# Citizens Electoral Council of Australia

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# International banking expert warns Australian government: go with Glass-Steagall

One of the world's very top banking experts visited Canberra on 5-6 March, as a guest of the Citizens Electoral Council to offer the Australian government his expert advice that Australia should immediately implement a Glass-Steagall separation of investment banking from retail banking, or risk a banking crash.

Daisuke Kotegawa worked for Japan's Ministry of Finance for 35 years, rising to the position of deputy director. He was also Executive Director for Japan at the International Monetary Fund.

In his career, Kotegawa observed first hand the 1980s takeover of the financial system by predatory financial speculators, whose crimes under the cover of deregulation eventually brought the world financial system to its knees in 2008. He even participated in designing one of the world's first over-the-counter (OTC) derivatives, a "put option" on a bond, while on secondment to the World Bank in the 1980s.

This was the beginning of the exponential growth in OTC derivatives speculation, which went from a trade of around $1 trillion in 1988, to $30 trillion by 1993, $70 trillion by 1997, $100 trillion by 2000, and then $1,400 trillion by 2008. Having seen the origins of derivatives speculation, Kotegawa was well qualified to lead the clean-up in Japan when a number of Japanese financial houses, banks and life insurance funds were bankrupted by derivatives speculation in 1997-1998.

## Governments should clean out, not bail out

By 1997 Kotegawa was a deputy director of the MOF. He took a number of decisions that worked to solve the Japanese crisis, and which, if they had been repeated in 2008, would have averted the GFC.

First, over a number of long weekends, Kotegawa's team made sure that Japan did not become the epicentre of a global financial crisis in 1997-98, by unwinding all of the affected Japanese banks' cross-border transactions with other institutions around the world. This included cancelling out their derivatives bets. Thus, the crisis was contained to Japan.

When Lehman Brothers collapsed in September 2008, the authorities in the U.S. and U.K. did not follow Japan's example from a decade earlier. Instead, they organised massive government bailouts in order to honour the derivatives bets that were the cause of the crisis, and the crisis spread around the world.

Second, Kotegawa's team punished offending financial institutions. This included confiscating the banking licences of the foreign investment banks such as Credit Suisse which had arranged derivatives bets with Japanese life insurance companies that had sent those companies bankrupt. One particular foreign institution did not have a banking licence, so all Kotegawa's team could do was warn it that its activities were being watched, which prompted the company to relocate to London. Its name was AIG Financial Services, the company whose derivatives bets with Lehman Brothers and Goldman Sachs blew up the global financial system ten years later, in 2008, and was the reason for the massive government bailouts.

Third, quite a few Japanese bankers, including some of Kotegawa's own friends, went to jail for their role in the 1997-98 crisis. There is strong evidence that this taught the entire Japanese financial system a lesson, because when the GFC erupted in 2008, Japan's financial system was largely unaffected.

By contrast, no banker on Wall Street or in London has been held accountable for the far graver crisis in 2008; indeed, Barack Obama's Attorney-General Eric Holder has virtually admitted that the Wall Street bankers are "too-big-to-jail".

## Sound advice

The U.S. Treasury officials who handled the 2008 crisis, Timothy Geithner and Larry Summers, both of whom Kotegawa knows well, did not take his advice. They instead decided to prop up the Wall Street and London banks' toxic derivatives contracts. Consequently, the banks that caused the crisis were bailed out, and to pay for it the people of the U.S. and Europe have been hit with vicious austerity, and now the threat of "bail-in"—losing their deposits to prop up banks that fail in the future.

Kotegawa's advice to the Australian government was that bail-in is an insane policy, because it destroys the foundation of banking, which is the depositors' confidence in the bank.

From his examination of the features of the Australian financial system, Kotegawa identified that Australia's banks were at grave risk, from their derivatives speculation, and from the precariously-balanced domestic property bubble. He therefore advised the government to implement a Glass-Steagall separation of Australia's banking system, into deposit-taking retail banks strictly separated off from the risky investment banks embroiled in what he termed the "money game" of derivatives speculation.

Kotegawa explained this would protect Australian depositors from the risks they are presently exposed to through their banks. He further explained that by keeping deposits away from being used for speculation, they would be available for normal lending into the real economy, including to the farming and manufacturing industries that provide Australia's economic strength. Australia, Kotegawa urged, should develop itself to become the food bowl of Asia, but the nation needs a credit system that can facilitate that, which it will only achieve through a Glass-Steagall banking separation.

Please go online to support the CEC's petition to the Australian Parliament, Australia Urgently Needs a Glass-Steagall Separation of Banks: http://cecaust.com.au/Glass-Steagall/

Coverage of Daisuke Kotegawa's trip to Australia in the *Australian Financial Review*, 6 March

# Ban banks' derivative play, urges expert

**James Eyers**

A former deputy director of Japan's Ministry of Finance told federal parliamentary backbenchers in Canberra on Wednesday that Australia's banks should be stopped from trading in derivatives and conducting other investment banking-style activity, and the implementation of the G20's agenda to "bail-in" failed financial institutions should be halted.

Daisuke Kotegawa, who is also a former director for Japan at the IMF and currently director of the Canon Institute for Global Studies in Japan, said he had "been quite shocked about the decision of the G20 countries to introduce the so-called 'bail in' policy, which will surely damage depositors' confidence in the financial system."

At the recent G20 meeting in Sydney, finance ministers and central bank governors decided to pursue rules to force the costs of bank failures onto bank bondholders and, potentially, depositors. In Australia, the government's financial claims scheme protects deposits in authorised deposit-taking institutions, but only up to $20 billion per ADI (unless Parliament approves an increase). Banks hold deposits far in excess of this cap.

Mr Kotegawa said it was anathema for depositors to potentially pay for losses from derivatives trading. The discontinuation of the Glass-Steagall law in the US, which separated commercial and investment banking, in 1999 had "allowed investment bankers to gamble on deposits collected through commercial banking arms" and presaged the financial crisis. "Investment bankers can gamble all they want, but without using deposits from the commercial banking system."

Mr Kotegawa was brought to Canberra by the Citizens Electoral Council, a far right political party affiliated with the LaRouche Movement in the United States, which has been advocating the re-introduction of Glass-Steagall since the financial crisis.

**Robert Barwick**, an executive member of the CEC, which also advocates re-creating a national banks, said while the government was proceeding with implementing the G20 agenda on bank bail-ins "we are trying to get people to focus on the global movement for an alternative that is simpler and doesn't risk people's livelihood, like the bail-in did when it was applied in Cyprus."

Mr Kotegawa said when he ran the liquidation of Japan's fourth largest investment bank, Yamaichi Securities, in 1997, the government decided to unwind the bank's cross-border derivatives transactions over a weekend, and this had prevented contagion spreading through the global markets. This would have been a preferable approach for sorting out the collapse of Lehman Brothers in 2008.

Two bills before the US legislature are seeking to reinstate Glass-Steagall in its entirety.

In the UK, former chancellor of the exchequer under Margaret Thatcher, **Nigel Lawson**, is also campaigning for a Glass-Steagall-style separation of banks there; a provision to this effect was narrowly defeated in a House of Lords vote in November.

Mr Barwick said the CEC had been engaging with backbenchers in Parliament's economic committee processes, and some had been receptive . "People don't need us to convince them this is a serious issue," he said.