



There's no case for crisis overreaction

The ALP Left's response to the global financial crisis is unrealistic and impractical, writes **Ben Wyatt**.

Political parties across the world are caught up in a frantic struggle to work out an appropriate regulatory environment, both internationally and domestically, in the post-global financial crisis world.

Prime Minister Kevin Rudd has been active on the international front and the government has been particularly aggressive in attributing blame to "that particular brand of free-market fundamentalism, extreme capitalism and excessive greed" in the domestic debate.

Left of centre parties must be extremely careful in formulating their response to the apparently new financial order. It causes me some concern to see those on the left crow about their ideological victory over capitalism and demand the establishment of a socialist utopia in which government, through regulation, creates a web of laws that both protects us from ourselves and promotes the entrepreneurial freedoms that are so vital for economic and social progress.

After the ALP Left faction's recent meeting in Canberra, senator Doug Cameron proclaimed he would hold Rudd to implementing "concrete mechanisms to protect the Australian community and economy from irresponsible financial activity".

One thing apparent since September 2008 is the Australian regulatory environment already does, to a large degree, what Cameron

demands. The crisis has shown our banks are well regulated; they do not have balance sheets riddled with assets of no value and are not struggling to meet capital requirements. The Australian Prudential Regulation Authority and the Australian Securities and Investments Commission can take credit for our financial system's strength.

To lay the blame for economic damage with liberalism is hardly pragmatic and realistic. The ALP Left goes on to say that "we want to see [the PM's declaration of neo-liberalism's death] fleshed out in a stronger set of policy prescriptions because the elements of neo-liberalism such as free trade, deregulation and privatisation are still in place".

The Left may find themselves somewhat disappointed with Rudd's "fleshing out", as I dare say the PM will not want to wind back free trade, nor will excessive regulation be the answer to what ails us. The market works at its best when it is at its most transparent and, to be frank, at its most simple (in its own complex way!). Excessive regulation not only weighs on market efficiency (and the wealth that generates) but makes it far more complex and expensive for average Australians to participate. Industry super funds will be unable to keep fees low under excessive regulation.

Economists got it horribly wrong in predicting the crisis. I don't condemn, but I make the point we cannot create an environment that guarantees a fair and equitable outcome for all, all the time. This would require removing risk — and the subsequent rewards — altogether.

And it is hard to regulate away human enthusiasm or pessimism.

The fundamental cause of our recession is that US banks lent too much money to people who could not pay it back. We can be critical of the investment bankers who then packaged this enthusiasm and sold it around the world, but enthusiasm and pessimism are the two sentiments that are not only driving the recession but are also essential to the recovery of the world's financial system. Why else would governments worldwide be announcing stimulus packages? I can assure you that the PM is banking on enthusiasm to return the budget deficit to surplus.

This is why there has been such antagonism to the budget's attack on employee share schemes. Australia has a strong culture of share ownership and it is a great incentive to have a slice of your employer's cake. The share schemes freeze has had no impact on much-maligned executive remuneration packages. Overwhelmingly it has affected middle managers and the vast army of employees who do the grunt work and have, until recently, basked in the glory of the rising share prices of their employers.

The Left may be disappointed if they expect to see the creation of a regulatory superstate. Despite his attacks on neo-liberalism, the PM does not want this and neither do my constituents, who have watched their superannuation shrink under the global economic onslaught.

■ *Ben Wyatt is Western Australia's shadow treasurer.*

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