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Independent Political Party

29 May 2018

Australian political insider issues renewed warning of 'economic Armageddon'

The urgency of a Glass-Steagall separation of deposit-taking banks from dangerous speculation, is that it is necessary to protect Australians from a financial collapse. A 27 May 2018 column in news.com.au has reported the warnings of former adviser to the Liberal-National Coalition, John Adams, that such a collapse, which Adams calls an "economic Armageddon", is looming over Australia.

Read "Ten myths making Australians complacent about looming 'economic Armageddon'" on news.com.au.

"My warnings have been based on a series of economic metrics which have reached historically abnormal levels and which have in similar circumstances led to catastrophic economic consequences," Adams told news.com.au.

The ten myths he has identified include:

• There will be no financial crisis in our lifetime

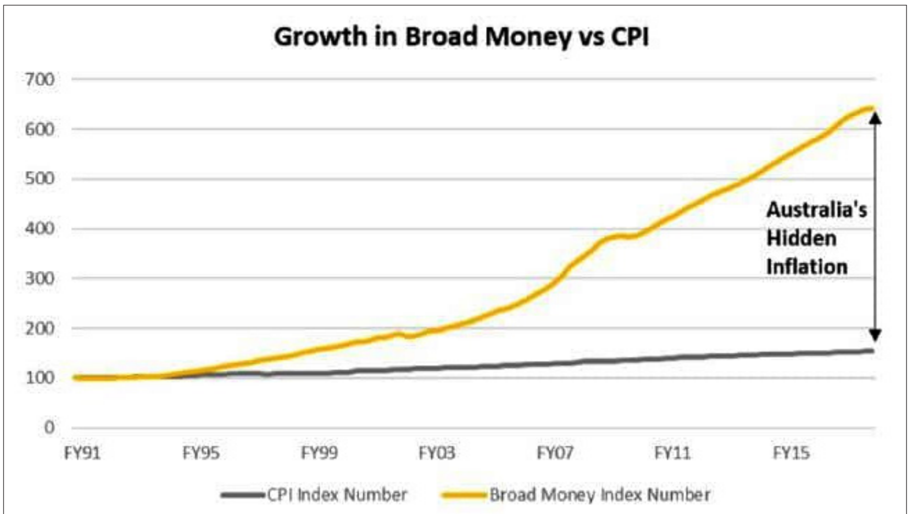
Adams cites cases of past experts predicting the end of financial crises, and then observes: "Unfortunately, today's financial bubble, as measured by various metrics, including asset valuations and debt relative to income, is either equivalent or worse than what happened in the lead-up to the Great Depression."

• Today is the 'new normal'

On the contrary, Adams points out, Australia's debt is at historically high and "abnormal" levels.

• Inflation is low

Adams contrasts the consumer prices measure of inflation used by the RBA, with the original definition of inflation being an increase—inflation—of the money supply. He includes a striking chart that shows a steep increase in the money supply from the Reserve Bank of Australia, over consumer prices, which difference he calls "Australia's hidden inflation". This, Adams states, "is to a large degree the cause for the current household debt bubble in Australia as well as the cost-of-living pressures being experienced by a large number of Australians".



Inflation, but not as we know it. *Source:Supplied*

• Any rise in interest rates will be gradual

This myth is destroyed by the fact that Australia has a huge foreign debt—more than $1 trillion net—which means we are at the mercy of international interest rate changes. Whether or not the RBA keeps rates on hold or only raises them gradually, turmoil in overseas markets could push rates up fast which would then have to be passed on in Australia. This would be a disaster for the home buyers who owe $1.7 trillion on domestic mortgages.

• Australian house prices will never fall

Credit for housing has expanded massively in recent decades, from around 20 per cent of GDP in 1991 to more than 95 per cent of GDP in 2017; it has also become much cheaper. This has distorted the demand for housing, and driven up prices. Rising interest rates will reduce this artificial demand, and send prices tumbling as they did in other countries at the time of the 2008 GFC. Adams records: "According to statistics from the Bank for International Settlements, prices for all forms of real estate fell 55.19 per cent in Ireland (April 2007 to March 2013), 18.76 per cent in the UK (October 2007 to March 2009), 13.92 per cent in Iceland (March 2008 to January 2010) as well as 31.46 per cent in the US for existing dwellings only (March 2006 to September 2011)."

• A triple-A credit rating means it is safe

Financial instruments that are rated AAA are supposed to be the safest of all, but the 2008 GFC proved that rating to be untrustworthy. As the movie *The Big Short* illustrated, the ratings agencies helped the banks commit fraud, and were not held accountable, but the Federal Court in Australia ruled in 2012 that S&P had engaged in "deceptive and misleading" conduct. Proposed US reforms to the ratings agencies have still not been enacted.

• You own your own gold

People who think they can protect themselves from a crash by buying gold might be shocked to know that under the *Banking Act 1959* the Governor-General has the power to sign a proclamation compelling individuals to sell their gold to the RBA.

• **Bank bail-ins can't happen in Australia**

As the CEC has also exposed, bail-ins can happen in Australia, as of the February 2018 passage of the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018*. Adams cites the admission of the Senate Economics Committee inquiry into the bill that hybrid securities, which amount to $94 billion and which are held by mum and dad investors in Australia (unlike the UK where they are banned from being sold to retail investors), can be bailed in. The CEC, as well as Dr Wilson Sy, a former principal researcher at the bank regulator APRA, also warned that the bill's wording opened a back door for ordinary deposits to also be bailed in, as happened in Cyprus in 2013.

• **Bank deposits are guaranteed by the government**

Adams reveals the explosive truth that the Financial Claims Scheme (FCS), which is supposed to guarantee $890 billion in Australian bank deposits, is essentially unfunded. "Given that gross government debt is expected to peak at $578 billion by 2020-21", Adams said, "it remains a questionable assumption whether, under severe economic conditions, the federal government would be able to finance its existing debt, finance new debt resulting from a larger budget deficit as well as provide billions of dollars under the Financial Claims Scheme, especially if multiple financial institutions require deposit insurance." Moreover, he observed, the government is not legally obliged to honour its guarantee, "but rather it would retain the legal discretion as to whether or not it wished to activate the scheme".

• **Banks around the world are well capitalised**

Adams points out that the Bank for International Settlements' (BIS) capital rules for banks assume that no governments around the world would default on their debt, so another Greek-style sovereign debt crisis would cause big losses among the banks holding government debt as capital.

This warning by John Adams is a timely reminder of economic reality, but will the government listen? The CEC is pushing the government to take proactive measures to protect Australia from an economic collapse, beginning with a Glass-Steagall separation of ordinary banking from all other financial activities, so essential banking services can continue even in a crash. Take the John Adams column to your MP to make the point that they must act to save Australia from the looming crisis.

What you can do

1 **Sign the CEC's new change.org petition:** *To the Commonwealth Parliament: Pass Australian Glass-Steagall Bill to break up the banks!* Every signature generates an email to leading MPs informing them of the public's support for Glass-Steagall.

2 **Get a copy of this bill to your Federal Member of Parliament plus any Senator/s you can.** Urge them to not only read it themselves, but press them to second Bob Katter's call for Glass Steagall. The very best way is to make an appointment and go and see the MP in person—MPs really want to know what their constituents think and this will make a big impression on them. If that's not possible, email or mail the document with a personal cover note asking them to support the bill in Parliament, and to let you know whether they will.

3 **Share copies with others:** State MPs, any media you can contact, councils, unions, church leaders, community groups, etc. and get any concerned people you know to visit their MP as well; and on Facebook etc., or with your email address book, urging everyone you know to get involved.

For a copy of this bill call 1800 636 432 or download from http://cecaust.com.au/Pass-Glass-Steagall/