

The strategies adopted in the Global Financial Crisis, especially by the USA illustrated the shortcomings of making smaller unsecured creditors bear the risk for what were fundamentally irresponsible bank lending practices.

As an entire society, the economic disruption caused by ordinary people being ruined in large numbers far outweighs that caused by the failure of major financial institutions, since it is the ordinary people who provide the actual demand for most of the products of the economy. Once their capacity to spend is destabilised, the economy totters.

By contrast, speculative risky ventures undertaken by banks were in themselves counterproductive. They run up asset prices unnecessarily and produce apparent profits by creating unnecessary burdens on third parties, often long into the future. The sub-prime fiasco is but one example. These activities should be limited wherever possible and their true risks quarantined away from the larger community that does not intend this type of financial gambling.

The Glass-Steagall Act in the USA was effective at stabilising the USA financial sector and moderating the excess speculation that would have otherwise destabilised that economy. Its major critics were persons who stood to benefit from being the beneficiaries of speculative ventures when the risks were shifted to those least able to accept them. Its dismantling in the USA, like other countries where similar initiatives were in place, including Australia, is correlated with increased national financial instability.

The Australian Government should pursue Glass-Steagall type financial regulation and definitely avoid any initiative that would shift risk onto small depositors in situations where these depositors do not want to be associated with high risk speculative financial practice. The very fact that they have deposited their funds with a bank is an indication that their intention is a secure location for their funds, not a risky one.