

More money won't save this financial system



The *Australian Alert Service* is the weekly publication of the Citizens Electoral Council of Australia.

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Less than two years into the reversal of Quantitative Easing (QE) money-printing, the US Federal Reserve and European Central Bank are realising they may well trigger a new crash if they don't again crank up the printing presses. The Fed will stop unwinding QE sometime this year and may well restart it, but the ECB is unable to commence a new round without a vote in the German parliament. In any case, experts are warning that the impact of the policy has waned and will not work again in the same way. Furthermore, the great "bail-in" solution to prevent banks collapsing is falling apart as political turmoil sweeps the Eurozone.

Citigroup is forecasting the USA will enter technical recession by December, with a new report revealing "We are only 15 minutes to midnight", according to the London *Telegraph*. Advising its clients to rid themselves of risky exposure, Citi accused the Fed of over-tightening. The "inverted yield curve", defined by the yields of 1-year US Treasury bonds exceeding yields of 10-year Treasuries, will further distort the banking system, the foundation of which is short-term rates being lower than long-term rates.

Tsinghua University economist Zhu Min, former deputy managing director of the International Monetary Fund, on 27 March told the annual Boao Forum held in China's Hainan province that a new financial crisis would be much worse than 2008 because of higher debt levels, the interconnectedness of banking and the lack of space for monetary and financial policy interventions. China has made clear it will not join the QE bailout club, but will stimulate the economy instead, with projects such as its Belt and Road Initiative.

Following Suncorp's early March announcement that one of its mortgage bonds is in trouble due to the growing number of mortgagors in arrears, Moody's ratings agency has reported a slight rise in delinquencies of Residential Mortgage-Backed Securities (RMBS)—bundled up mortgages sold for speculative purposes. S&P previously warned of elevated risk in the RMBS sector. Financial journalist Christopher Joye, who is also Co-Chief Investment Officer of Coolabah Capital Investments, insisted in the 25 March "Your Money" housing debate with John Adams (the video of which is going viral) that debt serviceability is under control. In a 28 March note to his clients, however, he said his firm has divested from most RMBS because in some cases more than 1-in-10 loans are underwater, and borrowers are struggling to make payments. He made similar warnings last November. A 1 April article by economist Leith van Onselen for MacroBusiness, using the latest CoreLogic data, concluded: "A bonafide property crash is happening right now."

For 30 years the CEC has warned that the current financial system would come to an end because it had been split from the functions of the real economy. The growth of money-making tools such as derivatives were a big part of the problem. The latest approach to saving banks and their derivatives—bail-in—may still be denied by officialdom, but CEC's intervention to stop it has made it real to the population. A 30 March Daily Reckoning article matter-of-factly portrayed the policy, leaving no doubt that savings would be included in any conversion of bank obligations into equity, calling it "bank robbery ... reversed".

Economists say there is no way out of the oncoming crisis other than by printing money, whether by QE, or more extreme varieties such as "helicopter money" (direct injections to the population) or so-called Modern Monetary Theory (p. 6)—but they are excluding the historical precedent of national banking, which restores the connection between the real economy and finance, allowing the nation to develop and grow. Rather than hyping a fantasy budget surplus, the Morrison government should establish a national bank to fund nation-building infrastructure. The usual fiscal and monetary manoeuvres will not work.

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