Australian Citizens Party

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MEDIA RELEASE

19 June 2014

Hockey's Treasury recommends 'bail-in' to Financial System Inquiry

Joe Hockey's denials about "bail-in" have again been officially contradicted, this time by his own Treasury department, in its submission to the Financial System Inquiry (FSI).

Bail-in is the name for the Cyprus-style confiscation of bank deposits, or their conversion into worthless bank shares, in order to keep Too Big To Fail (TBTF) banks afloat in a new financial crisis. It differs from the Government's existing deposit-stealing regime—the outrageous confiscation of funds from bank accounts that have been inactive for just three years, by which the government has seized $360 million in 12 months—in that bail-in will take a portion of *all* bank accounts.

Hockey modelled his Financial System Inquiry on the Campbell Committee, the 1979-1982 inquiry implemented by Hawke and Keating with Howard's support, which dismantled most government controls over banking in Australia, and privatised the public banks including the Commonwealth Bank. This unleashed the private banks to gouge their customers and speculate like crazy, which netted them both huge profits and huge gambling debts, and concentrated Australia's financial system into the Big Four TBTF banks and Macquarie.

Now the bankers are coming back for another bite through Hockey's FSI, which is chaired by former Commonwealth Bank boss David Murray, and includes Campbell Committee architect John Hewson's investment banker ex-wife Carolyn.

Treasury's 3 April submission to the FSI specifically addresses TBTF. Treasury defends the highly-concentrated nature of Australia's financial system, claiming it is "reasonably competitive". But Treasury admits TBTF is "distorting" the financial system, which admission leads to this recommendation, under the heading "Bail-in":

"158. Part of the G20's policy response to the problem of 'too big to fail' is to reduce the moral hazard and fiscal costs through a bail-in regime, which includes a framework for loss absorbency. Bail-in involves allowing the Government to write down the value of bank debt or converting debt securities into equity when the bank fails.

"159. In theory, a credible bail-in regime would directly address the moral hazard and efficiency issues caused by too big to fail. Whether the market would ensure appropriate discipline in practice is a matter yet to be tested."

After weighing the implications of bail-in, Treasury implicitly recommends the G20 approach:

"164. Australia should consider its approach on this issue in light of international developments."

Bear in mind, Treasury's boss, Joe Hockey, is the current chairman of the G20 Finance Ministers, and is therefore in charge of the G20 achieving its bail-in regime, by the November G20 summit in Brisbane.

The FSI hands down its interim report next month, which, given Treasury's submission, might be the green light for the next stage of implementing a bail-in regime in Australia: namely, introducing the legislation currently being drafted by Treasury into Parliament.

Of course, Treasury's rationale is a fraud: bail-in does not address TBTF, because the banks remain TBTF, it's just that their unsecured creditors, including depositors, are forced to prop them up, instead of taxpayers (another fraud, because depositors are also taxpayers).

The only genuine solution to TBTF is that recommended in the Citizens Electoral Council's 1 April submission to the same FSI—a Glass-Steagall separation of investment banking from commercial banking, under which the Big Four and Macquarie will be split up into smaller institutions, none of which will be TBTF. The deposits will be protected by being contained to the smaller commercial banks which will be forbidden from engaging in risky speculation. The investment banks will be forbidden from having any contact with the commercial banks, and investment banks will know that they will be left to sink or swim on their own.

Join the CEC's campaign to stop this bail-in law, and implement a Glass-Steagall separation instead.