Australia: Labor government ends bank guarantee

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According to the Australian government, its decision to no longer guarantee new offshore borrowings by the banks is further proof of the economy's return to health. Treasurer Wayne Swan told reporters at his February 7 press conference that withdrawal of the so-called 'wholesale lending guarantee' from April—an emergency measure introduced in October 2008 when the world financial system stood on the precipice—not only demonstrates "the resilience and the recovery of the Australian economy from the global financial crisis" but is a "very significant milestone" in that process. Reporting in the corporate media reflects unwaveringly the official line of an unstoppable recovery.

According to Swan, the withdrawal of the guarantee 18 months after its inception (and after $160 billion of guaranteed offshore borrowings) demonstrates not only an improved economic situation, but also shows what the guarantee was really about. Labor took these measures not in order to assist the banks for their own sake or to improve their balance sheets, but to prevent the dangers to the general economy posed by the drying up of offshore funding, namely "lower growth and more households losing a breadwinner right across this country." By ending the guarantee as soon as the banks' capital-raising prospects had safely stabilised, Swan said, Labor was proving the guarantee had been "put in place to support the Australian people—not the banks". In particular, "the guarantee has been critical in helping to support competition in the banking sector throughout the global financial crisis."

Careful scrutiny of these claims reveals in each case the opposite to be true. Labor's guarantee has been instrumental in allowing an oligopoly of four major retail banks to tighten its grip over the sector, boosting profits. The constant cry that Australia has 'dodged the bullet' of a global recession deliberately obscures the fact that Australian capitalism is now even more susceptible to global financial shocks than it was 18 months ago.

Labor's decision to guarantee bank borrowings was part of a stampede by national governments around the globe in October 2008, to ensure that 'their' banks were not priced out of capital markets. The rush was triggered by Ireland's guarantee announcement on September 29, two weeks after the Lehman Brothers collapse. From the moment the Irish news broke, no national banking system could afford to be without a guarantee. However, among industrialised nations, Australia's measures were particularly crucial.

Australian capitalism has always relied heavily on the import of capital. The banks now borrow 40 percent of their capital from overseas. When capital markets seized up, the banks confronted not just tight restrictions on their ability to lend, but the prospect of collapse. Although the banks have refused to provide figures on total loans due for refinancing in the immediate post-crash period, the fact that most of the $160 billion in guaranteed borrowings apparently came onto bank balance sheets in late 2008 and early 2009 suggests that Australian banks were staring insolvency in the face.

Swan's claim that the guarantee was designed to "ensure the flow of credit" to businesses is a deliberate attempt to minimise the scale of what the banks faced in October 2008. His remarks are also an attempt to disguise just how precarious the banks' position still is. Australian banks remain extremely sensitive to capital availability shocks, such as those that now loom with the deepening of the sovereign debt crisis in Greece and across the eurozone.

Swan's careful and repeated use of the past tense during his February 7 press conference is another deceit. Far from the bank guarantee "ending" on March 31, the government will continue to guarantee the $160 billion already borrowed under the policy for an as yet undisclosed period.

The assertion that the guarantee increased banking competition is punctured by the fact the four big banks have increased their share of new home loans from 70 to 90 percent over the period when it was in force. Profits for the four majors remained generally stable in 2009 with some declines, but there have also been some outstanding winners. The Commonwealth Bank, Australia's largest bank, increased its cash profit by 44 percent in the period June–December 2009. These results are at least partly explained by Labor's refusal to offer the guarantee to non-bank lenders and to make banks, other than the big four, pay a hefty additional premium for the guarantee. This discriminatory approach, combined with the collapse of the securitisation market (despite $20 billion in bailout funds), has been like a brushfire through the finance sector's undergrowth.

Other developments indicate that the post-crash banks are now heavily cashed up (in part with government-guaranteed money) and despite recent dips expect expanded profits in the coming period. Bank shares, which had collapsed in 2008 amid the threat of insolvency, rose phoenix-like by 80 percent in 2009. In late 2008, Labor allowed two of the majors, Westpac and Commonwealth, to take over two leading competitors, St George and BankWest. The National Australian Bank is now the country's largest private superannuation funds manager, having purchased both superannuation giant Aviva and the Australian assets of Axa.

As to the government's boasting about economic recovery, it is certainly true that Australia has maintained positive, though feeble, GDP growth throughout the global crisis so far. It has also experienced an official unemployment rate (now 5.3 percent) lower than most other countries, including the US. However, this is not the result of the economy's exceptional underlying strength. Rather, Australia's ability to avoid full-blown recession thus far is the product of factors which are, by their very nature, external, fragile or temporary: China's stimulus-driven demand for raw materials, Labor's own stimulus spending, low interest rates and a still-swelling housing bubble.

Most importantly, Australia has so far avoided the worst of the global downturn because it was able to increase even further its already precipitous levels of public and, more critically, private debt. Australian household debt is now 100 percent of GDP, that is, 1 percent more than before the 2008 crash. House prices increased 5.2 percent in the last quarter of 2009 alone, largely inflated over that period by Labor's expansion of the First Homebuyers Grant, a subsidy of up to $21,000 per buyer that cost $1 billion per year.

The housing boom is of critical importance in understanding the Australian economy, including the role of the banks and class relations generally. Mortgage repayments (or the rent repayments that pay off mortgages) are the key profit-bearing component of local banking business and also the main expenditure of working people. The housing bubble—houses are 2.5 times more expensive than they were in 1986—means greater average borrowings, greater interest payments and therefore bigger bank profits.

Labor's First Home Buyers grant was a $1 billion per year indirect transfer of funds to the banks—house prices have simply increased in accordance with the funds available through the grant. It also means that a new layer of generally younger workers have become heavily burdened with debts that many will find impossible to sustain as interest rates continue to rise. Defaults will not only rebound on the banks but will also sharpen social tensions.

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