

Australian government props up banks as signs of a deep global recession emerge

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Amid a deepening global financial crisis and ominous signs of recession, the Australian government joined its counterparts around the world this week in announcing unprecedented measures to provide a lifeline to the banks and financial elite, while claiming to be protecting ordinary people.

For weeks Prime Minister Kevin Rudd and Treasurer Wayne Swan have been insisting that local banks are among the safest in the world and Australia is insulated from any global slowdown. Only last week, the government stridently opposed calls to lift its proposed \$20,000 limit on bank deposit guarantees.

All that changed dramatically over the weekend following last week's crash on world share markets. In Washington for meetings with the finance leaders of the G20, Swan declared that the world was facing "a financial upheaval the likes of which has not been seen since the Great Depression".

After closed-door crisis meetings with senior ministers and officials all weekend, Rudd put the country on what the media called a "war footing". He declared on Sunday: "We are in the economic equivalent of a rolling national security crisis and the challenges are great."

The prime minister unveiled a finance industry package that guarantees all bank and finance house deposits and overseas borrowings to the tune of more than \$2 trillion. Two days later, he announced a \$10 billion economic stimulus plan, allocating half the budget surplus, in a desperate bid to resuscitate consumer spending and prevent the economy sliding toward recession.

Rudd's invocation of "a national security crisis" was no accident. Like the bogus "war on terror," an atmosphere of emergency is being cultivated in order to ram through measures to shore up the wealth of a tiny layer of the financial elite. The real implications for the vast majority of the population are being deliberately obscured, not only by the government but by the opposition parties and the media.

The extraordinary degree of bipartisanship, with which the government's plans have been met inside and outside parliament, reflects a recognition in ruling circles that they are staring into the precipice. The onset of a deep and protracted global recession, which is already impacting on commodity prices and Australian markets in Asia, will inevitably unleash a social tsunami with devastating consequences for working people. The political establishment is closing ranks to deal with the social and class struggles ahead.

The vulnerability of the Australian economy has been

underscored this week by the collapse of share prices for Australia's two mining giants—BHP Billiton and Rio Tinto. BHP shares fell 13 percent this Thursday, taking the price down to almost half its peak, just five months ago. Rio was hit even harder—down 16 percent, taking its loss to nearly 60 percent since May. In its quarterly report this week, Rio admitted for the first time that it was facing a "marked reduction in Chinese commodity demand," forcing it to lower production, delay projects and defer plans to sell assets to reduce its debt burden.

Over the past three months, the currency and commodity markets have delivered their verdict on the prospects of the Australian economy—the \$A has fallen to below 70 US cents, more than a third from its peak, and commodity indexes have dropped more than 40 percent, with signs of worse to come. Spot iron ore prices have declined by more than 60 percent.

Labor's measures

The first and overriding priority of the packages announced by the Labor government has been to prevent a banking meltdown and prop up the financial system. Details of the bank rescue scheme are still being thrashed out—behind the backs of the public—between the government and the bankers. But in addition to guaranteeing the estimated \$A1.2 trillion currently deposited in banks, merchant banks, building societies and general insurance companies, the plan covers the predicted \$850 billion that these institutions must raise on the international markets over coming months.

Taken together, these amounts could literally bankrupt the national Treasury. No one in the mass media has dared ask the question: what happens if a major bank collapses? Where will the money come from? For all the assurances that no such collapse could happen, the legislation introduced into parliament gives the government, through the Australian Prudential Regulation Authority, powers to take over and liquidate failed banks, or to recapitalise them by issuing shares to new investors.

Rudd insisted that the government had been forced to act, not because the banks were in trouble, but because other governments were offering similar guarantees to their own weaker financial institutions and local banks would be hurt if Australia did not

follow suit. "I will not stand idly by while Australian banks are disadvantaged in the credit marketplaces because of the actions of foreign governments," he said.

His remarks underscore the nationalist beggar-thy-neighbour conflicts wracking capitalism worldwide, as each government scrambles to shore up its own corporate elite. In reality, no banking system is immune from the collapse of billions of dollars worth of debt-swaps, derivatives and other forms of fictitious capital that have been created by finance houses in the past several decades. In return for a fee, the government is providing private banks with an unlimited guarantee that the public purse will be used to bail them out.

The liabilities assumed by the government dwarf the \$10 billion "emergency economic security" package that was announced on Tuesday. As commentators have pointed out, the figure represents about 1 percent of GDP and therefore gives a gauge as to its potential economic impact. Yet, economic growth for next year has already been revised down by double that amount, from above 4 percent to around 2 percent, and will fall far further as the impact of the global recession takes hold.

Nothing in the package addresses either the existing rundown of social infrastructure or the impending social disaster. None of the measures will actually create jobs, help the jobless, rescue the tens of thousands losing their homes, assist those whose superannuation funds are being wiped out or boost public housing, education and health care.

For all of the government's expressions of concern for the needy, the package consists entirely of one-off payments designed to give an immediate boost to particular sections of business. Retirees, including those who do not qualify for a pension, will receive \$1,400 and lower-income families \$1,000 per child on December 8, a move timed to bolster retailers for Christmas. First-home buyers' grants will be boosted to \$14,000 for existing homes and \$21,000 for newly-built homes, a measure aimed at reviving the building industry.

The measures are cynically targeted at those the government calculates will have little choice but to spend the cash as quickly as possible—the elderly, families with children and young homebuyers. The handouts are similar to those formerly provided by the Howard government in its regular pump-priming operations to buy votes and bolster sections of business, always at the expense of social services, welfare and public infrastructure.

A social disaster

The social cost of the present economic crisis is only beginning to be felt. Yet already the impact goes far beyond the \$10 billion that the government is doling out in one-off payments.

The superannuation funds of older and retired workers have been decimated. A report this week by the Mercer group estimated that average balances fell by 25 percent in the nine months to September 30—even before this month's heavy share market plunges. With the funds holding just under \$1.2 trillion, these

losses total some \$300 billion. Increasingly, workers are being forced to delay their retirement or go back to work if they have already retired.

More broadly, the Reserve Bank estimates that household net worth shrank by almost 5 percent in the first six months of this year, a loss of \$245 billion. These staggering losses, largely produced by falling property and share prices, are in turn leading to sharp drops in consumer spending and lending for housing.

These falls, combined with the emerging losses of export revenue, mean that the next stage of the economic crisis will inevitably produce severe unemployment in Australia, as well as in the US and Europe. Ford's announcement this week that it will axe a further 450 jobs in Melbourne, and warnings of 7,000 jobs under threat in the car components sector, are early indicators of what is to come.

Goldman Sachs is forecasting that the unemployment rate will climb from 4.3 percent to 6.5 percent by the end of next year, despite Rudd's handout measures. This would send the official jobless total to near 700,000, but the real levels of unemployment and under-employment are about double the official statistics.

Casual, part-time and temporary workers are already having their hours cut, as are sub-contractors and other self-employed workers. Losses of jobs and even hours will financially cripple many working class families. Because of soaring house prices, rising living costs and falling real wages, Australian households have become among the most heavily indebted in the world, with debt levels running at an 165 percent of income—about three times higher than before the 1929 crash.

To disguise the class character of the government's plans, Rudd indulged in a little populist rhetoric, blaming "greed" and "extreme capitalism" overseas for the crisis, and suggesting controls over executive pay levels. What the world is witnessing is not the product of individual excesses or policy failures but flows inexorably from the logic of the profit system itself. The present crisis is the outcome of protracted processes centred above all on the decline of American capitalism. As for controlling executive pay, the government is locked in closed-door talks over its rescue plan with bank CEOs who are paid millions of dollars a year in salaries and bonuses.

The further stock market falls this week mean that the government's measures have been already overtaken by global economic events. Rudd has refused to release any revised Treasury economic forecasts, but growing numbers of analysts are now predicting that Australia will soon officially be in recession. At a luncheon yesterday, Rudd told top business leaders that he would do "whatever it takes" to deal with the worsening economic crisis. It is an open-end commitment to bail out big business at the expense of the vast majority of working people who confront an avalanche of job destruction, the decimation of social services and infrastructure and a precipitous decline in living standards.



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