Australian national debt hits $1 trillion as interest bill escalates

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The announcement last week that Australian government debt had passed the $1 trillion mark has delivered further pressure from the representatives of finance capital for deeper cuts in social spending, making it clear that the savaging of the National Disability Insurance Scheme (NDIS) is only the beginning.

Spending on the NDIS will be slashed by $38 billion over the next four years—the biggest cut to a government social program in Australian history—with estimates that some 240,000 existing participants in the scheme will be removed and a further 110,000 denied access.

The escalation of Australian government debt is in line with a global trend which has seen a debt spiral in the wake of the global financial crisis of 2008 and the increase in government spending in response to the COVID-19 global pandemic, which is now being compounded by burgeoning military budgets.

Coincidentally, the announcement of the Australian debt came as it was announced that US national debt had passed the $40 trillion dollar mark. Labor Treasurer Jim Chalmers sought to downplay the significance of the debt figure saying that at around 33 percent of GDP it was much lower than other major economies and most of the increase had been incurred under previous Coalition government.

"Debt as a share of the economy is less than half the US, less than half Canada, less than half the UK… We have less debt that any major advanced economy," Chalmers said.

That may well be true, but one is immediately reminded of the old saying that there are "lies, damn lies and statistics."

Chalmer's reassurances belie the fact that the same trends in all the major economies are at work in Australia—above all through the rise of interest rates. Whatever the absolute level of debt, interest rate increases are creating what has been characterised as a "doom loop" where growing interest costs increase the need for further debt.

Former Commonwealth Bank CEO David Murray, now heavily involved in the financial sector, said the instability in global bond markets, with yields on long-term debt going above 5 percent, meant the debt situation in Australia had to be regarded "very seriously."

"The idea of saying debt is low relative to GDP and other countries is a bit silly because all governments have been pumping up their debt levels. The US has stepped in to buy their own bonds to stabilise the market, which is not a good sign," he said.

Murray was referring to the announcement by US Treasury secretary Scott Bessent that the Treasury would intervene to increase its buying of US long-term debt from $2 billion to $4 billion and more if necessary to try to bring down bond yields.

But the move, an indication of the growing concerns about the state of the US financial system, has been largely dismissed as a "band aid," which has failed to even quell short-term disturbances let alone alleviate the longer-term situation.

The impact of the global rise in interest rates can be seen from the history of government debt financing. Between 2013 and 2021, when interest rates worldwide were kept at ultra-low levels by the "quantitative easing" of the US Federal Reserve, followed by the actions of other central banks, the interest rate on Australian government debt more than halved, dropping from 3.9 percent to 1.6 percent.

This year it is expected to be 4.8 percent. The Treasury has projected that interest costs will rise at an annual rate of 8.8 percent over the next decade and will be the fastest growing item in the federal budget. Interest payments are already at $29.6 billion, larger than items such as unemployment benefits, childcare and public schools, and are expected to rise to $42.3 billion by 2029–30.

It is not only the federal budget that is impacted. When the debt of the states is considered, the total public debt is set to rise rapidly to $2 trillion.

While Chalmers was busy noting that the government debt to GDP ratio was much lower than other economies, the ABC's chief business correspondent Ian Verrender pointed to a major area of vulnerability because "Australian household debt is at any eye watering 190 percent of household income."

"Mostly attached to real estate, that debt exposure makes Australians more vulnerable to interest rate movements than most other countries," he wrote.

The voices of finance capital and their media mouthpieces are growing louder in their warnings of the dangers to the stability of the financial system and their demands for action, above all through cuts on government outlays.

Former Treasury secretary Michael Parkinson told the *Australian Financial Review* (AFR) that he was concerned about the commitment to "fiscal sustainability" on both sides of politics.

"Where we are in the economic cycle, we should be running significant structural surpluses, and yet we've got a structural, and headline deficit."

Another former Treasury secretary in 2015–2016, John Fraser said although the $1 trillion debt was a significant milestone the trajectory was of greater concern.

"We're not a strong economy if you are relying on debt all the time, and we're not doing anything about it. It will cost more to borrow and roll over the debt. It's not just the federal debt, but it's the states as well."

The AFR has taken a leading role in the push for austerity. Its headlines and articles have highlighted the "borrowing binge" and warned that the $1 trillion milestone is not the biggest problem but the lack of ambition the Albanese government to fix it. The publication has featured comments by former Liberal treasurer Peter Costello that the debt signifies the end of "Australian exceptionalism," and that reining in debt requires "fortitude nor platitudes."

AFR journalist Phillip Coorey noted that the cuts to the NDIS were the "biggest single budget saving anyone can recall. But it needs to keep going."

In an editorial the AFR said returning to an era of low debt seemed like a pipedream "when politicians lack both the appetite for austerity and the honesty to level with voters about the trade-offs of spending cuts" with a public "conditioned on government handouts."

But within this situation it found a "silver lining" in that with the massive cuts to the NDIS "Labor has shown it is capable of some structural discipline when pushed" and that this was a rare and welcome example of Labor's capacity to enforce "value-for-money principles."

Such comments are a warning that, as the *World Socialist Web Site* has explained, the attacks on the NDIS, directed at the most vulnerable sections of the population, are only the beginning of a war on the working class which is being driven by the deepening crisis of the global capitalist system of which the growing debt mountain is a sharp expression.