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Dangerous world of debt

● The recent Greek crisis was about that nation's deadly cocktail of dangerously high public debt and huge budget deficits. The euro was under the hammer and many questioned the survival of that common currency across the European Union, if not the EU itself.

Europe was in trouble well before the global financial crisis. The EU's gross domestic product growth had already halved from 4 per cent during the 1990s to 2 per cent in the first decade of the new century. The European Commission was thought to be bloated and overly accommodating to EU fringe members.

In an age of acronyms, the term PIGS was created to cover four basket-case members: Portugal, Italy, Greece and Spain. The "I" subsequently stood for Ireland and Iceland as well.

So just who are the most and least at-risk nations among the bigger nations of the world's 228 sovereign entities?

There are two measures: public debt (measuring accumulated budget recalcitrance over many years) and current budget deficits (living beyond one's means today). Crises usually emerge when both of the above are out of control at the same time.

The first of the two charts shows the range of indebtedness across 26 of the world's largest economies. Some nations are in serious if not very serious trouble, headed by Japan, which has a debt twice the size of its GDP.

Six other countries are close to or exceeding their GDP size with public debt: the US, Belgium, Iceland, Greece, Italy and Singapore.

At a virtuously low level are Australia (19 per cent of GDP thanks to the Howard-Costello government up to 2007) and Russia (7 per cent of GDP).

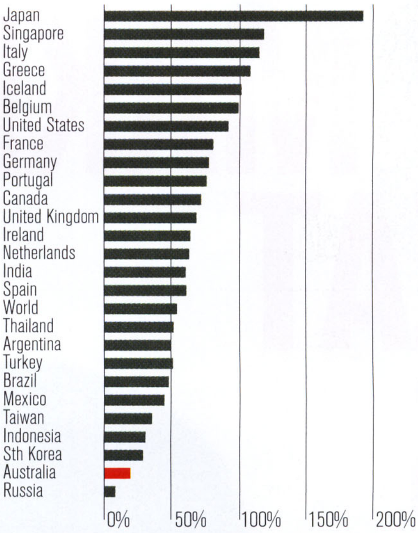
Running deficit budgets of 1 per cent to 5 per cent of GDP for limited periods to smooth GDP growth through difficult or recessionary periods is good management. To keep doing it, and increase such deficits to more than 5 per cent, is a case of fiscal morphine.

There are some scary figures in the second chart, including some of the same nations in the first: Ireland, the US, Greece, Iceland, Japan and Italy. On this chart, however, other nations are conspicuous at the top end, including Britain, Spain, France and Portugal.

More than 30 per cent of the world economy is in the hands of nations with public debt at more than 90 per cent of GDP and 38 per cent of the world economy is with nations running budget deficits of more than 7.5 per cent of GDP.

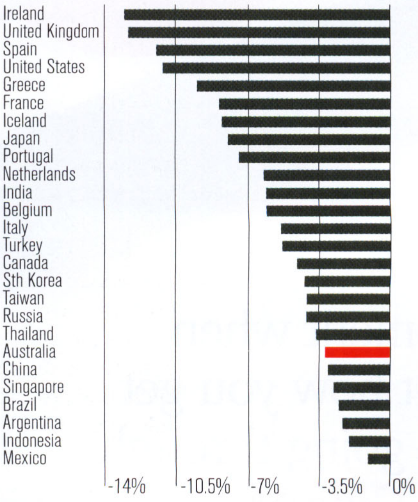
But most of the world economy is not in such dangerous territory, including goody-goody Australia. So a double-dip recession looks unlikely at this stage. BRW

PUBLIC DEBT 2010(F): % OF GDP



F = forecast Source: The Economist, IBISWorld

BUDGET DEFICITS 2010(F): % OF GDP



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