

The heated debate in America over the government's proposal to spend \$700 billion to buy mortgage-related securities from financial institutions has great relevance for us.

For starters, having promised a rescue plan to tackle what is an unprecedented crisis in the US financial system, the consequences for global financial stability of the US government not delivering is unthinkable. Large-scale public intervention is now necessary to stave off a financial meltdown.

The debate also sheds light on how we might deal with our own property and banking troubles. In this regard, it's important to understand what the US administration is trying to do -- and what it is not trying to do. The rescue plan does not aim to stem the decline in house prices. Nor does it seek to increase the availability of mortgage lending, though a resolution of the credit crisis would likely see an increase in all types of lending.

The plan is about taking extremely complex illiquid securities off the balance sheets of financial firms. The complexity of these assets means that it is impossible to put a market value on them and therefore difficult to know which banks are solvent and which are not. It also deters injections of private capital on a scale necessary to solve the problem.

Irish banks don't own these assets. Moreover, Irish banks fund themselves largely through deposits, not through capital markets like US investment banks.

What is clear from the US experience is the destructive effect of abrupt deleveraging, whereby banks slash lending to bring it in line with diminished levels of capital. The solution is more capital. That's an issue that faces Irish banks.

Another lesson is that it's best to deal with problems in a timely manner, before they require emergency measures. A stitch in time.