Citizens Electoral Council of Australia

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Independent Political Party

4 February 2015

Interest rates at red alert level: This is not a drill!

Yesterday's rate cut by the Reserve Bank is a screaming emergency siren alerting to a serious crisis in the Australian economy.

The authorities aren't *saying* there is a crisis, the Liberals' "debt and deficit disaster" propaganda aside. (Of course, the population is screaming that there is a crisis, every time they vote now, Queensland being the latest example—voters are punishing every first-term government that ideologically imposes policies which add to the economic pain in the community.)

But by slashing rates to 2.25 per cent, the RBA is signalling that the deep crisis in employment, production, and economic activity in Australia is spiralling out of its control.

The current 2.25 per cent is three-quarters of a per cent lower than the low of 3 per cent that interest rates reached during the 2008-09 global financial crisis, which then-Treasurer Wayne Swan called "emergency" levels.

It also means that the so-called "real" interest rate, which is the interest rate minus the official inflation rate, currently around 2.2-2.4 per cent, is effectively zero!

The RBA is sweating bullets. It hopes that slashing rates will stimulate exports, by pushing down the value of the Australian dollar; stimulate consumer spending, by freeing up disposable income; and—the big one—stimulate house buying, to keep the housing bubble propped up.

In the case of the housing bubble, the RBA knows that if the job losses in productive industries such as car manufacturing, smelting and refining lead to a sell-off or even slow-down in the housing market that pops the bubble, the banks will crash and take the rest of the economy with them.

Solution: Glass-Steagall and a national bank

The crisis the RBA is responding to is not an "Australian" crisis; it is the ongoing global financial crisis impacting Australia. The CEC has repeated many warnings of experts that a new, more devastating phase of the global crisis is looming, which could be set off by such threats as Europe's debt crisis, the blow-out in $20 trillion of derivatives speculation on the price of oil, or any combination of those and other factors.

The Australian government must immediately act to protect the ongoing functionality of the financial system and economy by imposing a Glass-Steagall separation of retail banking from speculative investment banking. This separation will enable the government to protect the retail banking that services the real economy, so that only speculative investment banking is exposed to future crises. It will require breaking up the Big Four too-big-to-fail banks into separate retail and investment banks.

The government must also act to revive and revitalise Australia's productive economy and industrial capacity, by establishing a national bank that can direct public credit into great nation-building infrastructure projects. Such projects will breathe new life into many productive industries, including steel and machinery manufacturing, and create hundreds of thousands of high-skilled, high-wage full-time jobs.

To fight for this solution, join the CEC.

GET A FREE PACK

For a a free copy of the CEC's brand new pamphlet, Glass-Steagall NOW!, which includes a detailed exposé of the criminal fraud inherent in the derivatives trade that all of Australia's major banks are heavily involved in, call toll-free **1800 636 432**, or send this coupon to:

CEC, PO Box 376, Coburg, Victoria, 3058.

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22 January 2015

Just as the oil market can crash, so can the property market

The plunging oil price that is down by more than half in six months is a reality check to Australian home buyers.

It is a reminder that markets can go down as fast, and often faster, than they go up.

The plunge also proves that the high price for the past decade was artificial—bearing no relation to cost of production or to supply and demand. (This means that every time Australians filled up since 2004 they were ripped off by the global oil cartel and commodity speculators.)

It is because the high oil price was artificial that nothing has been able to stop its recent plunge.

Another market looks remarkably similar—Australian property.

Beginning in 2000, Australian property prices suddenly shot up. Contrary to the self-serving analysis of banks and investment spruikers, it was not related in any way to supply and demand. In 2000, the Australian population was slightly less than 20 million; by 2013 it reached 23 million. Yet in that time property prices tripled, quadrupled and quintupled, depending upon the city. The ratio of household income to property exploded from 3.5 times in 2000—the long-term average—to 9 times in Sydney and Melbourne. Most of that increase was between 2000 and 2004, which underscores that this was disconnected from demand driven by population growth.

Instead, it was driven entirely by a massive flow of money into the property market—just like the oil market.

(The flow of money into the Australian property market was caused by a combination of government policy and bank speculation.)

Millions of Australians are trapped with mortgages on overpriced properties that they can just barely afford because interest rates are at record lows; in fact at "emergency levels".

They could suddenly find themselves with properties worth less than half of what they owe on them.

This would be a catastrophe for mortgage-holders, but it would be a bigger catastrophe for the banks—which caused it—and the flow-on effect would be a catastrophe for the Australian financial system.

This looming danger is one of the major reasons why Australia needs a Glass-Steagall separation of Australia's banking system, in which all retail banking is completely separated from investment banking.

This is the only way to ensure that, when the crash happens, the government will be able to step in and keep retail banking functioning, so that the daily economy can keep functioning, and keep homebuyers and tenants in their homes.

If enacted now, ahead of the crash, it will force speculators out of the housing market, which will bring down house prices, but that will make housing more affordable again—just like petrol.

For those so trapped in a high mortgage that this is scary, be assured that wishful thinking won't keep prices up. The oil plunge shows that they can and will crash anyway. Your only hope is to fight for the Glass-Steagall policy so that the plunge in housing doesn't wipe you and everyone else out.

The CEC is leading the fight in Australia for Glass-Steagall—join us.