Submission to Financial System Inquiry:

Stability — Addressing too-big-to-fail

Having read the relevant section of your Interim Report, it is my belief that you, the FSI panel, are deliberately attempting to develop a justification for *preserving* too-big-to-fail (TBTF) institutions, rather than solving the problem. Whether this is your appointed task and the entire purpose of your Inquiry, or a result of a vested interest in the maintenance of the current financial systems and its institutions, or simply the product of a blind (one might even say religious) adherence to the so-called 'free market' ideology, can and should be determined at a later date by an inquiry of another sort.

Governments exist to serve the Common Good, and are thus empowered to intervene whenever and wherever necessary to discharge that sacred duty; this emphatically includes the financial sector, Joe Hockey's blather to the contrary notwithstanding. The solution to TBTF is simple: legislate the dismantling of all such institutions extant, and put regulations in place to prevent the recurrence of the phenomenon. Precedents exist for such a system of regulation; the best-known and most effective was that established in the United States by the *Banking Act of 1933,* generally known as Glass-Steagall (as I know you are very well aware), which provided for a complete separation of commercial banking from speculation (with harsh penalties for transgressors) and established deposit guarantees to restore public confidence in banks. In Australia, we had the Commonwealth Bank, which held regulatory authority over the private banks and was charged with managing the capital of the nation for the benefit of all (hence the name, in case that wasn't obvious). I have heard it said that the reinstatement of such laws and institutions would be insufficient, because markets and asset classes exist now which had not been dreamed of back then. This only serves to support my argument: finance has become divorced from reality, and it happened when the laws which kept bankers tethered to the real world were abolished.

Your preferred option for 'addressing' TBTF would appear to be the peculiar system known as ring-fencing, the internal separation of divisions of a TBTF institution under the management of the same parent company and board of directors. Allow me to point out that this was almost exactly the system in place in the 1920s in the USA, and we all know how that worked out. It was the ability of speculators to exploit the inadequacies of such a system which caused the Great Crash of 1929 and the consequent Great Depression, and which necessitated the imposition of Glass-Steagall in the first place. The other TBTF non-solution being bandied about is 'bail-in', which has already failed consistently in Europe for over a year now, most recently with the implosion of Banco Espirito Santo in Portugal, which was bailed in, then bailed out, and yet the losses still managed to cascade into France, Brazil, and Austria... *and it was already 'ring-fenced'*. Knowing this, how could anyone not criminally insane possibly recommend instituting such policies here in Australia, or anywhere on Earth for that matter?

So, your options are to continue to flog the dead horse of the current system, or to tell the truth: the system is finished, and we need a better one. Fortunately, there is already a great opportunity in the offing, with the newly founded New Development Bank established by the BRICS nations (Brazil, Russia, India, China and South Africa) and their collaborators. We might take a leaf out of Egypt's book: a complete turn-around of their entire national economy in mere weeks through the launching of huge nation-building infrastructure projects *funded entirely by internal sources of credit*, with not a cent borrowed from the IMF, World Bank, or the 'foreign capital markets' of which Mr David Murray is so enamoured (if one can judge from his public remarks on the subject). Of course, if Mr Murray actually knew the history of his erstwhile employer, the once-great institution called the Commonwealth Bank of Australia, he would realise that we once did such things here, too, and happily thumbed our noses at the whole notion of 'foreign investment' in the process. At the recent Financial System Inquiry Public Forum in Melbourne, Mr Murray opined that if we in Australia wished to escape our dependency on foreign investment, "we would have to run the whole economy very differently." That, sir, is precisely the point.

Sincerely,
Richard Bardon.