Citizens Electoral Council of Australia

Postal Address: PO Box 376, Coburg Vic 3058
Phone: 1800 636 432 Fax: 03 9354 0166
Home Page: www.cecaust.com.au **Email:** cec@cecaust.com.au

Authorised by R. Barwick, 595 Sydney Road, Coburg, Victoria 3058. Printed by Citizens Media Group Pty Ltd., 595 Sydney Road, Coburg, Victoria 3058.

Independent Political Party

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ASIC bubble warning is admission Australia's banks *will* crash without Glass-Steagall

Although he did not phrase it as such, ASIC (Australian Securities & Investments Commission) Chairman Greg Medcraft's warning about the Sydney and Melbourne property markets bubble is the highest-level admission yet that Australia's whole banking system is set to blow.

Remarking that "history shows that people don't know when they are in a bubble until it's over" and that he is therefore "quite worried about the Sydney and Melbourne property markets" (*Australian Financial Review*, 18 May 2015), the evidence of a bubble flagged by Medcraft includes:

An "historic high" in the ratio of average house price to average income in both cities (according to the *11th Annual Demographia International Housing Affordability Survey: 2015*, Sydney's ratio is 9.8:1 and Melbourne's 8.7:1, both in the "severely unaffordable" range);

A coinciding record-low Reserve Bank of Australia cash rate of 2.0 per cent. "Everyone knows this is not where rates are going to be long term," Medcraft said, but nonetheless "people start borrowing when they can't afford it"; "rate rises can actually bust a bubble" when borrowers cannot meet increased repayments, he noted. Additionally, "We know what happens in low interest rate environments [when] people are searching for yield. They start buying more complex products they don't understand" (i.e. financial derivatives, including mortgage-backed securities, which are back in a big way as mortgage "values" skyrocket); and

The "really shocking" results of this month's ANZ financial literacy study, which showed that only half of the 3,400 investors surveyed were capable of recognising when an investment is "too good to be true".

What Medcraft did not dare articulate are the consequences to Australia's major banks when the bubble bursts. Australia has the most concentrated banking system in the world with more than 80 per cent of banking business conducted by four near-identical behemoths, and about 60 per cent of their assets are mortgages on overvalued properties. When the RBA raises interest rates—and as Medcraft said, "everyone knows" they eventually will—a cascade of defaults will surely ensue (full-recourse mortgage laws or no), but the banks will only be able to sell those properties at a fraction of their former prices, if at all, thereby reducing their asset-book values below their own liabilities; i.e. they will become insolvent. If that wasn't enough, keep in mind that when millions of desperate borrowers simply can't pay anymore and the liquidity from mortgage repayments dries up, hundreds of billions of dollars in mortgage-backed securities will go up in smoke and the banks along with them, a contagion that will quickly spread to every other institution worldwide on the other end of our banks' almost $28 trillion in off-balance-sheet derivative deals and finish the job that the GFC started.

Medcraft also had very little to say on the subject of preventing a crash, because the truth is that at best, he has no real idea what to do; more likely, given his own history in securitisation and his associations with the biggest banks in the world, he is still intent upon preserving the present financial system.

The further truth is that this is impossible, and the present system cannot be saved. It is urgent that it be replaced with a new financial system based on the principles of National Credit banking, beginning with the imposition of a Glass-Steagall standard to extricate the banks' legitimate operations, few that they are, from the morass of speculative debt that smothers our nation's economy.

The CEC is leading the fight for a Glass-Steagall separation of Australia's banks, to protect the everyday depositors and bank customers, and a National Bank to direct public credit into growing the productive economy, so Australians can earn their wealth from production, not speculation; join us.

Call 1800 636 432

for a **free copy** of the CEC's Submission to the 2014 Financial System Inquiry,

including the special report on The great Australian mortgage bubble.

PETITION

Australia must secure its future by aligning with the BRICS in a new, just world economic order

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

This petition of the Citizens Electoral Council draws to the attention of the House the opportunity for Australia, and all nations, to participate in the process that the BRICS nations of Brazil, Russia, India, China, and South Africa have initiated: to create a new financial architecture for the world based on equitable and inclusive multilateral credit institutions that prioritise investment in physical economic development, instead of speculation.

The present, inequitable IMF-World Bank system is collapsing under the burden of hundreds of trillions of dollars of unpayable global debts and derivatives obligations, including the Australian banking system's derivatives exposure of more than $27 trillion. This is the legacy of decades of reckless financial speculation unleashed by IMF-enforced deregulation, and is the driver of the world's present strategic tensions which have increased the threat of a thermonuclear world war.

Through such new financial institutions as the $100 billion New Development Bank, the $100 billion Asian Infrastructure Investment Bank (AIIB), the $40 billion Silk Road Development Fund, the $20 billion Maritime Silk Road Fund, and the planned Shanghai Cooperation Organization (SCO) bank, the BRICS nations will direct massive investment in much-needed physical infrastructure projects on which all nations can collaborate, forging a basis for lasting global peace and economic prosperity.

We the undersigned therefore petition the House to commit Australia both to full participation in the AIIB, and to full support for the BRICS-initiated process of creating a new financial architecture for the world as the basis of a just economic order.

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Please post back to: CEC Australia, PO Box 376 Coburg VIC 3058 * Voluntary Information