

Responses to the Global Economic Crisis

The Global Economic Crisis is transforming politics around the world as governments partially abandon their commitment to free-market policies in an effort to prevent a collapse of the whole system. While some positive action has been taken, we must ensure that workers and others on low incomes do not bear the main burden of the crisis through rapidly increasing unemployment and reduced incomes.

Government responses

The crisis has undermined the myth of self-regulating markets. Governments are now discussing how, not whether, to regulate markets and use government spending to prevent a worsening of the recession and to create jobs. Prime Minister Rudd has officially rejected 'neo-liberalism' and 'extreme capitalism'.

Government spending is essential when private investment is paralysed. Priority should go to job creation in health, education, green jobs, public transport, and to assist workers and low income people who will otherwise bear the brunt of the crisis through unemployment, homelessness and loss of retirement incomes. Maintaining these incomes also creates demand for goods and services in the economy, and helps economic recovery.

Some business interests are trying to use the economic crisis as an excuse for delaying urgent action on climate change. This is nonsense, since green jobs must be part of the solution to the crisis. A new report *Green Gold Rush* issued jointly by the Australian Council of Trade Unions and Australian Conservation Foundation shows that 500,000 jobs could be created in renewable energy, energy-efficiency, sustainable water systems, biomaterials, green buildings and waste recycling - if governments provide the necessary support. Similar proposals for a "Green New Deal" have been made in Europe and the US.

Globally, governments have said that they will guarantee bank deposits. This does not involve immediate spending, and has prevented the disastrous runs on banks of the 1930s which meant millions of people lost their savings. Governments have also promised stricter global regulation of financial institutions, but the details remain to be seen. The US, Japanese, Chinese, European, and Australian governments have also had massive spending programs.

Direct government bailouts of particular banks, especially investment banks that have made and lost super profits, is more controversial. In Britain and Europe, governments have nationalised some banks, so they will eventually get a return on their investment, and have introduced stricter regulatory frameworks. But banks have not yet returned to normal lending.

In the US, the Obama administration remains committed to the Bush plan of restoring the health of the financial sector by purchasing the 'toxic assets' of major banks. This approach is almost certain to fail as there are too many 'toxic assets', and households are in too much debt to take out additional loans. US economist Nouriel Roubini has calculated that there are US\$3,600 billion in toxic assets, and that the banks have a total capital of US\$1,400 billion. The banks are insolvent, but the government so far will not force the issue with their owners.

There is also strong public opposition to public money going to investment banks without any assistance for the millions who are losing their homes, while bank executives walk away with massive payouts.

Although Australia has a much lower level of sub-prime loans (called "low doc" loans here), Australia has a high level of overall consumer debt (including mortgages, credit cards and personal loans). Sydney economist Steve Keen estimates this consumer debt is 156 per cent of the gross domestic product. We are now seeing increases in mortgage defaults with rising levels of homelessness.

The Rudd Government guaranteed bank deposits and paid an initial government assistance package of \$10 billion to pensioners, carers and families with children, in December 2008.

But as the global crisis has worsened, the government has introduced a second, much larger package totaling \$42 billion. Again many of its proposals are welcome, especially spending on schools, public housing, energy efficiency and other infrastructure.

But there are questions about the fairness of the stimulus. There is no rise in payments for unemployed people, wealthy private schools may receive the same assistance as more needy public schools, and more investment is needed in public transport.

It is very likely that additional stimulus packages will be introduced in the near future.

Proposals to create jobs and make Australia fairer and more environmentally sustainable

- Reregulation of the financial system to prevent such a crisis in the future. This would include much stronger transparency rules for all financial institutions, outlawing of all forms of predatory lending, regulation of lending for stock market trading and regulation of ratings agencies
- Regulation of senior executive incomes, and removal of bonuses that reward risky behaviour for short term profit
- A uniform national tax on all properties over \$2 million to discourage speculation and property booms
- A small Tobin Tax of 0.5 to 1 per cent on international currency transactions, to discourage speculation and provide a fund for development of the poorest countries
- A publicly-owned savings bank to provide low cost banking for consumers and small business as real competition with other banks
- Publicly funded consumer credit education programs for schools and the community
- Increased public spending on public housing, including community housing associations, and incentives for private investment in affordable housing
- Public investment and incentives for private investment to create green jobs in renewable energy, energy efficiency, sustainable water systems, including industry and household water recycling, biomaterials, green buildings and waste recycling
- Increased spending on public transport, in cities, between cities and in rural centres
- Increased spending on public hospitals and health care. Restore bulk billing and include dental health coverage
- Increased spending on public education at all levels (preschool, schools, TAFE and university) to reduce class sizes, and upgrade school buildings and equipment
- Following the failure of ABC Learning, government should fund good quality, accessible and affordable non-profit community-based childcare
- Public investment to close the gap for Indigenous health and education outcomes, and to encourage biodiversity conservation and environmental management on Indigenous lands
- Boost all pensions and benefits to provide a living income
- Use the new Fair Work Act to implement Australia's commitment to fair workplace laws under the International Labour Organisation Conventions, including freedom of association and collective bargaining rights
- Clearer obligations on employers to consult and negotiate with unions about proposed changes
- Government to fund paid training days for all workers put on short-time.

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