Australian Citizens Party
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MEDIA RELEASE

Thursday, 3 August, 2017

Europe contemplates freezing bank accounts—Glass-Steagall urgent!

In the wake of the collapse of European banks including Spain's Banco Popular, two regional Italian banks, and the bail-in/bailout of the world's oldest bank, Monte dei Paschi di Siena, Europe has been debating new powers to allow bank accounts to be frozen during a financial crisis for between 5 and 20 days.

According to Reuters on 28 July, which reviewed a European Union document on the subject, the proposal has been circulating since early 2017. The paper dated 10 July was prepared by the Estonian Presidency of the EU (Estonia took the rotating EU Presidency for its six month term at the beginning of July). EU envoys discussed the proposal on 13 July, but member states were divided on the proposal. The matter will officially be taken up again in September, but will no doubt be the subject of fierce debate between now and then.

Designed to prevent depositors from withdrawing money and thus jeopardising financial institutions during a crash, the plan may very well trigger a "run" on banks in anticipation. Reuters quotes Charlie Bannister of banking lobby group the Association for Financial Markets in Europe (AFME): "We strongly believe that this would incentivise depositors to run from a bank at an early stage." Previous proposals to suspend withdrawals have excluded insured deposits (up to €100,000) and limited suspension of selected payouts to two days.

This proposal is an extension of the EU's bail-in regime (confiscation of some bonds and deposits to resolve insolvent banks) to apply to bank holdings across the board; the fact that it is temporary (for now) means nothing. Britain made plans at the time of the last crisis to shut down banks and limit or freeze withdrawals. In early 2016, City of London insider Tim Price revealed to *MoneyWeek* magazine ("Martial law in the UK", 17 Jan. 2016) that martial law was close to being imposed during the 2008 global financial crisis. A year later the Bank of England admitted that "they came within hours of shutting down the UK operations of Lloyds and RBS. If that had happened, then I think we would have entered an environment of martial law in the UK." Price went on to describe what would happen when people could not take money from ATMs. "In that kind of potential instability, you're talking troops on the streets", he concluded. This "financial martial law" interfaces with enhanced anti-terrorism powers in the UK and the City of London, including the power to shut the entire square mile of the City off to vehicular and foot traffic, which London Police applied for in June 2016.

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Further warnings

In a 24 July speech at the University of Liverpool, titled "'Debt strikes back' or 'The return of the Regulator'?", Bank of England Financial Director for Financial Stability Strategy and Risk Alex Brazier pointed out the dangers of over-bloated household debt in the UK. With the easy-money sluice gates opened after the 2008 crash, a "spiral of complacency" on lending standards developed, and consumer bubbles grew. Household debt is "dangerous in excess", Brazier notes, and with the biggest component being mortgages, the banks are vulnerable. Consumer credit (credit-card debt and unsecured loans) has increased more than six times as fast as incomes and is far more liable to default than the family mortgage. It now totals £200 billion. In the past year, outstanding car loans, credit card balance transfers and personal loans have increased by 10 per cent, while household incomes have risen by only 1.5 per cent. Car finance has grown 15 per cent in the past year and more than 100 per cent in the last four.

"The spiral continues and borrowers rack up more and more debt. Lending standards can go quickly from responsible to reckless. The sorry fact is that as lenders think the risks they face are falling, the risks they—and the wider economy—face are actually growing", Brazier says.

While Brazier understates the impact of this situation, other commentators have not. In the 30 August *Daily Mail* Peter Hitchens wrote of the car loans bubble in the UK: "There is no real money to cover this. It's a gamble on the future being just like the present. It is very similar to the dangerous sub-prime mortgages that infected the Western financial system with impossible debt ten years ago." Our leaders ought to be preparing for the crash now, Hitchens says: "They'll say it came out of the blue, but it won't have done. It's about as predictable as next autumn, and may not be much further away. We have been warned, and if the Government isn't ready with a plan, then I'm not sure what will save it from the wrath to come."

Ratings agency Moody's has also warned that household debt in Britain has risen to a worrying level, "leaving consumers vulnerable to an economic downturn". It conveyed concern about a house price collapse for those facing foreclosure, especially for highly leveraged and interest-only loans. Moody's also warned about the risks of asset-backed securities based on auto loans, credit-card debt, and investor and high-leverage mortgages, giving them a negative outlook.

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A similar crisis point has been reached in the USA. The US$11 trillion commercial real estate bubble, including commercial mortgage backed securities (CMBS), is shaking as default rates rise. The top 20 trans-Atlantic banks hold US$1.4 trillion of these assets, the bulk of which are in securities. The default rate on CMBSs has increased from 4.6 per cent in September 2015 to 5.6 per cent in September 2016, and now 6.4 per cent in June this year.

In his speech, the Bank of England’s Brazier listed off all the regulations introduced since 2008, along with a host of new safeguards against “the spiral” of debt, but if they are so effective, why his warning? His call for “a defence line” for the economy in the form of “regulation”, can only be truly answered with Glass-Steagall—the full separation of commercial banks that hold our deposits, from speculative investment banking and all other financial services, to protect the real economy from financial gambling.