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The casino is sinking—save us all with Glass-Steagall

You're losing your superannuation on panicked markets because after 2008 the authorities, under orders from the banks, protected the gamblers, not the people. The banks and their political lackeys have since doubled down by cooking up the policy of "bail-in"[1], to permanently force the people to pay—with their savings and with their lives—for the gambling losses of the banks. Unless the people force governments to make amends quick-smart and enact a Glass-Steagall division of the financial system—which walls off and protects everyday banking that services the real economy, from the manic gambling of investment banking which is currently in meltdown—we all stand to lose everything.

This present crisis in the global financial markets picks up where 2008 temporarily left off. Overnight the New York Stock Exchange's Dow Jones Industrial Average dived more than 500 points at one stage, before the plunge protection team pulled their tricks and pumped it back up to a more modest 1 per cent fall. Nonetheless this drop will push cumulative losses well past the US$14.5 trillion that ABC Radio's 19 January *AM* program reported has been wiped off global stock markets in the past seven months—more than $4 trillion of it since 1 January. The 2016 falls represent the steepest decline in stock markets since the depth of the global financial meltdown in September-October 2008 and, as the headline in London's 16 January *The Times* shrieked, the "worst start to the year since the Great Depression".

As these losses mount, bankers are openly panicking. London's 12 January *The Telegraph* reported that the Royal Bank of Scotland (RBS) had just advised its clients to "sell everything" because the warnings signs are the same as before the crash in 2008: "Sell everything except high quality bonds. This is about return of capital, not return on capital. *In a crowded hall, exit doors are small*." (Emphasis added.) Also on 12 January, *The Telegraph* quoted Société Générale's Albert Edwards forecasting a "global deflation and recession" and market "carnage" in which the US stock market could collapse by 75 per cent.

It gets worse…

The bad news is that the stock markets are the least of the world's financial problems. The price of oil is down more than 10 per cent this year, and overnight it dropped to US$26 per barrel. That should be good news, but, as *The Big Short* movie's casino scene explains in the case of mortgages, there is a mountain of gambling bets that banks and speculators have made on oil, on top of which are side-bets on those bets, *and* side-bets on those side-bets. This is how the derivatives gambling casino works. Look back two years and see who was forecasting this magnitude drop in the price of oil—virtually nobody—and you'll realise that most of the bets on the price of oil, which would have been made when it was close to US$100 per barrel, are right now losing badly.

The Economist this week estimates half of all US shale oil and gas production and exploration companies will go bankrupt in 2016, not to mention those in North Sea oil which have already cut 55,000 jobs in the UK alone. Australia's own BHP Billiton reported in its 2015 fourth quarter results a write-down of the $20 billion it invested in the US shale oil sector in 2011, to $12 billion in real terms (inflated to $16 billion due to tax benefits); moreover, BHP has reduced its projected capital expenditure from $15 billion to $2 billion, and has closed most of the wells it has acquired.

The leading US finance television channel, CNBC, carried

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"The ABC's of Bail-In: What You Must Know"

along with the Glass-Steagall solution.

a 14 January commentary headlined "Oil credit crunch could be worse than the housing crisis", in which thirty-year veteran oil industry consultant Mark G. Harrington warned that a "flood of hard defaults with bank lenders and bondholders" is coming immediately and throughout 2016, and each will create cross-defaults with other securities—i.e. derivatives bets. "Even more importantly, most oil-price hedges, price swaps/derivatives, also have cross-default provisions. Thus, counterparty credit risk [among banks] begins to escalate as those parties are forced to disgorge cash payments on those instruments. Given the ferocity and rapidity surrounding this meltdown, can lenders effectively process this burgeoning inventory of defaulted credit?" His answer is no.

Harrington also notes, using Bank for International Settlements figures, that banks have loaned at least US$2 trillion for shale oil/gas "capital expenditures", expecting those loans to triple in value, but instead they have collapsed to half of their nominal value, at best. (The banks' exposure to the collapsing oil and gas sector is at least double their exposure to the sub-prime mortgage bubble which smashed them in 2007-08.) Harrington: "The selloff in energy bonds now underway creates general risk avoidance across the board. Ballooning loan write-offs hit the major banks and those smaller banks to whom the loans were syndicated. The manifestation of counterparty credit defaults and its cross defaults hit the banks again, and many other firms that began originating swaps. Even with the selloff to date, one cannot gauge the magnitude of the problem and how it might play out. But we know one thing for sure: It will be ugly."

Glass-Steagall

It is futile to try to "resolve" this mess—the government's priority must be to protect the welfare of people by protecting the functioning of the real economy. In two words: Glass-Steagall. On 14 January, 170 prominent economists and financial experts[2] from more than 100 American universities and other institutions weighed in on the US Presidential election campaign with a ringing endorsement of Democrat Bernie Sanders, who is one of two candidates championing the reinstatement of Glass-Steagall. Their letter stated, "The Senator is correct that the biggest banks must be broken up and that a new *21st Century Glass-Steagall Act*, separating investment from commercial banking, must be enacted."

The CEC is leading the fight in Australia for an urgent Glass-Steagall separation of Australia's banks, which since the 2008 crisis have collectively more than doubled their exposure to derivatives gambling, from $13 trillion to $32 trillion. The latest issue of the CEC's *Australian Alert Service* magazine includes the feature, "Without Glass-Steagall Australia's Banks *Will* Crash", which explains the derivatives danger that confronts Australians. Take responsibility for yourself, your family and your community: read the *Australian Alert Service* and join the CEC in this fight.

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1) http://cecaust.com.au/releases/2016_01_06_EU_bail_in.html

2) https://berniesanders.com/wp-content/uploads/2016/01/Wall-St-Letter-1.pdf