Citizens Electoral Council of Australia

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As bail-in scheme backfires, Glass-Steagall or bust

Recognition is spreading that none of the post-2008 financial regulations (Basel III, Dodd-Frank et al.) will prevent another GFC—and in particular, that "bail-in", the practice of stealing bank deposits, bonds etc. and converting them into equity to stave off bankruptcy, is a non-starter. As a result, more high-profile figures in the business and financial world are coming to realise that the system itself is the problem, and this in turn has led to discussion of the thing the financier oligarchy most fears: Glass-Steagall. Glass-Steagall would make it illegal for banks that gamble in high-risk bets to hold deposits, and for deposit-taking banks to gamble.

Mervyn King, Governor of the Bank of England in 2003-13, has written a new book, *The End of Alchemy*, that is getting a lot of publicity—indeed, it is being serialised in *The Telegraph*. King notes that "The *Dodd-Frank Act* … contained 2,300 pages, with many thousands of pages more expected to cover the detailed rules that will follow", and that "In Britain, the Prudential Regulation Authority and the Financial Conduct Authority have combined rulebooks exceeding 10,000 pages." Despite all this "frenetic activity", he argues, "nothing fundamental has changed. The alchemy of our banking system remains." In stark contrast, "the *Glass-Steagall Act* of 1933, which separated commercial and investment banking, covered a mere 37 pages." King has advocated an international Glass-Steagall system since 2010. "Only a fundamental rethink of how we, as a society, organise our system of money and banking will prevent a repetition of the crisis that we experienced in 2008", he says; otherwise, "another crisis is certain … sooner rather than later."

Philip Aldrick, economics editor of the London *Times*, expressed identical sentiments on 23 February. The promised post-2008 regulatory "storm", he writes, came to nothing: "for all the noise, regulation has not remade the banks in the way that Glass-Steagall did after the Great Depression of the 1930s. … Mark Carney, the Bank of England governor who doubles as the world's chief banking regulator, [has] told lenders that they can relax."

Aldrick does not say so, but that is because Carney is an architect of the EU Bank Recovery and Resolution Directive (BRRD) bail-in regime, designed to impose losses on everyone *but* the banks. But, as Aldrick notes: "Bail-in rules that came into force this year to … [dump] losses on banks' bondholders did not start well. Creditors of a bust Portuguese bank were bailed in, sparking a local bond market sell-off that infected Italy's weak lenders. Deutsche Bank posted a huge loss that caused another bail-in instrument, called CoCos [contingent convertibles], to collapse in value. The CoCo market, which banks tapped for US$275 billion in the past two years, shut to new issuance. As bonds came under pressure, confidence evaporated and share prices fell. Far from protecting banks, safety mechanisms have become a source of instability."

Citigroup has just expressed concern that the primary market for investment-grade bonds has been freezing up. On 75 days in the past 12 months, no new corporate bonds were sold by anybody—Bloomberg noted that this is "a higher rolling 12-month figure than was seen during the depths of the financial crisis in 2008 to 2009." Bloomberg points out that this will affect the secondary bond market, "with the potential to create contagion if companies find they are unable to refinance existing debt." Sales in the junk bond market have fallen off the cliff altogether, with the value of new bonds issued since the beginning of 2016 being 75 per cent lower than in the same period in 2015.

On 16 February Minnesota Federal Reserve chairman Neel Kashkari also pointed to Glass-Steagall as the only way to prevent another massive bail-out of failing banks. At a Brookings Institution event in Washington DC he called for "breaking up large banks into smaller, less connected, less important entities", and "turning large banks into public utilities by forcing them to hold so much capital that they virtually can't fail". Two former regional Fed bosses, Richard Fisher of the Dallas Fed and Thomas Hoenig of Kansas City, now vice-chair of the Federal Deposit Insurance Corporation (FDIC), have also promoted Glass-Steagall.

Australia desperately needs Glass-Steagall too, preferably before a collapse of the property bubble wipes out the Big Four too-big-to-fail (TBTF) banks. The hysterical market reaction to the 21 February *60 Minutes* story on the Australian property bubble demonstrates that many people here and around the world are starting to think that a property crash is overdue. Only Glass-Steagall will protect the people and the functioning of the real economy.

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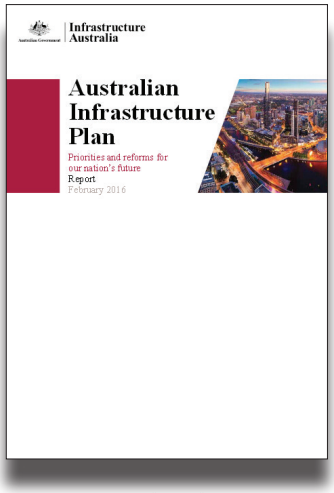
Parasites, Inc.: Infrastructure Australia plans privatisation spree



Infrastructure Australia's (IA) February report[1], *Australian Infrastructure Plan: Priorities and reforms for our nation's future* is in reality opposed to nation-building infrastructure; it's a call for a Mussolini-style corporatist, i.e. *fascist* model of user-pays infrastructure where the public will be bled dry to feed the blood-sucking bankers of the City of London and Wall Street.

Given its corporatist agenda, it is fitting that former Macquarie Bank directors Michael Carapiet and Gerard Blood sit on IA's board: Macquarie Bank gained notoriety as "the millionaire factory" for fleecing the public by taking over infrastructure once run by the government for the common good. It is therefore no surprise that the IA report calls on government to privatise every last bit of infrastructure that can provide an income stream for the financial oligarchy. It even calls for the government to enforce a captive market for their profits, through "direct user charging for all vehicles within 10 years" and the "implementation of supporting technologies" to achieve this.

Major infrastructure requires enormous quantities of steel and concrete and a lot of energy, which will naturally increase carbon dioxide emissions. But the IA report calls to reduce emissions: "Governments should set long-term reduction targets and maintain consistent regulatory frameworks to encourage industries to innovate and plan for a reduction in emissions." Carapiet, who until recently was a board member of the Clean Energy Finance Corporation, has a record of promoting the "green" alternatives associated with the carbon accounting embraced by investment bankers (see The Great American Bubble Machine on the Goldman Sachs carbon trading scam[2]).

Continuing with the "green" theme, the report states we "should also encourage growth in renewable energy. Technologies such as smart meters [which IA calls to introduce nationwide] and battery storage systems will alter patterns of energy supply." Rather than build sufficient electricity generation capacity to cater for peak demand, IA calls to introduce "strong price signals to shift consumption patterns", i.e. expose consumers to energy market speculation that can drive wholesale electricity prices from $30/MWh to $12,500/MWh; and, of course, electricity "generation, network and retail businesses still in public ownership should be transferred to private ownership as soon as practicable."

IA board member Peter Cornish held the post of Commissioner of the National Water Commission in 2005-08. This is the commission that audited the disastrous Murray-Darling Basin Plan—a plan that has crushed agriculture, diverting water from productive farms into swamps, and out to sea, as so-called "environmental flows". The IA report calls for a "new national body and water reform plan" to "energise governments and communities to complete water reforms, building on the success of the National Water Initiative." This is the National Water Initiative behind the Basin Plan; somehow, destroying agriculture and rural communities is judged to be a success.

The IA plan outlines a 15-year reform agenda, by which time IA estimates Australia's population will be over 30 million, up from the current 24 million. The authors provide no major infrastructure plans to support this growing population. Their priority list of infrastructure mostly addresses transport and urban congestion; they recommend "greater cost recovery from public transport passengers". They don't have any high-speed rail proposals other than preserving a Brisbane-Sydney-Melbourne corridor of land for some project to be considered in the distant future. There is no reference to nuclear power in the report. There are no plans to build water diversion schemes such as the Bradfield or Clarence River Schemes. In fact, they have no plans for major dams at all: "In the water sector, supply may be readily expanded without constructing new dams" by means such as "smarter use of stormwater flows".

IA claims that "funding for public infrastructure is available from only two sources: taxpayers and users." This is a lie. New infrastructure should be funded with new credit from a government-owned national bank (see "People's Quantitative Easing": The principles behind it[3]). A growing economy needs a growing monetary supply and it is government's responsibility to ensure that there is an increase of money in circulation as production and population increases, along with the additional infrastructure that supports this growth.

1) http://infrastructureaustralia.gov.au/
2) http://www.rollingstone.com/politics/news/the-great-american-bubble-machine-20100405
3) http://cecaust.com.au/releases/2015_08_17_Peoples_QE.html