Australian Citizens Party

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MEDIA RELEASE

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Only one reason for APRA, RBA and Morrison's emergency economic actions—it's an economic emergency!

With the election charade out of the way, we can now see the truth about the economy in the actions of the economic authorities—it's a full-blown emergency!

In a series of stunning announcements, the government, bank regulator APRA and the Reserve Bank, have confirmed that they are in a complete panic about the economy.

- A week before election day, Scott Morrison announced his scheme to enable first home buyers to put down just a 5 per cent deposit. Labor matched it straight away. This has nothing to do with making homes affordable, but is entirely aimed at drawing enough extra buyers in to the market to reverse the fall in house prices and push them back up, i.e. make housing less affordable. It's a trap—buying in a falling market with just a 5 per cent deposit will force the buyers into negative equity within months.

- On the Tuesday after the election, APRA proposed to scrap its rule that banks should assess mortgages on whether the borrower could continue to make repayments if interest rates rose to 7 per cent. That rule limits the size of the loans that banks can make, but to force house prices up again, banks must be able to make increasingly larger loans. The banks had lobbied APRA for months to change this rule, and APRA had refused, but suddenly it has changed its mind.

- That same day, the Tuesday after the election, Reserve Bank governor Philip Lowe did something that he never usually does, which was flag an imminent cut in interest rates to be made at the RBA's June board meeting. Again, although the RBA governor didn't admit it, this is ultimately aimed at increasing mortgage lending to push up house prices.

These are emergency measures, because there is an economic emergency! The equation is simple. Australia's economy is centred on a massive housing and debt bubble, which supports a massive construction sector, massive financial sector, and growth in consumer spending which is fuelled by debt, much of it equity withdrawals. Consequently, Australians have the second highest household debt in the world.

Falling house prices threaten construction and consumer spending, which is already happening, and which in turn threatens employment and the ability of borrowers to service their massive mortgages. And that's the big one, because that spells catastrophe for the banks, which in a falling market cannot recoup their loan by selling the house. Australia's banks have by far the highest exposure to mortgages of any banks in the world—around 65 per cent of their lending—so if the fall in prices continues into a full crash of the bubble, it will wipe them out.

Knowing this, all that the Morrison government, the bank regulator APRA, and the Reserve Bank care about right now is pushing house prices back up. They don't care about the unpayable debt crushing Australian households. Nor do they care that if they succeed, all they will do is postpone the crisis and make it much worse when it happens. As outspoken economist John Adams has revealed, senior members of the government have admitted that they are hoping an economic crisis starts overseas first, so they can have plausible deniability and blame Australia's crisis on overseas events, instead of their own policies.

Either way, Australia's banks will be in such danger that the international financial authorities at the International Monetary Fund, and the Bank for International Settlements and its Financial Stability Board, will demand APRA "bail in" their creditors and customers, including savings deposits, to prop them up.

It is urgent that we take a hard look at this crisis, and implement real solutions. Instead of trying to save house prices, we should save households:

- First, accept the necessity for a major government intervention into the banks, which the government will have to bail out anyway.

- Impose a firewall between the banks and the real economy, with a Glass-Steagall separation of normal commercial banking from the speculative investment banking where the banks hold their dangerous derivatives—that way the investment banking side can collapse without impacting the real economy.
- Scrap any plans for bail-in, and place the banks under government administration to fully protect depositors and the daily business of banking while they are thoroughly cleaned out and reorganised.
- Direct the Auditor-General to audit the banks in depth, to ascertain the true size of the bad mortgages and other bad debts, and the nature of the derivatives contracts that will need to be unwound and cancelled.
- Enact a moratorium on foreclosures and repossessions of family homes to avert a social catastrophe, until house prices stabilise and mortgage debts can be written down to reflect the new, much lower prices.
- Start planning and executing changes to the general economy to move beyond its present concentration in housing-bubble-related construction and financial services, beginning with a nation-building infrastructure construction program, financed by a national bank, which can revive and revitalise regional industries and towns and draw population growth away from the overcrowded capital cities.

Join the CEC's fight for these solutions.

Click here for the CEC's Five-point program for Australia to survive the new global crash.
