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

26 August 2015

Phase II of the global financial crisis underway

Nothing was solved after 2008; bail-outs just put off an even bigger explosion… until now.

Australia's banks are not immune!

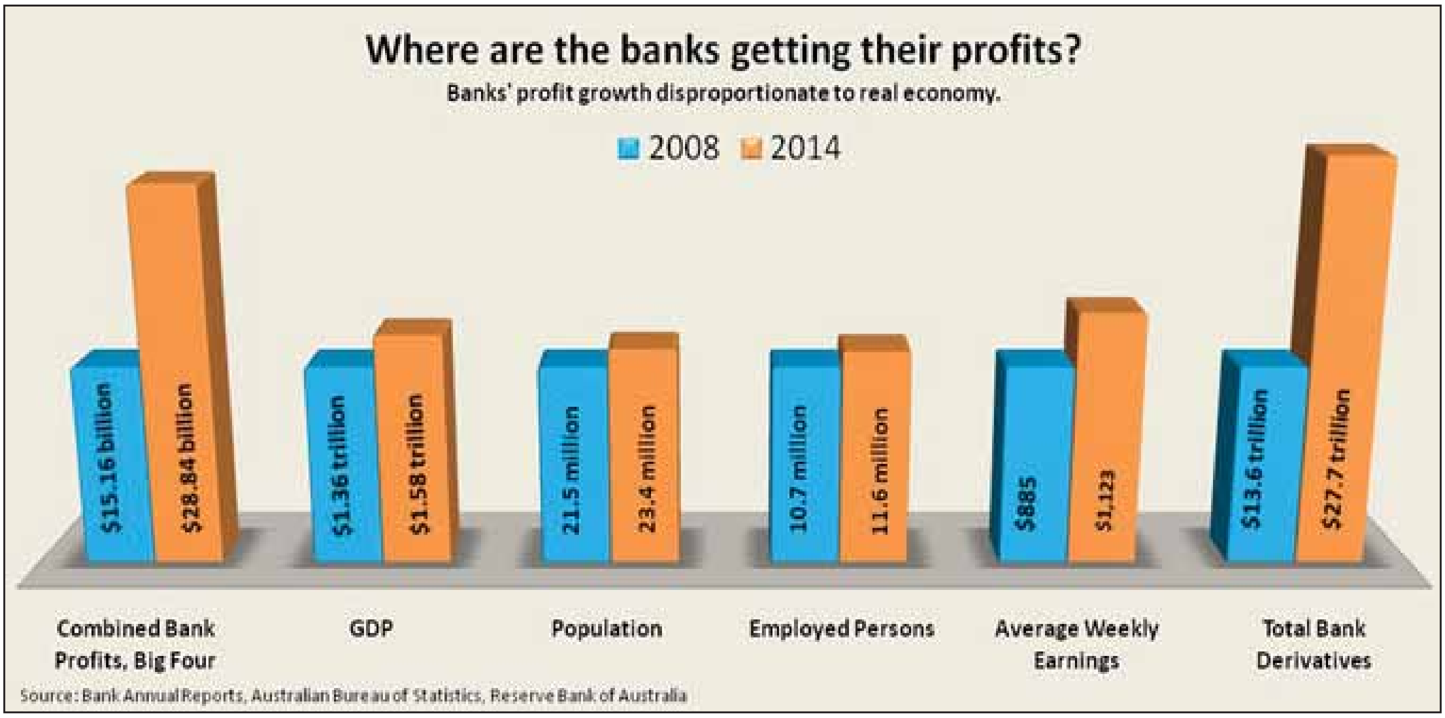
The turmoil hitting stock markets around the world this week is more than a "correction". There are many alarming signs in the global economy, similar to 2007, which point to pre-conditions for a major crash, the next, more destructive phase of the ongoing global financial crisis. And, contrary to the theme in the media, the problem isn't in China—it's in the West, including Australia.

The headline of the 16 August London *Telegraph* blared, "The doomsday clock for a global crash strikes one minute to midnight as central banks lose control." Possible future shadow UK Chancellor of the Exchequer, John McDonnell, a close associate of UK Labour Party leadership front-runner Jeremy Corbyn, noted in *The Guardian* of 12 August: "They [our opponents] fail to understand that the unregulated, law-of-the-jungle market system they advocate is inherently crisis-ridden. Unless we act on these fundamental flaws we really do doom the next and future generations to further inevitable crises. *In fact all the factors that caused the 2007-8 crisis are currently reappearing on the scene*—frozen or low incomes, low productivity, asset inflation especially in housing, a hands-off government turning a blind eye to loose credit expansion and City speculation, and a growing debt bubble. *Just like 2007 all it needs is a spark like Northern Rock* [the 2007 "run" on the Northern Rock bank] *to set things off again*…" (Emphasis added.)

Alarming signs that another crash is imminent include:

Major stock markets in New York, London and China have been in the grip of the same disconnected euphoria that preceded previous major crashes: the current period of increase in the London stock exchange index matches only the periods immediately before the 1929 crash and the 2000 dot.com crash; the Price-Earnings (PE) ratio on US stocks has only been higher before the crashes of 1929, 2000 and 2007; China's stock market almost tripled in one year, by any measure a speculative bubble that was always going to burst (ironically, as China's actual economy is very productive and its stock market is a much smaller sector of its financial system than those in the West, its current slide is doing more damage outside of China than inside China).

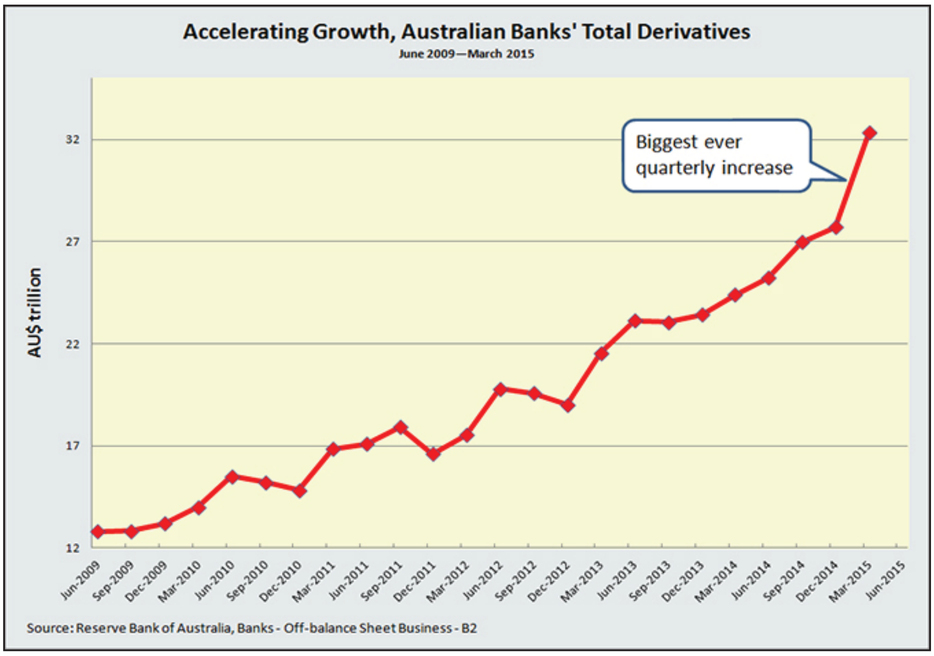
The Libor (London Interbank Offered Rate), the world's benchmark interest rate, has risen significantly this year, reflecting a sharp rise in risk in inter-bank lending; the Libor soared in 2008, when banks stopped lending to each other, causing a liquidity "freeze"—the core problem of the GFC.



The profits of Australia's Big Four banks have effectively doubled since the 2008 global financial crisis, but in an economy that has only marginally expanded; only the growth in the banks' frenetic gambling in derivatives matches their declared profits.

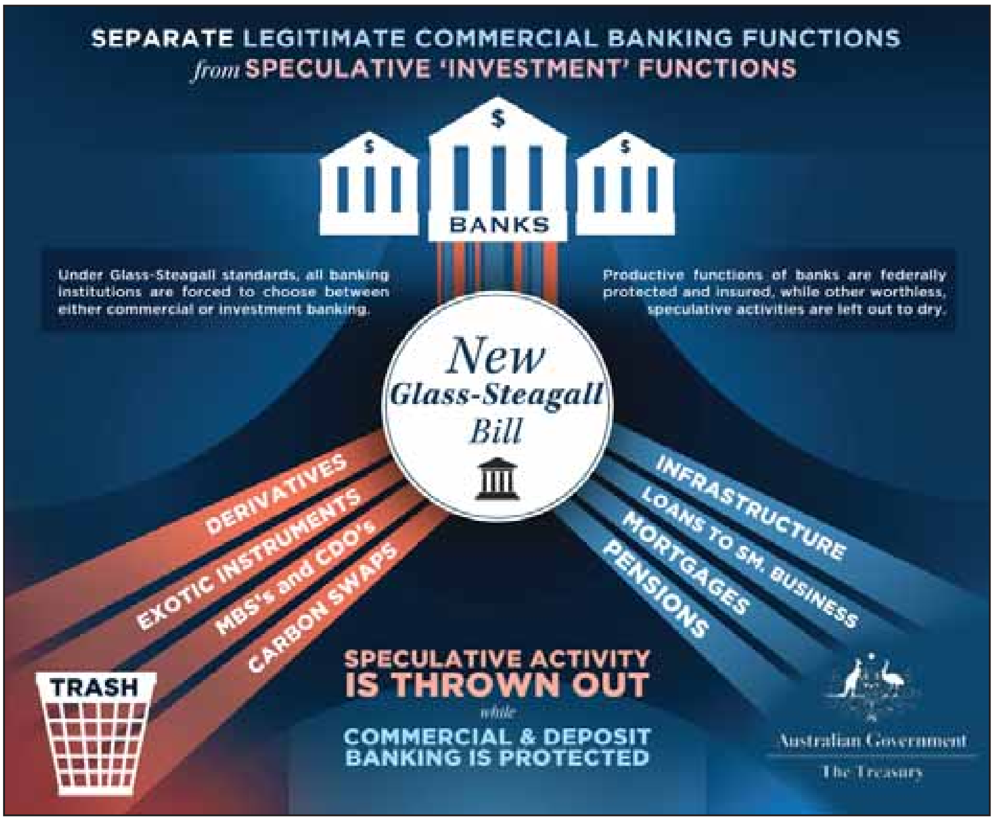
World shipping rates have plunged 60 per cent in the past three weeks, 27 per cent in the past week alone, to US$467/TEU ("twenty-foot equivalent unit", i.e. the volume of one small shipping container) on the Shanghai Containerised Shipping Index; about $800-$1,000/TEU is a profitable level. This is a sure sign of real crisis in the globalised economy. Just before the crash of September 2008, the London shipping index called the Baltic Dry Index plunged 90 per cent in three months, as world shipping ground to a halt, and so many freighters were moored in ports such as Singapore that they resembled crowded car parks.

Commodity prices are in an accelerated collapse; West Texas crude oil is below US$39/barrel. Bloomberg's Commodity Price Index of 22 commodities is falling at 2-3 per cent/week, according to Bloomberg News on 24 Aug., *and is now at 1998 crisis levels*. That index has dropped by 51 per cent since the end of 2013 as economic growth disappeared in the trans-Atlantic, then in Russia and Brazil; but the drop is clearly accelerating in recent months. It was the trigger in this same period in 2008 for the bank blowout of that September.



Australian Banks' Derivatives, June 2009-March 2015.

The property bubbles in Australia and the UK are stretched to bursting, which will trigger carnage in the banking sectors of both economies. Outside of Sydney and Melbourne the bubble has already started bursting on the back of the commodity price collapse, so the banks are throwing everything they can into continuously inflating the Sydney and Melbourne markets, but the cracks are starting to show. A comparison of the meteoric profit growth of Australia's Big Four banks with the pedestrian growth of the overall Australian economy shows a complete disconnect between the banks and the economy, and underlines how much the banks are dependent upon their speculation in the property bubble, and the derivatives gambling that is associated with that.



Solution

The talking heads that have been on television in the last few days assuring people that this market turmoil is merely a "correction", and that the "fundamentals are sound", are either unqualified incompetents, or lying, including to themselves. They all said the same thing in 2007-08.

It is urgent that governments adopt policies based on this crash being a reality, and which boost the strength of the underlying real economy, rather than seek to prop up the fake and inflated values of the derivatives and other speculative assets of the failed financial system, as they did through the bank bail-outs in 2008.

The good news is that the policies that are needed to address this crisis right now are the subject of fierce debate in the US Presidential election, the UK Labour Party leadership election, and here in Australia:

A full Glass-Steagall separation of banking that services the real economy, from the speculative investment banking that caused the crisis, which is prominently championed by US Democratic Party presidential pre-candidates Bernie Sanders and Martin O'Malley, and UK Labour Party leadership front-runner Jeremy Corbyn;

A national banking system, with which governments can "re-capitalise" their national economies, using their own public banks that have the power to create credit for investment in the infrastructure and industries that the economy needs to grow and prosper; Jeremy Corbyn is committed to using this system, which he calls "People's Quantitative Easing", to fund a national investment program for the UK, and the CEC has long championed a national bank for Australia, modelled on the original Commonwealth Bank.

Now is not the time for denial; nor is it time for panic. It is time for these clear-headed solutions that are based on the principle that the welfare of the people, not banks, is the priority of governments. To fight for that principle, join with the CEC.