



# Australian Citizens Party

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## MEDIA RELEASE

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### To avert a crushing economic depression, restructure the debt!

*Australia urgently needs a moratorium on foreclosures of family homes and farms, and a program to restructure unpayable household and bank debt.*

September is the month the Australian economy starts sliding down a sudden incline that leads off a depression cliff. Already as many as a third of all small and medium enterprises (SMEs) in Australia are in danger of going out of business, according to experts. This month the government will start to reduce the income support payments that have kept households and businesses afloat, and banks will end loan deferral periods for some of the more than 800,000 borrowers who haven't been making repayments for the last six months. Business commentator Alan Kohler warned in *The Australian* on 31 August that the two factors must be addressed "to ensure the pandemic doesn't turn into a financial crisis".

The government can and must invest in a program of nation-building infrastructure and industry expansion to rebalance the Australian workforce, replacing non-essential services jobs with essential productive jobs. This will start to provide the increased income that households need. What it won't do, however, is address the ticking time-bomb of household debt which is the most urgent threat to the economy and any economic recovery because the debt is unaffordable by any measure. Australia has the highest household debt to income in the world, and the second highest household debt to GDP. The majority of the debt has been run up against overpriced house purchases that are often more than 10 times annual income, compared with the historical average of 3-4 times. Even before the pandemic the borrowers could barely afford to service the debt; now it's impossible—Alan Kohler calculated that at an average of \$467,000, the more than 800,000 deferred loans are worth at least \$373 billion. This is a disaster not only for those households, but also for the banks.

#### Moratorium and reconstruction

The Citizens Party has a policy, currently being drafted into legislation, of a moratorium on foreclosures of family homes and family farms, pending a program of restructuring the unpayable debt. This needs to be done to reduce the debt burden on Australians in an orderly way that keeps families in their homes and averts the shock and social chaos of a crushing economic depression. The policy does *not* include saving investment properties and propping up house prices—prices will crash, but the debt should be reduced to reflect more realistic and affordable prices.

In 2012-13, experts worked with Bob Katter MP on a program to restructure the \$70 billion of rural debt crushing Australian farmers. At the time, QUT economist Dr Mark McGovern estimated that a mortgage debt crisis would trail the rural debt crisis by about seven years—which is happening now. He helped to develop a bill, the [Reserve Bank Amendment \(Australian Reconstruction and Development Board\) Bill 2013](#), that Bob Katter introduced in the House of Representatives, which would have established a debt reconstruction board in the RBA that bought farm debt off the private banks at a discount worn by the banks, and charged the farmers 2-3 per cent interest instead of 12 per cent or more.

As a minister in the Queensland government in the 1980s, Bob Katter oversaw such a reconstruction of the debt of sugar growers using the state-owned Queensland Investment Development Corporation. In a [23 October 2019 speech in Parliament](#), Katter recounted how it worked:

"Every government in Australian history, state and federal, since the time when King O'Malley set up the Commonwealth Bank, has had a very simple reconstruction approach when farmers get into trouble", Katter said. "All they do is go in and buy the bad debt. ... Since we are buying a bad or in-danger debt, we expect a discount. ... We bought the farm debt at a discount of 15 to 20 per cent—in that sort of range. I speak with authority because I was the minister responsible for the state bank when the sugar industry in Queensland went down, and went down badly. ... So we borrowed the money—I think it was at about 2.5 per cent—and, if memory serves me correctly, we loaned out about \$700 million. We took all the mortgages. When I was told that I had responsibility for that, I said, 'Like bloody hell—I'm not taking the reconstruction bank. No way. I'm not taking all the cripples.' They said, 'There aren't any cripples.' I looked into it and found that there were only 13 farms that had to be foreclosed on. Over a 10-year period, we had loaned out to thousands of farms, but there were only

13. At the present moment, if you're on \$1 million you've got to pay the bank about \$55,000 every year. If they've only got to pay interest-only at two per cent then you're coming down to about \$16,000." Although it wasn't the intention, the Queensland government made a profit of around \$200 million in that reconstruction, and saved the sugar industry.

Dr McGovern told the Citizens Party the same principles would apply to mortgage debt, although the volume of mortgage debt is much larger than rural debt. "Today the problems are two orders of magnitude worse, and bank insolvency issues may well arise in some cases", he warned. This means the banks and their own enormous foreign debts would also have to be restructured, which would necessarily involve a Glass-Steagall separation of commercial deposit-taking and lending from speculative investment banking. It would also require a national bank—which could be achieved through reclaiming the Reserve Bank—that can stand behind and oversee the restructuring of the private banks, and be a development bank to recapitalise the economy by investing in infrastructure and industry, and especially assist the collapsing SME sector which the private banks have starved of credit for too long.

The Citizens Party is working tirelessly on the solutions to save Australian households and the economy—[join us!](#)

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