Australian
Citizens Party

Citizens taking Responsibility

Election 2022

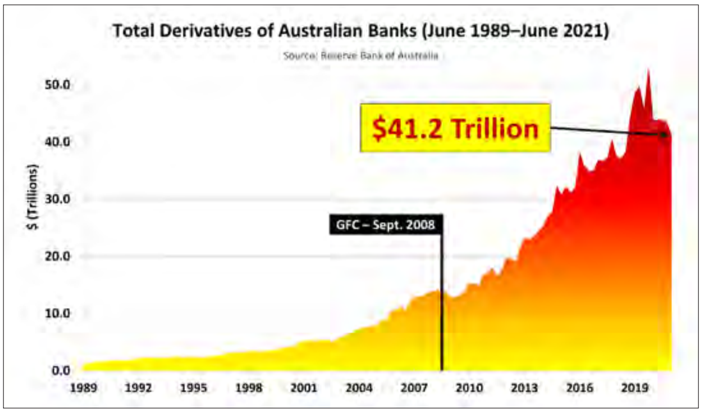
Five point program for Australia to survive the new global crash

"We conclude collapsing mortgage-lending standards and the mortgage securitisation pipeline lit and spread the flame of contagion and crisis.… The greatest tragedy would be to accept the refrain that no one could have foreseen this coming and thus nothing could be done. If we accept this notion, it will happen again." *(Emphasis in original.)*
—*US Financial Crisis Inquiry Report, February 2011*

Act now, before the next crisis hits full-force

This was the warning issued in 2011 by the Financial Crisis Inquiry Commission (FCIC), the group mandated by the US Congress to study the reasons for the 2008 Global Financial Crisis (GFC) and how to prevent a new one. Australia today, along with the rest of the world, is staring at that next GFC, which could erupt at any moment. The cause of this looming threat is that the City of London and Wall Street ignored the FCIC, and issued their own orders to the UK, USA and other governments following the 2008 GFC: to pump vast flows of money (quantitative easing, or QE) into the world's "too-big-to-fail" (TBTF) banks, and cut interest rates to record lows, allowing almost unlimited borrowing of ultra-cheap money.

Not only will Australia not escape the next crisis, but *we might even trigger it*. Fuelled by the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA), whose combination of ultra-low interest rates and regulatory incentives created the current housing bubble, our major banks, led by the Big Four and Macquarie, now hold a staggering $1.89 trillion in total mortgage debt, which constitutes almost *two-thirds of their total assets*. That is not only a carbon copy of the subprime mortgage crisis that caused the GFC as documented by the US FCIC, but it is *double* the proportion of mortgage debt held by US banks in 2008, and is by far the worst such exposure in the world. Because of it, our households are strangled by debts equal to 180 per cent of their annual income—among the highest in the world. Over 1.5 million out of our total 2.3 million owner-occupied homes, or 42 per cent, are in mortgage stress, which has increased sharply from 30 per cent in early 2020.



Bank exposure to derivatives, the gambling instruments that sparked the GFC, has soared since 2008.

Now the spectre of global inflation, from money-printing and from pandemic-related global supply chain issues, is forcing central banks to raise interest rates; Australia's closest neighbour New Zealand has seen two rate rises in a few months. While the RBA has not raised rates here yet, Australia's private banks have started to raise their own rates. This is the nightmare scenario for Australia's banking system: with record levels of debt, households are at risk of defaulting *en masse*. A wave of defaults, combined with the fact that some 40 per cent of the funds our major banks poured into the mortgage bubble was borrowed money (many of which loans must be rolled over every 90 days in the face of rising interest rates), will put the banks themselves on the verge of collapse. Furthermore, our major banks hold more than $41 trillion in highly volatile derivatives contracts, most of them tied directly or indirectly to the mortgage market, as against "only" $14 trillion in derivatives holdings in 2008; and most of the counterparties to these contracts

1. **A national bank**
2. **Glass-Steagall banking separation**
3. **Immediate moratorium on home and farm foreclosures**
4. **Nation-building infrastructure and science-driver projects to revive the productive economy**
5. **International cooperation for a new financial architecture and world economic development**

The Citizens Party will be running Senate and some lower house candidates at the 2022 Federal Election

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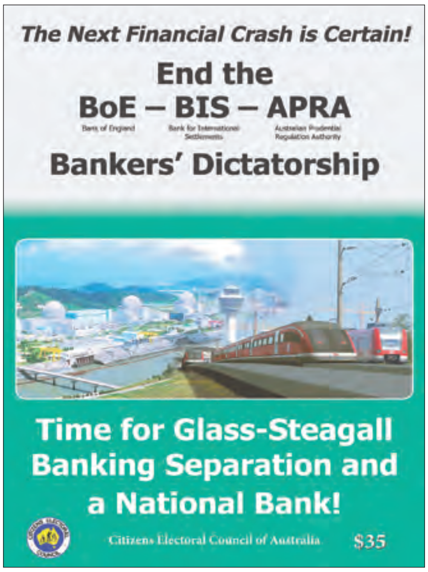
are international banks. Therefore, the bomb already ticking in Australia's banks, caused by an accelerating housing crash, could set off a worldwide chain reaction, sparking a new GFC.

Knowing that the next crisis was inevitable and would be even worse than that of 2008, the City of London and Wall Street used the Swiss-based Bank for International Settlements (BIS, the "central bank of world central banks") and its Financial Stability Board (FSB), headed by a succession of former executives of Wall Street mega-bank Goldman Sachs, to force the UK, the EU, the USA, and many other nations, including Australia, to adopt their new policy of "bail-in", to enable the seizure of customer deposits and other forms of savings to prop up the banks in a future crisis. Instead of forcing banks to stop engaging in the reckless derivatives gambling that leads to financial disasters like the GFC, bail-in puts the burden of propping up collapsing TBTF banks on to their innocent and unsuspecting depositors.

Under Prime Minister Malcolm Turnbull, a veteran of Goldman Sachs, and under a cloak of secrecy, until the Citizens Party exposed it, bail-in legislation was pushed through Australia's Parliament in February 2018 as the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018*.

Banks must not be allowed to dictate the government's response to the next crisis! Australia needs policies that defend the common good, and can be implemented *before* the inevitable crisis explodes, to protect the public and their savings, and basic economic functions, from the deadly chaos



The Citizens Party's (then Citizens Electoral Council) 100-page manual on national banking, published in May 2018, lays bare the top-down nature of the Crown/City of London-centred "informal financial empire", whose looting and speculation caused the 2008 GFC, and are driving the inevitable new crash. It details that oligarchy's control over Australia's financial sector, beginning with the Reserve Bank and down through APRA and the alphabet soup of "regulators", which have created the worst mortgage bubble in the world.

of a financial collapse. In the following five-point program the Citizens Party outlines the policies that will ensure that Australia survives the already unfolding new GFC. Every one of the five points is deeply rooted in the history of Australia, during those eras when political leaders acted in defence of the Common Good, instead of as stooges for the banks and their City of London and Wall Street masters, which the "old Labor" leaders such as King O'Malley, John Curtin, and Ben Chifley excoriated as the "Money Power".

1 A national banking system

To avert a banking crisis from becoming a full-blown economic depression, in which credit stops flowing to the businesses and industries that provide jobs and income, the national government must not wait for the private banks to recover. It is crucial that Australia return to a national banking system, comprising public banking institutions backed by a national bank modelled on the original Commonwealth Bank in World War II, through which public credit can be directed into the real economy.

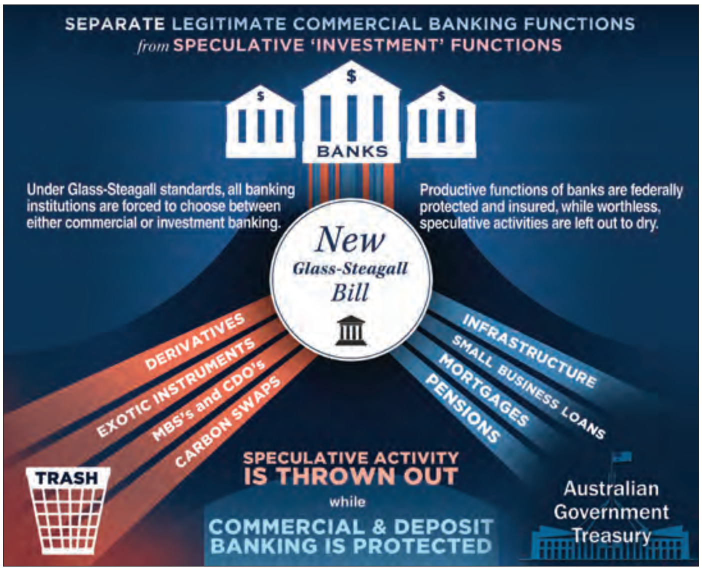
The ACP has drafted legislation for a Commonwealth National Credit Bank (CNCB) to replace the RBA; a national development/infrastructure bank to lend to governments for public infrastructure projects and to farmers and manufacturers to develop their industries; and a Commonwealth Postal Savings Bank (CPSB), to ensure retail banking services for all Australians, especially in regional areas, which would include guaranteed deposits, support for the cash-payments system, and loans for local businesses and industries. The CNCB will regulate the private banks, guarantee the deposits of the commercial banks (as opposed to the speculative investment banks), and conduct an in-depth, honest audit of all Australian banks, reorganising and saving any which are not hopelessly bankrupt. It will help to save Australians' retirement savings locked up in superannuation funds, which as things now stand will be at risk in a crash. Superannuation funds will be able to invest in debentures (special bonds) issued by the national bank for a guaranteed return, thereby investing in Australia's economic future.

2 Glass-Steagall banking separation

An urgent policy that must be implemented ahead of the crash is structural separation of the banking system, dividing commercial banks with deposits from investment banking and all other financial services. The original US *Glass-Steagall Act* (named for its co-sponsors, Senator Carter Glass and Representative Henry Steagall) was enacted in 1933 in response to the Great Depression, and protected the American banking system from systemic financial crises for the next 66 years until its ill-fated repeal in 1999.

Although Australia never had formal Glass-Steagall legislation, we did maintain a highly regulated financial system to the same effect: protecting and fostering the physical economy. That system was destroyed by the waves of deregulation unleashed by the 1981 Campbell Report, which allowed the present concentration of the financial system in the "Big Four" TBTF banks plus Macquarie, and the mixing of normal commercial banking with speculation-ridden investment banking.

The Citizens Party drafted the Banking System Reform (Separation of Banks) Bill 2018, which Bob Katter MP introduced in Parliament in June 2018, and Pauline Hanson reintroduced in 2019. The bill adapts Glass-Steagall for the Australian banking system: it forbids the banks from engaging in investment-banking activities such as trading in securities and derivatives, and ends the vertical integration that has enabled the banks to fleece their customers. It brings the bank regulator APRA (Australian Prudential Regulation Authority) under strict Parliamentary control, and stops APRA from coordinating with the BIS to bail in deposits. While Glass-Steagall doesn't immediately solve all of the problems in the banking system—for instance, the $1.89 trillion in largely unpayable mortgage debt—the structural separation Glass-Steagall imposes will provide a stable framework within which such problems can be addressed.



3 An immediate moratorium on home and farm foreclosures

A housing bubble crash raises the spectre of a social catastrophe in which hundreds of thousands of people lose their homes. This has already started for some households, while the bad banking practices exposed at the 2018 banking royal commission led to farm foreclosures across Australia. The government must avert the social chaos of mass homelessness by declaring an immediate moratorium on all home and family farm foreclosures while the banking crisis is sorted out.

There is historical precedent for this action. In the emergency caused by World War I, Australia's federal government passed the *War Precautions Act 1916* and its Commonwealth Moratorium Regulations, to stop foreclosures until 1920. In part modelled upon that precedent, during the Great Depression every state in Australia enacted legislation to stop home and farm foreclosures, including Western Australia's T*enants, Purchasers, and Mortgagors' Relief Act 1930*; Queensland's *Purchasers of Homes Relief Act 1930*; Victoria's *Unemployed Occupiers and Farmers Relief Act 1931* and *Financial Emergency Act 1932*; and, the most effective of them all, Jack Lang's New South Wales *Moratorium Act* of 19 December 1930, which, as amended, ultimately stopped all foreclosures until 1937. The intent of all of this legislation was to protect the common good, as summed up in the paper, "Moratorium Legislation", read into Hansard on 15 November 1935: "It was not expedient in the national interest that the welfare and comfort of the community should be unnecessarily imperilled by allowing debtors to be crushed out of existence…." All parties agreed, conservative as well as Labor.


"Old Labor" NSW Premier Jack Lang (1925-27, 1930-32) enacted a moratorium on home foreclosures, along with other policies for the Common Good. That's why the King's NSW Governor Sir Philip Game sacked him in 1932.

In the United States, President Franklin Roosevelt in April 1933 introduced legislation to stop home and farm foreclosures, declaring it "national policy … that the broad interests of the Nation require that special safeguards should be thrown around home ownership as a guarantee of social and economic stability". One month earlier, he had declared a Bank Holiday to allow reorganisation of the nation's failing banks under Federal protection. The contrast to the neoliberal ideology of modern times is stark: in the 2008 crash and recession, the Wall Street banks that caused the crisis were bailed out and the bankers kept their bonuses, but those same banks were allowed to turn around and evict 5.5 million American households, some 12 million people, from their homes.

4 Nation-building infrastructure and science-driver projects to revive the productive economy

Using credit from a national bank, the government must invest in long overdue, large-scale infrastructure projects that can revolutionise the economy, revive productive industries and regional population centres, and provide gainful employment for hundreds of thousands or even millions of Australians. Drought-proofing projects,

such as the Bradfield scheme in North Queensland, and the Clarence River scheme in NSW, will multiply Australia's agricultural production capacity. We must also build a network of high-speed trains to connect our major cities and regional population centres, including a Melbourne-to-Darwin fast freight railway. Combined with port upgrades and high-speed shipping, the latter will enable fresh Australian produce and manufactured goods to be freighted quickly and cheaply into the enormous Asian markets to the north, and boost regional centres along the route such as Shepparton, Dubbo, and Mt Isa.

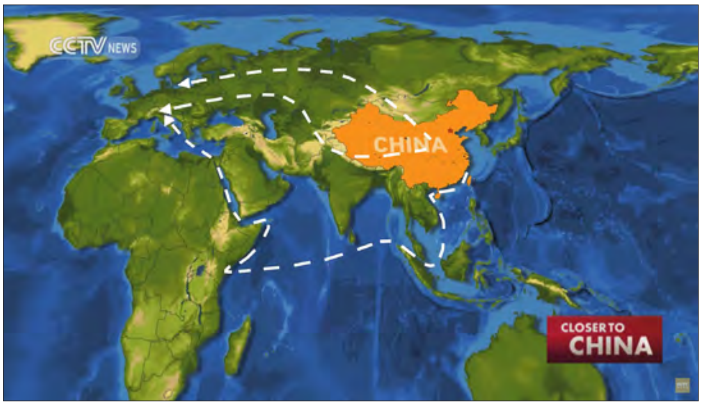
The government should also invest in science-driver projects that develop and incorporate new technologies into the economy, including a nuclear power grid that takes advantage of Australia's unrivalled reserves of uranium and thorium, and a space program as a focus for cutting-edge scientific research—an area in which Australia was once a world leader.

5 International cooperation for a new financial architecture and world economic development

As the crisis is global, not local, Australia should join efforts to convene a New Bretton Woods conference at which nations can agree on policies that replace the present speculation-riddled and bankrupt global financial system, with a new international financial architecture that fosters production and real economic development. The original 1944 Bretton Woods agreement, into which Australia's Labor government brought this nation, established a regulated system of fixed exchange rates pegged to gold, along with capital controls. This arrangement was a check on unbridled financial speculation, and produced soaring productivity growth in the post-WWII period, until it was intentionally undermined by the unregulated Eurodollar market created by the City of London for speculation and tax evasion. Thus undercut, the Bretton Woods system collapsed in 1971. World banking and political leaders then unleashed the "global casino" financial system of today, with floating exchange rates and an "anything goes" attitude towards financial speculation. Whereas under the original Bretton Woods agreements, up until 1970 approximately 75 per cent of global currency trades were tied to physical goods, today that figure is less than 2 per cent, with more than US$5 trillion in foreign exchange speculation taking place internationally every day.

Australia should also cooperate with nations committed to economic development by accepting China's invitation to join its Belt and Road Initiative (BRI), which 140 other nations have joined so far. The BRI's worldwide system of upgraded ports and high-speed rail infrastructure perfectly complements the infrastructure Australia should build to expedite trade with Asia, and Australia could both contribute and acquire advanced skills in construction and production.

The anti-China hysteria propagated by the world's major media and the Anglo-American "Five Eyes" intelligence alliance is just a transparent replay of the racist "Yellow Peril" scare in the 1890s—that hordes of Chinese were about to overrun our defenceless continent—which British elites fomented to stop the defeat the serious impulse growing in Australia to break with the British Empire and become a republic; they succeeded. Today, many are once again debating whether to stick with our war-mongering "Dangerous Allies", as our late Prime Minister Malcolm Fraser so insightfully termed the USA and UK, or to assert our national independence and participate in initiatives that are in our national economic interest, such as the "win-win" prospect of the BRI. After all, China has lifted 800 million of its population out of poverty in the past several decades, achieving its goal of eradicating poverty entirely by 2020 through a government-directed program of physical economic growth.



In 2013 Chinese President Xi Jinping announced his program for the new Silk Road Economic Belt (top two broken white lines) and the 21st Century Maritime Silk Road (lower broken line). Together the infrastructure and development projects, which include Chinese financing for projects in the cooperating countries, are called the Belt and Road Initiative (BRI), in which 140 nations are now participating—but not Australia!

Source: Screen grab, Chinese Central TV.

Typical is China's 36,000-km high-speed train network, its building of the world's largest water projects, including the Three Gorges Dam and the South-North Water Transfer Project, its cutting-edge nuclear power and space programs, and now its Belt and Road project, which is bringing the continent of Africa, among other places, out of the hideous legacy of European colonialism. The only reason the world has not suffered a new GFC already, is that China has pumped more than US$20 trillion into the world's physical economy since 2008, including $1 trillion in purchases of Australian physical goods. This physical economic growth was enabled by China's reforming its financial system in 1993 on the explicit model of Glass-Steagall, as leading Chinese economists have emphasised, and by its system of state banks which direct credit to areas the government deems of vital national importance.

We once did such things as well, including the creation of one of the world's most advanced machine-tool industries almost overnight during World War II, and building such extraordinary water projects as the Snowy Mountains Scheme, one of the engineering wonders of the world, the now-decimated Murray-Darling Basin food bowl, and the advanced Tasmanian Hydroelectric Commission projects.

References

Over the last three decades, the ACP has issued countless articles, pamphlets, books and videos documenting each of the five points summarised above.

Visit https://citizensparty.org.au/policies for links to this in-depth material.

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Authorised by R. Barwick, 595 Sydney Road, Coburg, Victoria 3058. Printed by Citizens Media Group Pty Ltd., 595 Sydney Road, Coburg, Victoria 3058.