Debt crisis deepens, as Howard launches another interest rate scare campaign

Joe Lopez, Socialist Equality Party candidate for Swan
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Prime Minister John Howard has resorted to a scare campaign on interest rates, just as he did prior to the 2004 election, claiming they will soar under a Labor administration. Liberal-National Coalition television ads are relentlessly pursuing this theme in another desperate effort to prey upon the anxieties of financially-stressed voters.

Since 2004—when Howard promised to keep rates at "record lows"—official rates have risen six times. The last instalment came on November 7, when the Reserve Bank raised the cash rate by another 0.25 points to 6.75 percent—the first rise ever during an Australian election campaign—and warned of further rises to come. During the past three years, average home mortgage repayments have increased by about $3,500 a year.

Neither Howard nor Rudd can provide any answers to the financial strains being felt by broad layers of the population—particularly first home buyers and families paying off mortgages. Lending rates—for homes and credit cards—will almost certainly increase further in coming months, under the impact of the US financial and mortgage crisis, regardless of whether Labor or the Coalition forms the next government.

Housing groups and financial counseling services have warned that every rise causes another 30,000 households to experience "mortgage stress"—paying more than 30 percent of their income on mortgage repayments. The Housing Industry Association said the latest rise would bring the number under pressure to 654,000. Another survey, by Ipsos Australia, found that more than 220,000 people would drop their private health insurance if rates rose by 1 percent over the next year.

Even before the latest rise, a Galaxy telephone poll conducted for Veda Advantage, a credit checking company, found that 81 percent of mortgagors were worried about their ability to make repayments over the next 12 months. The study estimated that about 2 million already found it difficult to make repayments or were unsure how they would make their next repayment.

Official figures indicate that housing loan defaults have risen by nearly 30 percent over the past year, but the real number of people losing their homes is greater because lenders have been pressuring distressed borrowers to sell before a formal default, in order to avoid the 15 to 20 percent price drop involved in mortgage sales.

For young people trapped in the private rental market, the situation has been aggravated by rising rents. On average, they rose 5.8 percent last year, making the biggest contribution to worsening inflation. In Sydney, the median rent for a two-bedroom flat rose by 9.7 percent to $340 a week in the year to September.

Household debt, in Australia and many other countries, has reached historical proportions. According to statistics compiled by University of Western Sydney economics associate professor Steve Keen on his "Debtwatch" site, private debt has soared from just above 20 percent of gross domestic product (GDP) in the 1950s and 1960s to 160 percent today.

Many families, despite both parents working longer hours, have been plunging ever-deeper into debt for decades, just in order to try to buy a home, maintain a decent standard of living and cover the increasing costs of basic necessities, including child care, health care and education.

Mortgage debt has risen the most sharply—from around 15 percent of GDP in the 1970s to more than 80 percent, and from 20 percent to 140 percent of household disposable income over the same period. Back in 1977, two cents in the household dollar went to pay the interest on the mortgage; now it is 11.7 cents—virtually six times as much. Total household debt, including credit cards and personal loans, has mushroomed from about 25 percent of disposable income to 160 percent.

Even since 1990, real mortgage debt per person has

risen 526 percent—18.3 percent since the last election. Because of rising rates, the real interest repayment burden has increased even more sharply—by 45.7 percent since the 2004 election, **before** this month's rate rise.

These increases have far outstripped real wages, which have risen 25.6 percent since 1990, and 4.7 percent since the 2004 election. Even then, the statistics hide where most of the burden is falling—on low and average income earners, especially in Perth, Sydney and Melbourne. It is little wonder that Howard's slogan, "working families have never had it so good," has been met with such widespread derision.

Howard and Treasurer Peter Costello have argued that the debt crisis is overrated because the value of real estate has also soared, making homebuyers actually better-off. But since the current housing bubble began in the mid-1990s, house values have increased by about 250 percent, while debt has risen by some 500 percent. In any case, rising house values are a misrepresentation—to realise its imputed price, a house has to be sold, and the owner than has to buy—or rent—a replacement property.

Meanwhile, because of higher house prices, homebuyers are more deeply in debt than ever before, paying larger amounts on their mortgages than in the late 1980s, when interest rates were 17 percent. Every 0.25 percent rise in rates causes more hardship than a full 1 percent rise would have two decades ago.

While Keen's data reveals the sharp rise in debt, it fails to show the extent of the "debt divide" that now dominates Australian life. On one side, a small wealthy minority has little difficulty servicing higher debts, and paying off multi-million dollar homes. On the other side, working people are finding it increasingly hard to keep a roof over their heads.

The Veda Advantage study found that those most concerned about the capacity to make repayments had a household income of less than $70,000, were blue-collar workers and those with children. Overall, credit defaults rose by 28.6 percent from 2006 to 2007, but in the outer-suburban "mortgage belt" areas, the rise was 43.5 percent (Sydney), 44.4 percent (Brisbane) and 40 percent (Melbourne). In drought-affected rural areas, defaults had risen by as much as 60 percent.

The human cost of these trends is profoundly disturbing. Young people are entering adult life deep in debt, often owing tens of thousands of dollars for HECS (university fees), credit cards, mobile phone and other bills. With rents also rising, few have any hope of buying a home. At the same time, working class families are losing their homes in record numbers.

Despite the current commodities boom, largely generated by massive exports to China—where the rapid growth is being accompanied by increasingly explosive social tensions— the debt crisis underscores the instability of the Australian economy, and its vulnerability to interest rate rises and inflationary tendencies within the global economy.

More fundamentally, the mounting indebtedness of working people highlights the irrationality of the capitalist profit system. The right to high quality, affordable housing should be guaranteed in a society with the technology, resources and manpower capable of providing a decent home to every person. Instead, it is subject to the profits of the banks and financial institutions and to the speculative booms and busts of the "free market".

Only through the implementation of socialist measures, based on the premise that human need takes precedence over private profit, can the housing crisis be overcome.

The Socialist Equality Party advocates the placing of all large corporations, including the banks and financial institutions, the major construction companies and real estate developers, under public ownership and democratic control, with full compensation to small shareholders. We advocate the allocation of billions of dollars to the launching of a massive public works program that will provide thousands of decent, well-paid jobs, and build hundreds of thousands of units of high quality public housing in every state and territory. In the meantime, we demand that mortgage repayments and rents be capped at no more than 20 percent of household income, and evictions and repossessions outlawed.

I call on all those who agree with the Socialist Equality Party's socialist and internationalist program to support our election campaign, vote for our candidates, and, above all, make the decision to join and build the SEP as the new mass political party of the working class.

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