

Seize opportunity before next financial wave hits

The *Australian Alert Service* is the weekly publication of the Australian Citizens Party.

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Lead Editorial

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The global financial crisis that culminated in the collapse of Lehman Brothers started 14 years ago; the warning signs of another meltdown are increasing. Photo: AFP/Ben Stansall

This time fourteen years ago two Bear Stearns hedge funds collapsed, setting off a chain reaction in the US banking system which led to the September 2008 Lehman Brothers bankruptcy and the global financial meltdown. Australian hedge funds were also collapsing in July 2007, starting with Basis Capital, Absolute Capital Management and two Macquarie Bank funds. Among the first to take a hit from this in the real world, were a Victorian teachers' superannuation fund and Perth's Princess Margaret Hospital Foundation, which would soon extend to local councils, charities, churches and hospitals all losing investments in Lehman Brothers' risky derivatives bets on piles of unpayable US mortgages. Australians faced home foreclosure rates and financial desperation worse than at any point since perhaps the 1890s and 1930s.

That same year (2007), the Australian Prudential Regulation Authority (APRA) had produced an internal report documenting the impact of the lowered bank mortgage lending standards that it had approved a few years earlier. The study reportedly revealed the creation of a mortgage debt bubble over three times the size it would have been under the previous, higher standards. It warned delinquency rates could rise to 7.5 per cent and trigger a housing crash that would plunge Australia into recession. But instead of putting out the warning, APRA suppressed it for fear it would induce panic, and abolished the research unit that put it together!

Numerous piecemeal attempts to correct the financial architecture have failed and we are back in a world of pain with banks running riot, financial predators off the leash and the cancerous growth of financial speculation killing our productivity. But victories in the last few years to arrest the advance of bail-in laws to steal depositors' money to save the banks; to stall the plans to phase out cash from the banking system; and to expose the plot to sell off one of the last remaining national assets, Australia Post, represent crucial steps towards achieving a new banking system. Establishing an Australia Post bank is the next step towards establishing a national banking framework that will provide us the independence to develop internally, outside of the stranglehold of global banking diktats.

The situation today is incomparably worse than prior to the 2007-08 global crisis, in both financial markets and the real economy. Along with victims of the Sterling First disaster being thrown out of

their homes (p. 5) come reports of skyrocketing eviction notices in Western Australia, reported by *WA Today* on 7 July, with families sleeping in tents and cars just as they were doing in record numbers after the global financial crisis. Together with horrifying reports of the hospital crisis being felt acutely in Perth and other cities (p. 8), the crisis brought about by four decades of neoliberal devotion to financial gain over economic development is at the brink.

The warning of GMO investment firm co-founder Jeremy Grantham that we face a “trifecta” of simultaneously inflating bond, stock and real estate markets, which “has never happened anywhere before”, went out in *Nine* newspapers, but unmentioned is the bigger bubble sweeping up all these sectors, created by the post-2008 collusion between central banks globally. The Citizens Party warned then that the crisis was not over; the worst was yet to come. The US “repo” crisis of late 2019, a sign D-day could not be delayed any longer, revealed that rather than reining in the hedge funds that triggered the GFC, the Fed and Treasury conspired to give them a central role in the financial machinery that propels the entire US banking system! (p. 10) The expansion of speculation this unleashed must immediately be excised from the retail banking sector used by citizens and businesses with Glass-Steagall bank separation laws, and a national bank established to revive the lifeblood of the real economy. Do this *ahead* of the coming crisis, or prepare for things to get a hell of a lot worse, fast.

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