

SUBMISSION ON POLICY ISSUES RAISED IN ROUND 5

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To have such short notice of the deadline for submissions will not allow me to do justice to this significant issue. Unfortunately we have been stuck with the American terminology Glass-Steagall when discussing the need to separate the domestic/commercial arm of banking from the speculative/gambling side of "banking". Glass-Steagall was set up pre WW2. Much has evolved since then so a new energetic, more comprehensive approach to stabilising our banking structure is needed. I include the quotation from John Kay to illustrate just one aspect of banking to show where light and clarity needs to be directed in this banking Royal Commission. "In Britain, bank lending to firms and individuals in the real economy amounts to only about 3 per cent of their total lending. All the rest is lending to other banks and institutions busy buying and selling bits of paper to each other—making bets with each other that the prices of those bits of paper will rise or fall in coming days. Kay makes what, for an economist, is the very strong condemnation that almost all this speculative activity is 'socially unproductive'. It might or might not benefit the people doing the trading, but it's of no benefit to the rest of the economy." John Kay. While structural separation of the domestic banking from the speculative arm of banking is essential, the role of the effects of "netting" and the general field of credit default swaps needs to be exposed and thoroughly thought through as well. That the inertia at ASIC and APRA has been exposed is useful, but little useful action is taking place. Do they have to wait for the conclusion of the Banking Royal Commission before they seriously undertake the roles they were commissioned for in the first place? The transfer of personnel from banking to government oversight and vice versa has potential to be abused. I look forward to the recommendation of RC Haynes in the near future. Ian L Gill.