Citizens Electoral Council of Australia

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Australian economy looted by LIBOR corruption; Isherwood: "Send them to jail!"

The global financial system is one giant casino, churning quadrillions of dollars of toxic gambling side-bets called derivatives, which vacuum up any liquidity from sorely needed investment in the real physical economy of agriculture, manufacturing, and infrastructure. Then, when the bets go sour, governments cough up tens of trillions of taxpayers' money to bail out the bettors.

Now, that global casino also stands exposed as an outrightly criminal enterprise playing with stacked decks and loaded dice, through the recent revelations that a cartel of 16 major banks in London has been rigging the world's benchmark interest rate, the London Interbank Offered Rate (LIBOR). Practically every financial trade in the world is directly or indirectly affected by LIBOR. In America, where LIBOR-rigged instruments have devastated local governments, homebuyers and businesses, among others, through staggering interest rates, statesman and physical economist Lyndon LaRouche slammed this corrupt system: "What has been happening by means of this LIBOR operation must be called what it is: murder, thievery, robbery on a massive scale—this is criminality on the highest level, and it's resulted in the deaths of countless Americans. What was done to hundreds of cities across the country is nothing less than homicide; defrauded cities and states of billions, trillions."

This criminal operation also reaches deep into the Australian financial system, which has been deregulated and privatised into its own high-roller room of the global casino under Bob Hawke and Paul Keating beginning in 1983 and continued and extended by all of their successors.

There are two major ways that the LIBOR-rigging directly affects Australia. Firstly, Australian banks borrow hundreds of billions of dollars in the international LIBOR-linked markets, passing on the inflated borrowing costs to Australian consumers and businesses. As of March 2012, Australia's banks and financial institutions owed $782 billion overseas, $465 billion of that short-term debt of one year terms or less. The banks claim to have aggressively reduced their foreign debt exposure since the GFC erupted in September/October 2008, but it is still astronomically high, and all of that foreign debt for a long time has exposed them, and hence the Australian economy, to the rigged LIBOR.

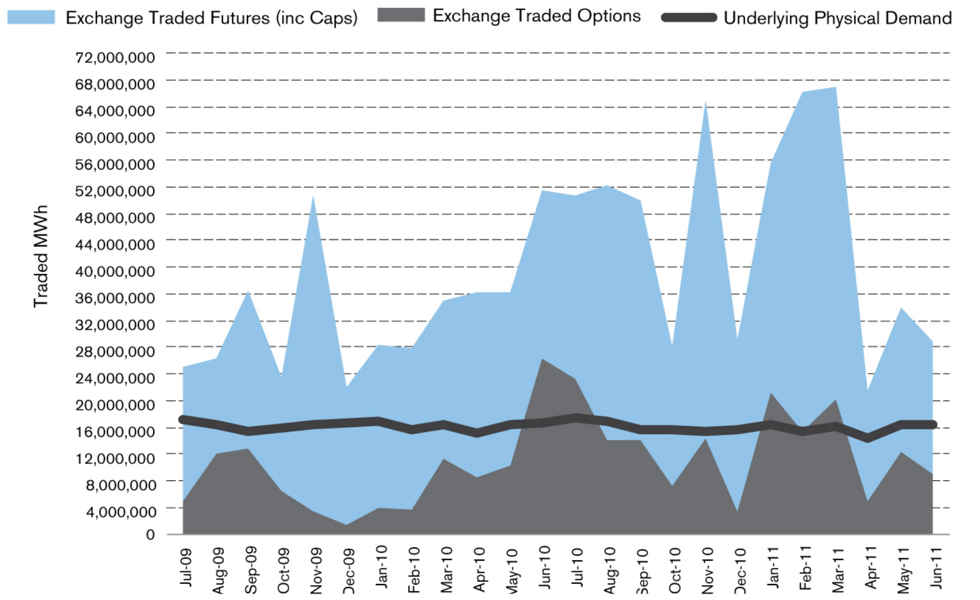
Secondly, Australia's financial system, in particular its banks, is also saturated with tens of trillions of dollars of financial derivatives which are pegged to the LIBOR rate. Moreover, the Australian Financial Markets Association (AFMA), the organisation that the banks and other financial institutions formed to "self-regulate" the various over-the-counter (OTC) trading markets, includes many of the local branches of the same British and multinational banks caught out rigging the LIBOR! AFMA's Market Governance Committee (MGC) oversees the daily setting of Australia's LIBOR-equivalent, the Bank Bill Swap rate (BBSW). To head off any suspicion that the BBSW is also rigged, AFMA executive director David Lynch insisted in *The Age* on 3 July that the mechanism for setting the BBSW is different to the LIBOR and therefore can't be rigged. However, six of the banks under investigation for rigging the LIBOR are on the panel of 14 banks that provide the data to set the BBSW, while the oversight body, the MGC, includes two more LIBOR-rigging banks. A well-connected source in the Sydney financial world informed the CEC that it is "known for a fact" that the BBSW has also been manipulated. The source reported that the volatility of the interbank lending market makes it easy for the banks involved to "misreport" the rate. BBSW defenders maintain that the only way to rig the BBSW would be to manipulate the whole inter-bank market, but millions of Australians who watch the Big Four banks move in lock-step each month on changes to their mortgage interest rates, might wonder if that isn't so hard to do.

Questions about the BBSW aside, the rigged LIBOR itself has a direct impact on a very large part of the Australian financial system. The July 14 *Australian Financial Review* reported that, worldwide, the tally of financial instruments infected by the LIBOR-rigging was one quadrillion dollars—$1,000 trillion. This staggering sum, many times the $70 trillion of world GDP, represents the global trade in toxic financial derivatives, the gambling side-bets that are melting down the world financial system. Australia's financial system is addicted to these toxic instruments, and the AFMA oversees the whole casino. The 2011 AFMA Report reveals that total turnover of all financial markets in Australia was nearly $128 trillion—about 100 times Australia's GDP—of which $101 trillion was in derivatives. More than $70 trillion was in the lawless over-the-counter (OTC) markets, where banks make bets with each other away from the (supposedly) regulated exchanges. Cross currency interest rate swaps, where interest revenue in Australian dollars is swapped for interest revenue in another currency, are fixed to LIBOR, and the entire foreign exchange market, which is the biggest part of OTC dealing, is exposed to the rigged LIBOR.

"Gaming" the electricity and carbon markets?

The AFMA-overseen casino also loots Australian households and businesses by driving up electricity prices through derivatives trading on electricity, and by carbon trading. It was the hoaxsters at the infamous U.S. energy company Enron who pioneered both kinds of trading in the late 1990s. Enron promoted electricity deregulation to put generators and consumers at the mercy of its financial traders, and then "gamed the market" through outright criminal acts such as shutting off power stations to create shortages that forced up electricity prices in California by 800%, before the firm collapsed into bankruptcy in 2001 amid revelations of accounting fraud and a flurry of lawsuits. Australia's electricity system is similarly exposed to predatory financial traders, who are speculating in derivatives on electricity that amount to many times the actual electricity generated and used. In 2010-2011, 549 million megawatt hours [MWh] of electricity were traded in futures and options derivatives on the National Electricity Market [NEM], which AFMA boasted was 285%, or close to *three times the electricity physically consumed*. A further 315 MWh of electricity derivatives were traded over-the-counter. Also in 2010-11, AFMA reported the electricity markets traded 82 million certificates of "environmental products"—precursors to the carbon trading forced by the Gillard carbon tax.

FIGURE 2: ASX ELECTRICITY MARKET



The speculative trade in derivatives on electricity volumes is many times what Australians actually use. Source: 2011 Australian Financial Markets Report, AFMA.

Citizens Electoral Council leader Craig Isherwood declared today, "The Australian people are exposed to criminal financial looting such as the LIBOR-rigging, because Hawke and Keating and their successors turned us into a financial casino." He reiterated his longstanding demand for an Australian Pecora Commission to root out the criminality in the Australian financial system, and the implementation of a Glass-Steagall (For more information and see the list of CoSponsors for Glass-Steagall, please go online: www.larouchepac.com/node/19643) separation of the finances related to the real economy, from the predatory schemes of financial speculators. Backed by the newly-elected President Franklin Delano Roosevelt, Ferdinand Pecora as the Chief Counsel of the U.S. Senate Committee on Banking, in 1933 publicly interrogated the hitherto untouchable titans of Wall Street for their criminal looting of the public interest. Many of these "citizens above suspicion" went to jail, including Richard Whitney, president of the New York Stock Exchange and Charles Mitchell, president of National City Bank (today known as "Citibank"). Others, including top executives of the seemingly-omnipotent City of London/ Wall Street J.P. Morgan banking empire (including British Royal Family intimate J.P. Morgan, Jr. himself) were subject to public scorn and humiliation. These hearings documented massive, sustained London/Wall Street thievery against the Common Good, and paved the way for FDR's passage of the Glass-Steagall legislation to separate honest commercial banking from the speculative, predatory Wall Street "investment banking". For more details. please go online: http://www.larouchepub.com/eiw/public/2008/2008_40-49/2008_40-49/2008-41/pdf/48-50_4035.pdf

To endorse the CEC resolution calling for Glass-Steagall go online: http://www.cecaust.com.au/resolution/

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