Citizens Electoral Council of Australia

Postal Address: PO Box 376, Coburg Vic 3058
Phone: 1800 636 432 Fax: 03 9354 0166
Home Page: www.cecaust.com.au **Email:** cec@cecaust.com.au

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

Independent Political Party
18 April 2016

US Fed official speaks out: 'bail-in' destroys financial stability

The architects of "bail-in" at the Bank for International Settlements (BIS), Bank of England and APRA have been exposed as liars by outspoken Minneapolis Federal Reserve President Neel Kashkari, an advocate of breaking up too-big-to-fail (TBTF) banks.

Bank of England Governor Mark Carney and his cronies at the BIS claim that the bail-in policy of propping up TBTF banks by stealing the savings of their unsecured creditors—depositors and investors—is necessary for "financial stability". Indeed, the BIS-based agency directing the implementation of bail-in worldwide, which Carney chairs, is called the Financial Stability Board.

Last week's dramatic bail-in of failing Austrian bank HETA, under the EU's Bank Recovery and Resolution Directive (BRRD), wiped out 100 per cent of subordinated debt (hybrid and mortgage backed securities etc.) and 53.9 per cent of uninsured deposits and senior bonds. In a 10 April statement the Austrian Financial Market Authority[1] insisted that the bail-in measures "fully satisfy the aims of the European resolution regime—namely *to guarantee financial market stability*, to protect taxpayers and to bail-in creditors." (Emphasis added.)

Bail-in is now in force across the most of the Western world, including in the EU and UK (BRRD), in the USA under the *Dodd-Frank Act*, and in New Zealand. In Australia, a CEC-led mobilisation in 2013-14 stopped plans to legislate bail-in, but bank regulator APRA (Australian Prudential Regulation Authority) under chairman Wayne Byres, former Secretary General of the BIS's infamous "Basel Committee", has simply asserted it has bail-in powers.

In a combative 5 April interview with US business channel CNBC,[2] Neel Kashkari rubbished all of the claims made about bail-in by the likes of Carney and his cronies. The CNBC interviewers first demanded to know why Kashkari is rocking the boat now, when regulators are supposedly reaching a solution to the TBTF problem after eight years, through bail-in and Dodd-Frank. "Well, if I'm not going to speak up, who's going to do it?" Kashkari demanded.

CNBC then asked, "So you don't think that Dodd-Frank has gone far enough? That the capital requirements that are in place now and some of the other regulations that, by the way, people like [JPMorgan Chase boss] Jamie Dimon, you know, they've often called Dodd-Frank, Dodd-Frankenstein. They are fed up with the regulations that they already have to deal with. You don't think it's gone far enough?"

"*For the biggest banks, no I don't,*" an emphatic Kashkari returned. While conceding to some positive measures in Dodd-Frank, he insisted it did not solve the TBTF problem:

"But the question is in a stressed economic environment like a crisis, when multiple banks are running into trouble at the same time, will we actually be able to hair cut [i.e. bail in] bond holders and creditors? I say the answer is no.

"And the reason," Kashkari continued, "*is the contagion from one bank to another bank to another bank*. No one yet has figured out how to solve that contagion risk."

He then listed all of the various bail-in measures as abject failures, including Dodd-Frank, the FSB's Total Loss Absorbing Capacity (TLAC) requirement (involving various aspects of bail-in, including bail-in bonds, all of which turn bank customers into the equivalent of air bags in a crash), and the European market for bail-in bonds called "contingent convertible" or CoCo bonds:

"Dodd-Frank hasn't done it," Kashkari declared. "The TLAC hasn't done it. We see it in Europe with the contingent conversion debt. Those contingent conversion securities haven't added to stability. *They've actually added to instability and uncertainty*. We need to be honest about that."

Kashkari first made headlines in February when he called for breaking up the TBTF Wall Street banks—an echo of the increasingly urgent calls for a Glass-Steagall separation of commercial banks with deposits from risky investment banks. He has the ultimate insider's perspective, having previously worked at the world's biggest bond trader PIMCO, the US Treasury—where he managed the 2008-09 TARP bank bailout—and Goldman Sachs. The reception he received from CNBC, which is leading the campaign to block Glass-Steagall, might indicate that he is now viewed on Wall Street as a traitor.

What does this mean for Australia?

It means that the Big Four banks and APRA are setting Australians up for a disaster. APRA boss and BIS apparatchik Wayne Byres is parroting Mark Carney's and FSB's lies on solving TBTF and financial stability, while covering for the continued reckless gambling by our major banks that is a threat to the entire Australian financial system. For instance, APRA exaggerates how safe Australia's banks are; gives the Big Four carte blanche to target mum-and-dad investors in super funds etc. with risky bail-in bonds that look flash but can become effectively worthless in a heartbeat; and claims to have been "caught a bit by surprise" at evidence of lax bank lending standards that it is supposed to police—meaning it doesn't.

All of this adds up to a dangerous mess that must be solved now, *before* the next banking meltdown—which is imminent. The only solution is a full Glass-Steagall banking separation, of commercial from investment banking: rather than making bank customers into airbags to save the banks from a crash, as bail-in does, Glass-Steagall forces the banks with deposits to drive safely to protect their customers.

Please go online[3] to read the CEC's comprehensive analysis of the bail-in scam: *'Bail-in': They plan to steal your deposits and pensions!*

1) https://www.fma.gv.at/en/homepage.html
2) http://www.cnbc.com/2016/04/05/feds-kashkari-risks-still-lurk-in-banking-system.html
3) https://www.cecaust.com.au/bail-in/2016_03_22_bail-in.html

Citizens Electoral Council of Australia
Postal Address: PO Box 376, Coburg Vic 3058
Phone: 1800 636 432 Fax: 03 9354 0166
Home Page: www.cecaust.com.au **Email:** cec@cecaust.com.au
Authorised by R. Barwick, 595 Sydney Road, Coburg, Victoria 3058. Printed by Citizens Media Group Pty Ltd., 595 Sydney Road, Coburg, Victoria 3058.

Independent Political Party
6 April 2016

Lights out in Tasmania's green free-market utopia

Tasmanians are facing a cold, dark winter. The state's hydroelectric dams—its primary power supply—are at 13.6 per cent capacity and dwindling; the "Basslink" cable that connects it to the national grid is torn and will be out of commission until at least the middle of June; and the Tamar Valley gas-turbine power plant is too small to fill the gap. The island state is now reliant upon hired diesel generators (at a cost of $44 million, plus $20 million per month to run) for emergency power—a ridiculous situation in Australia's supposedly advanced economy. But neither the present record-breaking drought, nor the failure of Basslink, are solely or even primarily to blame; rather, responsibility lies with a combination of environmentalist insanity, and the ruinous economic policies that have stripped Tasmania of its superior energy self-sufficiency in the name of "competition" and the "free market".

Tasmania's energy minister Matthew Groom effectively admitted to State Parliament on 8 March that the state's hydroelectric storage levels were not being managed to guarantee continuity of supply, but to maximise profits on the National Electricity Market. The introduction of the carbon tax distorted the management of storage levels even further, as Tasmania's "clean" hydroelectric power became cheaper than coal-fired power on the mainland. Previously, Hydro Tasmania maintained its water storages at the already-low "preferred minimum level" of 30 per cent as at 1 July each year; two months after the introduction of the carbon tax on 1 July 2012 the preferred minimum was lowered to 25 per cent, to enable the state to sell more power. They got away with it as long as rainfall was steady, but set the state up for disaster with the onset of the current, six-month dry spell.

Groom's figures make it clear that his own government, in office since March 2014, has continued to capitalise on Hydro Tasmania's low production costs, while presuming they could make up any shortfall with power "bought back" from Victoria—only to come unstuck when the extension lead broke.

National electricity market nightmare

Basslink was never intended to safeguard Tasmania's power supply. Rather, it was built to force the eastern mainland states' electricity generators to compete with cheap Tasmanian hydroelectricity via the National Electricity Market (NEM)—a free-market scam established in 1998, which state governments have used as an excuse to not build new power plants, but instead to deregulate and privatise the electricity system and create a speculative spot market. The late Prof. Lance Endersbee, an engineer on both the Snowy Mountains Scheme and Tasmania's Hydro-Electric Commission schemes and a friend and collaborator of the CEC, had warned against electricity privatisation when Jeff Kennett started it in Victoria in 1996, reasoning that instabilities caused by the demands of forcing sections of the grid to compete with each other would be detrimental not just to local industries and economies, but to the physical integrity of the electricity infrastructure itself. His warning was ignored.

The carbon tax, and the related markets in "carbon emissions trading" in permits, offsets/swaps, etc.—which continue under the Renewable Energy Target—introduced a new species of parasite into an already dying host. And the deleterious effects of green policy go back well before the carbon tax, to the Australian Conservation Foundation and its president Prince Philip's determination in the 1970s to sabotage Tasmania's hydroelectric development and industrial economy. The Greens were born out of the Prince Philip-led fight to stop Lake Pedder*, which they lost, only to succeed in stopping the Franklin Dam in 1983, and bringing Tasmania to an economic stand-still. Green MPs are now calling to empty Lake Pedder to generate emergency power—and then dismantle its dams and return it to its "natural" state, thereby destroying what remains of Tasmania's industrial economy and undoing the legacy of the state's greatest Premier, "Electric Eric" Reece. [1]

Restore Reece's legacy

Hydroelectricity has a long history in Tasmania—the Duck Reach power station above Launceston, completed in 1895, was the first publicly owned hydroelectric plant in the Southern Hemisphere. But it was the vision and leadership of Eric Reece, and his support for and huge expansion of the Tasmanian Hydro-Electric Commission (HEC), that made Tasmania an industrial powerhouse. The cheap, abundant power produced by the HEC allowed the government to invite energy-intensive industries such as aluminium smelters and pulp mills to the island, increasing the value of Tasmanian economic output by many times the dams' cost of construction; it also encouraged the public to take advantage of low power prices to purchase the latest electrical appliances to improve their quality of life. Today, what remains of those industries are scaling back production and may yet shut down—and to delay the mainly heating-driven spike in winter demand, the government has placed newspaper advertisements calling on Tasmanians to "all play our part" by reducing their household power consumption.

Tasmanians, and all Australians, deserve better. Had Reece's plans been followed through, Tasmania would now be both drought-proof, and immune to power shortages; and had the vision of great Australians like Dr John Bradfield, and his intellectual heir Prof. Endersbee, been allowed to bear fruit, the same could be said of the nation as a whole[2].

There are no physical obstacles to achieving these aims, but they will never happen under the present "free market" system. Australians must reject the folly of relying upon "market forces" to direct the economy, and instead demand a national bank to direct credit where it is needed. The CEC has already prepared ready-to-enact draft legislation to establish just such an institution, the Commonwealth National Credit Bank. Join us to help make it a reality.

1) http://cecaust.com.au/pubs/pdfs/cv7n6_pages48to50.pdf
2) http://cecaust.com.au/pubs/pdfs/Water_Projects.pdf