Australian Citizens Party

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MEDIA RELEASE

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Yes, Australia could trigger next global financial crisis!

A stunning report on news.com.au has echoed what the Citizens Electoral Council has long warned: there is a growing threat that Australia could set off the next global banking meltdown.

Click here to go to "Australia could be 'first domino to fall' in next GFC" .

Under the headline "Australia could be 'first domino to fall' in next GFC", Frank Chung, the finance editor at news.com.au, reported on the analysis of outspoken economist John Adams, who is known for warning of impending "economic Armageddon"; expert banking and real estate analyst Martin North, the principal of Digital Finance Analytics, who runs a detailed model of the housing market; and Irish financial expert Eddie Hobbs, who warned of, and lived through, the 2008 collapse of the Irish property bubble.

The article has sparked a furious backlash from establishment economists, which has led to John Adams accepting a challenge for a live television debate with financial economist and fund manager Christopher Joye.

(The debate is scheduled for Monday, 25 March at 7:30 PM on the Sky News channel 601 "Your Money" and free-to-air channel 95, and live-streamed online at https://www.yourmoney.com.au/watch/live/)

First domino

"Australia could be the 'first domino to fall' in a global economic crisis for the first time in its 200-year history", Chung opened.

John Adams has predicated his warnings of economic Armageddon on an external financial shock, like the 2008 collapse of Lehman Brothers or the 1997 Asia crisis, overwhelming Australia's vulnerable housing market and banks. That was because, Adams explained, "Australia has never been the first economic domino to fall during a global economic crisis."

Chung continued: "Today, he argues, given Australia has one of the highest levels of household debt in the world, and the 'stark parallels' between Australia in 2019 and Ireland in 2007, 'there is a very logical case to make that Australia may buck this trend and go first'."

Parallels to Ireland

The parallels between Australia and Ireland include:

- Australia's household debt to GDP ratio is more than 120 per cent, one of the highest in the world, compared with Ireland's 100 per cent in 2007;
- Australia's household debt to income ratio of 188.6 per cent compares with Ireland's 200 per cent, and the USA's 116.3 per cent, in 2007-08 when their bubbles burst;
- Two-thirds of Australia's household wealth is in real estate, compared with 83 per cent of Ireland's in 2008, and 48 per cent in the USA in the same year;
- In 2007 the IMF gave the Irish economy and banking system a clean bill of health and predicted a "soft landing"—before a total housing and banking collapse a year later; last month the IMF predicted a soft landing for Australia's housing market.

Martin North's figures show that Australia is not having a soft landing. House prices in Sydney and Melbourne are down 14 per cent and 10 per cent respectively, and the falls are accelerating. At 20 per cent, "Further falls then become self-perpetuating", North said. "We have already passed this benchmark in some postcodes like Liverpool NSW (with 23 per cent falls). Plus, we know many households are finding it hard to manage their finances as flat incomes, rising costs and large mortgages create medium-term pressure on many."

North said the unemployment rate is the key indicator to watch—as construction is the biggest employer in Australia, rising unemployment will signal the start of the crisis.

Chain reaction

“The question then becomes, could an Australian crisis spread?” Chung asked.

“Last year, UK-based advisory firm Absolute Strategy Research (ASR) warned Australia, Canada and Sweden’s banks posed a risk to the entire financial system, with their combined weight on global share markets four times larger than their share of the global economy.”

Chung then spelt out the scenario in which an Australian crisis could trigger global contagion through the Australian banks’ derivatives trading with overseas banks:

“The danger is if sharp falls in property prices lead to widespread job losses in construction, real estate and retail, hitting consumer confidence and discretionary spending and affecting Australians’ ability to service their mortgages and other debts. ‘Then we could see a domestic property and household debt crash starting to spread throughout the Australian economy and adversely impact the solvency of Australia’s banks’, Mr Adams said. With Australia’s banks holding more than *$38 trillion in derivatives contracts*, a significant proportion of which involve overseas counterparties, an implosion in the Australian economy ‘could send highly disruptive shockwaves throughout the global financial system’.” (Emphasis added.)

That is $38 *trillion*, not billion—the enormous time bomb in the Australian banking system. A single large bank can have hundreds and even thousands of derivatives counterparties among other banks, hedge funds and investment funds in Australia and around the world. If one large bank, or a group of banks like Australia’s big four, default on their derivatives obligations, this can throw their counterparties into disarray and set off a chain reaction of defaults. And the global banks are already vulnerable—Germany’s giant Deutsche Bank for instance, which the IMF has warned could be the next Lehman Brothers. If a derivatives shock in Australia’s banks spread to Deutsche Bank, which has the most derivatives exposure in the world, it could set off a bigger secondary explosion which brings down the whole global system.

Irish financial expert Eddie Hobbs sees that Australia has copied the mistakes Ireland made, of borrowing too much money for real estate, which led to its crash in 2008:

“Mr Hobbs believes Australia is ‘likely to be one of the first to crater’ in the ‘destiny with excessive debt that is coming, in the so-called everywhere bubble’,” Chung reported.

The CEC has long warned that if a financial crisis in Australia does threaten a global meltdown, this is when the IMF and the Financial Stability Board at the BIS would get on the phone and demand a bail-in of Australian deposits to prop up the banks so they don’t default on their derivatives bets. The living standards of Australians would be crushed, to temporarily save the rotten global financial system.

This is unconscionable, given that the government should be acting now to enact a Glass-Steagall separation of banks from speculation and unwind and cancel the banks’ derivatives, and adopt other measures, including a national bank, to direct credit into productive areas that transition the Australian economy away from its concentration on unproductive finance and the housing bubble.

Take this warning seriously, and join the CEC’s fight against bail-in and for Glass-Steagall banking separation today!

What you can do

- Get involved in the campaign to make Parliament pass the CEC’s legislation for a Glass-Steagall separation of the banks, which was tabled in Senate on 12 February. Make a submission today to the Senate Economics Legislation Committee inquiry in support of the Banking System Reform (Separation of Banks) Bill 2019. Click here for special instructions and a template for making a submission.
