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Bankers cling to bubble of delusion: the Adams-Joye debate

Last night's great debate between renegade economist John Adams and establishment economist Christopher Joye proved that the banks are pinning their hopes for survival on a miraculous government rescue of the housing market.

Adams is forecasting that Australia's huge debt bubble, built up by extreme property prices, is leading to "economic Armageddon". Joye is the banking establishment's darling, a former Goldman Sachs banker, Reserve Bank economist, and contributing editor to the banks' self-promotional rag the *Australian Financial Review*, who was wheeled out to assure the viewers that everything is fine.

What Joye revealed, however, is an establishment in denial of the economic reality Australians are experiencing, and which is intending to resort to extreme measures, such as zero and negative interest rates and "quantitative easing" money printing, in a vain attempt to prop up the debt bubble and the banks.

It is clear the establishment and the banks are in a catch-22: either a property collapse will crash Australia's economy, or their attempted rescue will, from the extra unpayable debt resulting from their desperate measures such as money printing; either way, the economy is hurtling towards a crash. This reality must drive parliament to adopt the CEC's solutions, starting with a Glass-Steagall separation of the banks to stop the machine that is drowning Australians in unpayable, speculative debt.

The debate

John Adams opened with and stuck to one indisputable fact: Australia has the biggest debt in its 200-year history; and the world has the biggest debt bubble in 5,000 years. In 2007, Adams observed, the RBA had highlighted that Australia's debt then was proportionally greater than at the times of the 1890s and 1930s depressions; since 2007 it has grown a lot more. He explained that the debt in Australia is in property, and with property prices falling, a panic will lead to job losses in construction, real estate and retail which would be sufficient to trigger a banking crash and economic Armageddon.

In response, Christopher Joye had the confidence of the emperor parading around with no clothes. The magic thread that Adams couldn't see, he patronised, was not the size of the debt, but "serviceability". The fact that it's the biggest debt in history is irrelevant, as interest rates are at their lowest in history. This means that, on paper, there is no debt bubble, because while actual house prices are completely disconnected from actual incomes, households can make their repayments due to the low interest rates. If we accept the magic invisible thread that 1.5 per cent official interest rates are normal, then everything is fine.

But then Joye said this: "Mortgage repayments as a share of income are actually quite low." And that, in a nutshell, is an insight into the way most economists think. They look for confirmation in statistics instead of the real world, but statistics can lie.

Joye's statistics somehow make him think that borrowers are in clover. Meanwhile, if he bothered to look in the real world, he would find that over a million Australian households are in mortgage stress, which means they are having extreme difficulty keeping up their mortgage repayments. This is based on multiple household surveys, including by Martin North of Digital Finance Analytics, and by finder.com.au, the latter showing that an extra $100 per month increase in mortgage repayments would push more than half of households over the edge.

Adams stuck to his guns on the problem being the unpayable debt. He displayed a chart that showed that the growth in lending to housing, which has fuelled the property bubble and built up the debt, is falling as a result of the royal commission putting a spotlight on the mortgage fraud that has driven most lending over the past decade. And he cited the cases of Ireland in 2008, and Australia in 1892-93, to show that housing crashes have triggered economic crises.

Don't worry, print money

Again, Joye's response was revealing. While repeatedly insulting Adams as "an expert in search of a headline", Joye premised his denial of a crash on some massive assumptions, including:

• the global economy growing at the same rate;
• the USA and China reaching a trade deal;
• a "benign" Brexit, i.e. that doesn't trigger a financial crisis.

That was the least of it, however. Claiming that because Australia has very little government debt—which would come as a surprise to most Australians who have seen Commonwealth government debt rise from $60 billion in 2008 to more than $600 billion today—Joye said: "The RBA can cut the cash rate to zero, we're not at the lower band; and it can also engage in quantitative easing, it can buy assets to reduce the cost of capital."

In other words, if nothing goes wrong, everything will be fine, and if something goes wrong, the RBA can cut interest rates to zero and print money and everything will be fine. That's the current outlook of Australia's banking establishment.

John Adams won the debate. He forced Joye to reveal the convoluted mental gymnastics required to remain in denial of the impending crisis. And, despite arrogantly scoring his own performance as a "TKO", Joye conceded this at the very end: "All bets are off if we go into a global recession", he said, "then we're going to have a big problem."

The debate proved that Australia is in the same boat as every country that crashed in 2008, with banking experts and political leaders in complete denial of the crisis they are bringing down on everyone's heads. The Australian people who see this crisis coming must step up and take responsibility to force the political system to implement real solutions.

The CEC is putting the solutions into Parliament, starting with the Separation of Banks bill currently before the Senate, as well as a call for the Auditor-General to independently examine the banks' books, a moratorium on home and farm foreclosures until the crisis is over, and a national bank to fund public infrastructure and productive industries to provide jobs. All concerned Australians should join the CEC's fight!