

## **CITI JOURNALISM AWARDS FOR EXCELLENCE 2009**

### **Broadcast category**

#### **By Stephen Long --Accompanying Statement**

Last year Stephen Long won the broadcast category of these awards for his report on Lateline predicting – months before it happened – that the world was headed for a global credit crash because of the build-up of toxic debt in the financial system.

His commentary on Lateline this year continued that incisive analysis. Stephen is one of the few journalists around the world to foresee the crisis and understand its causes and dimensions. His commentary has been gloomy but accurate.

Included are three reports. The first analysed the seriousness of the situation facing the world economy after the lock-down in credit markets last October and the need for co-ordinated global action to recapitalise the banking system and restore confidence.

The next, the following week, predicted that the efforts of the October G20 meeting would help but would not be sufficient to prevent “a worsening global recession with rising joblessness”, with Australian growth hit by a collapse in commodity prices that undermined national income.

The final piece, his predictions for this year, which began: “We’ve only just begun”.

# LATELINE.

## Stephen Long joins Lateline

Australian Broadcasting Corporation

Broadcast: 10/10/2008

Reporter: Leigh Sales

**Economics correspondent Stephen Long joins Lateline to discuss what comes next in the global financial crisis.**

### Transcript

LEIGH SALES, PRESENTER: Economics correspondent Stephen Long joins me now to analyse the financial crisis and where things go from here.

Stephen, the US Treasury secretary Hank Paulson has said he doesn't hold out much hope for the G7 group of countries reaching agreement on the financial crisis because they have different financial systems, they're different sizes. What hope then is there for the G20 this weekend?

STEPHEN LONG, ECONOMICS CORRESPONDENT: Well, 24 hours ago it didn't look like there was much hope at all of reaching a consensus this weekend. We had bickering between the major European powers, the US not on side with the plan that Gordon Brown and the British Government were putting up, but there's nothing that concentrates a man's mind like the hangman's noose and we seem to be having some movement. The Wall Street Journal is reporting tonight that Hank Paulson, the US Treasury boss, is looking at a plan to guarantee a billion dollars in bank debts, bank loans, and also temporary guarantee of all bank deposits in the US. Now, that guarantee on bank loans and bank deposits sounds suspiciously like the British Government plan. So perhaps they're coming towards some consensus. There's also talk that the US is shifting in favour of the British plan for a guarantee on all interbank lending to stem this freeze where banks fear lending even to other banks, but we're yet to see. And if they don't come out of this meeting with some plausible plan to break the deadlock in financial markets, then it's pretty dire. Really, it is a case of united we stand, divided we fall. If there's no unity at the end of this, I shudder to think what will happen.

LEIGH SALES: And why are you so pessimistic about that? Why is it so black or white?

STEPHEN LONG: Well, you only have to look at what's happening now. We have stock markets in freefall. There is a complete lockdown in money markets so that people can't borrow money. Banks aren't lending, even to other banks. Within a short space of time, we will be in a situation where companies with good businesses and sound credit cannot pay their payroll, cannot pay workers, cannot fund their working capital, buy new stock. And, basically, we're facing a situation where if the present situation continues, we will have a systemic collapse of the global financial system and a major recession, if not a global depression. It is that bad and you're likely to see, if the situation continues, possibly a generalised run on banks, the collapse of hedge funds which are massively leveraged and that leading to another round of bank losses flowing through to the balance sheets of the major banks and into the real economy where companies basically can't operate and mass job losses, pretty much disaster.

LEIGH SALES: So why has the massive bail-out by the US Government and the cash injection by the British Government not seeming to have done much to restore confidence? Can you explain the psychology of what's going on here?

STEPHEN LONG: Well, that is the really scary thing, that we've had the most radical and aggressive interventions by central banks and governments basically in world history and it hasn't mattered a jot. The money markets have remained frozen and borrowing rates have gone up despite the fact that they cut those central bank rates and they've injected massive amounts of liquidity. All trust has gone from the system and it's basically because people think that more banks will collapse and no-one knows which banks will collapse. And, as Phil Williams said in his cross, you have a herd mentality. There was a wonderful book written in 1841, published in 1841 called "Popular Delusions and the Madness of Crowds" about bubbles and you have an unwinding of the biggest leveraged asset price bubble and debt bubble in the history of humanity. On the way up, there was irrational exuberance, on the way down, you've had irrational panic. But you can't just say it's simply irrational because the one thing feeds into another: the fear feeds into the real economy lockdown meltdown and it becomes self-fulfilling and that's the situation we're in now. It's got so bad, you have this fear. It's akin to a fire in a cinema and everybody heading simultaneously for the exits and when you get that chaotic, disorderly unwinding, things can get really bad. That's why there's so much hope, so much critical hope resting on this weekend.

LEIGH SALES: So, how will we know when we're at the bottom of this crisis?

STEPHEN LONG: Well, there's a joke doing the rounds at the moment about the equity markets, the stock markets and that's, "Buy one bottom and get two – or possibly it's six or seven." No-one can really call a bottom. There are technical traders that I talk to who've been fairly accurate in this and some of them are saying that the Australian stock market could bottom out at 2,700 points which, considering it was well above 6,000, is a pretty grim prospect. And you've got massive wealth destruction coming just through that stock market effect on its own, on balance sheets, on households. People who've borrowed massively and now you've got this massive destruction of stock values, superannuation and house prices coming down. That's a real worry. No-one can call the bottom. At the moment, it looks like a bottomless cup. We'll know in hindsight, Leigh, is really the answer.

LEIGH SALES: Right, well that's all thoroughly depressing. Thanks for coming in.

STEPHEN LONG: You're welcome.

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# LATELINE.

## Stephen Long discusses the week in finance

Australian Broadcasting Corporation

Broadcast: 17/10/2008

**Reporter: Stephen Long**

**Economics correspondent Stephen Long joins Lateline to discuss all matters financial.**

### Transcript

LEIGH SALES, PRESENTER: To discuss an extraordinary week in financial markets and the outlook for Australia, joining me in the studio is Economics Correspondent Stephen Long.

Now Stephen, last week when we chatted just before the G20, you were in a very sombre mood and warning that if there wasn't coordinated action, there could be a complete financial meltdown. There was some coordinated action. Have you found the happy place now?

STEPHEN LONG, ECONOMICS CORRESPONDENT: Have I found the happy place? Well, I'm feeling a little bit better about the state of the world than last week, so let's start with the positives. The positives are that there was concerted action and it's avoided an immediate near-term meltdown, a catastrophic meltdown of the financial system and there are some signs, albeit glacial signs of an easing, a thawing in the credit market. So, we saw tonight, for instance with the figures just out that the overnight rate at which banks lend to other banks, the overnight LIBOR rate in London has fallen to its lowest level since 2004. But the key rate that affects lending to corporates and lending for mortgages, the three month rate, well that's come down about less than half a per cent, 40 basis points, this week. Now that's pretty small; it's still massively elevated compared to six months ago. So, the cost of borrowing has only eased slightly despite the fact that we've had this concerted action effectively the state guaranteeing all lending and borrowing in the major economies of the world and the world's central banks saying they'll throw in unlimited money, whatever it takes.

LEIGH SALES: OK, so signs all still pretty worrying. We're now about five weeks or so into the sharp end of this crisis. What are the main concerns looking forward?

STEPHEN LONG: Well, I think the main concern is that we're only starting to see the effects hit the real economy now. We've got America already in recession on any realistic measure, the northern European economy - the European economies all plummeting into recession. But the really worrying sign for Australia at the moment is what's happening with commodity prices. Every indicator suggests that commodity prices are gonna fall sharply just when we've come to the end of this massive capital upgrade in mining. So the mine's all ready to fire off with exports. Now that means that the anticipated huge boost to our national income won't come through. Good news is that pretty much solves the inflation problem. The bad news is that this is coming at a time when we're heading into a sharp downturn. So, that's pretty disastrous news for Australia if it pans out the way it's looking now. I mean, you know, there's an upside that oil prices are down about 50 per cent on their highs, but if we're simultaneously getting lower prices for our mineral exports, our key agricultural exports and demand is falling away as well, then that's gonna mean a big hit to economic growth in Australia.

LEIGH SALES: Hmm, food for thought. Stephen Long, thank you very much.

STEPHEN LONG: You're welcome.

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# LATELINE.

## Stephen Long joins Lateline

Australian Broadcasting Corporation

Broadcast: 05/12/2008

**Reporter: Leigh Sales**

**ABC economics correspondent Stephen Long joins Lateline to have a final look at finance and economic for the year.**

### Transcript

LEIGH SALES, PRESENTER: Here is a story about finance and economics for the year. I'm joined live in the studio by Stephen Long.

Stephen, what a year. You predicted 18 months ago that the build-up of toxic debt would cause a credit crash and it pretty much came to pass. But is the worst now behind us?

STEPHEN LONG, ECONOMICS CORRESPONDENT: Leigh, it's only just begun. Now, you're probably not surprised that I've said that given the views I've been espousing all year. But the situation is that, yes, we avoided a global catastrophe in October when coming out of the collapse of Lehman Brothers in the US, the world's leaders got together and bailed out the banking system, but now we have the flow on to the real economy coming through and we have the core problem remaining which is that the world has too much debt. There's a massive overhang of debt and leverage. It has to be unwound. It's going to be painful. So, to paraphrase Churchill after El Alamein, well, it's only just begun, or we haven't seen the end; this is, perhaps, not even the beginning of the end, but we may have seen the end of the beginning.

LEIGH SALES: So how does this play out next year?

STEPHEN LONG: Well, my fear is that it plays out in a worsening global recession with rising joblessness, but the jobless rates won't tell the full story because what we also have is an increasingly casualised labour market and a return to casualisation. So we'll see rising under-employment and working hours will be the key to that. And then, an intersection of that rising joblessness and reduction of work hours with the overhang of debt and reduction of debt. Now, in Australia, where we have variable mortgage rates, we have an advantage over the US because people's debt servicing will go down as the mortgage rates go down. But with rising unemployment rates, we'll see pain worldwide. One of my other concerns is that as Governments spend huge amounts of money to bail us out of this, then we may get to a stage where we have debt defaults on a national level. Now, we tended to see that in the third world in past crises, but in this one, one of the concerns is going forward, you may have major world economies that can't service the massive debts that they're taking on to basically spend their way out of the crisis.

LEIGH SALES: And the world is throwing a lot of money at this. We've had, I think, the US\$700 billion bailout, about a trillion or more in fiscal stimulus and similar sums in Europe and China. Will it make a difference?

STEPHEN LONG: Well it will make a difference; it could make a big difference. But there are limits to this government spending in times like this because of that massive overhang of debt. People want to save the money; they want to put it into paying off debt rather than spending it. And similarly, banks have become more and more risk averse, especially overseas, and they're unwilling to lend and lend on the

terms that they did, which were pretty mad at times. And so, if people aren't willing to spend money, people aren't willing to borrow and banks and financial institutions aren't willing to lend, then that really blunts your fiscal policy and also the cuts to interest rates. So, I think we're headed for a long and protracted global recession. The research shows that recessions that come out of crises like these stemming from financial crises and banking crises are worse than typical recessions and that's what all the signs are suggesting.

LEIGH SALES: Briefly, have we learned the lessons from this, though? Are the steps being taken now enough to prevent this mess from happening again?

STEPHEN LONG: We have learnt some lessons and the world has done some good things, but some of the ad hoc steps that we've taken to bail out the banking system are actually setting us up for the next crisis. I mean, one of the issues in this, Leigh, is that banks have been too big to fail, so, what has the world done in response to that? Well, in the US and Europe they've had a series of bank mergers and made bigger institutions. So, we've had these Wall Street behemoths; they become even bigger. If they were too big to fail in the past, what happens next time round? That's just one of the ways where we're setting ourselves up for future problems. And, also, one of the risks is that we tend to regulate for the last crisis rather than the one coming and in finance markets, we've seen massive innovation, we've seen the down side of that innovation, you tend to get regulatory arbitrage. Well, they'll look for ways to step around the regulations.

LEIGH SALES: Stephen, thanks very much for tonight and for your good work all year. We'll see you outside for a champagne after the show.

STEPHEN LONG: Thank you. Yep, let's party like it's 1929.

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