



## Australia needs its own Glass-Steagall

Once again, media reports well after the fact are confirming what only the CEC said at the time the global banking system was rocked by the collapse of Lehman Brothers in September 2008, which is that Australia's banks almost collapsed (see p. 4).

So there is no doubt that Australia's banks are far from "sound", as Rudd and Swan et al constantly reassure us—they are bankrupt.

On the liabilities side of their balance sheets, they all have multi-trillion-dollar exposure to derivatives, a combined \$14 trillion, and between them owe around two-thirds of Australia's gross foreign debt, nearly \$900 billion.

On the assets side, the majority of their assets are mortgage loans into Australia's hyperinflated property bubble, so their assets are way overstated.

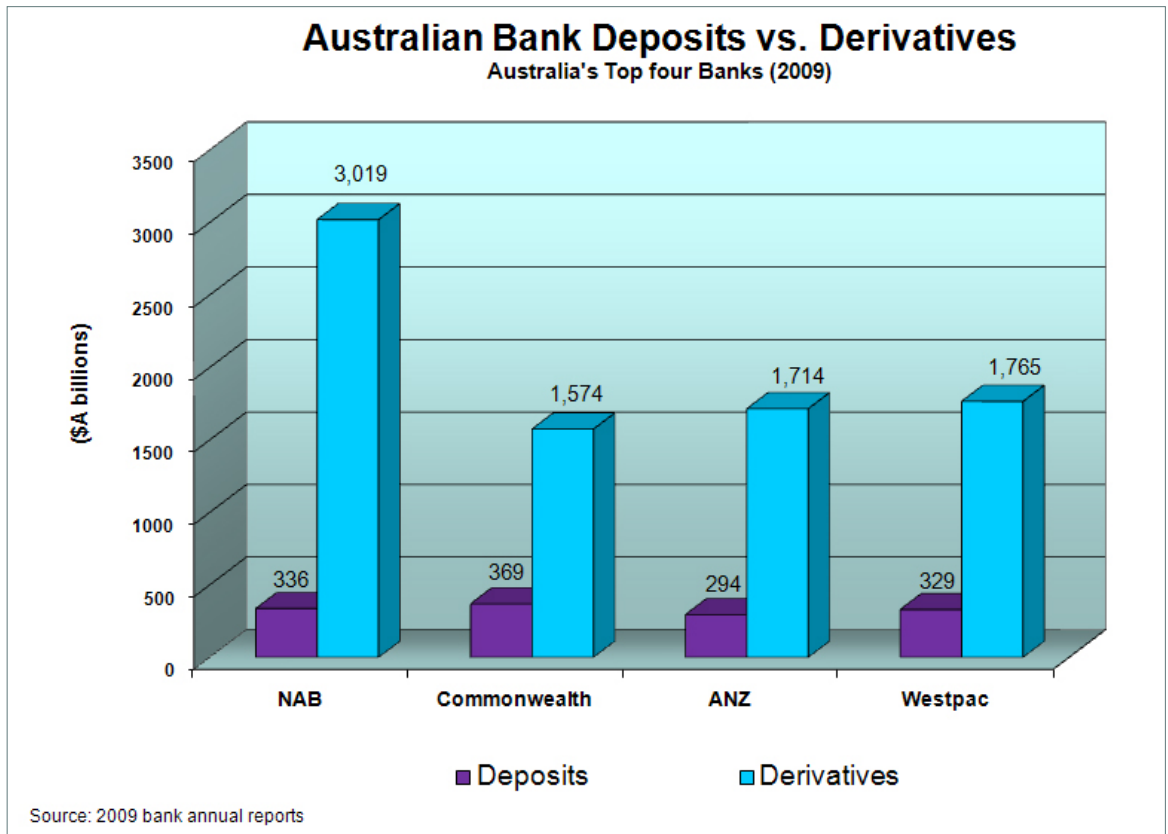
When the property bubble bursts, the value of those mortgage assets will drop by more than half.

The big four banks account for the great majority of Australia's deposits, mortgages, derivatives and debt (see graph).

The problem for any Australian government that seriously wants to protect the deposits of the Australian people, is that those deposits are held by the same banks which are addicted to derivatives gambling.

In a crisis, the government will not be able to support the deposits, without propping up the derivatives.

The banks know that, and as on Wall Street, they take it as a green light to go nuts in the derivatives casino, because they are seen as too-big-to-fail (TBTF)—the only way the government can protect their depositors is to cover their gambling debts.



Protect the deposits from the derivatives: The trillions in derivatives puts bank deposits at risk, but without Glass-Steagall the government is forced to support both.

For example, in October 2008 when Rudd slapped a guarantee on deposits, he also guaranteed the banks' short-term foreign borrowings which they used for speculation.

The principle of Glass-Steagall is to protect the necessary functions of banking, including deposit-taking, from the predatory speculators; therefore, under Glass-Steagall-style regulations, this graph wouldn't exist.

No banks that held deposits would be able to speculate in derivatives full-stop, or engage in any other investment bank-style speculation.

Furthermore, in a national banking system, practically all legitimate investment banking functions, such as long-term investment in infrastructure and industry development, would be performed by the national bank, at low interest—Macquarie Bank-style investment banks would have no role, and therefore absolutely no call on any government protections.

Because Australia has some of the highest levels of household debt, and foreign debt, in the world, as much as any country could, we desperately need our own Glass-Steagall reorganisation and ongoing system of financial regulation.