nuclear Power!

Australians must adopt nuclear power to ramp up our baseload power production for a secure and growing future economy. Despite recent declines in electricity consumption (actually a sign of an economy in collapse rather than of "energy efficiency") our electricity generation infrastructure struggles to supply power during peak periods. Increased generation capacity is urgently required to significantly exceed current "peak demand" and allow a generating surplus for new industry and a projected growing population. Nuclear power must be adopted along with newer coal-fired power plants, while the expensive, inefficient and intermittent wind and solar power should be left in the history books as a big mistake.

There are now 435 nuclear reactors operational in



A shocking statistic demonstrates Australia's economic collapse: since 2008, Australia's consumption of electricity has collapsed year on year. This graph shows the actual vs. projected national electricity demand during June/July for the past decade.



Australia has the world's largest reserves of the nuclear fuels, thorium and uranium, enough to produce thousands of years of cheap, clean electricity.

30 nations around the world, producing 2,518 billion kilowatt hours of electricity a year. There are currently 71 reactors under construction—29 in China alone. In addition, 44 nations are now either planning to build or have proposed to build another 484 reactors. China alone has 58 planned reactors and another 118 proposed reactors and is also planning to build 363 new coal-fired power plants. Australia is sitting on top of the biggest reserves of uranium and thorium in the world—enough to power the entire world for at least tens of thousands of years. However, both Labor and

the Liberal/National Coalition not only have no policy to produce nuclear power, but they are committed to idiotic, actually genocidal schemes for “reducing carbon dioxide emissions”, and to flogging off state-owned power plants and transmission grids. These latter policies have caused the skyrocketing of electricity prices in Australia, both in absolute prices (Fig. 1), and the rate of increase of those prices (Fig. 2).

In the words of Pope Francis in *Evangelii Gaudium* (p. 61), such policies are “the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation”, and “reject the right of states charged with vigilance for the common good, to exercise any form of control.” And they *kill people*, as demonstrated yet again in the January 2014 heat wave.

Fig. 1

Average household electricity prices (2011-12) and Australian projections to 2013/14

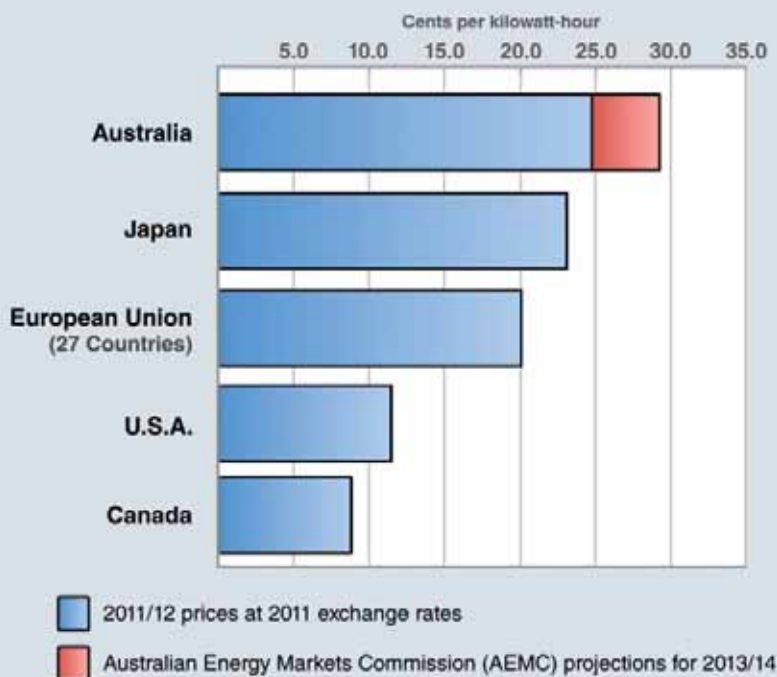


Fig. 2

Household electricity price index (constant currencies of each country/bloc)

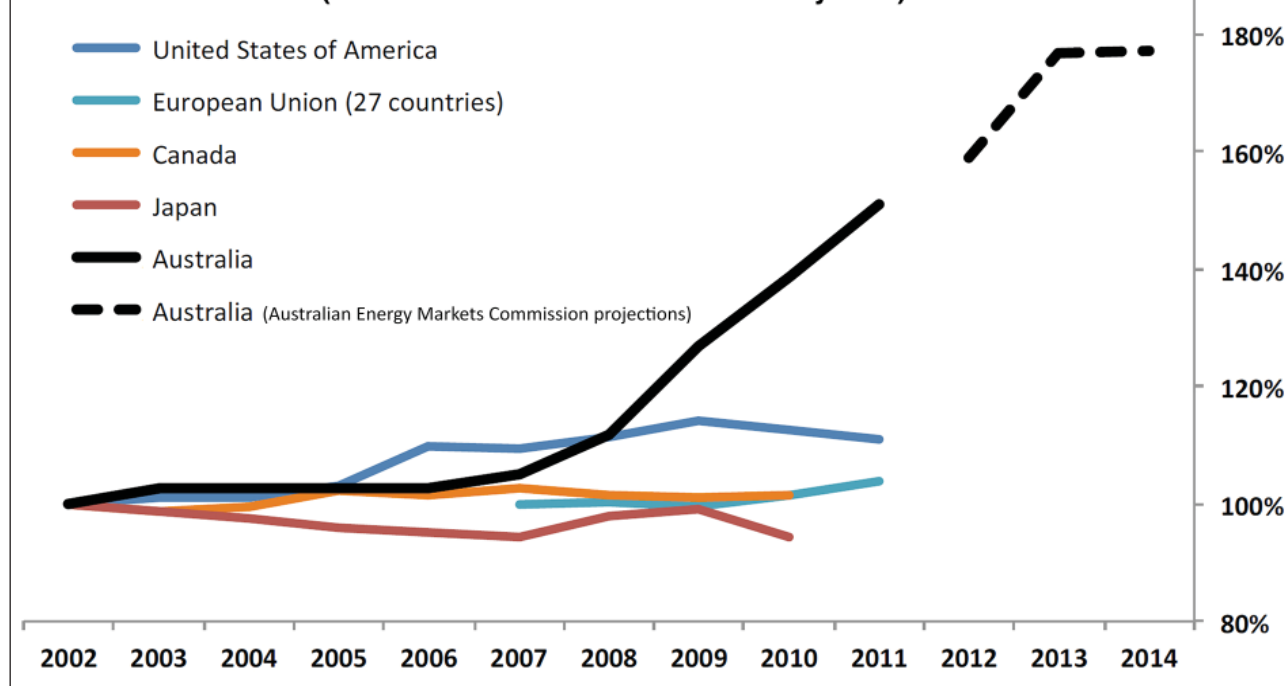


Figure 2 is an index of household electricity prices in constant currency starting from 2002. It shows how electricity prices have changed since 2002, and that household electricity prices in the U.S., EU, Canada and Japan have been stable in the period from 2002 to 2010/11. By contrast, Australian electricity prices were stable from 2002 to 2007, but since then have risen around 40% in real terms and are projected to rise a further 30% over the next two years. Source: *Electricity Prices in Australia: An International Comparison*, CME, www.cmeaust.com.au, March 2012

9. Mankind's Future: Thermonuclear Fusion

The Fusion Economy

The world has now reached a population of 7.1 billion people. Two choices are before us: we can choose to commit ourselves as a nation to the international programs under way to create a new economic platform in thermonuclear fusion technology, thus guaranteeing a higher standard of living and life expectancy to ourselves and future generations—or we can accept the inevitable result of our current ongoing technological stagnation, economic collapse and population reduction policy of “sustainability”, as is reflected in the recent shocking per capita collapse of electricity consumption here in Australia and other Western economies.

Nuclear fusion power is not a fancy pipedream, as some political bean-counters suggest. Fusion can be a usable source of unlimited power within one generation. To achieve that, we require nothing less than a national and international commitment to that goal, on par with what was witnessed during the Manhattan Project, and the Apollo Program, inspired by great leaders like John F. Kennedy.

Fusion represents not just a source of practically unlimited electrical power. It represents a giant leap upward to an entirely new economic platform and to fundamentally new physical economic processes. We live today in an economy that is primarily a petroleum based economy. Petroleum fuel, when burned, has a total energy output of approximately 45 megajoules per kilogram. Fusion fuel, by comparison, can produce approximately 370,000,000 megajoules per kilogram. In other words, the fusion reaction can generate 10 million times the amount of energy per kilogram, than petroleum, our major energy source today (Fig. 1).

Where do we find this fuel, from which we derive fusion power? It can be collected from ocean water! It is found in the molecules of water—molecules that contain isotopes of the element hydrogen. Fusion occurs when the heavy isotopes, known as deuterium and tritium (Fig. 2), are fused together under conditions of extreme temperature and pressure, which results in the creation of helium, as well as a neutron particle and a huge amount of energy (Fig. 3). This is the process that occurs in the core of our sun.

Fig. 1 Specific Energy of Fuels

FUEL SOURCE	ENERGY (J/g)
Combustion of Wood	1.8×10^4
Combustion of Coal (Bituminous)	2.7×10^4
Combustion of Petroleum (Diesel)	4.6×10^4
Combustion of H_2/O_2	1.3×10^4 (full mass considered)
Combustion of H_2/O_2	1.2×10^5 (only H_2 mass considered)
Typical Nuclear Fuel	3.7×10^9
Direct Fission Energy of U-235	8.2×10^{10}
Deuterium-Tritium Fusion	3.2×10^{11}
Annihilation of Antimatter	9.0×10^{13}

The change in fuel energy density from wood up to matter-antimatter reactions is so great, that progress must be counted in orders of magnitude. The greatest single leap is seen in the transition from chemical to nuclear processes.

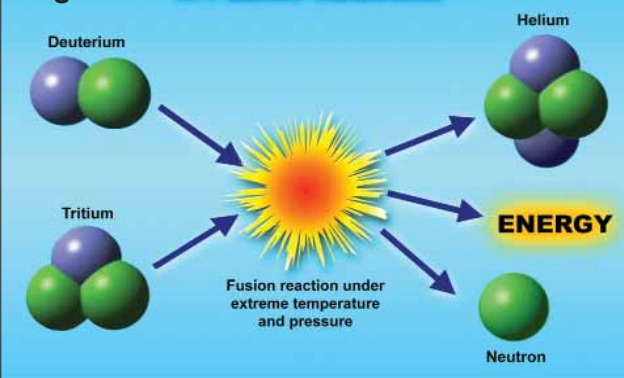
Fig. 2

Hydrogen (1 Proton) **Deuterium** (1 Proton, 1 Neutron) **Tritium** (1 Proton, 2 Neutrons)



Fig. 3

A Fusion Reaction



The challenge before scientists is to confine this process in a sustained and controlled way, while capturing the incredible energy produced. Current facilities use magnetic confinement or inertial confinement of a plasma under extreme pressure, heated to more than 100 million degrees Celsius (**Fig. 4**). Currently, the fusion reactions that scientists have been able to create are not sufficient to provide a sustained energy source for widespread use, but that point is getting very close. Over the past 50 years of research and experimentation, great progress has been made in fusion, despite operating on a shoestring budget. Just imagine how far ahead we would be today, had governments allocated the necessary funding to this goal, instead of cutting budgets and pouring wasted billions into inefficient so-called “renewable” energies like solar and wind.

It must be emphasised, however, that the fusion economy is not just about acquiring power to be applied to the existing state of the economy.

The entire history of the development of humanity has been characterised by the creation of new economic systems based upon new technologies —a series of qualitative changes driven by increasing levels of controlled energy flux density. This is one of the purest expressions of the unique creative powers that separate mankind from any mere animal species.

The greatest economic revolutions have been

driven by transitions to qualitatively higher levels of power sources. Fusion is now the imperative for mankind. By starting now, over the course of the next two generations the power and resource requirements of a growing world population can be met, and mankind can be set upon a new path, one actually befitting our true, creative nature.

Among the countless potential fusion technologies that will transform the entire basis of our economy are the following:

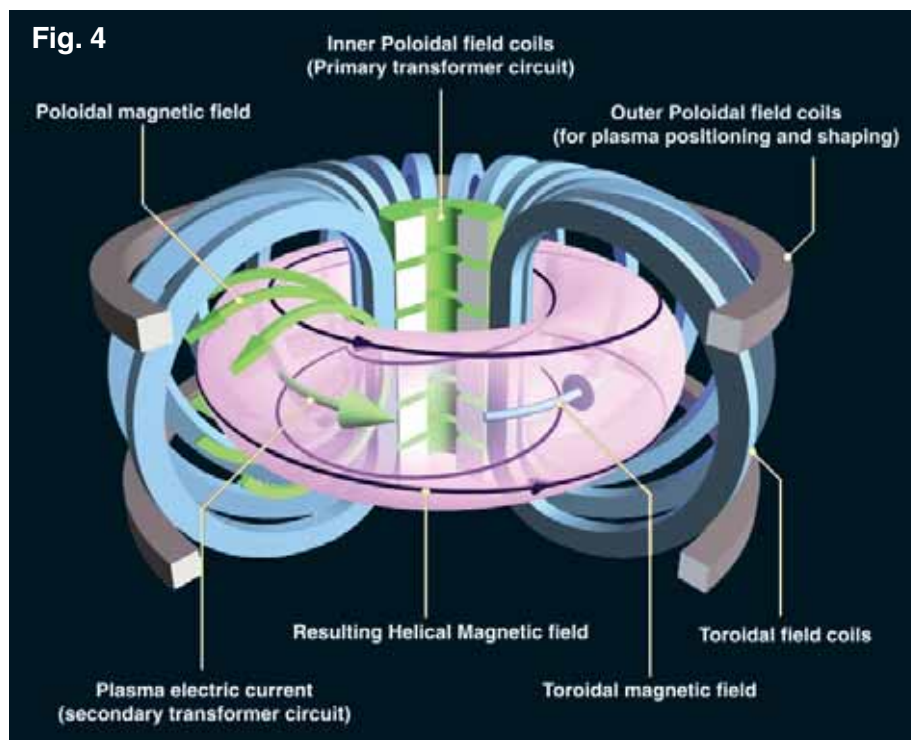
The Fusion Torch

The “fusion torch” design, first proposed in 1969 by Bernard Eastlund and William Gough of the U.S. Atomic Energy Commission, uses an ultra-high temperature fusion plasma, diverted from a fusion reactor core, to reduce virtually any feedstock (low-grade ore, fission by-products, seawater, garbage from landfills, etc.) to its constituent elements (**Fig. 5**). Once the feedstock has been injected into the plasma, the elements become dissociated into electrons and ions, and the desired elements (or isotopes) can be separated from one another by atomic number or atomic mass, creating pure, newly synthesised mineral “deposits” from virtually any substance.

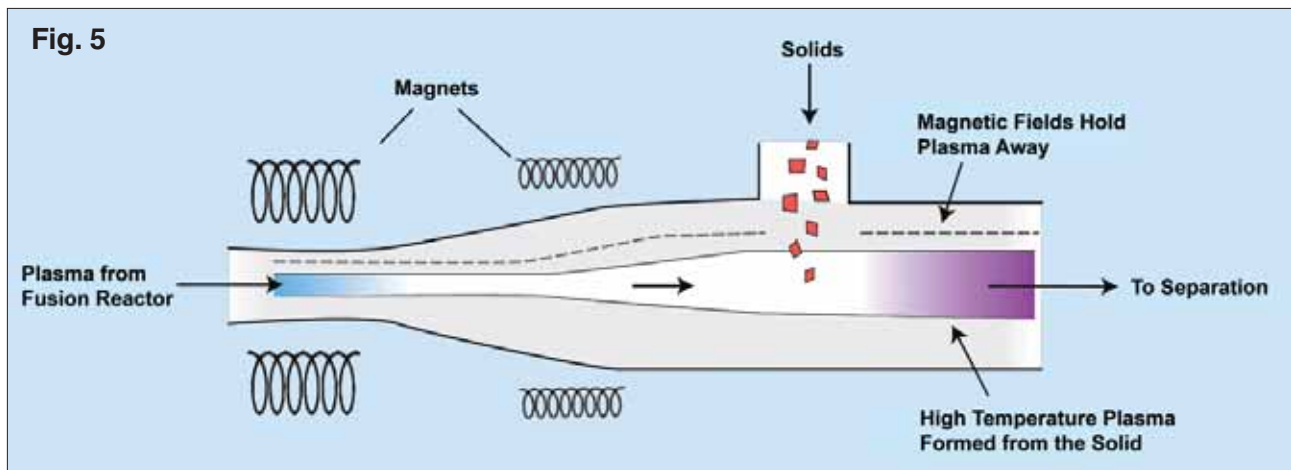
To make the point, an average cubic mile of dirt contains approximately 200 times the amount of annual U.S. aluminium production, eight times the iron

production, 100 times the tin, and six times the zinc, though most of it is not in a concentrated form, making it impossible to effectively mine and process with current technologies. Lower-grade ores and lower concentrations of ores, which are currently useless to us, will suddenly become readily available resources. Dirt will become ore. Scrap materials which already contain concentrated elements, can also be efficiently re-processed as new, vital raw materials. Urban landfills, containing disorganised forms of all the elements we already use, will become one of the most valuable sources of materials to be processed.

Beyond accessing existing resources, the ability to select and harvest very



How a magnetic confinement fusion reactor works: Plasma (pink) is a form of highly charged matter, so it can be confined within a magnetic field, which creates the necessary pressure and temperature needed for fusion. The plasma is kept within a vacuum chamber, in order to prevent heat transfer onto the walls of the reactor. A large number of magnetic coils (blue) contain the plasma. Deuterium and tritium are then added to the plasma, which fuse together to produce energy.



In 1969, Bernard Eastlund and William Gough first proposed the fusion torch.

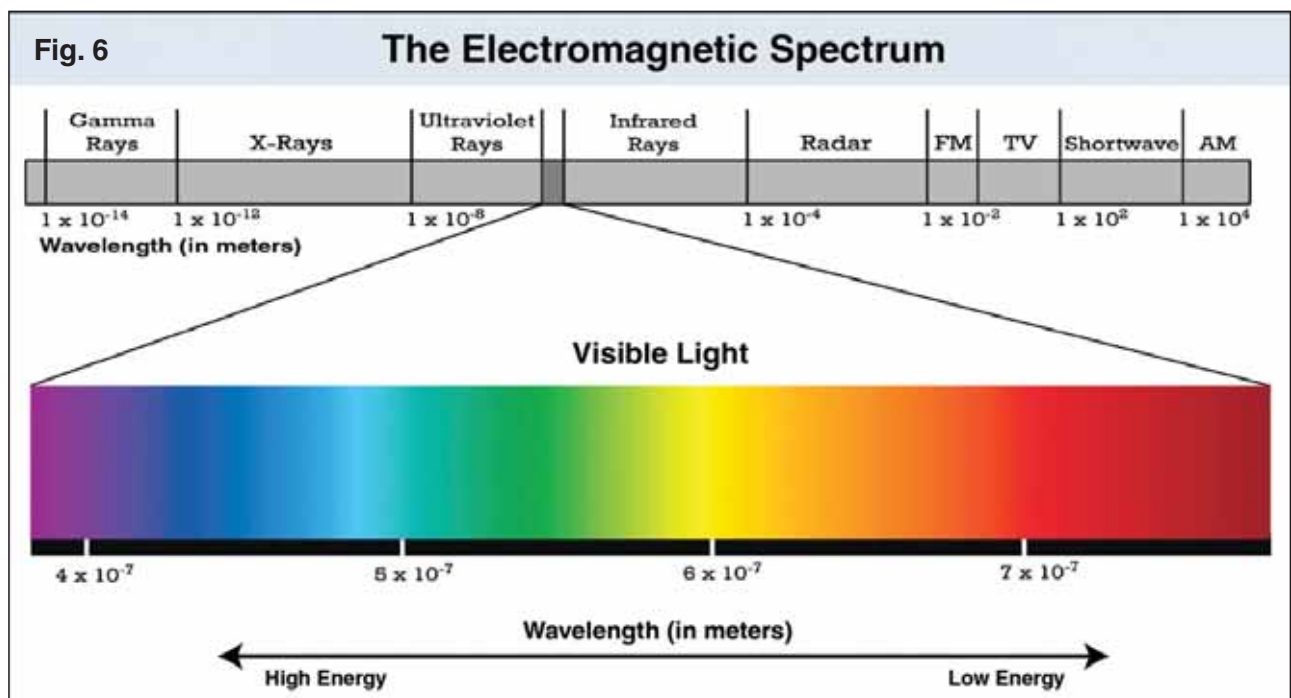
specific ratios of isotopes and elements in substantial quantities creates the potential for a revolution in the qualities and properties of materials. For example, specialty steel can be custom built down to the isotopic level, improving the capabilities for handling high energy processes ranging from industry, to fusion reactors, to space travel. With the fusion torch, bogus claims of crises caused by “limited resources” will fly out the window.

Chemical Processing Using the Fusion Torch

Another use for the fusion torch will be the transformation of the energy from the plasma into radiation across the entire electromagnetic spectrum (Fig. 6), for use in processing industrial materials and chemicals. By injecting selected “seed” materials into the fusion torch, the frequency and intensity of

the emitted radiation from the reaction can be manipulated. Within the fusion plasma it is possible to maximise this energy within specific, narrow bands of the electromagnetic spectrum. This radiation can then be transmitted through a “window” material to a fluid or other body. Because the frequency of this radiation can be tuned to the material being processed, existing limitations on bulk processing of materials by the limits of surface heat transfer can be largely overcome. For example, ultraviolet radiation could be generated to sterilise industrial process water or drinking water.

Neutrons from the fusion reaction could be used for heating process materials to temperatures ranging from 1,000 °C to more than 3,000 °C. The neutrons could themselves be used, or converted via a blanket material into high-energy gamma rays for catalysing chemical reactions—thus directly converting the fusion energy



Inside a fusion torch, materials can be inserted which would produce various desired bands of radiation throughout the electromagnetic spectrum (above) that are necessary for the production of chemicals and other industrial applications.

into chemical energy. This could greatly increase the efficiency of the production of industrial chemicals requiring high heats or high activation energies, such as hydrogen, ozone, carbon monoxide, and formic acid. This increased power over materials and chemicals processing opens up a scale of production never before possible.

Magnetohydrodynamics (MHD)

For the generation of electricity from fusion power we will have to revive and advance the science of magnetohydrodynamics (MHD), a technology which can be used with virtually any source of energy to generate electricity directly from a high-temperature plasma. As a "direct conversion" process, it eliminates the need for large steam turbines and has the potential to double the amount of electric power generated from every unit of fuel used.

The basic principle in MHD conversion is to pass a high-temperature plasma through a magnetic field. The magnetic field creates an electrical current in the plasma, which is drawn off by electrodes along the length of the channel through which the plasma flows. There are essentially no moving parts, since the plasma is itself moving through the magnetic field.

In all current power plants, only 30-40 per cent of the energy released by the fuel (coal, natural gas, etc.) gets converted into electricity. This happens by heating steam, which drives a turbine connected to a generator, while the rest of the heat energy is lost as "waste heat". In a basic MHD system, direct conversion can nearly double the electricity generated without changing the amount of fuel. Adding

a steam turbine (to take advantage of the remaining heat) can increase the efficiency to 60 per cent. These are not simply theoretical concepts: in the late 1970s, researchers at Argonne National Laboratory achieved a 60 per cent efficiency with a nuclear fission-powered MHD system, and the experimenters were confident they could reach a level of 80 per cent with future developments. Despite these exciting studies and results, serious MHD direct conversion research basically ended in the 1980s (along with many other areas of promising research). MHD must be revived for generating electricity with fusion.

Fusion Rockets and Interplanetary Travel

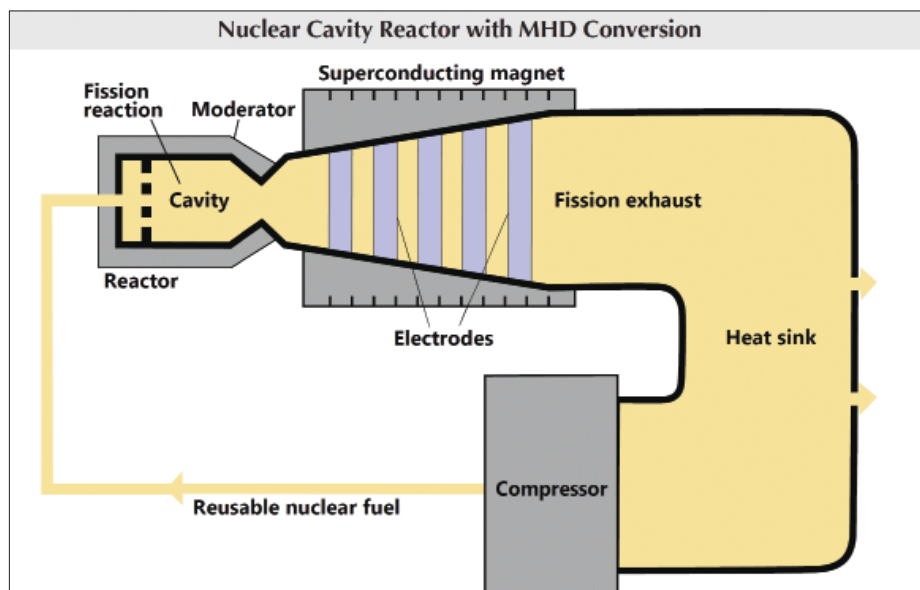
The next platform in the evolution of our human economy, the control of atomic processes like those found in our Sun, is not just to be applied to energy production, materials creation, and earthmoving here on Earth: the development of this power will be applied to conquering the entire domain of our Sun's influence, the Solar System, and will ultimately put us in range of our closest neighbouring stars.

To achieve this will require the full exploitation of the dynamic relationships which currently exist between the fields of plasma, laser, antimatter, and fusion research, i.e., high-energy-density physics, where much of the work is already vectoring towards the next generation of space propulsion techniques. Only fusion propulsion can generate the acceleration conditions equivalent to one-earth gravity which are necessary to sustain the human body. Acceleration at

1g, the equivalent of Earth-like gravity, would mitigate some of the deleterious effects of microgravity, and reduce travel time, thus limiting exposure to harmful cosmic radiation. For example, at 1g acceleration, a trip to Mars could take as little as one week, achieving velocities of one tenth the speed of light.

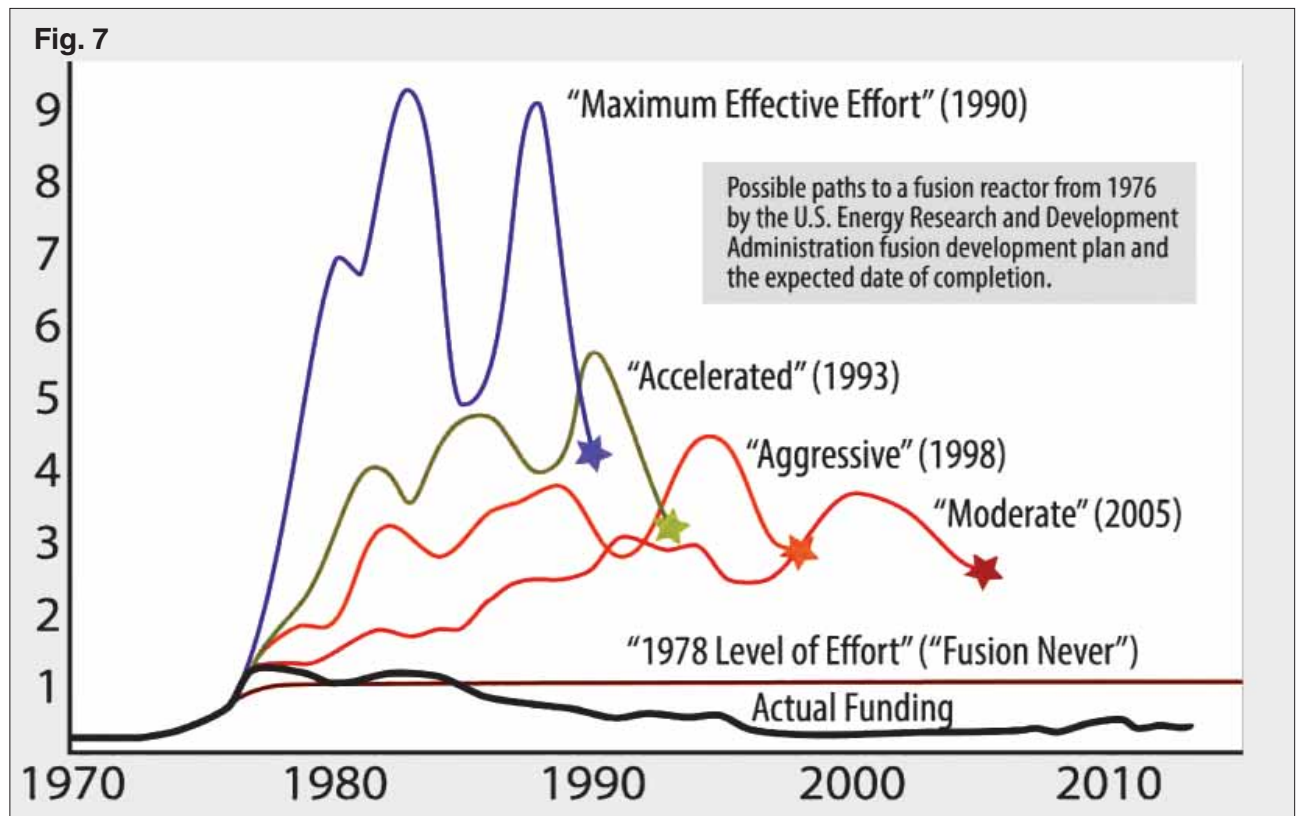
Political Opposition

The obstacles to achieving fusion power have been purely political, not scientific. Further progress from the great strides made in fusion research in the 1960s and 1970s,



From "Magnetohydrodynamics: Doubling Energy Efficiency by Direct Conversion," by Marsha Freeman, *Fusion*, April 1980

This model, of an externally moderated or cavity reactor, would use the exhaust from a nuclear reaction, in a closed cycle, as the working fluid for the MHD direct conversion process. In this 1968 design, heat from the MHD generator's exit plasma could also be used to run a steam turbine. The design provides for the reuse of the nuclear fuel.



Four possible funding paths to create a magnetic confinement fusion reactor from 1976, measured in billions of dollars (adjusted to 2012 values). Actual funding falls below all projections, even a steady funding from 1978 levels (which was known to be too little to ever make the breakthroughs needed). Source: G.M. Olynky, and *Fusion power by magnetic confinement: Program Plan* by S.O. Dean

especially in the U.S., were sabotaged by a combination of green anti-development ideology, and Wall Street-dictated budget cuts. In 1978 there was a major breakthrough at Princeton University, when the plasma in its Princeton Large Torus (PLT) tokamak reached the record-setting temperature of 66 million degrees, exceeding the ignition temperature of 44 million degrees. Anti-nuclear green ideologues tried to downplay its significance, but inspired pro-science members of the U.S. Congress passed a bill in 1980 authorising \$20 billion over 20 years to accelerate the development of fusion, with a goal for a fusion Engineering Test Facility by 1987, and the first fusion power plant on-line before the year 2000, all of which could most certainly have been accomplished (**Fig. 7**). The bill passed the House of Representatives by 365 votes to 7, and the Senate by a simple voice vote.

Unfortunately, the incoming administration of President Ronald Reagan (1981-89) continued the policy of the previous one (President Jimmy Carter, 1977-81), and imposed severe budget cuts on science research. The fusion research budget was slashed again and again, by hundreds of millions of dollars

at a stroke, and many of the programs essential to its success were shelved. Under President Bill Clinton (1993-2001), still more money was pulled from fusion research, even as dollars were poured into Vice President Al Gore’s pet “green” technologies. Today, the focus of world fusion research is the International Thermonuclear Experimental Reactor (ITER) situated in France, but the project’s international supporters do not include the U.S. or Australia (although some hardy scientists at the Australian National University are participating despite Australia’s unwillingness to officially support it).


Conclusion

The key to unlocking the extraordinary potential of fusion technology, is captured best in the statement made back in 1969 by Bernard Eastlund and William Gough of the U.S. Atomic Energy Commission, designers of the Fusion Torch concept: “the vision is there; its attainment does not appear to be blocked by nature. Its achievement will depend on the will and the desire of men to see that it is brought about.”

Let us resolve to do just that.

Appendix A

The Bail-in Plot Against Australians: The Evidence



FINANCIAL STABILITY BOARD

Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks

6 October 2011

Table 3A. Exposures to national financial systems (Level 1 countries) (Final Phase)	
Indicative timing:	End 2014
Dimensions:	<ul style="list-style-type: none">Country (30)Sector (7 to 12)
Countries (30): Level 1- 25 jurisdictions identified by the IMF as having globally systemically important financial sectors: Australia, Austria, Belgium...	
Potential crossings of the raw data:	<ul style="list-style-type: none">5-way crossing: Co x Se x In x Cu x MaVariant: Two 3-way crossings: Co x Se x In AND In x Cu x Ma
Frequency:	Quarterly
Reporting lag:	4 weeks
Details of potential breakdowns:	Countries (30): Level 1- 25 jurisdictions identified by the IMF as having globally systemically important financial sectors: Australia, Austria, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, Italy, India, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Russia, Singapore, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. And 4 members of the FSB not in the above list: Argentina, Indonesia, Saudi

1. FSB and IMF target Australia

October 2011

An international Financial Stability Board “Common Data Template” scheme listed Australia’s financial sector as “globally systemically important”.



Australian Government
The Treasury

THE TREASURY
ANNUAL REPORT
2010-11

Table 7: List of new consultancies over \$10,000 in 2010-11

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Australian Government Solicitor	Legal services for the Takeovers Panel	\$50,000	Select tender	A
Australian Government Solicitor	Legal services relating to cost recovery for litigation process	\$12,000	Open tender	A
Australian Government Solicitor	Tied legal advice on bail-in mechanism in Australia	\$15,000	Direct sourcing	A
Australian Government Solicitor	Provide legal advice in relation to Roy Morgan Pty Ltd v Commissioner of	\$28,600	Panel	A

Australian Government Solicitor Tied legal advice on bail-in mechanism in Australia

2. Treasury seeks legal advice for bail-in

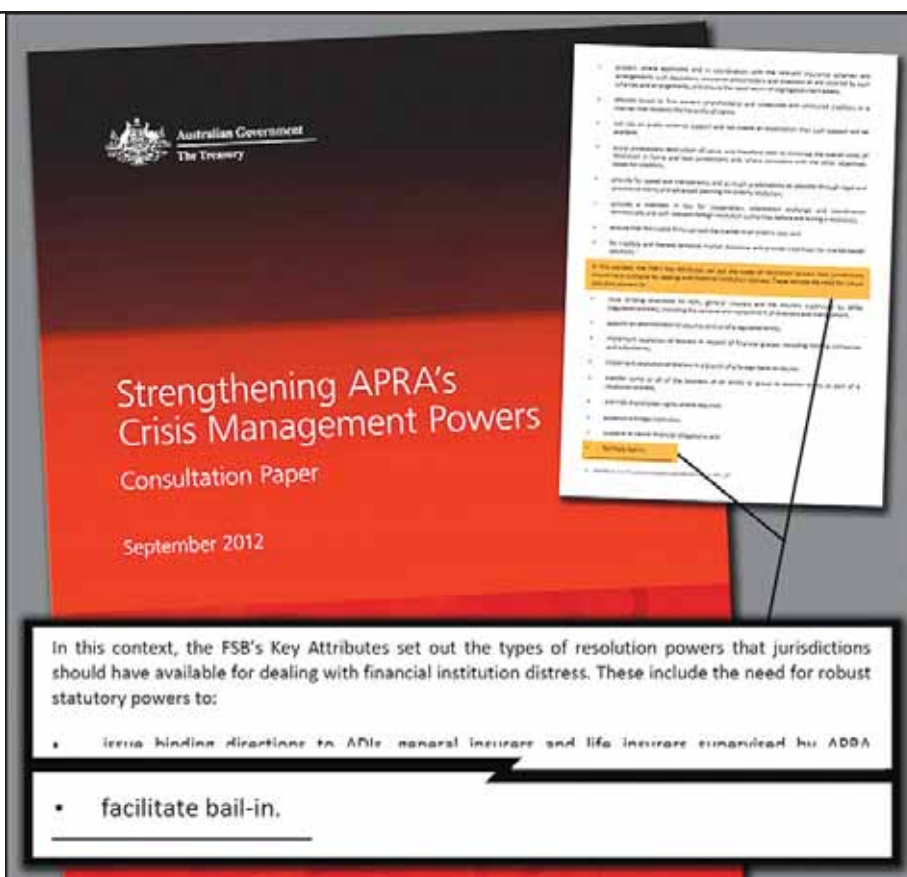
2010-2011

As the government department responsible for drafting bail-in legislation, the Treasury contracted the Government Solicitor for legal advice.

3. Treasury calls for bail-in powers

September 2012

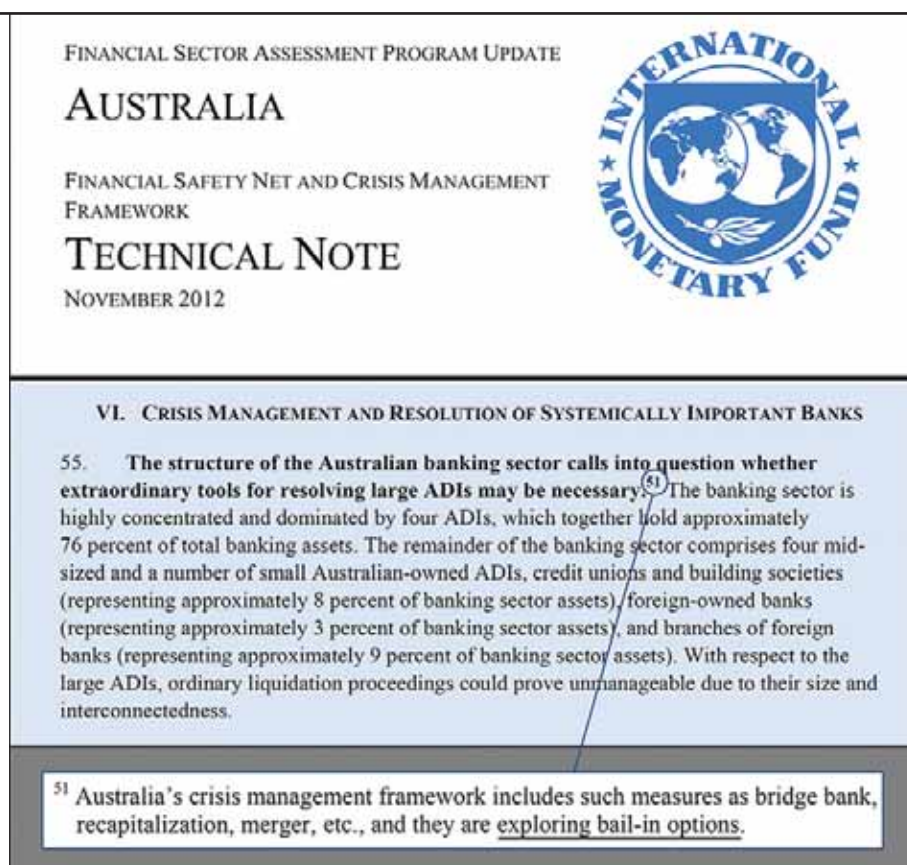
Treasury discussion paper calls for the banking regulator APRA to be given extra powers to deal with a banking crisis—including bail-in powers.




4. IMF: Australia “exploring” bail-in

November 2012

When the IMF inspected Australia's financial system, it was informed that bail-in was on the agenda.





13 January 2013

General Manager
Financial System Division
The Treasury
Langdon Crescent
PARADES ACT 2600


Email: safefinancialsector@treasury.gov.au

Dear Mr Lonsdale

Strengthening APRA's crisis management powers

The Australian Financial Markets Association (AFMA) welcomes the opportunity to comment on the Consultation Paper 'Strengthening APRA's crisis management powers' (Consultation Paper).

This response selectively deals with questions which are relevant to the scope of AFMA's industry representation activities. Accordingly our focus is on the implications for Authorised Deposit-taking Institutions (ADIs) and Non-Operating Holding Company (NOHC).




In terms of the role of the special manager, we do not see it as their role to, if appointed, to enact a bail-in of the firm. The FSB's Key Attributes lays out its principles for executing a bail-in within resolution. We welcome the role of the bail-in tool for a resolution. However, APRA, as the resolution authority, should have the power to enact a bail-in for banks incorporated in Australia during a resolution. It is important to clarify that a bail-in is not a recovery tool, nor should it be enacted by an SM. It is a tool for resolution to be used by the resolution authority.

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5. Private bankers welcome bail-in

January 2013

Australian Financial Markets Association members—all financial institutions in Australia—have combined annual financial derivatives turnover of \$125 trillion.



FINANCIAL STABILITY BOARD

15 April 2013
PLEN/2013/55

Implementing the FSB Key Attributes of Effective Resolution Regimes – how far have we come?

Report to the G20 Finance Ministers and Central Bank Governors on progress in reforming resolution regimes and resolution planning for globally systemically important financial institutions (G-SIFIs)

(1) **Completing the resolution toolbox for banks** - It is critical that authorities have a broad range of powers at their disposal when faced with a crisis. This is not the case in all FSB jurisdictions. In many jurisdictions, resolution authorities still lack the powers set out in the *Key Attributes* to achieve rapid transfer of assets and liabilities and to write down debt of a failing institution or convert it into equity ("bail-in"), although legislation is in train in some jurisdictions (including Australia, Brazil, the EU, France, Germany, Indonesia, Singapore and South Africa) to align national regimes fully with the *Key Attributes*.⁷

6. FSB reveals Australian legislation "in train"

April 2013

Just weeks after the Cyprus bail-in, the FSB stated in a bail-in progress report to the G20 that an Australian bail-in law was "in train".

Appendix B

The ABCs of Bail-In: What You Must Know

Q. What is bail-in, exactly?

A. Under the propaganda line of “protecting the taxpayer” from endless government-funded “bail-outs” of private megabanks, the Bank of England and the Bank for International Settlements (BIS) have invented “bail-in”: when a speculative megabank either fails or is in danger of doing so, various classes of the debt owned by its creditors, such as the bonds the banks sell to raise funds, are forcibly converted into equity (stock) in the bank. This “recapitalises” and saves the bankrupt bank. The trick? Your deposit also makes you a creditor of that bank—an “unsecured creditor”, to be precise—and your funds can be seized and turned into bank stock as well.

Q. I just have a basic savings account. Am I an “unsecured creditor”?

A. The grim truth is yes, you are. It would come as a huge shock to the 99.999 per cent of bank depositors who aren’t accountants, that they are classified as “unsecured creditors”. It isn’t often stated directly, which is one of the reasons that Cyprus was such a surprise, but, as a September 2011 paper published in the Reserve Bank of New Zealand’s *Bulletin* explained: “Unsecured creditors include a wide range of individuals and entities. At one end of the spectrum, there are large international financial institutions that invest in debt issued by the bank (commonly referred to as wholesale funding). At the other end of the spectrum, are customers with cheque and savings accounts, and term deposits. ... Each has freely invested in a private institution and has enjoyed a return on that investment whilst accepting the risks associated with the investment.”

There you have it: the modern banking system claims that, for example, a school kid opening a savings account accepts “the risks associated with the investment”, in the same way as huge investment funds that lend to banks on the wholesale money market do.

Q. I have heard something about seizing bank deposits, but this is just for inactive accounts, right?

A. No, it is deposits in *all* bank accounts—individuals, small and large businesses, charities, churches, schools, municipal and shire councils, state governments, the lot.

Q. But if they grab my deposit and convert it into bank shares, doesn’t that at least preserve my money?

A. This is a straight-out scam, because shares are the least secure of all investments, as 200,000 Spaniards discovered to their horror in May 2013. Customers of Spain’s large Bankia bank whose savings accounts had been forcibly converted into shares when Bankia floundered a year earlier, found that when they were finally able to sell those shares, the price had collapsed by 80 per cent. Individuals bore the steepest losses—the European authorities had permitted large investors to sell a week earlier, at only a 50 per cent loss.

Q. What is the likelihood that an Australian bank will fail? Aren’t they the strongest in the world?

A. Are you kidding? First of all, remember that they would have collapsed already in 2008 had the Rudd government not put up guarantees for them, and they are in far worse shape today, media hype and government propaganda to the contrary notwithstanding. A clear sign of impending trouble is the CBA’s recent decision to hide the true level of its multi-trillion dollar derivatives exposure, for the first time ever (**Fig. 1**).

Q. But isn’t there some kind of government guarantee for all deposits up to \$250,000?

A. Formally, yes, but in reality, no. National and international banking authorities admit that Australia’s guarantee, the Financial Claims Scheme (FCS), can’t work, because it doesn’t provide even close to enough money to guarantee the deposits in the Big Four banks—which is almost 80 per cent of total deposits in Australia (**Fig. 2**). The FCS guarantees \$20 billion per bank. How does that stack up against the following deposits? ANZ, \$397 billion; CBA, \$428 billion; NAB, \$420 billion; Westpac, \$395 billion.

That’s why the *Australian Financial Review* reported on 6 March 2013 that, “In a globally unique policy, the Reserve Bank of Australia will supply banks with a permanent bailout facility worth up to \$380 billion by 2015.” That’s also why the Rudd government announced it would levy a new tax of 0.05 to

0.1 per cent on all bank deposits to build up a “reserve buffer”, and also the reason behind the drive to enact bail-in legislation in Australia. Why all this, if Australia’s banks are indeed “the safest in the world”?

Q. What about my superannuation?

A. Any money that is in a bank account will be seized; most super is already risky, because it is in shares—including bank shares—whose value can evaporate in a heartbeat, not to mention that the government will proceed with the former government’s planned confiscation of so-called “lost” super accounts up to \$6,000. But bail-in is a cash-grab on a much greater scale, and Cyprus shows how bail-in will also devastate the businesses in which your super is invested.

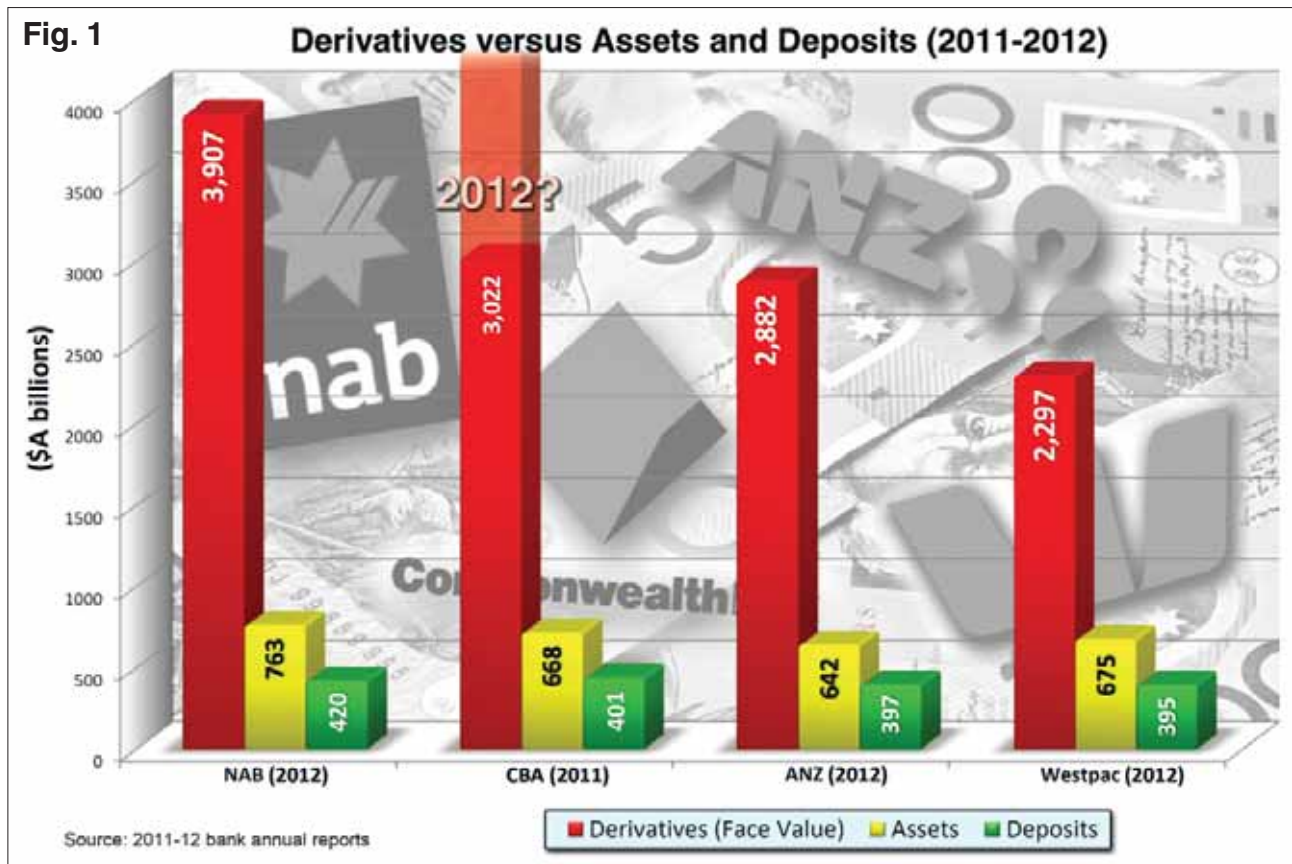
Q. Joe Hockey is the Treasurer, and he has been assuring everyone that there will be no bail-in in Australia. Surely Joe Hockey would know?

A. Joe Hockey is a liar (Fig. 3). One year before the 2008 GFC, as he and his wife were selling almost

all they owned in preparation for a huge global crash, he was simultaneously assuring his constituents that he “vehemently disagreed” that “the world is facing a collapse of the financial markets.”

Q. Who is scheduled to oversee this “bail-in” in Australia?

A. The Australian Prudential Regulation Authority (APRA), an unelected, secretive body established in 1998 as a de facto subsidiary of the Bank of England’s Prudential Regulation Authority (PRA) and the Bank for International Settlements (BIS). It will exercise dictatorial control over the bail-in process: as specified in the bland, technocratic jargon of the BIS’s Basel Committee on Banking Supervision’s (BCBS) 2012 “Core Principles for Effective Banking Supervision”, there must be “no government or industry interference which compromises the operational independence of the supervisor”. The Secretary General of the BCBS is Wayne Byres, previously an APRA Executive General Manager, who will become head of APRA in 2014.



For 20 years, the CBA, like the other Big Four banks, disclosed its derivatives exposure—until 2012. Now, following an explosion in derivatives speculation that outpaced even that of the other big banks, CBA suddenly refuses to release its true exposure. Whether hidden or disclosed, the derivatives obligations of all Big Four banks swamp the value of their assets and deposits. When the banks blow, as they assuredly will without Glass-Steagall, what will happen to your deposits?

Fig. 2

FSB Peer Review report admits that the Financial Claims Scheme can't work

CONFIDENTIAL

COUNCIL OF FINANCIAL REGULATORS MINUTES OF THE TWENTY SEVENTH MEETING, 19 JUNE 2009

APRA noted that a pre-funded deposit insurance scheme in Australia would not be insurance in the true sense, as failure by one of the four largest institutions would be likely to exceed the scheme's resources.



Peer Review of Australia Review Report

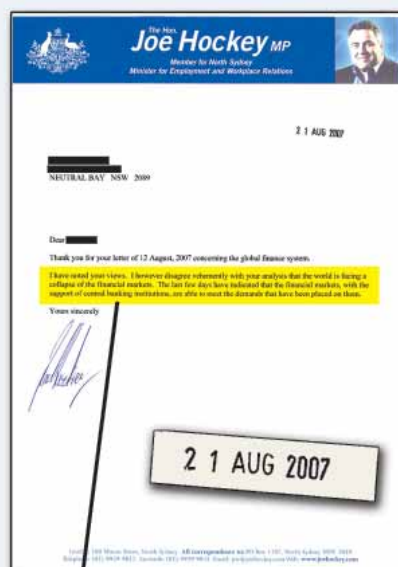
21 September 2011

The limit of AU\$20 billion per ADI would not be sufficient to cover the protected deposits of any of the four major banks, even though their assets would ultimately be sold to fund any depositor reimbursements if the FCS was used in the resolution process. In any event, there could be circumstances in which these banks would be deemed too big to undergo payout and liquidation.

Fig. 3

Surely we can trust Joe Hockey not to push through "bail-in," right?

Hockey is a liar. One year before the 2008 GFC, Hockey and his wife were selling almost all they owned in preparation for a huge global crash, whilst at the same time assuring his constituents that he "vehemently disagreed" that "the world is facing a collapse of the financial markets."



Sunrise host David Koch still remembers the day Joe Hockey rang to tell him his investment banker wife Melissa Babbage was selling "everything we own".

It was a year before the global financial crisis [of 2008]...

I have noted your views. I however disagree vehemently with your analysis that the world is facing a collapse of the financial markets. – 21 August 2007

Appendix C

Pope Francis vs. the “Free Market”: “Thou Shalt Not Kill”

In his most recent Apostolic Exhortation, *Evangelii Gaudium* (“*The Joy of the Gospel*”), issued on 24 November 2013, Pope Francis excoriated precisely the radical “free market” model of economy which has prevailed in much of the world since the end of the fixed exchange rate Bretton Woods system in August 1971. In Australia, under the “bipartisan consensus on economics” imposed ever since the Hawke/Keating governments beginning 1983, that system has increasingly savaged our nation.

In Chapter One of his exhortation, “The Church’s Missionary Transformation”, paragraph 48, Pope Francis emphasises the Church’s priority in its “missionary impulse” (all emphasis in extracts has been added):

48. If the whole Church takes up this missionary impulse, she has to go forth to everyone without exception. But to whom should she go first? When we read the Gospel we find a clear indication: not so much our friends and wealthy neighbours, but above all the poor and the sick, those who are usually despised and overlooked, ‘those who cannot repay you’ (Luke 14:14). There can be no room for doubt or for explanations which weaken so clear a message. ... We have to state, without mincing words, that ‘there is an inseparable bond between our faith and the poor.’ May we never abandon them.

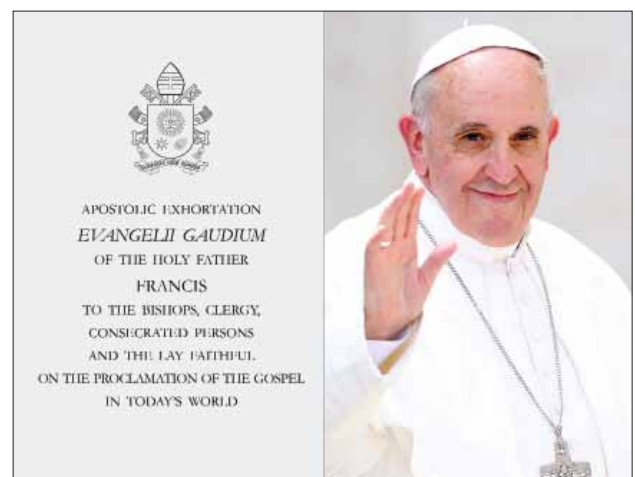
This mission, the Pope emphasises, is not one of merely concern for the *faith* of the poor, but for their *physical wellbeing* as well, along with that of all mankind. He leaves “no room for doubt or explanations”, in Chapter Two, “Amid the Crisis of Communal Commitment”, Section I of which is titled “Some Challenges of Today’s World”. Under its first major subsection, “No to an Economy of Exclusion”, he writes:

53. Just as the commandment ‘Thou shalt not kill’ sets a clear limit in order to safeguard the value of human life, today we also have to say ‘thou shalt not’ to an economy of exclusion and inequality. *Such an economy kills*. How can it be that it is not a news item when an elderly homeless person

dies of exposure, but it is news when the stock market loses two points? This is a case of exclusion. ... This is a case of inequality. Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape. ...

54. In this context, some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. *This opinion, which has never been confirmed by the facts*, expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system. Meanwhile, the excluded are still waiting. To sustain a lifestyle which excludes others, or to sustain enthusiasm for that selfish ideal, a globalization of indifference has developed. Almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor, weeping for other people’s pain, and feeling a need to help them, as though all this were someone else’s responsibility and not our own.

“Trickle-down theories ... [of] a free market”—what is that but Australia for the last 30 years, and virtually the whole trans-Atlantic region as well? The



Pope continues:

55. One cause of this situation is found in our relationship with money, since we calmly accept its dominion over ourselves and our societies. The current financial crisis can make us overlook the fact that it originated in a profound human crisis: the denial of the primacy of the human person! We have created new idols. The worship of the ancient golden calf (cf. Exodus 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human purpose. The worldwide crisis affecting finance and the economy lays bare their imbalances and, above all, their lack of real concern for human beings; man is reduced to one of his needs alone: consumption.

But the Pope next raises the issue that has been implicit in all he has said so far—the indispensable role of the state:

56. While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. *Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control.* A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules.

Under the subtitle “No to a Financial System Which Rules Rather Than Serves,” Pope Francis escalates still further in paragraphs 57 and 58. Here he calls for a “vigorous change of approach”, for the establishment of a new financial system to replace the present idolatry of money, and the tyranny of the “free market”:

57. Behind this attitude lurks a rejection of ethics and a rejection of God. Ethics has come to be viewed with a certain scornful derision. It is seen as counterproductive, too human, because



Rembrandt van Rijn, “Moses with the Tablets of the Law.” The commandment “Thou Shalt Not Kill” is one of the oldest dicta in civilisation. (Photo: Wikimedia Commons/State Museum of Berlin)

it makes money and power relative. It is felt to be a threat, since it condemns the manipulation and debasement of the person. *In effect, ethics leads to a God who calls for a committed response which is outside of the categories of the marketplace.* When these latter are absolutized, God can only be seen as uncontrollable, unmanageable, even dangerous, since he calls human beings to their full realization and to freedom from all forms of enslavement. ...

58. A financial reform open to such ethical considerations would require a vigorous change of approach on the part of political leaders. I urge them to face this challenge with determination and an eye to the future, while not ignoring, of course, the specifics of each case. *Money must serve, not rule!* The Pope loves everyone, rich and poor alike, but he is obliged in the name of Christ to remind all that the rich must help, respect and promote the poor. I exhort you to generous solidarity and a return of economics and finance to an ethical approach which favours human beings.

Appendix D

The LaRouche Record on the Financial Crisis

October-November 1956

Forecast: The imminence of a major U.S. economic recession, triggered by the over-stretching of a post-1954 credit bubble centred in financing automobiles, housing, and other consumer goods.

What happened: Recession spiral began in February 1957, and lasted till mid-1958; unemployment rose to highest levels since the Great Depression.

1959-60

Forecast: A series of major monetary disturbances in the second half of the 1960s, leading to the collapse of the Bretton Woods agreements, increased looting of the developing sector, and austerity measures in the advanced sector.

What happened: The British pound collapsed in November 1967, and was followed by the dollar crisis of January-March 1968. Finally, Nixon took the dollar off gold in August 1971, ending the Bretton Woods fixed-exchange rate system. The IMF/World Bank forced austerity on the developing sector, and Nixon slapped on “Phase I, II, and III” austerity measures in the U.S.

October 1979

Forecast: A devastating recession, beginning early 1980, as a result of U.S. Federal Reserve Chairman Paul Volcker's credit-strangulation policies.

What happened: A collapse of U.S. housing industry, agricultural and industrial production occurred, exactly as predicted by the LaRouche-Riemann economic model, in opposition to all other models.

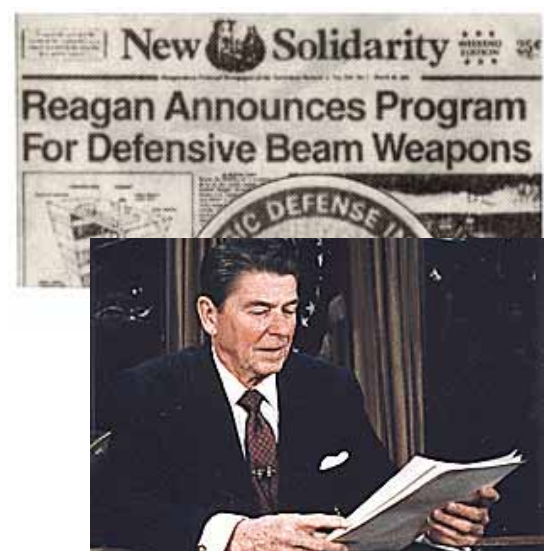
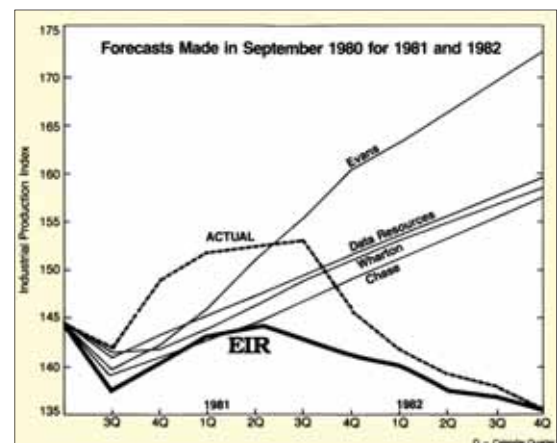
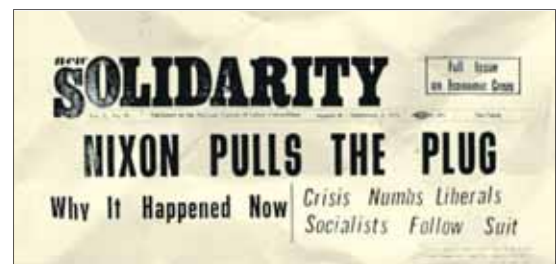
February 1983

Forecast: LaRouche informs the Soviet government, that if it were to reject a western offer of joint development of anti-missile “beam weapons”, (later known as the U.S. Strategic Defense Initiative, when it was adopted by President Reagan on 23 March 1983), the strains of a military buildup on the Comecon economy would lead to a collapse of that system in about five years. That forecast of a Soviet collapse was repeated in an *EIR* special report, *Global Showdown*, issued in July 1985.

What happened: Yuri Andropov rejected the SDI offer in Spring* 1983. The Berlin Wall fell in November 1989. The Soviet regime of Mikhail Gorbachov fell in 1991.

Spring 1984

Forecast: LaRouche warned, in a nationwide half-hour TV address, while campaigning for the Democratic Party pre-selection as a candidate for the U.S. Presidency, of the outbreak of a



collapse of a large section of the U.S. banking system, the savings and loan (S&L) banks.

What happened: In late 1987, U.S. S&L banks began to collapse around the country, leading to many banks going under, and many more being purchased by larger institutions. The S&L crisis required a multi-billion dollar government bailout.

May 1987

Forecast: As published in *EIR* magazine, and elsewhere, the outbreak of a major stock market collapse beginning approximately 10 October 1987.

What happened: Black Monday, 19 October 1987: the Dow Jones average dropped 508 points, or 22.6 per cent, the largest one-day point loss in its history.

Spring 1988

Forecast: In a nationwide TV address while campaigning for the U.S. Presidency, LaRouche forecast the “bouncing ball” pattern of continuing collapse of the U.S. economy over the coming years, through the course of apparent, short-term fluctuations relatively up or down.

What happened: The actual productive base of the U.S. economy collapsed by approximately 2 per cent per year, as measured in physical market basket terms of infrastructure, industrial and agricultural production, health care, etc., a collapse disguised by official government figures, which added in non-productive service sector “growth” and such speculative activities as derivatives trading.

November 1991

Forecast: During his campaign for the U.S. Presidency for 1992, LaRouche forecast an ongoing “mudslide” of financial collapse for the foreseeable future, rather than a near-term dramatic blowout, (such as a 500-1,000 point collapse in the Dow Jones stock market average).

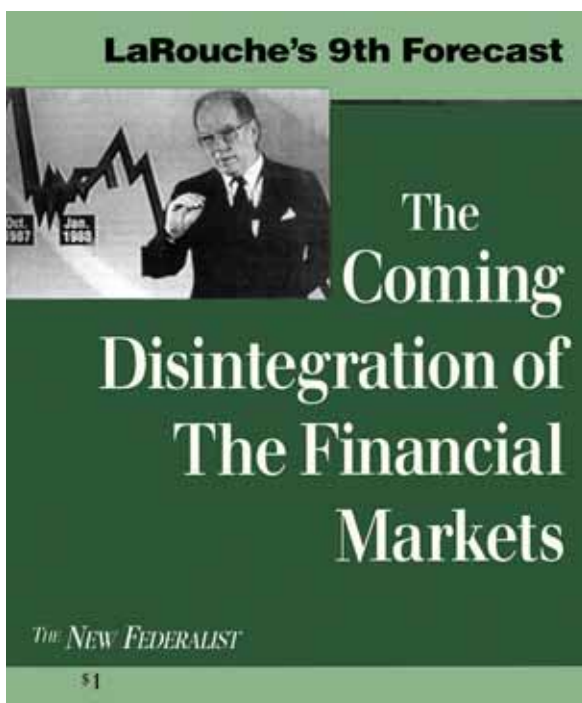
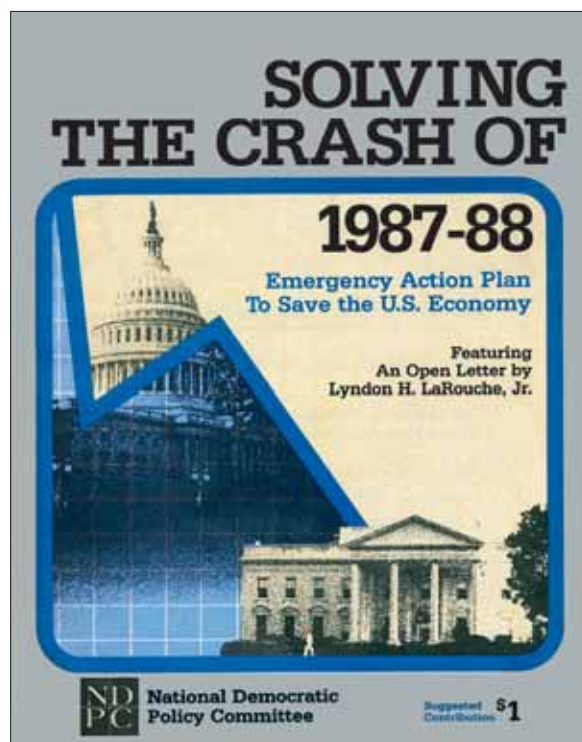
What happened: 1993-94 bankruptcies of major financial institutions in Venezuela, Germany, Spain and elsewhere signalled a systemic crisis; the bond market collapsed; major firms, such as the Canada-based Olympia and York, the world’s largest real estate company, went under.

June 1994

Forecast: LaRouche’s famous “Ninth Forecast”, entitled “The Coming Disintegration of the Financial Markets”, in which LaRouche said, “The presently existing global financial and monetary system will disintegrate during the near term”, which he specified to mean in the immediate years ahead.

What happened: The global crash now unfolding, beginning with the meltdown of the “Asian tigers” starting July 1997.

* All seasons, “spring,” “autumn,” etc. refer to the northern hemisphere seasons.



June 1997

Forecast: In the context of his Ninth Forecast, LaRouche said in June 1997: “Sometime very soon, between now and the end of the year, possibly in the month of August—more probably, no later than October, but certainly, by around the end of the year—this world is going through one or two of the greatest shocks, financial shocks of the century.”

What happened: On 23 October 1987, the Hong Kong market collapsed 10.41 per cent, followed by the largest-ever collapse in the New York Stock Exchange on “Black Monday”, 27 October. Currencies and markets plunged in South and East Asia almost daily for the rest of the year, until even the mainstream press began talking of the likelihood of a “global financial meltdown”.

LaRouche’s subsequent analyses, including his devastating exposé of the fraudulent 1995-2000 “Y2K crisis”, which was used to pump hundreds of billions of dollars into the system in a hysterical attempt to keep it from disintegrating, may be found in the pages of the newsweekly *Executive Intelligence Review*, which he founded in 1974.

By hyperinflationary pump-priming, the Anglo-American Establishment temporarily postponed the bursting of the bubble, only to ensure that it would be far more devastating when it finally did pop, as is now happening. Once again, only LaRouche forecast the hyperinflationary trends, which broke out most visibly in early 2001 in the soaring energy prices in the United States.

The collapse, and what to do about it, was the dominant theme in LaRouche’s 2000 campaign for the U.S. Presidency, a reality utterly ignored by candidates George W. Bush and Al Gore (who both proclaimed “everlasting prosperity”), and blacked out of the U.S. Establishment’s news media.

With no one else willing or able to serve as a rallying point for the necessary policies to deal with the collapse, LaRouche on 1 January 2001 announced his pre-candidacy for the 2004 U.S. Presidential election.



January 2001

Forecast: On 16 January 2001, a LaRouche spokesperson testified before a U.S. Senate hearing into incoming president George W. Bush’s nomination of John Ashcroft as Attorney General of the United States. The testimony included the following forecast from LaRouche: “The incoming Administration will be faced, immediately, with the choice between: 1) abandoning the current economic and monetary policy axioms and returning to policies that, in the past, have led the United States and the world out of the path of disaster, as during the Presidency of Franklin D. Roosevelt; or, 2) under the guise of ‘crisis management’, imposing a form of brutal bureaucratic fascism on the United States, that bears striking similarities to the conditions under which Adolf Hitler seized power in Germany in 1933. It was Hitler’s ‘crisis management’ of the Reichstag fire and other events, real and manufactured, that established the dictatorship that no one in Germany had anticipated, even weeks before the coup was carried out. Unlike ‘normal times’, the realities of the present crisis period mean that there is no middle ground between these two polar extremes. The luxury of ‘muddling through’ for the next four years is no longer on the table.”

What happened: On 11 September 2001 the U.S. experienced its Reichstag Fire event, when terrorists flew airliners into the twin towers of the World Trade Centre and into the Pentagon, which triggered precisely the “crisis management” fascism LaRouche warned of, in the form of the *Patriot Act* and other fascist measures imposed to fight the so-called “war on terror”. A U.S. Joint Congressional Commission, set up to investigate the intelligence failures surrounding the 9/11 attacks, issued a report in 2002 establishing that the attacks were coordinated by top Saudi officials in the United States led by Prince Bandar bin Sultan, then Saudi ambassador to the United States and now the Director General of the Saudi Intelligence Agency. As documented in



LaRouche's *Executive Intelligence Review* magazine, 9/11 was merely the most spectacular event flowing from the 1985 "Al-Yamamah" oil-for-weapons deal struck by Britain's Margaret Thatcher and Prince Bandar, which had created a \$125 billion slush-fund used to finance the rise of "Islamic" and other terrorism ever since.

July 2007

Forecast: In an international webcast on 25 July 2007, LaRouche stated, "First of all, this occurs at a time when the world monetary financial system is actually now currently in the process of disintegrating. There's nothing mysterious about this; I've talked about it for some time, it's been in progress, it's not abating. What's listed as stock values and market values in the financial markets internationally is bunk! These are purely fictitious beliefs. There's no truth to it; the fakery is enormous. There is no possibility of a non-collapse of the present financial system—none! It's finished, now! The present financial system can not continue to exist under any circumstances, under any Presidency, under any leadership, or any leadership of nations. Only a fundamental and sudden change in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse. At what speed we don't know, but it will go on, and it will be unstoppable! And the longer it goes on before coming to an end, the worse things will get."

What happened: Within a matter of days, in early August 2007, the giant Wall Street firm Bear Stearns was the first major victim of the growing wave of sub-prime mortgage defaults, which began the chain-reaction that culminated in the September 2008 implosion of the global financial system.

As LaRouche has continually warned, as of 2014 the world teeters on the brink of a new, far more devastating GFC, which could unleash a thermonuclear confrontation between the collapsing trans-Atlantic powers committed to brutal austerity to prop up the City of London/Wall Street-centred speculative bubble, and the rising powers of Eurasia led by China, Russia, and India, which are investing in actual physical-economic growth.



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Appendix E

The Disastrous History of Australia's Banking Deregulation

by Robert Barwick, CEC Research Director

March 2013

The U.S. Congress is now considering concurrent bills, House Resolution 129, the *Return to Prudent Banking Act of 2013*, and Senate Bill 1282, the *21st Century Glass-Steagall Act*, whose intent is to re-enact the *Glass-Steagall Act 1933*, which split commercial banks that hold deposits off from risky investment banks. *The Glass-Steagall Act* protected America's depositors until its repeal in 1999, which allowed the creation of the Wall Street megabanks and their reckless gambling losses that caused the global financial crisis, and the resultant trillions of dollars in government and central bank bailouts.

Politicians in Italy, Iceland, Belgium, Sweden and Switzerland are working on Glass-Steagall laws; and more than 60 per cent of British MPs support a full-scale Glass-Steagall-style separation for the U.K..

Australian politicians must recognise that the financial danger their international counterparts are acting to avert is a global threat from which Australia is not immune, and that this nation must immediately enact a Glass-Steagall separation of our banking system.

By the Glass-Steagall standard, Australia's banks are a nightmare. Four major banks—CBA, ANZ, NAB and Westpac—dominate Australia's financial system. The same banks dominate New Zealand. The IMF noted with concern in November 2012 that the level to which the domestic financial system is concentrated in these four banks, which between them hold 80 per cent of Australian residents' assets, makes them *systemic*—a crisis in these banks is a crisis for the entire system.¹

The Big Four banks are each conglomerates, combining the traditional banking business of deposits and loans with the riskier financial activities of investment



banking, funds management, stockbroking, and insurance. This structure is precisely what the architects of the *Glass-Steagall Act* recognised posed such a mortal threat to depositors.

There is an assumption that the Big Four won't get into crisis, because they are supposedly among the strongest, most profitable banks in the world. This is the same assumption that every nation presently in financial crisis held about their own banks when they were riding high. Not only was it proved wrong for those nations, *it has already been proven wrong for Australia*. The supposedly "sound" Australian banks almost went bankrupt when the GFC erupted in September-October 2008. Unable to repay their enormous foreign debts, they had to beg the Rudd government to go guarantor for new foreign borrowings to roll over their existing loans. The banks told Rudd that without the government guarantee "they would be insolvent sooner rather than later", recounted Ross Garnaut and David Llewellyn-Smith in their book *The Great Crash of 2008*. Even by normal accounting standards, the Big Four and Macquarie are today still teetering on the

edge. From its recent analysis of the Australian financial system, the IMF expressed concern that Australia's banks have only six per cent capital. This enables the banks to rack up bigger profits, but it leaves them extremely vulnerable—just a six per cent decline in the value of their assets will wipe them out.

Besides the lack of adequate capital, the following constitute the fatal flaws of each and all of the Big Four:

- **They are each heavily exposed to the inflated domestic property market**, which accounts for more than 50 per cent of their lending. A property market decline in Australia similar to that suffered in every other economy whose property bubbles burst would be enough to collapse all four banks.
- **Each bank is dangerously exposed to toxic derivatives contracts**, with a principal notional value many times their assets. The Reserve Bank reports total derivatives exposure for all Australian banks is a fraction short of \$20 trillion; total bank assets by comparison are \$2.85 trillion. This exposure is kept “off-balance sheet”. Mindful of the destruction that such off-balance sheet derivatives had wreaked on Wall Street in 2008, when former Citigroup Chairman and CEO Sandy Weill told CNBC television in August 2012 that Glass-Steagall should be restored, he also warned, “There should be no such thing as off-balance sheet.”
- **The four banks are also heavily reliant on foreign loans.** More than half, \$802 billion as of September 2012, of Australia's gross foreign debt was owed by banks, the majority of that by the Big Four: \$513 billion was short-term debt, one year or less maturity; \$340 billion was 90 days or less. It was this short-term debt which would certainly have bankrupted them in 2008 had the Government not stepped in with guarantees.

Australians call for Glass-Steagall

All of these time bombs waiting to explode have provoked at least an opening discussion on Glass-Steagall in Australia. The most prominent call for Glass-Steagall-style banking separation, has come from former NAB CEO and BHP Chairman Don Argus. Argus told *The Australian* on 17 September 2011, “People are lashing out and creating all sorts of regulation, but the issue is whether they're creating the right regulation. What has to be done is to separate commercial banking from investment banking. I challenge any commercial bank board to really understand investment banking risk. It's different and needs to be properly priced. But you actually don't want it on a commercial bank balance sheet that comprises depositor funds.”

Then, the 6 August 2012 *Australian Financial Review* reported an unnamed “retired senior local banker” who was raising “concerns about the potential for a local bank to get into strife”. Under the headline “Big four might make better eight”, the *AFR* revealed that their source, careful to remain anonymous due to his present position, echoed Wall Street banker Sandy Weill's call for Glass-Steagall: “Australia's banks were too big and complex and should be broken up.”

Background: the decline and fall of the Australian banking system

Australia has never had a Glass-Steagall-style banking separation. But up until the early 1980s it was, with some exceptions, still a largely well-regulated financial system which functioned almost to the same effect, in which the level of risk was nothing like it is today after three decades of deregulation.

Commonwealth Bank

When the government-owned Commonwealth Bank exercised full regulatory control over the banking system from 1911-59, the banking system was tightly regulated and therefore very safe. Prior to the establishment of the Commonwealth Bank, banking had been very volatile. For instance, 20 of 22 Australian banks had been wiped out in the 1892 economic crisis. From its commencement in 1911, the Commonwealth Bank immediately strengthened the banking system, and stopped a run on the private banks during World War I by announcing it stood behind their deposits. No Australian banks failed during the Great Depression, compared with the 4,000 American banks that closed between 1929 and the 1933 passage of the *Glass-Steagall Act*. Labor leaders John Curtin and Ben Chifley gave the Commonwealth Bank even greater powers over the private banks during and after WWII. The Commonwealth Bank regulated what the private banks could charge for loans and pay for deposits, and the extent, and nature, of bank lending. The private banks complained about the regulations, but they still did quite nicely.² But under Chifley's successor, Liberal Party Prime Minister Robert Menzies, cracks started to appear in the banking system. Menzies' personal sponsor in politics was the Melbourne financier Staniforth Ricketson of the JB Were stockbroking firm; moreover, his Liberal Party was staunchly the party of the private bankers. In 1959 Menzies stripped the Commonwealth Bank of its regulatory powers over the private banks, and vested those powers in a new central bank, the Reserve Bank of Australia.

Finance companies

Even before that, the banks had started straying outside their previously disciplined standards. In the 1950s, paralleling a consumer credit bubble expansion

in the U.S., finance companies sprang up in Australia to fund hire purchase of cars and consumer goods, such as fridges and mixers. Although the banks didn't engage in hire purchase, between 1953 and 1957 every major bank acquired a stake in a finance company: the Bank of NSW, now Westpac, had Australian Guarantee Corporation (AGC); ANZ had Industrial Acceptance Corporation (IAC); the National had Custom Credit; the Commercial Bank of Australia had General Credits; ES&A had Esanda; the Commercial Banking Company (CBC) had Commercial and General Acceptance (CAGA); the Bank of Adelaide had Finance Corporation of Australia (FCA).³ In the 1960s, the finance companies moved heavily into property speculation, exposing the depositors in their stakeholder banks to new risks. This speculation included financing the first deals of some of Australia's most notorious corporate cowboys, including Alan Bond and John Elliott. The Bank of Adelaide's FCA financed Alan Bond's first land deal in 1960; the CBC's CAGA helped Bond make his first million in 1967. General Credits financed John Elliott's takeover of Tasmanian jam maker Henry Jones IXL in 1972, even though Henry Jones was a client of its parent bank CBA. When property prices collapsed in the mid-1970s, the big losses suffered by the finance companies blew back on their associated banks. When FCA collapsed, its stakeholder the Bank of Adelaide was only saved by the Reserve Bank ordering ANZ to take it over.

Investment banks

To cash in on the 1960s property and mining speculation booms, new investment banks also began competing for business. Known as merchant banks, they were usually joint ventures between different foreign banks, or foreign banks and local institutions. They were also associated with the corporate raiders. Martin Corporation, formed in Sydney in 1966 by a consortium of foreign banks including Baring Brothers, the Chartered Bank and Wells Fargo, bit the dust within a few years but not before it gave 1980s high-flyer Laurie Connell his first start. In 1971, Australian life insurer National Mutual teamed up with the First National City Bank of New York to form an investment bank named Citinational Holdings. In 1975 Citinational financed the first takeover of one Christopher Skase. Citinational's chairman was Keith, later Sir Keith, Campbell, who four years later was tapped by then Treasurer John Howard to head the seminal Financial System Inquiry that designed the Hawke-Keating economic reforms.

There were some restrictions on how much banks could own of investment banks, but no blanket ban. In 1980 the law was changed to lift the restriction on the percentage stake banks could have in investment banks from 33 per cent to 60 per cent.

Bank deregulation

The private banks decried the regulations they had to abide by, especially during the years the Commonwealth Bank was in charge, but the regulations were based on an important principle—the common good. “Old” Labor's champions of national banking, Commonwealth Bank founder King O'Malley, Frank Anstey, Ted Theodore, John Curtin and Ben Chifley, believed that the financial system must serve the needs of the people. To do that, the banking system had to be structured to ensure that credit was available for the government to build infrastructure and invest in national economic development, and for essential primary and secondary industries, the productivity of which generated the tangible wealth that underpinned the living standard of the population. Banking controls minimised the ability of the private banks to speculate, and encouraged investments in the production of physical infrastructure, goods and essential services.

The global financial system changed dramatically on 15 August 1971, when U.S. President Richard Nixon ended the Bretton Woods system of fixing the U.S. dollar to gold. This decision initiated a global push for financial deregulation, masterminded in the powerful banking houses of the City of London. Global



Corporate cowboys of the 1980s: (clockwise from top left) Alan Bond (with Bob Hawke), Laurie Connell going to jail, Christopher Skase (with Pixie), and John Elliott. Their rises and spectacular falls were the result of financial deregulation.

deregulation represented a new wave of British imperialism, but in the British Empire's new form, not as a territorial empire, but as an "informal financial empire".⁴ In late 1971, City of London scion Lord Jacob Rothschild formed a cartel of predatory banks called the Inter-Alpha Group to steamroll through nation after nation as they deregulated their economies, plundering wealth through previously-illegal methods of financial speculation. Deregulation cast aside the rules that ensured the health of the physical economy, unleashing banks to exploit new and exciting and risky ways to make money ... from money.

In Australia, the early post-Bretton Woods years in the 1970s saw a flood of merchant/investment banks established, usually as subsidiaries of foreign parent-banks which were aggressively expanding in the increasingly deregulated world. The Australian financial system wasn't yet deregulated, but regulatory loopholes were already being exploited, as seen above in the case of banks owning finance companies.

The Millionaires' factory

Enter Hill Samuel Ltd., now Macquarie Bank, aka the "Millionaires' factory". In 1971 three young up-and-comers from Sydney-based merchant bank Darling and Co., a subsidiary of the powerful City of London bank Schroders run by Australian financial wunderkind and future World Bank chief James Wolfensohn, took over the two year old Australian subsidiary of another powerful City bank, Hill Samuel. Backed by a London parent bank closely tied into the highest levels of the British establishment, including British Intelligence, David Clarke, Mark Johnson and Tony Berg ran an investment banking operation that engaged in takeovers and other activities similar to all merchant banks, but which also pioneered ways to tap into and siphon off profits from money that flowed between various sectors of the financial system. The financial schemes that Hill Samuel pioneered were not illegal. However, nor were they in any way productive for Australia's physical economy. They were money-shuffling arbitrage schemes, devised to lure funds that would otherwise be bank deposits, or in superannuation and life accounts, into speculating on differences in the price of money, i.e. interest rates.

Two examples: Hill Samuel's breakthrough scheme was an idea put to David Clarke by Melbourne financier Keith Halkerston, to exploit the gap between what banks paid their depositors in interest, and what those banks earned in interest by investing the depositors'



The founding troika of Macquarie Bank: (top, left to right) David Clarke (now deceased), Tony Berg (now ING), Mark Johnson (now AGL). Bottom: Paul Keating and John Hewson squared off in the 1993 election, but they were co-architects of financial deregulation.

money in gilt-edged securities such as Commonwealth Treasury notes and bank-guaranteed commercial bills. In the turbulent 1970s, returns on these securities could go above 20 per cent, whereas government regulations kept deposit interest rates low. The market for these securities was open only to large operators, because the minimum buy-in was well above the capacity of most individual investors. Hill Samuel set up a trust, the Hill Samuel Cash Management Trust, in which individual depositors seeking higher returns could pool their funds for Hill Samuel to invest in the gilt-edged securities. The trust then paid out to its members returns almost as high as the professional money market, and much higher than deposit rates, and Hill Samuel was able to skim off the top. The trust was a runaway success, attracting \$100 million in four months, and soon grew to \$1 billion and kept growing.

Inspired by this success, Hill Samuel identified a similar opportunity in an early form of what we now call mortgage securitisation. To exploit the difference in interest between what banks paid for deposits and what they earned by lending those deposits as mortgages, Hill Samuel teamed up with John Symonds, now famous as the founder of Aussie Home Loans—"At Aussie, we'll save you." Hill Samuel fronted Symonds money to make home loans marginally cheaper than the banks. Symonds delivered the mortgages to Hill Samuel, which insured each mortgage with the Commonwealth government's Home Loans Insurance Corporation. Insuring them with the government in this way effectively turned the mortgages into gilt-edged securities, and Hill Samuel on-sold them in bundles of 1,000 to superannuation funds and life offices, again skimming a margin of interest off the top for itself.

Hill Samuel, soon-to-be Macquarie Bank, actually launched the mortgage bubble at the centre of

Australia's present financial house of cards, as documented by Keating apologist David Love in his book *Unfinished Business: Paul Keating's interrupted revolution*.

Campbell Report

With this experience in exploiting Australia's existing financial structure, Hill Samuel was ready to spearhead the Australian front in the City of London's global deregulation offensive. In the late 1970s, future Liberal Party leader John Hewson returned to Australia from working for the International Monetary Fund in the U.S. to work two jobs: as chief economics adviser to then Treasurer John Howard, and as a consultant to Hill Samuel. Hewson convinced Howard to establish an official inquiry into the Australian financial system, with a view to deregulation. To chair the inquiry, Howard appointed investment banker Sir Keith Campbell—Christopher Skase's original backer. Another member of the inquiry was the schemer behind Hill Samuel's cash trust, Keith Halkerston. Entirely predictably, in its formal recommendations in 1981, the Financial System Inquiry, aka the Campbell Report, demanded full deregulation of the Australian financial system. Chairman Sir Keith Campbell insisted his reforms would make the Australian financial system more "efficient"—efficient for Hill Samuel and the corporate cowboys such as Christopher Skase, Alan Bond, Laurie Connell and John Elliott to extract quick profits at the expense of the long-term health of the physical economy.

The Campbell Report targeted for destruction every financial regulation that served to direct investment into long-term productive processes. It demanded:

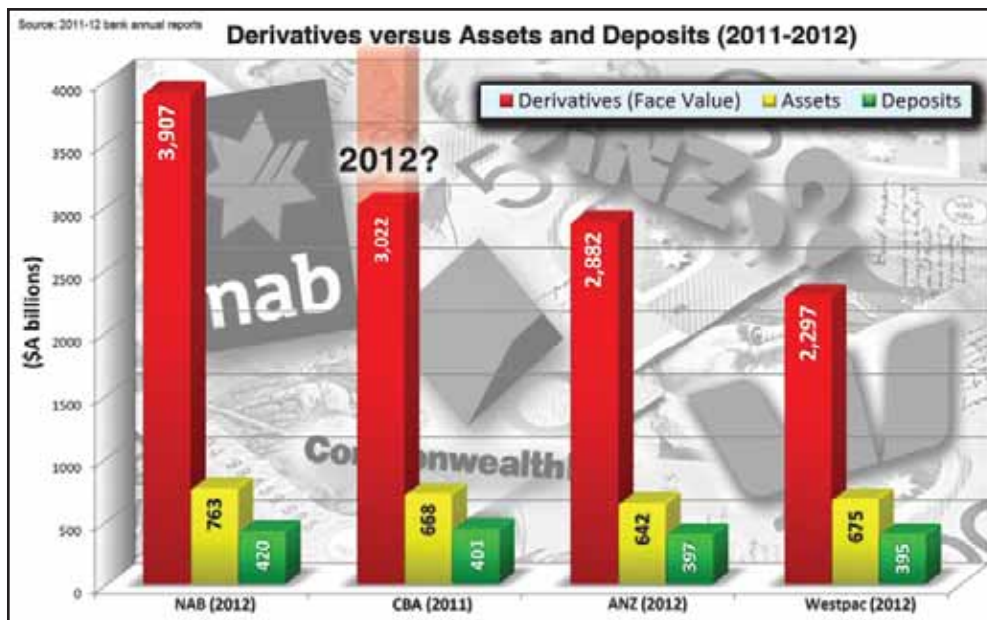
- the abolition of government controls over the nature of bank lending, by which the government instructed the banks to give preference to farmers, small business and home-buyers;
- the sale of all of the government-owned financial institutions that existed to provide cheaper finance to farms and small businesses—the Australian Industry Development Corporation, the Primary Industry Bank of Australia, the Commonwealth Development Bank, and the Housing Loans Insurance Corporation;
- the abolition of the "30/20 Rule" and other ratios which obliged the savings banks, trading banks, life offices and superannuation funds to invest a fixed percentage of their assets in government bonds—this requirement provided security for the financial institution, and ensured the government could borrow readily.

Campbell's list of demands also included the removal of government controls over all interest rates

charged by banks; the abolition of government controls over the amount of lending by banks; the lifting of all controls over capital flows in and out of Australia and the floating of the dollar; and the admission of foreign banks into Australia. The chief "advisors" to the Campbell Commission were almost all foreign, and included Citibank, Hong Kong and Shanghai Bank (HSBC), Bank of Tokyo, Bank of America and Barclays Bank. Perhaps its single most prominent individual advisor was Milton Friedman, notorious for his "free market reforms" in Chile, rammed through under the brutal military dictatorship of Gen. Augusto Pinochet.

Next came a political charade that deserved to star in the movie *The Sting*. Prime Minister Malcolm Fraser, who had some protectionist inklings, did not wholeheartedly embrace the Campbell Report. Treasurer Howard was only able to get one of the Campbell Report's recommendations, to let in foreign banks, adopted as official policy, but not in time to be implemented before the Bob Hawke-led ALP won the 1983 election. However, that didn't matter, because, in an epic betrayal of 90 years of the Australian Labor Party's history of fighting for the common good against the private Money Power, Hawke and his Treasurer, Paul Keating, took office fully intending to implement the Campbell Report. But first they had to re-brand it, to fool their constituents by giving it the appearance of a Labor initiative. They announced the Martin Inquiry by Victor Martin to "review" the Campbell Report, but in fact to rubber-stamp it. To make the charade more convincing, Keating adopted the aggressive tone of his claimed mentor Jack Lang, panning the management of Australia's banks as smug fat cats, protected by regulation from real competition. It was a fraud, of course: Keating's banking deregulation may have meant some discomfort in some individual financial institutions, but it was a boon for the private financial sector as a whole, permanently increasing its power over the economy, and over government. Keating mimicked Lang's tone, but he trashed his legacy.

Hill Samuel was omnipresent as Keating stripped away Australia's banking regulations. Its currency traders effectively managed the first major act of deregulation, the December 1983 float of the Australian dollar. Unabashed Keating fan David Love indicated in a 17 February 2011 column in *The Age* entitled "The Aussie float—a love story" that Keating seemingly had pre-planned the float with Hill Samuel. "Keating knew that, should the \$A float, there would be there waiting for it a highly professional international trading home and that this could be counted on as a factor for stability in a float", Love revealed; "The \$A traded in the Hill Samuel basket from the day it floated in 1983." When Keating handed out banking licences to foreign banks in 1985, Hill Samuel was first in line, and became



Macquarie Bank, with Campbell Report architect John Hewson now its executive director. Macquarie Bank went on to play a central role in Keating's flagship superannuation reforms, to force workers to hand over a percentage of their wages to Macquarie Bank and other fund managers. This would create a massive pool of privately-managed funds to invest in privatised infrastructure, toll roads and the like, which Keating fantasised would turn Australia into a global financial centre, "the Wall Street of the south". Or, in the image pervading David Love's biography of Keating, Australia would become "the Antipodean Rialto", a smaller copy of Venice, the "wonder of late medieval and renaissance Europe ... [whose] heart was the Rialto district, site of a remarkable international money-market embodying institutional banking, commercial-bills trading, bond trading, and foreign-exchange dealing."

Wallis Committee

In 1996 the newly elected Liberal Treasurer Peter Costello announced the most recent inquiry into the financial system, headed by Stan Wallis, the chairman and former managing director of paper products giant Amcor. The Wallis Committee recommended removing the restriction on mergers between the banks and big life offices; stripping the Reserve Bank of its remaining powers to regulate the banks; and establishing a new banking regulator, the Australian Prudential Regulation Authority (APRA). What was previously the "six pillars" policy—the Big Four banks and big two life offices, AMP and National Mutual—was dropped in favour of the four pillars policy remaining today. The debate around the Wallis Committee also forced Peter Costello to confirm publicly, for the first time, that there was no formal guarantee of bank deposits in Australia.

Inside job

From these two periods of banking reform has emerged Australia's highly concentrated banking system, with its near-\$20 trillion exposure to toxic derivatives and hundreds of billions of dollars of short-term debt. The architects of deregulation know they have exposed the Australian public to incredible risk. In an interview published in 2008 Keating admitted

to author David Love a "minor" detail kept from the public in the 1980s—at least two of Australia's Big Four banks would have collapsed in that period, if the government hadn't propped them up, because they were too big to fail. Recalled Keating, "The old domestic banks went like charging bulls into credit expansion from 1985 on Eventually, they had us in a position where we dared not check them lest they failed. Westpac and the ANZ virtually did fail: the government and the Reserve Bank had to hold them together until they got back on their feet."⁵

A member of the Wallis Committee, Melbourne Business School Professor Ian Harper, made his own admission after the fact, in Lenore Taylor and David Uren's 2009 book on the GFC, *Shitstorm—Inside Labor's Darkest Days*. On the weekend of 11-12 October 2008—the very weekend the banks, including a very panicked Macquarie Bank, were begging the Rudd government for the guarantees they needed to stay afloat—Harper urged his wife to withdraw all she could from the ATM straight away, because he wasn't certain the banks would open their doors come Monday. Meanwhile, the public were assured the banks were "sound".

Notes

1. The Big Four banks are not only considered domestically systemic, the Financial Stability Board—the same organisation directing the implementation of Cyprus-style bail-in legislation internationally—has classified Australia's financial sector as Globally Systemically Important, meaning that a crisis in our financial system would cause an international chain reaction collapse of foreign markets. Thus the secretive push for bail-in legislation under way now.

2. Edna Carew, *Fast Money* 4, p. 101-102.

3. Trevor Sykes, *The Bold Riders*, p. 3.

4. Katherine West, Discussion Paper 60: "Economic Opportunities for Britain and the Commonwealth", Britain and the World, Chatham House 1995.

5. David Love, *Unfinished Business: Paul Keating's interrupted revolution*, 2008.

(Advertisement)

A Solution for Australia

Forewarned by Lyndon LaRouche's forecast of the now on-going financial crisis, the Citizens Electoral Council already over a decade ago drafted the basic program to save this nation. Contained in two publications, *What Australia Must Do to Survive the Depression* (below), and *The Infrastructure Road to Recovery* (right), it consists of a legislative program, and detailed proposals for large scale infrastructure projects; combined, these will unleash a genuine recovery in Australia's physical economy.

Legislation

1. A New National Bank

In 1994, following extensive discussions with Lyndon LaRouche, the CEC composed draft legislation to re-establish the Commonwealth Bank as a national bank, with expanded powers and functions along the lines originally envisaged by King O'Malley and then by John Curtin and Ben Chifley.

In September 2002, the CEC published a full page ad in *The Australian*, calling for a national bank, which was signed by over 600 Australian dignitaries including current and former federal, state and local elected officials, union and community leaders.



Top: The 2002 advertisement in *The Australian*, endorsed by 600 community leaders. Right: The CEC book which contains the draft legislation for a national bank.

2. A Debt Moratorium for Farms and Industries

Under globalisation, deregulation, and an unjust tax system, our hard-working farmers and industrial entrepreneurs have been savaged. They urgently need relief, in order that we can begin the process of the reconstruction of Australia's physical economy. Toward that end, the CEC drafted the *Productive Industries and Farms Domestic Debt Moratorium, Amelioration, and Restructuring Bill*.

Infrastructure

The CEC's Infrastructure Road to Recovery

Contents:

Let's Build Our Way Out of the Depression! p. 11

Great Water Projects p. 20

Water for Australia

- The Fitzroy River
- The Ord and Victoria Rivers
- The Daly, the Roper, and the Gulf of Carpentaria Rivers
- The Reid Scheme
- The Bradfield Scheme
- The Dawson Scheme
- The Burnett River
- The Clarence Scheme
- The Murray-Darling Basin
- Tasmania
- Melbourne
- Northwest Victoria
- Adelaide
- Finke River
- Esperance-Kalgoorlie Pipeline
- Perth/Wheat Belt



The New Citizen, April 2006, contains the CEC Special Report, "The Infrastructure Road to Recovery".

Conquering Our Salinity Problem p. 26

Australia Must Go Nuclear! p. 28

A Great Railway Boom p. 31

A World Leader In High-Speed Shipping p. 33

Conquering Space p. 36

Rebuilding the Health System p. 40

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For more information see
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Original Commonwealth Bank head office, 1916, Martin Place, Sydney