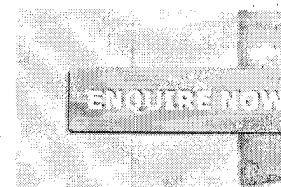
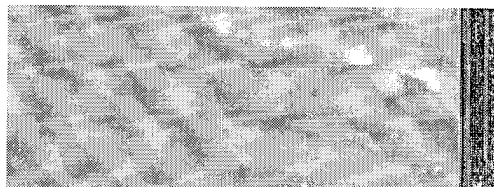


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Home > Finance news > Economy in focus > Australia, drowning in debt

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Australia, drowning in debt

Updated: 2:04:21 PM, Monday September 17, 2012

By Matthew King

We are awash with debt. It is a deep addiction, one that is common across the western world. It has been estimated that the total Australian debt comes to just over \$4 trillion. Some \$174,000 for every man, woman and child.

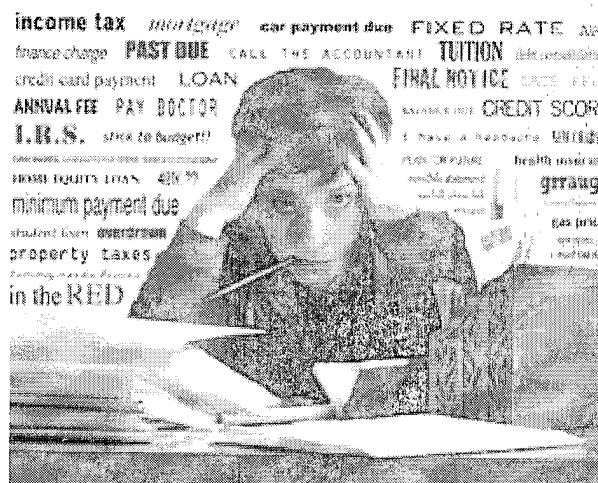
In our name, our governments have committed us to over \$475 billion worth of debt. Of this, Commonwealth government debt accounts for over \$239 billion, local councils, the states, territories and government instrumentalities the rest.

For all the talk of a surplus this financial year the Commonwealth still managed to load up a deficit of \$47.7 billion last year. The states and territories have long been on a similar spending surge with net debt already at \$129 billion, projected to increase some 40 per cent to \$183 billion by 2015.

Even local councils are not immune. Brisbane City Council for instance has a net debt of some \$1.9 billion, while it is not uncommon for the more traditional local council to have debts of anywhere between \$15 to \$30 million.

But debt permeates every level of our society, from the much loved credit card and home loan, to the debt that pays for our courts, fighter planes and garbage collection.

Estimates place total private debt at over \$3.5 trillion. Comprising \$2 trillion of debt generated by business and investment funds and \$1.574 trillion by households. Which, for the first time, makes total household debt worth more than our entire Gross Domestic Product (GDP).



We are awash with debt, addicted to it, drowning in it. To the tune of \$4 trillion. Some \$174,000 for every man, woman and child. What, if anything, needs to be done?

Image: © littleny - Fotolia.com

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By far the largest component of household debt* is connected to housing, some \$1.257 trillion dollars. \$853 billion by owner occupiers and \$405 billion in investment housing. Credit card debt by comparison is a comparatively small figure of \$51 billion while other personal debts are a "relatively" reasonable \$139 billion.

A pretty decent case can be made that the GFC was caused by a massive private debt bubble, financed by speculation over traditional investment. And when the system came unstuck, the money slowed, people and companies stopped spending. And vast debt was passed from private hands to already over committed governments, in a desperate attempt to keep the wheels on.

And government over commitment is astounding. In 2011 the US budget deficit was \$1.296 trillion, with total public Federal debt just shy of \$16 trillion. But they are not alone. In 2011 the French government spent \$115 billion more than it collected in revenue, with a national debt approximately \$2.34 trillion. Similarly in 2011 the United Kingdom spent \$223 billion it didn't have, on top of a national debt of approximately \$1.52 trillion.

The scale of personal debt can be seen in the ratio of US GDP to private debt, which peaked at 303 per cent in 2009, a steady climb from 43 per cent in 1945, although the trend spiked from the early 80's. In Australia, this ratio was around 155 per cent also following a similar upward spike from the 80's.

US consumers have been forced by brutal necessity to deleverage, i.e. paying off debt, dropping the GDP to private debt ratio by 15 per cent to approximately 255 per cent. Australia on the other hand has barely made a dent, dropping only 8 per cent in the last three years.

Debt financing at all levels, for everything from basic day to day expenditure to rampant speculation has come home to roost.

The debt danger

The paradox of thrift (or paradox of saving), popularized by economist John Maynard Keynes, states that as individuals and firms reduce spending and pay off debt it collectively deepens a financial crisis, as aggregate demand and economic growth slows. In effect, what is beneficial to the individual may be collectively bad for the economy.

We respond, eventually, to too much debt. But the consequences can be painful. A significant amount of Australian debt is locked against the value of real estate. If the wheels were to fall off the Chinese economy, then we may well see our own property bubble bursting.

Government, across all levels, is still addicted to living beyond its means. Without significant funds at hand they may well be restricted in how they deal with a renewal of the crisis. It also means, as they have recently found in Queensland, that now expected high levels of service will have to be cut. The western welfare state has proved to be unsustainable in its current form.

And finally on an ethical level the current generation at the helm have not been the most effective financial stewards. Indeed a very good argument can be made that we have placed the nation heavily into debt to finance an unsustainable standard of living. Worst still we have eschewed investment in productive capabilities, shifted jobs off shore and destroyed industries by embracing financial engineering and poorly constructed global "free" trade.

The next generation is simply being sold a pup. Intergenerational debt will not be a happy experience, as the youth of Spain and Greece are discovering already.

What can you do? Well you could build a bunker, convert you assets to gold and worry about the coming financial apocalypse. Or you could get your finances in order, vote wisely, pay off your debt, spend what you can afford and make sure you get some prudent financial advice. At some point the system will be reset and opportunities will be there for those that are prepared.

Oh, and the beginnings of the next bubble is probably taking form right now. Wind farm anybody? Nanotech? Someone is bound to make a fortune or two, if they get in quick.

Editors note: Debt data has been updated with ABS March Key Figures 16/08/2012.



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*The views in this article are those of the author and are not necessarily those of Telstra BigPond. Debt data was sourced from; The Australian Office of Financial Management, Australian Bureau of Statistics - March 2012 Key Figures and * www.australiandebtclock.com.au.*

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► Bighead1883

14/08/2012 7:49:25 PM

We are still a sovereign country unlike those caught up in the EU. So we should quantitative ease to lower our dollar to help exporters and to down pay all debt. We do not have to be in this debt, it's fiscal kidnapping by Wall Street.

► daryl

15/08/2012 3:56:22 AM

I love this article! I would love to know what the writer means when talking about making a fortune and getting in quick?? when and if the next bubble burst, What is it that we are expecting? how is someone going to make a fortune off another global financial crisis? Any comments would be appreciated guys!

cheers!

>>>>

Daryl, thank you for your kind words. I think that a new article on possible new bubbles might be in order. There is one in particular that IMHO is going to change everything. Regards, Matthew (the Editor)

▸ **Mick Smith**

15/08/2012 6:48:54 PM

Hi. I have simple question. According to the article, Government debt \$525 billion. Public debt \$2tn. How come total debt becomes 4tn?

>>>

Mick, the difference is largely in the corporate paper market (financial sector debts). As you asked I will flesh this out a bit more in the article. The Editor

▸ **Anne**

19/08/2012 8:39:09 PM

I fear this is only half the story. What about superannuation savings? Or is this something of the old scaremongering we have seen in the past. Let's see what the reserve bank has to say about your analysis. I am presently in Spain. Maybe we should change places with them? What do you say

▸ **Bernie**

21/08/2012 4:48:06 PM

Debt is not a problem as long as it is used as a wealth creating tool. I am interested in the debts held by state and local governments. I have been trying to get a handle on this since I heard that Queensland State debts was \$100billion. I don't know if this is correct but it seems a huge amount of money to owe with little to show in regards to additional state owned capital. I suspect that the cost of the bureaucracy (that adds no value) at each level of government is where the money has gone.

>>>>

Bernie I will see what we can find out. The Editor

▸ **Trevor**

23/08/2012 9:01:42 AM

What I would like to know is who is this money owed to. Is it people, countries or just paper calculations?

>>>

It's all real debt and owed to a multitude of entities from the local mutual through to multinational financial institutions. The Editor

▸ **Modes**

24/08/2012 1:39:06 PM

Or you could get your finances in order,(done) vote wisely,(Not that that would make any difference) pay off your debt,(don't have any) spend what you can afford (which I do) and make sure you get some prudent financial advice.