TITLE: **A borrower nor a lender be**

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Should we blame ourselves or the banks for the debt crisis, wonders Josh Fear.

Australia's love affair with easy credit has turned on itself. The price of credit has reached its highest point in 14 years, and home buyers are feeling the economic pain associated with higher interest rates. Consumer debt is now the subject of conversation at the dinner table and the board table.

Does ultimate responsibility for the debt situation lie with borrowers, who have been too willing to accept offers of credit to sustain unrealistic levels of consumption?

Or are lenders also liable as they are in a much better position to understand the nature of financial risk and therefore to determine what constitutes a safe level of credit?

The corporate sector has tended to blame individuals for taking on more debt than they can handle, drawing on the doctrine of "personal responsibility" to absolve itself of any culpability. But what do ordinary Australians think?

Recent research by The Australia Institute has found that many Australians hold financial institutions responsible for the current situation. The findings, collected in a new report called Where does the buck stop?, reveal a strong community belief that lenders and regulators, rather than individual consumers, need to be more accountable for their role in the debt crisis.

About three in four survey respondents agree that banks are too willing to lend money to people who can't afford the repayments. Although many people believe that personal responsibility in financial decision-making is important, there is consensus that the banking sector has lost the element of social responsibility that tempered lending practices in the past.

Research participants attributed the loss of corporate responsibility to the deregulation of the banking sector and the entrance of new corporate players with a focus on short-term profit.

A majority of Australians are uneasy about the way that credit has been pushed on vulnerable consumers. Three-quarters of survey respondents agreed that credit cards are often targeted at people who don't understand what they're signing up for.

The common practice of soliciting increases in credit limits on an almost routine basis is regarded by many as unethical.

Last year, US households received 5.3 billion offers for credit in the post. Comparable data for Australia are hard to find, but policymakers should try to gather it. Objective evidence on the marketing pressures being brought to bear on consumers would allow unconscionable forms of marketing and promotion to be discouraged through regulation.

Many Australians believe that there are broad cultural factors that have contributed to the debt situation. Four in five survey respondents agreed that advertising encourages people to spend more than they earn. Older people are particularly concerned about the ability of the younger generation to resist the temptation to buy now and pay later.

A recent study by Universities Australia showed that graduates leaving university at the end of 2006 owed the government an average of $25,000 in HECS and HELP fees. Such debts make credit cards an even more attractive option for young Australians, even while (affluent) older people and social commentators bemoan young people's supposed inability to resist the lure of the latest consumer gadget.

Indeed, there is a common perception that Australians are taking on debt as a way to fund their "lifestyle" or to enjoy things today that they would otherwise be unable to afford. Our research shows that this applies to about one in five Australians, the proportion of survey respondents who admitted to spending more than their income in the previous year.

Despite strong views about the negative influence of advertising, there is uncertainty about what exactly can be done about it. Some people are reluctant to tamper with what they see as "free speech". This is a surprising take on the notion of free speech, one that attests to how successful the corporate sector has been in promoting its own interests at the expense of community welfare.

One way to redress the "information asymmetry" between consumers and corporations is to introduce new rules covering what information needs to be displayed prominently on monthly credit card statements. This could include how much interest the customer has paid over the past year, how long it will take to pay off the debt if only the minimum repayment is made, and how much interest they are expected to pay over that period.

At a time when our debt is catching up with us, this would at least help some people think through the consequences of their next credit card purchase.

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