I would like to recommend to the Financial System Inquiry that the tendency of banks to grow into large unstable institutions can be remedied by re-establishing regulations that fully separate commercial banking and investment banking activities, such as the successful Glass-Steagall legislation that existed in the United States of America until recently (1999). Both kinds of banking have their place but their exposures to risk are so different that they require entirely different forms of protection. Indeed the phenomenon described by the phrase "too big to fail" could not occur if the substantial, or "big" part comprising the funds that actually deserve protection, were not tied to a "fail" part comprising risky investments that don't deserve protection.

I see the idea of separating banking activities as no more controversial that the many other real-world situations which are kept safe by the simple expedient of adequate separation; drugs from sweets, diesel fuel from petrol, detonators from explosives and so on. Or to take another physical example, if banking is compared to electricity, then the two kinds of banking may be said to run at different voltages demanding different sockets in the home. Such illustrations from the physical world should be taken as intended, not as fanciful lessons in the details of banking so much as about the fundamentals of stability in principle.

The well-known alternative called "bail-in" does not compare favourably with the Glass-Steagall approach. It is not a mechanism for achieving real stability, only emergency power to manage a one-time crisis. Even worse, an actual "bail-in" event would probably work out badly among Australians who know betting when they see it in overly ambitious investing and who would not take kindly to their own funds being appropriated unfairly to cover someone else's losses.