

## Australia Dossier by Allen Douglas

### Big banks to merge?

*Profits are soaring, and the "Big 4" may soon become the "Big 2," but the derivatives time bomb is ticking.*

In separate, but clearly coordinated statements on Nov. 7, Prime Minister John Howard and Treasurer Peter Costello surprised many, when they suddenly announced that they might now allow some of the nation's "Big Four" banks to merge. Previous to the Oct. 3 national elections, Howard and Costello had emphasized that it were very unlikely that they would change the "Four Pillars" policy, which forbade mergers among the top four banks, in a financial system which is already one of the world's most concentrated.

Australia's banks are widely despised among the general population, and particularly so in the rural sector, a key part of the political base of Howard's ruling Liberal/National Party coalition. This year, for instance, as three of the four major banks have just announced record profits of more than AUS \$1 billion each, they have simultaneously closed 500 branches; during the 1990s, their profits have soared 440%, while they have slashed 20,000 jobs and closed 1,000 branches. Entire towns now have no bank, a situation which will become even more dire, if the four are allowed to merge. The Financial Sector Union, for instance, which represents bank employees, has charged that mergers will eliminate a further 40,000 jobs, and half of all existing branches will be closed.

The logic by which Howard will allow the Big Four to become the Big Two, would be hilarious, were the results not so devastating: He has recently announced that he might allow mergers if the Big Four became "more competitive," by cutting charges on customer services and so forth, evi-

dence of which he and Treasurer Costello have apparently, judging by their Nov. 7 announcements, now discovered. Imagine how much "more competitive," then, the banks will be, when only two remain, instead of four.

But, behind this Alice-in-Wonderland logic, lie some other possible motives. Informed sources point to two considerations, in particular: Howard, an asset of Britain's radical free-trade Mont Pelerin Society, has always been a financial deregulation fanatic, ever since, as Treasurer in a coalition government in the early 1980s, he advocated full-scale deregulation, as per the "Campbell Committee" recommendations of 1981; National Australia Bank (NAB), the nation's largest, has ferociously beat the drums for years to allow mergers, and it was the NAB which entirely financed Howard's Liberal Party election in 1996, when the party was bankrupt. As Liberal Party treasurer Ron Walker said at the time, of NAB's managing director Don Argus, "Argus is the backbone of this campaign." Upon deregulation, it is expected that NAB would quickly bid for ANZ Bank, the most British-tied of all Australia's banks, while the Commonwealth and Westpac banks would also merge.

The NAB's Argus is a fanatic globalist who has argued that Australia's banks must get bigger, if they are to survive. Yet, this trend toward "bigger is better" mirrors the spate of bank mergers going on in the United States, and like them, will end in disaster, precisely because of the speculative, globalist axioms upon which they are premised.

Take, for instance, the derivatives holdings of Australia's Big Four, the hyper-leveraged speculative instruments which almost crashed the global financial system after the Sept. 23 Long Term Capital Management (LTCM) hedge fund bankruptcy in the United States. As of 1997, Australia's "Big Four" held AUS \$2 trillion (\$1.26 trillion) of the country's estimated AUS \$3.5 trillion in derivatives. (Sydney has recently overtaken Hong Kong to become the third-largest over-the-counter derivatives market in Asia, behind Tokyo and Singapore.) If ANZ Bank, with the largest derivatives portfolio (AUS \$657 billion), were to be taken over by NAB, the second-largest derivatives holder (AUS \$594 billion), then this much higher concentration of the deadly instruments makes the resulting merger much *more unstable*, contrary to Argus's globalist fantasies. But, it mirrors the general trend these days, as in the United States, where two of the world's largest derivatives dealers, Citicorp and Travelers, just merged to form Citigroup, with a combined derivatives exposure of \$6.8 trillion.

But, it is not only their derivatives portfolios which make Australia's banks look shaky. ANZ, for instance, has significant exposure in Asia, while much of the Big Four's profits have come from a speculative boom in real estate, which saw their residential mortgages exploded from \$63 billion, to \$189 billion, over the 1990s. As the Japanese real estate deflation, and resulting mega-bankruptcies of Japan's banks demonstrate, such a market is a "house built upon sand." More than 50% of all NAB's earnings, meanwhile, came from overseas, mainly from the U.K., a country fast sliding into depression under the speculative, anti-industry policies of Third Way lunatic Tony Blair.