Interest rate scare campaign in Australian elections

Nick Beams (SEP candidate for the Senate in NSW)
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Political scare campaigns generally follow a tried and true recipe: take an issue over which there are wide concerns, twist it, and then, without addressing any of the matters which have given rise to the anxiety, use it to move public opinion in the required direction.

In the 2001 election Prime Minister Howard and his campaign organisers used the September 11 attacks in the US to vilify refugees as potential "terrorists" in order to boost the government's main electioneering theme that it was strong on "border protection."

Three years on, a new scare campaign has been devised for the October 9 general election—the threat of massive interest rate rises if the Liberals are not returned to office. Howard opened his campaign with a warning that if interest rates were to rise to the levels they reached under the Labor governments of the 1980s and 1990s, then around $960 per month would be added to the average home mortgage.

Of course, interest rates are broadly determined by international financial conditions, with official rates in Australia being set by the Reserve Bank, acting independently of the government. So Howard could not claim that he would ensure that interest rates would fall or remain stationary. Instead he asserted that they would always be less under the Liberals than Labor—a useful proposition given that it would be impossible to test.

Labor leader Mark Latham's response to Howard's scare campaign was an empty gesture—the signing of a public pledge to keep interest rates down, coupled with a declaration that, as a homebuyer, living in the "mortgage belt" of western Sydney, he had a "personal" stake in the issue.

While media reports concentrated on the pledge signing stunt, the statement issued by Latham and his shadow treasurer, Simon Crean, did contain one issue of substance. This was a commitment by Labor to the financial institutions and money markets that it would put "downward pressure on interest rates" by ensuring that federal government budgets remain in surplus, through the cutting of government spending and reductions in tax revenue.

According to the Latham-Crean statement, Labor would ensure budget surpluses each year and reduce both federal spending and revenue raising as a share of the national economy. "We are open and honest about the fact that we can't reverse every cutback or restore every service slashed by the Howard government," the statement declared. Not only will Labor fail to restore social services cut by the Howard government, it will make new, deep cuts of its own.

In their exchange of "sound bites" on interest rates, neither Howard nor Latham addressed the anxieties of millions of working people striving to buy a home, let alone provide any answers. The reasons for their concern clearly emerge from the latest figures on housing affordability published last month.

According to an AMP-Real Estate Institute of Australia report, despite a fall in house prices, home-loan affordability declined in June for the ninth successive quarter to hit its lowest level in 14 years. The report found that the average loan increased 5.4 percent from $202,545 to $213,515, and average monthly repayments rose by 5.3 percent from $1,417 to $1,493, while weekly family income remained stationary at $1,065.

In NSW, where house prices are the highest in the country, the proportion of family income needed to meet average home loan repayments was 38.4 percent, an increase of 2.8 percentage points over the quarter. A family paying more than 30 percent of its combined income on housing is considered to be under stress. In

NSW, average home loan payments in the June quarter were $1,817 per month—19 percent higher than a year ago.

Even more significant are the long-term trends which were revealed in a report on household debt published by the Reserve Bank of Australia in March 2003. It pointed out that, over the previous decade, household debt, much of it for housing, had increased at an annual average rate of 14 percent, well in excess of the growth in household income.

Figures provided in the survey expose the Howard government's claim that lower interest rates have eased the problems of home-buyers. According to the RBA, in the period from 1992 to 2003, the average home loan more than doubled, while from the late 1980s mortgage interest rates roughly halved. In other words, despite the fall in interest rates, the financial stress on home-buyers has not decreased.

In fact, it has probably increased because buyers are now highly vulnerable to even small increases in official rates. The home-loan market is indicative of a more general tendency—the rise in indebtedness that has played such a large part in fuelling economic growth in Australia over the past decade.

According to a study by Morgan Stanley economist Andy Xie, household debt in Australia rose from 36.8 percent of gross domestic product (GDP) in 1988 to 100.3 percent in 2003. In the five years from 1998 to 2003, the Australian household debt to GDP ratio increased by 39 percentage points, a historically unprecedented rate of increase.

The recently released June quarter national accounts data show that debt played a major role in pushing the annual growth rate to 4.1 percent. The annual growth in consumer spending was 6.1 percent—the highest for 27 years. But this was not a result of rising incomes, as households spent more than they earned for the ninth quarter in a row. The Reserve Bank's measure of household debt has now risen to a record high of more than $700 billion, doubling over the past five years.

Far from the growth figures demonstrating the "sound economic management" of the government, as Howard tried to claim, they underscore the extreme instability of the Australian economy, and its vulnerability to interest rate rises, which will be determined by broad international processes.

The concerns of working class families for decent housing at an affordable price, without the ever-increasing stress imposed by rising interest rates and house prices, cannot be met by the financial nostrums advanced by the leaders of either the Liberal or Labor parties. They can only begin to be addressed through socialist measures that are grounded on the premise that the provision of basic needs, such as the right to decent housing, takes precedence over the demands of the financial institutions and money markets.