

# ECONOMIC REFORM AUSTRALIA

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24 August, 1996

The Secretary  
Financial System Inquiry  
Treasury Building  
Parkes Place  
Parkes ACT 2600

## SUBMISSION TO THE INQUIRY INTO THE AUSTRALIAN FINANCIAL SYSTEM

Dear Secretary,

Since its formation in 1993 our organisation has been vitally concerned with the effects flowing to the Australian economy, and to the community at large, from the deregulation of Australia's financial system. This process, which was of course initiated by the findings of the Campbell Committee during the early part of the 1980s, has attracted a considerable amount of criticism in recent times.

While we recognise that there have been some positive features to the process of deregulation, our overwhelming impression has been that the longer term negative effects upon the social fabric, the levels of national and local debt and other key economic indicators, and the implications for the environment, are cause for considerable concern. In support of this general statement we would like to draw the attention of the inquiry to the following features of the Australian economy:

1. During the past 13 years there has been inadequate monitoring and control of lending policies and practices. In many cases banks and other financial institutions have employed loans officers inadequately trained in the prudential standards and practices appropriate to their activities.
2. In recent times, Australian interest rates have been both excessively high and unduly unpredictable. ERA feels that it is inappropriate and ultimately counterproductive to attempt to fight inflation by manipulating interest rates to the exclusion of all other economic levers. Moreover, ERA stresses that high interest rates are one of the major contributors to inflation.
3. The removal of interest rate segmentation has meant that farmers and new home buyers are unfairly pitted against the high fliers of the business community in the competition for loan finance.
4. What is more farmers complain that while banks write off bad debts and claim tax concessions for these debts, they show no mercy in foreclosing on farm properties. Rural bankruptcies reached an all-time high during the past decade, and continue to remain at an all-time high today.
5. During the period immediately following the 1987 stock market collapse (ie 1988-89), credit creation ballooned and the national money supply increased dramatically (details are to be found in the data released by the RBA). Some commentators at the time described the RBA as being "asleep at the till", and also the money supply as being "out of control". ERA supports this view. This lending frenzy, which was facilitated by the financial deregulation implemented during the

1980s, was succeeded by a recessionary phase characterised by historically high levels of unemployment. ERA also supports Berney Fraser's admission that the RBA ought to have balanced its concern with inflation with a more rigorous concern about the sustained levels of unemployment in the community.

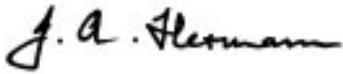
6. There has been, in the wake of the above financial fall-out, a succession of failures of several banks as well as non-bank financial institutions, accompanied by massive debt write-offs (estimated at around \$40 billion).
7. This country has experienced the highest interest margins and bank profits ever - good news for bank shareholders but bad news for everyone else.
8. It has become increasingly more profitable for private banks to lend to governments (by buying securities) than to provide much-needed credit for private industry. This source of finance has been used for funding budget deficits and interest on public debt (\$23b in 1995/95), in addition to a range of infrastructure commitments. We believe, however, that the financing of public infrastructure, capital works and environmental projects should be budgeted exclusively from either taxation or from either RBA-created credit or treasury-created money in the form of either low-interest loans or outright grants. (See enclosed ERA Policy, 1996).
9. There have been noticeable foreign purchases of banks and bank amalgamations.
10. It is probably not an exaggeration to say that financial deregulation has ushered in an orgy of excessive wastefulness and duplication of effort within the business community.
11. Many observers believe that the finance sector has experienced a significant deterioration in terms of the competency, morals and business ethics of its practitioners, and have linked this situation directly to the onset of financial deregulation. We believe that the parameters for banking operations should limit the scope for unethical and exploitative behaviour.
12. There does not appear to be evidence to suggest that financial deregulation has substantially enhanced Australia's international competitiveness. Instead, it has encouraged investment funds to flow into speculative financial activity which is not employment intensive, rather than into manufacturing and services which are employment intensive.
13. There is substantial evidence linking financial deregulation with increasing foreign control of the Australian economy.
14. In recent times various banks have introduced and increased their fees by stealth, and have subsequently made a number of embarrassing backtracks - suggesting that they have no clear policies on fees. In addition, banks have been uncommunicative, and even secretive, about the changes to conditions applying to credit card balances. For these and other reasons, customer disillusionment with the behaviour of banks has reached an all-time high.

ERA is convinced that many of the above deficiencies within the Australian financial scene could be rectified or reduced by re-introducing a far stronger regulatory framework to lower interest rates and discourage speculation. Though we are aware of the debate about the ongoing role of the Reserve Bank viz a viz the merger of financial regulators to form a super-monitor, ERA has not had time to form a position on this issue to date. Nevertheless ERA is committed to re-introducing credit

controls which enable the RBA to issue interest-free or very low interest credit for capital projects which protect and rehabilitate the environment and reduce unemployment without excessive inflation

Finally, ERA would like to have an interview with the Committee to expand its concerns. As well ERA is working with a wide range of non-government organisations to invite organisations representing grass-roots concerns to make their case at a public meeting on 1 December, 1996 in Sydney. I include a flyer concerning proposed public hearings to be convened by ERA and a range of other organisations. We understand the Inquiry will concentrate on hearings in Melbourne and Sydney and ask you therefore to contact : **Frances Milne, 14 Gallimore Ave, Balmain 2041.**  
**Phone/fax : 02-9810 7812.**

Yours Sincerely,



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