Major party ‘solutions’ compound crisis of own making

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

It will keep you updated of strategic events both in Australia, and worldwide, as well as the organising activities of the CEC.

The banking royal commission brought on by an explosion of populist anti-bank outrage led to the credit crunch forecast by the banks; a big drop in Chinese real estate investment left markets in the lurch; and headlines about Economic Armageddon scared off potential buyers. Aussie banks sailed through the 2008 global crisis, but are now threatened by these extraordinary developments. Right? Wrong!

This crisis is one of successive Labor and Liberal governments’ own making. They fostered an unregulated banking sector where anything goes—from mortgage fraud to money laundering—and encouraged the speculative growth of housing prices, all while running down the productive sector. Rescuing the banks in 2008 worsened matters by providing them a government guarantee to continue their gambling, and expanding the housing bubble with measures including a tripling of the First Home Owner Grant.

And now, confirming their guilt, both parties are proposing a (likely coordinated) new bailout of the banks and their housing bubble—coaxing would-be home owners to take on greater risk by guaranteeing the 15 per cent difference between the 5 per cent they will pony up and the required 20 per cent deposit (p. 3). Unmentioned is that the more the mortgagor has to borrow, the higher the risk, and the higher the mortgage insurance added on to the total home loan by the bank.

No outside help is required to bring on the coming crash, but it is building rapidly. On Monday 13 May, US$1 trillion was wiped off global stock markets after China responded to Friday’s US tariff increase (from 10 to 25 per cent) by levying tariffs on US$60 billion of US goods. The USA is threatening to expand its tariffs across all Chinese imports. While US President Donald Trump remains upbeat about a deal, the latest escalation seemed to come out of nowhere. The Chinese insist on the necessity for cooperation to meet a new oncoming global economic crisis, but Trump is surrounded by neocon hawks pushing a China conflict just as Russia tensions begin to abate (p. 8). To the chagrin of his advisors, however, Trump is adamant on developing good relations with both China and Russia, and insists he will meet both Chinese President Xi Jinping and Russian President Vladimir Putin at the G20 summit in Japan on 28–29 June. Trump and Putin had a cordial 90-minute phone conversation on 3 May, discussing the most critical issues facing the planet.

A 29 April article in China’s Global Times warned of a new crisis far worse than 2008, leading to a “more prolonged and more devastating” recession which demands more cooperation between global powers. Deputy Governor of the Bank of England Sir Jon Cunliffe warned again of soaring global corporate debt bringing on a “very severe” correction. A 7 May Financial Times article reported that 89 per cent of loans backing new commercial mortgage-backed securities (CMBS) are either interest-only, or partial interest-only, loans—the highest level since 2009. These mortgages are at greater risk of default, and therefore of setting off the securities trigger. As reported in last week’s AAS, the exact form of securities gambling which set off the 2008 crisis, Collateralised Debt Obligations (CDOs), are back with a vengeance.

“The interest-only phenomenon is a late-cycle indicator and definitely a red flag”, FT cited Christopher Whalen, chairman of Whalen Global Advisors. Interest-only loans are at the coal face of Australia’s crisis too. A wave of interest-only mortgages are currently resetting, forcing owners to sell their homes as monthly repayments jump by up to 40 per cent after switching to interest plus principal (p. 6).

Policy-makers in thrall to the banks have brought us here. At this election send the message: now it is time to serve the people! Ironically, only the CEC’s policies to put people first will ensure the banks survive, albeit severely restructured.

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