

Deluding Ourselves to an Economic Depression

Retrieved Friday 31st of March 2017 07:51:57 PM

The fury of Mother Nature was unleashed in Queensland this week.

Cyclone Debbie wreaked havoc on our beautiful coastline and the picturesque Whitsunday region.

Our thoughts are with the residents of the affected areas, as they face the unenviable clean-up task and rebuild.

Human nature has been on full display in our markets this week as well.

The All Ordinaries Index is making another assault on the psychological 6000-point level.

And in spite of mortgage rate increases, the *Australian Financial Review* reported on 25 March 2017: 'Sydney property auction clearance rate hits 2017 high of 81.1pc.'

When human nature is in greed mode, [warnings of overvalued markets](#) are like water off a duck's back. The fear of missing out is a powerful motivator.

People rarely question the why, how, and where to from here... they just pile in instead.

The bigger fool theory prevails.

It has been more than 25 years [since Australia's last recession](#). This is far too long. The risk of contempt is high. As Minsky stated, stability creates instability.

People's ignorance as to what is driving our so-called economic success is breathtaking.

And I don't just mean the person in the street.

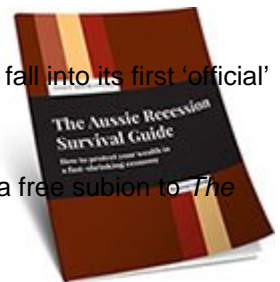
Economists and other commentators — who should know better — never mention the level of debt that has been added to the system to create the positive GDP numbers. It is all about the result, with little mention of the drugs used to create that winning outcome.

While Australia and the developed world have largely moved forward since 2008/09, Greece has struggled.

The Aussie Recession Survival Guide: How to protect your wealth in a fast-shrinking economy

In this urgent investor report, *Daily Reckoning* editor Greg Canavan shows you why Australia is poised to fall into its first 'official' recession in 25 years...

Simply enter your email address in the box below and click 'Claim My Free Report'. Plus... you'll receive a free subion to *The Daily Reckoning*.



We will collect and handle your personal information in accordance with our [Privacy Policy](#). You can cancel your subion at any time.

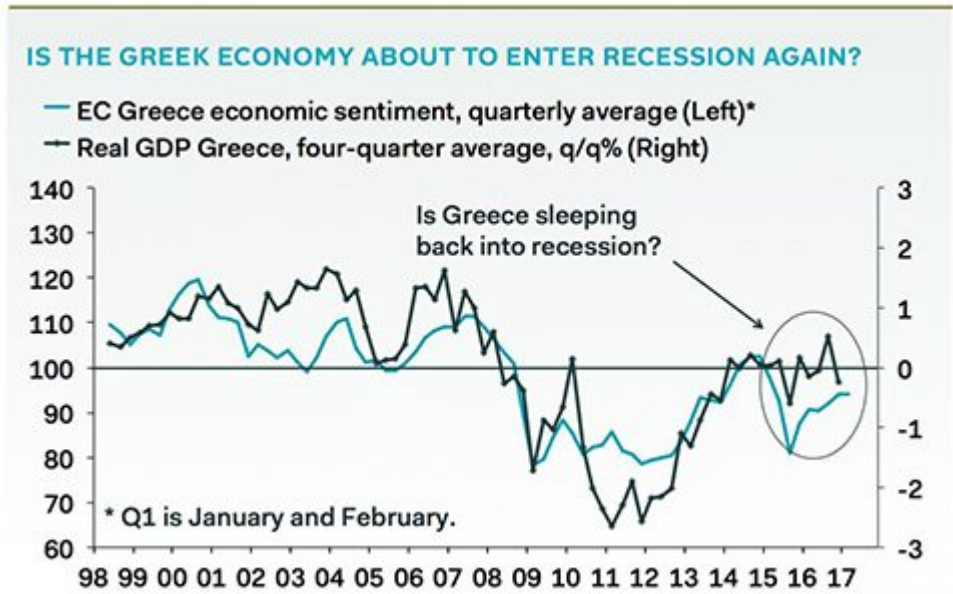
Greece and Australia: Two peas in the same pod

Greece is widely classified as an economic basket case...stuck in a permanent recession.

Here's a recent line from the *Wall Street Journal* on the Greek economy: 'Greek Economy Contracts at Faster Pace than

Estimated Adding Hurdle to Bailout Talks'.

And this graph appeared in Business Insider on 24 March 2017:



Source: Business Insider
[\[Click to enlarge\]](#)

The contrast between Greece and Australia could not be starker.

The Bank of International Settlements (BIS — also referred to as the ‘Central Bank of Central Banks’) produce, on a quarterly basis, a comprehensive spreadsheet on the world’s total credit to the non-financial sector. The data is broken down on a country-by-country basis. For anyone interested in reviewing the data, [here is the link to the BIS site](#).

The following table is a selected extract from the BIS data (the latest information is to September 2016) on the debt trends in Greece, Australia and the G20 since March 2009 (the recognised low-point during the GFC).

For ease of comparison, the debt level for each is quoted in the domestic currency, and global debt is in US dollars.

Country	Private Non-Financial Sector (Corporate %26 Households) March 2009	General Govt. Debt March 2009
Greece	€274 billion	€280 billion
Australia	AU\$2.35 trillion	AU\$0.15 trillion
G20	US\$72.7 trillion	US\$33.5 trillion

This table shows you why there is such a difference in economic fortunes between Greece and Australia.

We have added more debt, on a percentage basis, than the average of the G20 nations.

This is not something we should be particularly proud of. But the media, business leaders and elected officials all salivate over the ‘growing’ economy with barely a thought to the noose we are placing around our necks.

If we look at the debt paths of both countries before the GFC curtain fell, we’ll see there was very little difference.

The BIS data on government and private debt in Greece dates back to 31 December 1997.

Using that date as a starting point, Greece had a combined debt of €147 billion, and Australia's combined debt was AU\$840 billion.

From 1997 to 2009, Greece's debt increased 3.6-fold and Australia's threefold.

All it has taken for Greece to become an economic basket case is...wait for it...a decrease in debt of just 6%. A modest reversal in the debt-accumulation path and the wheels fall off.

This tells you just how [addicted modern economies are to debt](#). The slightest withdrawal of the economic stimulant plunges an economy into depressive conditions.

Living within your means and paying down debt is referred to as *austerity*, while living well beyond your means is labelled a *success*.

That's how warped our value systems have become from decades of debt addiction.

It took Australians more than a century to accumulate \$2.5 trillion in debt; in the space of less than eight years, we've added a further \$1.5 trillion.

To paraphrase from the failed Apollo 13 mission, 'Australia, we have a problem'.

A very serious problem.

When our economic growth is totally and utterly reliant on debt, it begs the obvious question: How much more debt can we avail ourselves of?

The capacity to borrow more money is governed by two factors: income and interest rates.

It's my contention that both of these factors are running into a wind.

Income growth in the private and public sector is becoming harder to achieve. Globalisation and automation are catching Western economies in a vice. An abundance of offshore cheap labour, an overcapacity to produce goods, and the relentless uptake of robotics does not augur well for Western incomes.

Without income growth, the capacity to take on more debt is conditional upon the cost of debt (interest rates) going lower.

There is scope for the RBA to drop rates by at least 1.5%...taking our cash rate to zero.

However, banks and the government do not source debt funding exclusively from domestic sources. Local banks need to source funding from overseas to satisfy our appetite for debt. Aussie borrowers felt the recent uptick in the US 10-year bond rate with banks increasing mortgage rates.

Without higher incomes and lower interest rates, the potential for continued debt expansion is reduced considerably...especially when you add into this equation the existing debt burden our society is carrying.

Australia's debt camel can only carry so many straws before its back breaks. At the rate we've been piling straws on that overburdened animal, we must be fast approaching the point when the legs start to buckle.

Therein lies the problem.

We need to add something in the order of \$5 of debt to produce \$1 of GDP 'growth'.

It's getting harder and harder to keep this illusion of 'growth' going.

We are living in a fool's paradise.

As we have seen with Greece, all it takes is for debt accumulation to ease modestly and you very quickly go from the economic penthouse to the outhouse.

So-called experts and supposedly responsible public figures that champion Australia as a beacon of economic success are setting us up for a massive fall.

The Greeks believed they, too, could have it all.

[We are deluding ourselves into a depression.](#)

Regards,

Vern Gowdie,
Editor, *The Daily Reckoning*