

Marx would have been proud

Henry Thornton
October 16, 2008

HENRY has been trying to make sense of the bailout.

Kevin Rudd guaranteeing bank deposits makes ideological sense, and in Henry's view economic sense.

Gordon Brown nationalising banks makes ideological sense, and arguably economic sense - which of us in Brown's position would be willing to say "Let the banks fail".

But George Bush rescuing US banks by part-nationalising them?

A few thoughtful souls have pointed out that Mr Rudd's fiscal expansion, announced and still to come, is likely to fuel inflation, coming as it does on top of already entrenched inflation and a rapidly easing of monetary policy.

We invite groups such as the IPA, the CIS and the Melbourne Institute for their comments, especially on the way ahead with economic management and financial system regulation.

A correspondent has pointed out that: "In his Communist Manifesto, published in 1848, Karl Marx proposed 10 measures to be implemented after the proletariat takes power, with the aim of centralising all instruments of production in the hands of the state. Proposal Number Five was to bring about the "centralisation of credit in the banks of the state, by means of a national bank with state capital and an exclusive monopoly.

"If he were to rise from the dead today, Marx might be delighted to discover that most economists and financial commentators, including many who claim to favour the free market, agree with him."

Henry has been so frustrated with this debate that he has asked "Lexington", a simple engineer, to provide his views today. Here goes:

Henry,

I seem easily and frequently disappointed these days by the leadership shown by our elected officials, but no longer surprised. I never thought I would have seen the shining light of neo-conservatism standing up in front of a breathless audience and in a loud steady voice, explaining why nationalising the US banking system was not only necessary, but the right thing to do. Coming hot on the heels of this, I was less amazed but no less disgusted with the latest offerings from Australia's own Dear Leader.

The \$10 billion stimulus package seems to my simple mind as a mixture of the prudent and the reprehensible. Pensioners got a long overdue leg-up and there were other features that seem entirely appropriate.

Let me now however, turn to the egregious housing component. This is a blatant, transparent, short-term politically motivated piece of work that should surprise nobody. This is what passes for leadership these days - start at the press release and work backwards from there.

Dear Leader Rudd has clearly decided that he does not want to see the Howard battlers turn on him for presiding over an erosion in their net worth, so he cynically steps in to pump up the tires and the media obediently fall into line by reporting this bit of the package with sickening gusto. It is so short term and utterly counter-productive.

The value of homes over the last 5 - 10 years has been shown - by definition - to have been overstated. Much of it was paper value and all of it was debt driven. (To my reading - this entire financial crisis is debt driven and what we are seeing on the markets is a knock-on effect from that. The stock market is the symptom, not the cause).

This is inflationary. It will at best prop up an ailing market for a while - like a boxer carrying a beaten opponent a few extra rounds before the knockout punch because the fix is in - before the inevitable crunch comes. At worst, it will create another real-estate bubble predicated on nothing but speculation. Where are the fundamentals to stop a free-fall when the band finally stops playing?

Rudd missed a golden opportunity, and what is infinitely worse, in doing so he has treated the punters with contempt. When the Kennett Government came to power in Victoria it did so with promises of pain and suffering up front and on the table, but the punters knew it was necessary. The job got done, and of course Kennett got turfed out as soon as was convenient - to be locked in a glass case marked "break this only in the event of a real crisis" (someone from the Hawthorn Football club clearly had a hammer).

Rudd is all about spin and the appearance of things. He has appealed to the lowest common denominator and done nothing - repeat nothing - in the way of a genuine attempt to restructure and rebuild.

He could have, should have, been really bold and done something that could after a tough few years, set Australia up for a generation.

Where was the announcement about investing in long term, value-creating enterprise like infrastructure, like technology and like innovation? Rudd should have said "this will hurt, but it is necessary". The punters would understand and

even applaud, and Australia at the present time is perfectly placed with the rest of the world comparatively much worse off.

Today's piece of populism is to have a go at bank executive salaries - way to tackle the core of the problem, Kevvie. This was more of the same from the man who brought you the 2020 summit. Nuffink.

I remember opening up my mail a few years ago to find a nice cheque from George W. Bush - all that was missing were the directions to the nearest Circuit City store and instructions on how to spend it. Perhaps Rudd should have cut out the middle man here, contacted Harvey Norman and ordered a washing machine for every man, woman and child in Australia. The net effect would be the same - at least we could have saved on a few tonnes of carbon emission from the punters heading off to browse the whitegoods in the family station wagon.

Kevin Rudd should dye his hair pink - I guess that's no surprise. What is surprising is that he will be able to borrow the hair dye bottle from George W. Bush. Quelle horreur.