

# A win in the war on bad banks!



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Lead Editorial

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While many continue to deny the reality that the global financial system is coming down, and Australian real estate and banking with it, this will not stop the momentum which is building. “[C]redit growth has never been so low during a period of sustained and extreme monetary stimulus”, stated business and finance blog *Macrobusiness* on 2 December. Titled “The forty year Australian household debt boom is over”, the *Macrobusiness* article said this usually occurs in periods of economic shock such as the GFC. Recognising the true economic environment, consumers are putting a brake on new debt. Australia is also being impacted by the global slowdown, yet the government remains committed to maintaining its budget surplus, refusing to spend into the economy. The Coalition government is oblivious to what *Macrobusiness* calls “the earthquake shaking its post-Howard economic assumptions”. As for our banks, given sinking mortgage books, they are “verging on uninvestable. For all intents and purposes they are now zombies”.

The latest KPMG report reviewing performance of the big Aussie banks in 2019 reveals that profit is down while outgoings are up, including banking royal commission remediation costs. KPMG said the “regulatory and compliance burden” on banks, including new standards for responsible lending and anti-money laundering, is a major factor. Banks are in damage-control mode, with the big four all looking at significant job cuts and cost-cutting programs, at a time when they should have more *actual people* driving a recovery from criminal behaviour. The impact of extreme monetary policy is also hitting, with low interest rates impacting economic margins.

Introducing the Australian Banks (Government Audit) Bill 2019 on Monday 2 December, Federal MP Bob Katter demanded immediate action to stop “this impending doom upon the Australian economy”. The bill, which will force banks under the microscope of government auditors, was seconded by Adam Bandt from the Greens. In the ongoing parliamentary hearings into the regulation of auditing, Greens Senator Peter Whish-Wilson heartily endorsed the legislation when it was raised by a witness, Professor of Accounting James Guthrie. Whish-Wilson also raised the necessity for Glass-Steagall type separation between auditing and consulting. Another witness, former Australian Competition and Consumer Commission (ACCC) head Allan Fels, insisted on Glass-Steagall separation when it comes to banking, indicating that banks cannot be afforded government protection if they are gambling (p. 3).

Bank separation was also raised by Robert Gottlieb in the *Australian* on 2 December. It is clear, he wrote, that the management systems of our big banks are not working—banks may “need to look at making their operations simpler and more focused by separating [retail and investment] activities into separate entities”. Independent journalist Michael West’s website ran an article by *Land* newspaper columnist John Carter, calling for a People’s Bank, along with Glass-Steagall separation to prevent commercial banks exposing us all to dangerous derivatives and returning them to essential lending functions. “Banks have virtually stopped lending to farmers”, stated Carter.

What do you think the popular reaction would be—even among the majority who’ve never heard of Glass-Steagall—if the government announced it was going to stop retail banks gambling and force them to serve the real economy?

This is the only way off the pathway of extreme monetary policy. Today Pauline Hanson’s One Nation will move a Senate debate on a Matter of Public Importance against the RBA’s foreshadowed unconventional monetary policy. They emphasise “the need for the Senate to reassure everyday Australians that this will not include negative interest rates or bank bail-ins”. This would be the first proper debate about bail-in since it was hand-waved through parliament in February 2018. One Nation will also move as soon as possible to table its amendment to the bail-in bill, to exclude deposits from bail-in. And there is more in the works. Stay tuned and keep up the heat on your MPs—it’s working!

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