

Citizens Electoral Council of Australia

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Looming signs of market crash— Australia needs Glass-Steagall, National Bank

The warnings of an impending crash in financial markets published in the 4 March *Australian Financial Review* (“Asset bubbles put investors at more risk than GFC”), underscore Australia’s urgent need for a Glass-Steagall separation of banking, and a National Bank that can direct investment into the productive economy.

The Citizens Electoral Council has consistently warned that Australia and the world is plunging into a new, but deeper, phase of the global financial crisis, because the financial gambling that triggered the GFC in 2008 was protected, and allowed to expand. For instance, Australian banks’ collective exposure to toxic derivatives gambling has more than doubled since the crisis, from around \$13 trillion to \$27 trillion. Globally, derivatives gambling has exploded to around \$2 quadrillion (\$2000 trillion). By contrast, global GDP sits at around \$70 trillion.

The *AFR*’s Bianca Hartge-Hazelman reported:

Asset bubbles in the stock market and property market are set to burst, especially at the first signs of a rise in interest rates.

Australia’s real economy is going in the complete opposite direction to the markets, a sure sign of a looming crash. Australian Ethical Investment portfolio manager Mason Willoughby-Thomas is quoted warning “the risk of capital loss once monetary conditions eventually normalise could be significant as investors rush for the door en masse. *Economic fundamentals are offering limited justification for surging share prices.* Rising unemployment, falling business investment, stalling inflation, weak confidence, a decade of dysfunctional government and inconsistent policy are weighing on confidence and restricting much needed investment for growth.” [Emphasis added.]

The PE (price-to-earnings) ratio on stocks has climbed into the same range—15 times—as prior to the 1987 stock market crash and 2008 GFC; it compares to the historical average of 14 times, but that average includes previous unsustainable bubbles, so a “safe” PE would be even lower. Telstra is currently trading at a PE of 18 times.

Median property prices in Sydney and Melbourne are at all-time highs, and the investors buying the properties will not be able to get a return that justifies their outlay. Pete Wargent of AllenWargent property buyers is quoted, “If you are buying at this point in time, the expectation of any future gains is limited... For buyers who are getting involved in auction frenzies, there is realistically a real threat that some of these gains could be reversed.”

Baillieu Holst equity analyst Mathan Somasundaram points out that with interest rates so low, and the Australian dollar falling towards US70c, Australia has no buffers in the event of a new global shock. Paul Keating always boasted that interest rates and the exchange rate are the great “levers” for managing



Cover of the *New Citizen* special report

the economy, but when they are already so low there is not much room for the RBA’s usual response to a crisis of slashing rates. Somasundaram said, “We are driving very fast without seat belts. Once we use up these buffers and are sitting on asset bubbles, any macro headwind will hammer us even harder than the GFC.”

CEC leader Craig Isherwood said the CEC’s solutions would restore a functional productive economy.

“The markets are distorted,” he said, “because the real economy has been destroyed by neo-liberal scams such as free trade and deregulation, which have extracted wealth from productive industries and concentrated it in the hands of financial gamblers.”

“The supposed rationale behind dropping interest rates is to encourage investment in the economy, by the fantasy of the ‘hidden hand’ of the market, but all it has done is fuel even more gambling in market bubbles.”

Isherwood explained, “The CEC’s Glass-Steagall solution—a complete separation of commercial banking from investment banking—would erect a firewall between the financial system that services the real economy, and all forms of financial gambling. Government protection would only extend to the real economy. This will encourage investment savings to stay in the real economy, and fund loans to the small businesses, family farms and manufacturing enterprises which are the lifeblood of the productive economy, and stem the flow of money into financial bubbles.”

“A National Bank, owned and controlled by the elected government, like the original Commonwealth Bank, will do away with the deluded hidden hand approach to investing in the economy, and instead create public credit that can be directed into visionary projects to advance Australia. The CEC mapped out such projects in our *New Citizen* special report, *The Infrastructure Road to Recovery*: grand water projects that can mitigate floods and irrigate agriculture, turning the north of Australia into a food bowl for the world; a high-speed nation-wide rail network utilising magnetic-levitation technology or better; a nuclear power grid that value-adds on our world-leading resources of uranium and thorium; and more. These projects aren’t expenses, they are investments, every cent of which will stay in the country, creating hundreds of thousands of productive jobs and shoring up our standard of living.”

He concluded, “If you want an Australia in which you don’t have to be a financial gambler, hanging on every market fluctuation for your security, but are secure in a nation that is productive and able to meet the needs of every citizen, including free health care and proper pensions for the elderly and disabled, join the CEC’s fight for these solutions.”

Australia Urgently Needs a *Glass-Steagall* Separation of Banks

Citizens Electoral Council Petition to Federal Parliament

TO THE HONOURABLE THE SPEAKER AND MEMBERS OF THE HOUSE OF REPRESENTATIVES

This petition of the Citizens Electoral Council of Australia draws to the attention of the House the threat facing Australia's banking system from the deepening global financial crisis, which puts at serious risk the bank deposits of the Australian people, and essential banking services for the real economy.

Australia is now vulnerable because our banking system is concentrated in just four banks, which between them hold the overwhelming majority of deposits and provide the majority of banking services, but which have dangerously exposed themselves to shocks in the global financial system, including through nearly \$20 trillion in derivatives speculation.



We therefore ask the House to take immediate action to protect deposits and essential commercial banking services, by enacting strict banking separation as did U.S. President Franklin Roosevelt's Glass-Steagall Act 1933. Glass-Steagall split deposit-taking, standard commercial banks from Wall Street's speculative investment banks, creating entirely separate entities under different roofs, thus successfully protecting the U.S. banking system until Glass-Steagall's repeal in 1999. We ask the House to apply the Glass-Steagall principle to Australia through legislation to divide each of the four major banks into two parts:

- 1) normal commercial banks as per Glass-Steagall standards, and
- 2) institutions involved in investment banking and other forms of speculation. Banks that speculate will then do so with their own money and at their own peril, with no government protection whatsoever.

Name	Signature	City/Town/State*	Phone*	Email*
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2.				
3.				
4.				

Please post back to CEC Australia, PO Box 376 COBURG VIC 3058 *Voluntary information



GET A FREE PACK

For 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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