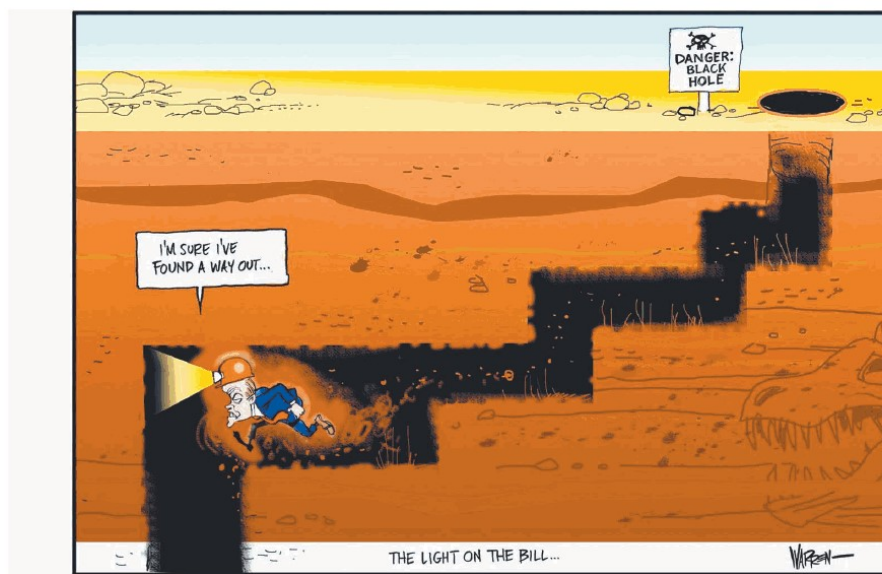


BEST OF WARREN

Warren is on leave.



THEY SAID IT

"What I regret is the idea that there are some people out there, and there's been some grumpy old white men who've been deciding what is best for my family in the last 24 hours; and I'll tell you what, I'm not going to be lectured to by some grumpy old men about how to be a mother or indeed what is best for my family."

Greens senator Sarah Hanson-Young says she doesn't regret spending almost \$4000 of taxpayers' money on a whale-watching trip with her daughter.

Beware bubble trouble

It's time to play it safe as Australia battens down amid growing threats of a new global financial crisis

An economic crisis of possibly historic proportions is fast approaching. Australia's bubble economy, which has been driven by artificially low interest rates as well as consumption and debt-inducing tax and welfare policies, has resulted in the Bank for International Settlements recently warning that Australians are among the most vulnerable people to rising interest rates.

They are correct, and alarm bells have been ringing for some time, as I have noted in previous articles.

Australia's household debt as a proportion of disposable income is now at an all-time high of 190.4 per cent, more than it was in the 1880s or 1920s — years which preceded the two major depressions.

In November last year, I noted Australia's record high foreign debt — now running in excess of \$1 trillion or 63 per cent of GDP as of June 2016, primarily driven by excessive household consumption, government deficits and low national savings.

In recent months, the US Federal Reserve has begun raising interest rates, doing so three times since last December. The central bank has also announced it will seek to shrink its balance sheet of US Treasuries and mortgage-backed securities by up to \$US600 billion (\$788 billion) a year.

As a result, Australian financial institutions have also been forced to raise interest rates, independent of the RBA, on Australian borrowers as the international cost of credit rises.

Globally, household, corporate and sovereign debt are at unprecedented levels. They are also linked through a fully integrated global



JOHN ADAMS

It is up to individuals to think about what they can do to mitigate their own risks

financial system and an array of complex financial derivatives.

Given the scale of the system, the probability of a global stock, bond and real estate crash, coupled with a wave of corporate, bank and sovereign defaults via rising interest rates, increases dramatically.

Despite public assurances from the federal Treasurer and yesterday's statement on monetary policy, Australian policy makers have not done enough to "de-risk" the system. Data released this week shows household debt and property prices in Sydney and Melbourne continue to grow robustly.

In coming crisis, the Australian economy has two possible destinations. Rising interest rates, above a critical threshold, will ultimately lead to cascading debt defaults across the world's households, corporations, financial institutions and governments, culminating in a new global financial crisis (GFC).

Taken to its ultimate conclusion, if Australian governments (federal and state) allow the market, through non-intervention, to discover new equilibriums for key macroeconomic indicators such as production, prices, wages, profits and employment, Australia will experience a deflationary economic depression.

Such a depression, which if history is any guide might last from one to three years, would result in significant economic devastation and social dislocation, but would allow the economy to restructure (through mass bankruptcy) and the collapse of failed institutions) and provide a solid foundation for future prosperity.

Alternatively, policy makers in Australia and globally may seek to

intervene in the event of a new GFC through new globally co-ordinated monetary and fiscal stimulus to protect institutions and investors as well as restore market confidence, economic activity and global asset prices.

Such stimulus would have to be larger than that provided in 2008 and would only provide temporary relief. Worse, it would perpetuate current structural imbalances, global debt levels, asset price bubbles and cost of living pressures.

Taken to its ultimate conclusion, perpetual money printing, currency devaluation and debt creation will lead to hyperinflation (as Germany experienced in 1923) and possibly an international monetary crisis as well.

Historical episodes of hyperinflation have resulted in political turmoil, economic and social upheaval, mass unemployment, barter transactions, hoarding, profiteering, lawlessness and widespread starvation.

While international speculation continues as to likely future economic scenarios, former US Federal Reserve official Danielle DiMartino Booth recently confirmed that American central bank officials had privately discussed extreme policy mechanisms to prop up the current system given the unprecedented nature of recent policy settings such as zero interest rates and quantitative easing.

Worryingly, the monetisation of government and corporate debt, nominal or real negative interest rates, "helicopter money" (issuing freshly created money directly to citizens), bank bail-ins, capital controls and the eradication of cash through financial digitisation are all being contemplated by American and other

international central bank officials.

Such measures seek to, in effect, trap citizens to keep their money in the financial system and to allocate their money into particular asset categories, thus preventing bank runs or hoarding which can occur when confidence in political, economic and financial systems collapse.

Australians are not immune from these extreme measures. In 2016, it was revealed the RBA had quietly tested options for "unconventional monetary policy".

And the Turnbull government's Black Economy Taskforce, as part of the international war on cash, is seeking to push Australians into non-cash payment systems and is considering an economy-wide ban on cash transactions over a specified limit.

Thus it is up to individuals to think about what they can do to mitigate their own risks.

Eliminating all forms of debt, improving personal cash flow and maintaining cash reserves to guard against bouts of unemployment or to purchase cheap assets is best under a deflationary scenario.

Alternatively, acquiring real (or physical) goods or assets such as precious metals is the best defence to offset any loss of currency purchasing power, noting that the Governor-General has the legal power to confiscate personal gold holdings via Part IV of the Banking Act 1959.

Nevertheless, Australians must remain vigilant in the coming months and years ahead, conduct their own independent research and prepare themselves for a volatile unstable economy.

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