

Citizens Electoral Council of Australia

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Independent Political Party

1st of March 2011

Isherwood:

Apply Angelides lesson to save Aussie economy from banking meltdown

The lesson from America's Angelides Commission (Financial Crisis Inquiry Commission, see www.fcic.gov), that the global financial crisis was avoidable, must be applied to Australia's banking system now, to avert a total collapse of Australia's economy, declared Citizens Electoral Council leader Craig Isherwood today.

"Australia's banking system is on the verge of a meltdown," he warned. "To feed its addiction to the speculative property bubble, it is looting the real economy by starving productive sectors of credit, to funnel billions into hyperinflated mortgages.

"The property bubble will burst, because the banks can only continue to feed it with loans by bankrupting the people in the productive economy whose work earns the income that repays those loans.

"When it bursts, it will annihilate the nation's entire banking system," he said.

Mr Isherwood detailed the banking system's terminal addiction to the property bubble:

- Well over half of the business of each of the Big Four banks is mortgages, which are overvalued at hyperinflated bubble levels; consequently, the banks, the regulators and the government are extending every effort to keep the bubble growing.
- The bank regulator, APRA (Australian Prudential regulation Authority), knows the banks are bankrupt, and so allows them to engage in blatant "Enron accounting" to meet minimum capital reserve requirements. A bank's capital reserves attest to its solvency, its ability to withstand losses. The regulatory minimum is 8 per cent, but APRA lets the banks treat mortgages as super low risk, and against \$1.157 trillion in Australian mortgages, only hold \$24 billion, or 2 per cent in capital reserve.
- Because the rest of the banks' lending requires much higher capital reserves, to lower their capital ratio the banks are withholding credit from other, more productive sectors of the economy, such as agriculture, to put into mortgages, the devastating impact of which is dramatically illustrated by the Murray Darling Basin Authority's Rizza Report.
- Furthermore, APRA lets the banks reduce their capital reserves against mortgages even further, if the collateral—the property—increases in value. In other words, the more the banks lend as mortgages to expand the property bubble, the more capital they free up to lend as mortgages to expand the property bubble even more.
- On 16th February, the Moody's ratings agency announced a shock review of Australia's supposedly "sound" Big Four banks, for a possible credit rating downgrade, due to their enormous foreign liabilities, which are 43 per cent of total bank liabilities. The banks incurred these foreign liabilities over the past decade, as they sourced more and more funds to pump into the property bubble. By the banks' own admission, these liabilities are unpayable, and except for the guarantees provided by the Rudd-Gillard government in October

2008, they would have already collapsed. In recent months, the banks have sought to reduce their foreign loans, but source foreign funds for deposits instead, by paying high deposit interest rates, to draw in even more money from overseas, in a "carry trade" (borrow cheap, lend dear) similar to Brazil's.

Mr Isherwood continued, "America's FCIC chairman Phil Angelides declared about the global financial crisis, 'The greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done. If we accept this notion, it will happen again.' His commission's report then blamed the crisis on the very causes identified and fought against at the time by Lyndon LaRouche and the CEC: the 1999 repeal of the Glass-Steagall banking regulations, and the legalisation of derivatives in 2000."

"This time the authorities had better take notice," he concluded. "Before any more lies are told that Australia's banks are 'sound', and before those actually bankrupt banks are allowed to do any more damage to the Australian economy by starving productive sectors of credit to shovel in to the speculative bubble to which they are addicted, the government must act to reorganise Australia's banking system the way LaRouche and the CEC prescribe: enact Glass-Steagall-type regulations to protect the productive economy from speculative looting by banks; enact the CEC's *Homeowners and Bank Protection Bill 2008*, including its provision for a farm debt moratorium; and establish a government-owned-and-controlled national bank, like ALP legend King O'Malley's Hamiltonian Commonwealth Bank, to direct credit into productive industries and nation-building infrastructure projects."

Australian Banks' Risk-weighted Assets

As at the end of March 2010

	Exposure \$ billion	Average risk-weight Per cent
Credit risk	2739	43
<i>of which:</i>		
Corporate	472	78
Residential mortgage	1157	26
Other retail	171	80
Bank	103	18
Sovereign	99	7
Off-balance sheet	560	36
Other	177	83

To APRA, the banks' 2% capital reserve against mortgages is not a breach of its minimum requirement of 8%. APRA risk-weights the safest mortgages at 35% (just that percentage deemed to carry any risk, 65% deemed risk-free), requiring 8% capital reserve only against the 35%.

Further, APRA doesn't require the Big Four banks to follow its guidelines, but instead allows them to do their own internal risk assessments. As a result, all mortgages issued by Australia's banks are actually risk-weighted at an average of 26%—far below APRA's 35%.

The \$24 billion capital reserve is 8% of that 26% of the total \$1.157 trillion in mortgages.

Source: RBA Bulletin; APRA.

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27th of January 2011

Isherwood to Gillard:

Rebuild the nation with a national bank

Julia Gillard should stop bowing to the City of London's monetarist diktats to balance the budget, but instead invoke the early Labor Party's policy of a national bank to finance Australia's post-flood reconstruction, said Citizens Electoral Council leader Craig Isherwood today.

"You don't put monetary budgets ahead of human lives!" he exclaimed.

"Australia faces a mammoth reconstruction task, far greater than anyone has officially acknowledged, costing probably into the hundreds of billions of dollars, and the only way this can be actually achieved is through long-term credit issued by a government-owned national bank, a 'people's bank' like the old Commonwealth Bank."

He explained, "A national bank would be owned and controlled by the government, and would issue credit to the government on 30-plus year terms and at much lower interest rates than 'the market', to finance the government's responsibility to provide basic economic infrastructure.

"There is virtually no limit to how much a national bank can finance this way; however, if Gillard and her government don't do this, but instead stick with their public statements of deep budget cuts and tax hikes, it raises the question: what are they planning to *not* rebuild? How much of Queensland's and Victoria's transport and rural infrastructure needs are they planning to ignore, just so they don't upset the City of London?" he asked.

Mr Isherwood quoted 1930s NSW Labor Premier Jack Lang's account, from his book *The Great Bust*, of how the Commonwealth Bank terrified the City of London's private financial monopoly by successfully financing Australia's wartime needs in WWI, just after its establishment by the Labor Party in 1911:

"The City of London for more than two hundred years dominated the financial affairs of the world. It had mastered the technique of the management of money. London was the exchange hub of the world. ... The Victorian era had been one of great commercial expansion. With that rare genius for political invention, Gladstone, Disraeli and other British statesmen sought

a substitute for the old system of Crown colonies. They found it in the British Empire. The formula was to hand to the colonies the right to govern themselves, providing they did not break the financial nexus with the City of London."

"But", Lang wrote, "during the First World War the centre of gravity changed slightly. ... In Australia the war had been financed by the then newly established Commonwealth Bank. It had found all the money to keep the armies abroad, and also to finance the

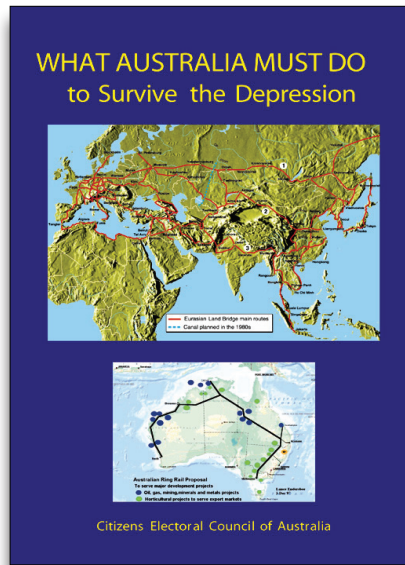
producers at home. It had financed the Commonwealth Shipping Line deal for Hughes. Denison Miller had gone to London after the war had finished and had thrown a great fright into the banking world by calmly telling a big bankers' dinner that the wealth of Australia represented six times the amount of money that had been borrowed, and that the Bank could meet every demand because it had the entire capital of the country behind it. The Bank had found £350 millions for war purposes.

"A deputation of unemployed waited on him after he arrived back from London at the head office of the Commonwealth Bank in Martin Place, Sydney. He was asked whether his bank would be prepared to raise another £350 million for productive purposes. He replied that not only was his bank able to do it, but would be happy to do it.

"Such statements as these caused a near panic in the City of London. If the Dominions were going to become independent of the City of London, then the entire financial structure would collapse. The urgent problem was to find ways and means of re-establishing the financial supremacy that had been lost during the war." [emphasis added]

Mr Isherwood concluded, "Since the Hawke and Keating Fabian 'reforms', Labor has betrayed its forebears' fight against the City of London, and handed Australia over to its monetarist dictatorship, by imposing its demands for financial deregulation, so-called 'competition policy', free trade tariff cuts, and brutal budget austerity.

"If Gillard continues those policies in the face of this national crisis, she will destroy Australia, so I call on my fellow Australians to stand with me and demand we go back to policies that work for the people, and rebuild the country with a national bank."



To compare the CEC's record to that of the growing chorus of leaders, including PM Julia Gillard, who claim that nobody could have seen this crisis coming.

ORDER DVD

For a copy of our feature DVD *Homeowners and Bank Protection Bill: The Only Solution*, one-hour documentary, call toll-free 1800 636 432 or send this coupon to: CEC, PO Box 376, Coburg, Victoria, 3058 and leave ALL your details. Price: \$10.00 + P&H \$2.50



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