Australian Citizens Party
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MEDIA RELEASE

Tuesday, 19 June, 2018

Sudden density of warnings of financial crisis

Former economic adviser to Australia's coalition parties, John Adams, has continued to sound his warning of "economic Armageddon", in news.com.au on 18 June.

Click here to read "Six pathways to Australia's 'economic Armageddon'".

The latest analysis from Adams coincides with a sudden density of warnings from experts and commentators of another global financial crisis.

The 18 June *Sydney Morning Herald* carried a column from the London *Telegraph* by British financial reporter Ambrose Evans-Pritchard, headlined "A worldwide financial storm is brewing as central banks pick their poison". Evans-Pritchard warned that the US Federal Reserve's commitment to raising interest rates, in the belief that the post-2008 GFC economy has finally recovered, and despite other signs of trouble, is a huge risk to the debt that has piled up worldwide (including in Australia) due to the years of low and zero interest rates.

A 13 June *Australian Financial Review* article by Patrick Commins, "Is an Australian financial crisis on the cards?", analysed a new report by Capital Economics titled, "Is a financial crisis looming?" Capital Economics chief Australia economist Paul Dales writes in the report, "Economic history shows that there is usually a consequence of a prolonged period of rapidly rising debt, the only question is: how bad will the consequence be."

Also on 13 June, the *Sydney Morning Herald* ran a column by Australian banking expert Satyajit Das, "Brace yourself: Why the fallout from the next GFC will be much worse". Das described what happens when many investors realise a crisis is looming and all try to exit the casino at the same time: "No one can predict how bad the next financial crisis will be", he wrote. "What's certain, though, is that a lack of liquidity will make the fallout much worse."

These followed a shocking 8 June analysis in the *Washington Post*, "Beware the 'mother of all credit bubbles'", by Steven Pearlstein. Sticking to the theme of the build-up of debt, Pearlstein warned that the corporate debt pile in the USA is as big a threat to the system as the mortgage debt was prior to 2008. "Now, 12 years later, it's happening again", he wrote. "This time, however, it's not households using cheap debt to take cash out of their overvalued homes. Rather, it is giant corporations using cheap debt—and a one-time tax windfall—to take cash from their balance sheets and send it to shareholders.… And once again, they are diverting capital from productive long-term investment to further inflate a financial bubble—this one in corporate stocks and bonds—that, when it bursts, will send the economy into another recession."

Economic Armageddon

Reporting on John Adams' analysis, news.com.au wrote, "The future is going to be very bad. It's not a question of if or even when, but how. That's the view of Australian economist John Adams, who says 'economic Armageddon' awaits us—we just don't know what particular version it will take."

Adams laid out six scenarios defining the coming economic Armageddon, which he said will be shaped by whether the world goes into an environment of rising interest rates and "quantitative tightening" of the money supply, or keeps low or falling rates and more quantitative easing (QE) of the money supply. His point is, either way, disaster looms.

The first scenario is debt-deflationary recession or depression, brought on by rising interest rates sparking massive defaults on the mountain of global debt. "Given that the modern financial system is both global and highly interconnected, a critical event involving a systemically large institution anywhere in the world is likely to spread across world financial markets and impact all economies, including Australia", Adams wrote.

Of course, it is equally a danger that such a crisis may start in Australia with a crash of the housing bubble that wipes out the major banks, which would trigger debt and derivatives defaults to international creditors and counterparties, causing the crisis to spread worldwide.

Scenario two is a sovereign debt crisis, from one or more governments defaulting on their debt. Adams explained, "A sovereign debt crisis has the potential to engulf other sections of the global financial system and the global economy if either a partial or full default results in causing financial difficulties for bond holders (which is likely to be other governments or institutional investors such as banks and investment funds). The spreading of such a crisis is known as contagion."

Adams' third scenario is a local currency crisis, like the 1997 Asian financial crisis, when foreign creditors suddenly lose confidence and withdraw their capital quickly. This can set off a global chain reaction.

Scenario four is local runaway inflation potentially leading to hyperinflation, from the excessive creation of money relative to productive activity. According to Adams, "The global quantity of money

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and credit relative to size of the global economy is at a record historic high, which is now resulting in accelerating official rates of rising consumer prices across both developed (e.g. the US, Canada, Germany and Spain) and developing (e.g. the Philippines) economies."

The fifth scenario is stagflation, which is defined as high inflation but low growth, a phenomenon associated with the 1970s, but actually more common. Analysts cited by Adams are warning that the rapid expansion of money that risks the runaway inflation of scenario four is combining with obstacles to growth such as very poor productivity in Western economies.

The final scenario is a global currency crisis, which could be triggered by a collapse of international confidence in a global reserve currency, such as the US dollar, due to the eroding effects of continual QE money printing.

At the heart of all of these warnings, by Adams and others, is a global financial system that is disconnected from the real economy, hence a build-up of debt which cannot be repaid under normal interest rates. This is why the Citizens Electoral Council is part of a global campaign to bring the financial system back into sync with the real economy, starting with a Glass-Steagall separation between banks that provide financial services to real people and productive businesses, and all forms of financial speculation. It is urgent that this fight succeeds—join us.

Join the fight for Glass-Steagall in Australia

Bob Katter plans to introduce an Australian Glass-Steagall bill into Parliament. Here's what you can do to get your MP to support this bill:

1. Sign the CEC's new change.org petition: *To the Commonwealth Parliament: Pass Australian Glass-Steagall Bill to break up the banks!* Every signature generates an email to leading MPs informing them of the public's support for Glass-Steagall.

2. Get a copy of this bill to your Federal Member of Parliament plus any Senator/s you can. Urge them to not only read it themselves, but press them to support Bob Katter's bill for Glass-Steagall. The very best way is to make an appointment and go and see the MP in person—MPs really want to know what their constituents think and this will make a big impression on them. If that's not possible, email or mail the document with a personal cover note asking them to support the bill in Parliament, and to let you know whether they will.

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3. Share copies with others: State MPs, any media you can contact, councils, unions, church leaders, community groups, etc. and get any concerned people you know to visit their MP as well; and on Facebook etc., or with your email address book, urging everyone you know to get involved.