

A close-up portrait of Wayne Swan, an older man with glasses, wearing a suit and tie. He is looking slightly to the right with a serious expression. The background is dark and out of focus.

THE GOOD FIGHT

Six years, two prime ministers
and staring down the Great Recession

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NO ORDINARY PHONE CALL

10 January 2008

I took the call at 6.30 am in my car on the main street of Cotton Tree at Maroochydore on the Sunshine Coast. This was no ordinary summer break; and it turned out to be no ordinary call.

The coast in January has long been a place of personal refuge for me; the glorious surf there makes me feel a million miles away from the Canberra cauldron. This is where my deepest thinking occurs, where my body and mind are the healthiest. In short, despite not having lived there for forty years, it remains home in the most spiritual sense of the word.

I woke earlier that morning with the news that US Treasury secretary Hank Paulson wanted to talk. After only a few weeks in the job, calls like this were a new experience, although they would become a lot more regular during the next few years; but, in the first fortnight of a new year, it struck me as a touch unorthodox to be receiving such a call at short notice.

Not wanting to wake the family, I drove down to the Cotton Tree News Agency to pick up the papers and take the call in my

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Ford Territory. The rain was bucketing down; there would be no surf today.

The phone rang. I wedged the handset between my shoulder and ear, so I could stick my finger in the other ear and block out the deafening noise of the rain; this meant I still had a hand free to take notes. A truly Australian experience, it could be said.

The sub-prime crisis had begun early in 2007, and by April of that year fifty mortgage companies had declared bankruptcy. This bursting of the US housing bubble had had devastating consequences on US financial markets, and by now was reverberating around the world. At the time of my conversation with Paulson, the crisis wasn't yet over. Although the US was in recession, he was confident his country could ride it out. The principal reason for his call was to offer this reassurance. Yet the very fact that he had rung meant that neither of us could be assured of what was over the horizon.

I can remember every word of our conversation: 'Look . . . if we can avoid a meltdown in house prices, then we might be able to see a way through this,' he said. This was a big 'if', and I suspect the real motivation behind his call.

It seemed a dicey prospect that the health of the entire US economic system was underpinned by the housing market stabilising, given that it was the very stench of toxic home loans that had, only a few months earlier, brought to their knees two of the managed hedge funds run by Bear Stearns, one of America's oldest investment banks.

What if their housing market did deteriorate further, I wondered. Then what for America? Indeed, then what for Australia? Back on the phone, I urgently sought the latest update from Treasury experts about just how exposed Australia would be in the event of a US downturn more substantial than had so far been imagined.

Treasury came back a few days later with its considered advice. The executive minute read: 'The risks to the global economy posed by the US housing market are substantial.' Counterbalanced against this, its analysis also concluded that there were 'significant upside risks to the Australian economy, which would lead to higher growth outcomes than forecast'.

Like many Aussies, I'm a voracious summer reader. So, being at the beach at this time, I was ploughing through three big books, along with thousands of pages of Treasury briefings in thick white binders that took up a lot of space in the back of the Territory. After my conversation with Paulson, each of these three books felt more prophetic than the next.

Alan Greenspan's memoir, a weighty read about his time in charge of the US Federal Reserve, was defiant in defending his legacy of the so-called 'Greenspan Put'. Ross Fitzgerald's biography of 'Red' Ted Theodore examined the life of this Queenslander who became the federal Treasurer just two days after the US stock market crash of 1929 and was a member of the Scullin Labor government, destroyed by the Great Depression and by the disunity in its ranks that developed during that crisis. Theodore, an early Keynesian, was ultimately forced to stand aside by a political scandal. Then Nicholas Taleb's bestseller *The Black Swan* explored the impact of truly extreme outlier events—unpredictable phenomena that change the world.

Understanding the gravity of Paulson's call, I gave my deepest thought to Fitzgerald's book and the events of the Great Depression. It was impossible not to. The long queues of the unemployed—people like my own father's brothers, who had been forced off

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my grandfather's war settlement farm; the community destruction that accompanied this failure of the economy to recover until after World War II. Its cause was the economic orthodoxy of the day. That is, in circumstances of rapidly falling revenue and debt repayment obligations, governments believed they had no alternative than to slash public expenditure. This had caused untold misery in Australia and around the world. These events helped shape the core of my political beliefs.

I had spent the better part of two decades talking about growing prosperity—not as an end in itself, but as a means to spreading opportunity to every postcode in the country. My entire working life had been in preparation for this moment, a chance to fully implement a Labor program to make sure working people got a fair go.

Now the risk was looming ever larger that all our plans could be derailed by a financial crisis of a magnitude that had not yet been fully comprehended. In short, what if Theodore's fate somehow awaited me? What if our nation now confronted a challenge as big as the Great Depression? I knew then, even if the downside risks didn't eventuate, that I wouldn't have the easy cruise my predecessor Costello had had.

On this wet and rainy morning, Paulson's call and this possibility was really when the whistle blew for me.