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Global Financial Crisis

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The global financial crisis has dominated the headlines for months and has affected countries all around the world. Although, national governments have stepped in to prevent the collapse of the financial system, the world is heading for a major recession. Australians nearing retirement have seen the value of their super fall dramatically while workers face the prospect of job losses and falling house prices as the financial crisis hits the rest of the economy. **So, how did this happen and what can we do about it?**

The most common reasons given for the current global financial crisis are:

1. US banks and mortgage brokers giving home loans to poor Americans who later defaulted on their debt;
2. The failure of the banks and investors to adequately assess the risk of investing in the financial assets that were based on these loans; and
3. These bad mortgages were sold to banks and investors around the world.

Deeper causes for the crisis

Although these factors are very important, there are deeper causes of the crisis. These include the financial deregulation, and other 'free-market' policies, followed in Australia, and around the world, over the last three decades. Another factor is the over-consumption of people in rich countries on the back of a big increase in debt, and the exploitation of poor countries and the environment.

The economists, business lobby groups and politicians who pushed this 'neo-liberal' – or 'economic rationalist' - agenda argued that if governments 'got out of the way' and let the 'free-market' operate without interference, then we'd all be better off.

They called for 'deregulation', 'privatisation' and more 'competition'. So, they removed protections for Australian industries, reduced regulation of banks and other finance companies, sold off public assets and attacked trade unions. They claimed that this would lead to a more efficient economy as well as higher economic growth. The results have not lived up to the claims of those who pushed this agenda.

Reducing regulation of banks has not led to more competition and a better deal for customers, but to fewer banks with bigger profits. It has also encouraged more financial speculation and less productive investment in the new infrastructure, social services and new industries we really need.

Removing protection for Australian industries and pursuing 'free trade' has not created new high-tech industries and quality jobs. Australians still pay far more for our imports and in interest payments on foreign debt than we receive for our exports. Rather than becoming a more diversified economy we have become even more dependent on mining and agriculture.

Privatisation has also reduced governments' income without delivering the promised benefits to consumers. Governments and big business have also put a big effort into reducing the rights and conditions of Australian workers, most recently with the WorkChoices laws.

Profits before people

These policies have created more insecure jobs, greater inequality and lower rates of employment than during the 1950s and 1960s. Big corporations have earned massive profits while our healthcare, education, infrastructure and environment have been run down.

Financial deregulation led to both the 'subprime crisis' and the global financial crisis. In the US, badly regulated banks and mortgage brokers sold these 'subprime' loans to people with low incomes and poor credit histories. The loans were then packaged into shares that could be traded on stock markets. Private ratings agencies like Moody's and Standard & Poor's gave these financial assets high ratings and they were bought by banks and other investors all around the world.

Home loan defaults

When Americans started defaulting on their home loans in large numbers US house prices fell sharply. This caused the value of the financial assets based on these home loans to fall too, creating massive losses throughout the global financial system. These losses sent shockwaves of panic through global markets, made even worse by the complexity and lack of transparency of the financial system. Banks refused to lend to each other, huge companies went bust and governments around the world scrambled to stop the financial system from collapsing.

So, what should we do about it?

The Rudd Government's guarantee of all bank deposits, the cash payments targeted at low-income earners and his commitment to bring forward major infrastructure projects are welcome.

However, it is clear that a lot more needs to be done to bring what the Prime Minister called 'extreme capitalism' under control. We need to think about how we can re-regulate the financial system to make sure it performs its proper role of financing productive investment and does not threaten the livelihoods of working Australians.

To do this we need global cooperation, best achieved through the United Nations, to re-regulate global finance.

The free-market agenda of the last few decades has failed

The big financial firms failed to efficiently allocate financial resources and to adequately assess risk. When the financial sector imploded it fell to governments – and ultimately taxpayers - to bail out the banks and stop the whole system from collapsing.

What the current crisis makes clear is that the era of governments acting in the interests of big corporations and free-market economists must end. Australians must force their elected representatives to reject the failed policies of the last three decades and refocus on the basic needs of Australians. **The need for a healthy environment, secure quality jobs and decent public health and education should be its top priorities.**

This serious crisis is an opportunity for a shift in direction. Government has to lead now, and with popular support, it can make the urgent need to reduce greenhouse gas emissions the focus of its effort to protect jobs and rebuild our economy.