Australian Citizens Party
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MEDIA RELEASE

Friday, 23 August, 2019

New Zealand heads into monetary madness to save banks

The Reserve Bank of New Zealand (RBNZ) slashed its interest rate by a drastic 0.5 per cent (50 basis points) earlier this month, to 1 per cent. RBNZ governor Adrian Orr then declared that New Zealand was prepared to follow Japan, Sweden and other countries that have gone below zero into negative interest rates, and is also thinking about quantitative easing and helicopter money—basically the full suite of extreme measures to prop up the financial system. NZ already has the world's most explicit and extreme "bail-in" system to take deposits to prop up failing banks, called Open Bank Resolution (OBR). They won't admit it, but this sudden escalation in RBNZ's actions and rhetoric is a strong indication that NZ's authorities fear their economy is heading off a cliff.

As the Citizens Electoral Council documented in a 1997 issue of the *New Citizen* newspaper, New Zealand once enjoyed a diverse, productive economy with a strong manufacturing base that even included car production. Unemployment in the 1960s was not measured in percentages, but in absolute numbers, reaching a maximum of a few hundred people. The global wave of neoliberal vandalism that started with Margaret Thatcher ripped through NZ in the 1980s. Known as "Rogernomics" after Labour Party Finance Minister Roger Douglas, neoliberalism privatised and deregulated NZ's economy to death, smashing its manufacturing base, but feeding a massive growth in financial services. NZ became a Pacific paradise for Wall Street and London investment banks, such as CS First Boston, which trained up personnel in a new, aggressive financialised economy, who were then exported around the world. A phalanx of Kiwi bankers took key positions in Australian and London banks, including Australia's CBA and the UK's RBS. RBNZ acquired a reputation as a strict enforcer of monetarist policies, fiercely "independent" of government control. The result of three decades of this approach? An economy concentrated in a few agricultural commodities such as dairy production, a massive property bubble in the major cities, and financial services.

Joe Wilkes is a British real estate and banking expert who lived through the panic of the global financial crisis in London, and moved to New Zealand a few years later with his Kiwi wife to raise their family. What Wilkes discovered in Auckland was exactly what he had experienced in London that had caused its real estate and financial crisis. For more than a year Wilkes has been a regular on Australia-based banking expert Martin North's Digital Finance Analytics YouTube show, warning about the signs of impending disaster in New Zealand's economy. Very similar to Australia, NZ's major banks, which are owned by Australia's, have recklessly lent seven, eight and more times income for mortgages in the major cities. In an 18 August DFA episode titled "Shock and Orr",

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Wilkes reported that real estate sales volumes in the three major cities of Wellington, Christchurch and Auckland have fallen sharply in the last year, and the falls have been accelerating. Commenting on Adrian Orr's panicked rate cut, Wilkes said he would have described it as "someone crapped the bed".

While Adrian Orr wouldn't admit RBNZ's true motives, he is remarkably open about what the central bank is prepared to do, especially in comparison with the Reserve Bank of Australia and US Federal Reserve. Perhaps Orr is hoping to normalise the extreme measures under consideration, but they are far from normal. They include:

- **Negative interest rates**. Orr emphasised in a 12 August interview with business reporter Bernard Hickey of online news service Newsroom that in countries with negative interest rates, like Sweden and Japan, "life continues, and monetary policy remains effective". By effective, he means that it forces people to change the way they use their money: "[I]t makes people either bring spending forward or delay spending…. It also makes people think much harder about alternative investments." Why it should be the central bank's job to force people to change their behaviour like this, he doesn't say—it's a given.

  Orr "belled the cat" on negative interest rates by noting that to make them work, you need to stop people from using cash. This connection between cash restrictions and negative interest rates is one that Australian authorities are trying to deny as they push ahead with a law to ban cash transactions over $10,000. They are lying. Orr suggested a way to "remove the arbitrage between negative interest rates and holding cash" (meaning how negative interest rates are an incentive for people to take their money out of the bank): "Let's tax cash holdings, simple as that: we're back to monetary policy as usual; people are disincentivised to be holding large lumps of physical cash; they are having to think harder about putting money to work." He cited former IMF chief economist Kenneth Rogoff, who advocates removing large-denomination notes and other restrictions on using cash, to make negative interest rates work. RBNZ is conducting an inquiry into The Future of Cash, which is taking submissions until 31 August.

- **Quantitative easing (QE)**. Orr was reportedly more cautious about the electronic money-printing to buy government bonds that is known as QE, partly on the basis that there is a

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limited supply of NZ government bonds in circulation. This means that Orr believes the money-printing would need to be done on a massive scale to work. He expressed admiration for the way the Hong Kong Monetary Authority didn't buy government bonds during the 2008 GFC, but printed money to buy private assets directly—no doubt fuelling the sky-high property prices that afflict Hong Kong today.

- **Mortgage-backed securities**. In the context of discussing QE, Orr revealed the RBNZ was looking into establishing a permanent market for mortgage-backed securities. This is a dead giveaway that RBNZ's real concern is for the property bubble. RBNZ's intention is to be able to create money to buy up mortgage-backed securities from the banks, in order to shore up the bubble: "We've said, 'well, let's make sure that this market exists and it's a normal part of our market'. And so, those different types of instruments that we can purchase to put cash out is great. So, you know, there's mortgage-backed; there's the government bonds; there's a lot of different types of things if you need to be creative."

- **Helicopter money**. This idea was first put forward by the late monetarist economist Milton Friedman, proving that the supposed differences between monetarists and Keynesians is purely superficial. Friedman suggested cash could be dropped from a helicopter so people could pick it up and spend it to stimulate the economy. Orr endorsed the policy: "So being able to do the helicopter kind of money concept would just simply be around being able to inject cash into the system whichever way we chose to use a 'helicopter' … there's nothing mystical or magical about it, it's just a different instrument."

The extreme measures that RBNZ is planning bespeak an economy in crisis. They also demonstrate the NZ authorities' preparedness to ride roughshod over the civil liberties of New Zealanders, in order to force them to conform to the emergency measures to save their banks. This is part of a broader assault on civil liberties in NZ, in the wake of the Christchurch massacre in March, especially in regard to censorship targeting the online dissemination of information. This has even affected the New Zealand shows on the DFA channel on YouTube, even though it is purely an economics discussion, and in no way related to radicalised content. But economic breakdown leads to a loss of political control, which is always the reason that authorities resort to extreme, totalitarian measures. As NZ is such a small country, these developments are hard to disguise, so outsiders should pay attention to what is happening there, because it is certain the same thinking is under way in other countries, especially in NZ's close cousin across the ditch, Australia.

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