

The Greed Squeeze



It has been pointed out that individuals and investment houses were making profits of in some cases \$280

million US dollars in the subprime market before the collapse last year. People who did not have the means to service housing loans were being aggressively coerced into taking them by consultants who were charging them huge hidden fees as part of their loan structures.

Our direct exposure to this global crisis in Australia has been lessened, by our more highly regulated financial sector, but we will still feel the brunt of it through the tightening of credit and stock market/superannuation level damage. Businesses around the country are already feeling the ill winds of falling consumer confidence as this massive financial disaster discourages spending.

Our four big banks are, of course, part of the global financial world and although not directly exposed to much of the worst subprime debt, they are connected to its ramifications, by the very nature of international banking and investment.

There has been a powerful move to privatise profits over the last decade and a never-ceasing call to reduce the obligation of taxation. And yet, now, when the milk is spilt and the bowl upturned, the money men call for the socialisation of their losses. Our Reserve Bank has pumped between \$4-7 billion dollars into our banking/lending market in a bid to maintain liquidity and confidence in our own banking sector. The United States has, of course, been attempting to float a rescue package of some \$700 billion US dollars into their own banking sector.

Likewise similar government/tax payer funded packages are being injected into banks around the world. Whether these actions will be able to arrest the falling financial houses of cards, slow it down, prevent a depression/recession or some degree of the above situations - is yet to be seen.

The global economy is on the brink of a huge amount of change and much of it will be forced upon it by circumstances of its own making. The pain will be felt by many and probably most by those least able to understand it. Endemic greed within our financial systems for huge short term profits will, in the end, cause people to lose their jobs, houses and ability to feed their families without welfare support. The same sections of our society who always bag the welfare state are causing its expansion through their own desire to grow exceedingly rich very quickly.

Macquarie Bank, Centro, ABC Learning Centres, Bridgecorp, Lehman Brothers, HBOS, North Rock.....The list of those shaky and those businesses already done and dusted is growing day by day. It will be interesting to see if real and positive change – accountability, regulation and respect for longer term profitability by the market can come out of this. Can we take the gambling compulsion out of the money market and replace it with something else.

If we boil all this down to the bone, and look at what it really says about us as a community, and our individual values, it is this: that we still reckon that life is all about being wealthy, and we aspire to being so far ahead of the game that normal rules don't apply. Money talks; and enough money says: "Don't bother me with the details, because I am too bloody rich to care!" SH

We are now faced with a massive worldwide credit crisis, and it is instructive to have a close look at what caused it. Our Prime Minister, Kevin Rudd, made a very interesting speech recently to the Federal Labor Business Forum in Sydney. He drew attention to the rampant greed for quick profits in the financial sector around the globe, and the absence of any effective regulation to prevent the current collapse of bank and investment houses we see before us.

In Australia and the United States, we have had 10 years of free market, ideologically driven conservative governments - and the consequences of this laissez-faire approach to managing the financial world are at once apparent. This idea that market forces will take care of everything is plainly an underwhelming one, when endless upward stock market pressure is demanded of all businesses – banks included.

The system's unrelenting need for ever greater profits and the unscrupulous behaviour of some within the investment sector have conspired to deliver us into a situation, where of course it will be the average person on the street who will ultimately suffer. We will bear the costs through our tax dollars going to mop up the mess, and face credit restrictions on our lifestyle imposed by the resultant chaos caused by the greed of get rich quick investment schemes gone wrong.