

Australian banks denounce criticism of record profits

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Over recent days, Australia's major banks have responded with undisguised contempt to popular outrage over their record profits and soaring home loan interest rates. Like the giant mining companies that attacked the Labor government's mining super profits tax earlier this year, and played a prominent part in the ousting of Kevin Rudd as prime minister, the banks have made clear they will not tolerate any government interference, however symbolic, in their limitless money-making.

On Saturday, in the latest threat from the banks, newspapers around the country headlined a warning by Commonwealth Bank of Australia (CBA) chief executive Ralph Norris that "short-term populism" was damaging the country's reputation on international money markets. "Offshore investors are getting concerned about the direction of where the Australian political situation seems to be moving," Norris declared.

Norris, who is paid \$16 million a year, last week announced that the CBA would jack up its variable home mortgage rate by 45 basis points, almost double the 25-point official rate rise handed down by the Reserve Bank of Australia (RBA) on November 2. The rate hike will deliver the CBA an estimated \$500 million boost to annual revenue while driving up loan repayments on an average \$300,000 mortgage by \$90 a month, increasing the levels of financial stress already being suffered by ordinary families.

The CBA, which was privatised by the Hawke Labor government in the 1990s, is the country's largest bank and home lender, commanding a 26.2 percent share of the home loan market, with a \$290 billion mortgage book. The current Labor government deliberately strengthened the grip of the CBA and the three other big banks, Westpac, ANZ and National Bank of

Australia (NBA), in 2008 when it propped them up as the global financial crisis broke. Labor underwrote all the banks' overseas borrowings, while giving the "big four" a much more favourable rate than their smaller domestic rivals. By the middle of last year, the four majors were capturing nearly 100 percent of new mortgages, up from 60 percent before the crash.

The CBA justified last week's increase by claiming it continued to be hit by higher funding costs, which have increased by 135 basis points since late 2007. The higher borrowing costs, however, have not prevented the banks from exploiting their local market domination to chalk up massive profits. In August, the CBA announced a \$6.1 billion net profit for the past financial year, while this week, Westpac reported an 84 percent jump in net profit to \$6.3 billion. The ANZ and NBA earlier announced net profits of \$5 billion, 33 percent up on last year, and \$4.2 billion, up 63 percent, respectively. Altogether, the big four made almost \$22 billion in 2009-10.

Westpac, NBA and ANZ have yet to state if they will follow the CBA's lead on interest rates, but even if they stick to the RBA's rise, this will still mean crippling increases in mortgage repayments. Nearly half the first home buyers nationally are already living in housing stress—spending over 30 percent of their income on repayments.

According to Ben Paris of Debt Mediators, more than 50,000 households in Queensland alone are currently suffering "severe" mortgage stress. He said he expected between 5 and 10 percent of those to default on their mortgage debts in the next month. A similar situation exists in western Sydney suburbs, where 2.5 to 2.77 percent of borrowers have already failed to make one or more repayments.

Since October 2009, the RBA has raised rates seven

times by 0.25 percent—a total of 175 basis points—followed by bank hikes of the same amount or greater. Economists are predicting rises totalling at least 1 percent over the next year. The International Monetary Fund last month said rates would need to keep rising to contain inflationary pressures if the mining investment boom driven by China were to continue.

Amid the hype of a mining-led “recovery,” this is a deliberate policy to curb wages and consumption spending. The result has been a “two-track” economy—a bonanza for the mining companies and banks that increasingly dominate the Australian economy, accompanied by deepening financial insecurity and social misery for working people.

With opinion polls showing overwhelming hostility toward the banks—one survey reported 93 percent demand for laws to limit bank fees to the actual cost of services—the Gillard government has moved into damage control. Treasurer Wayne Swan condemned the CBA rate rise as a “cynical cash grab” and promised “enduring reform”.

The Labor government, like its counterparts overseas, has no intention of taking any real action to restrict the unbridled operations of the banks. Swan foreshadowed only vague measures to “make the system more competitive”. Any such changes will be as toothless as the last “major reforms” Swan announced earlier in the year to restrict the exorbitant “exit” fees that banks charge when mortgage holders try to switch lenders.

In fact, the government is still shoring up the banks by guaranteeing all bank deposits and other debts. Potential liabilities on the government’s books from the scheme currently stand at almost \$1 trillion, nearly as large as Australia’s annual economic output of \$1.2 trillion.

Swan’s anti-bank posturing came after opposition shadow treasurer Joe Hockey made similar empty noises about “excessive” bank profits and suggested a nine point plan, equally as impotent, to persuade the banks to moderate their behaviour. Swan initially joined the banks in denouncing Hockey’s plan, accusing him of endangering the entire framework of free-market deregulation introduced by the Hawke government in the 1980s.

ANZ chief Mike Smith thundered that Hockey’s proposals would have a “massive economic impact in

the country” and Australian Bankers Association chief executive Steven Munchenberg chastised the Liberal spokesman for “floating all kinds of ideas” that “are dangerous and could acquire a life of their own”.

As Munchenberg’s comments indicate, the bankers are not primarily worried about Hockey or Swan, both of whom have vehemently ruled out any regulation of interest rates. The banks’ concern is that any suggestion that they should be controlled, no matter how token, could fuel mass social unrest. Millions of people have already begun to draw the conclusion that the banks, financial institutions and corporate giants, having caused the global financial crisis, and having been bailed out by the public purse, are now ratchetting up the assault on working class living conditions.

There is only one way to answer this offensive and that lies in the fight for a socialist program that includes the expropriation of the banks and giant financial institutions. They must be placed under public ownership, with full protection for small depositors, and operated under the democratic control of the working class. This will make available billions of dollars to provide affordable housing, eliminate financial hardship and meet social needs, including for decent hospitals, schools, transport systems and secure jobs. Such a program requires the development of a political movement of the working class, entirely independent of the old pro-capitalist organisations such as the unions and Labor Party, fighting for the complete reorganisation of society on the basis of the needs and interests of the majority, not the obscene wealth of a tiny minority.



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