

Well Heeled

# The 'spoilt' generation - have we forgotten how to save?

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Remember the days of the piggy bank? Young children were given little pigs, porcelain bears with a slot in the head, see-through money boxes covered in bank logos, or plastic tubes that collected one dollar coins that measured how much you had managed to save. These saving days seem to be over, as we've developed a new comfort level with debt. Or have we simply smashed our piggy banks and replaced them with an

attitude of: "I want everything, and I want it all now"?

The Reserve Bank released a report on credit last week that revealed Australian households held \$1.176 billion in outstanding credit in June. In the past 10 years, there has been a massive increase in the amount of money we owe. In 1989, Australian households held only 36% of outstanding credit, in June this year that had jumped to 61%. In the same time period, business credit has fallen proportionately from 64% to 39%.

Most of this personal debt is due to our home loans (88% of it) with the remainder being made up of loans for personal credit such as credit cards, margin loans and other investments.

Of course, it's easy to argue that because the prices of property have leap-frogged so dramatically over the past decade, that these high levels of outstanding credit are simply a result of everyone being mortgaged to the eyeballs.

But I think there is more to it than that.

I have my own confession to make. This week I refinanced the mortgage on my apartment because the three-year term came to an end. I've been meeting all my monthly repayments for the past 36 months, cruising along happily with a sense that I'm paying off my home loan. But the truth is, I've hardly reduced the principal amount of my loan at all. Just about all my repayments have been going into interest.

I wanted my new home to look good. I've bought new furniture, hung some (relatively inexpensive) artwork, done some minor renovations and even bought a designer chair or two.

And now I'm suffering the guilts: shouldn't all that money I've spent have been going towards reducing my home loan instead?

A couple of years ago I overheard some family friends of my parents' generation complaining about the excesses of their children, and the younger generation more generally.

"Remember when we bought our first homes? We worked so hard to pay off our mortgages, we never bought new furniture, we never put on a fresh coat of paint. We stopped going out for meals and buying things, we pulled in our belts tight and reduced our spending so we could pour all that money into paying off our home loans. But these kids want everything now. Now, now, now. There's no waiting around or saving up. They don't know how to do without." These comments were met with a chorus of agreement from other frustrated parents about the attitudes of their grown-up kids. I'm pretty sure I even heard some tut-tuts.

I sat silently in the background as I eavesdropped on this conversation. I might have even rolled my eyes. But now ("now, now, now") I guess they were probably onto something.

I wish my home loan was much smaller now than what it was when I started three years ago. It's disheartening that all that money I've been sending off to the bank each month has done little to reduce the size of my loan. And of course, now that I think about it, it would have been quite possible for me to pay off even just a little bit more each month, rather than spending money on other - much more fun - "things".

Last week when I spoke with Rod North about the Investment Clock he made an interesting comment about the new generational attitude about our lack of savings - and our new-found love of credit.

"Back in the 60s, 70s and early 80s there was always a very big push in schools to get children to save, people would put money in their bank accounts each week. But that seems to have been lost on this generation," he said.

I was one of those kids that had a money-box and spent time and energy on saving my dollar coins of pocket money. I had my first job delivering the local paper when I was 13, then worked at a bakery on Saturdays from the age of 14 - and all this money went into very slowly building up my savings. It was a great habit and discipline to get into from a young age.

But once I took on my mortgage, and became swamped by a bank loan so huge that I couldn't possibly imagine paying it off with one dollar coins, well, my attitude to being in debt - and holding outstanding credit - seemed to change. And now I'm just part of a huge \$1.176 billion of outstanding household credit statistic.

Australian households are not just holding a higher proportion of credit than ever before - we also seem to be feeling quite comfortable about being in such a high level of debt.

Is this just because everyone around us is doing it - so it must be ok? Is it just because we can?

My new home loan now has a much larger repayment schedule. It means I will need to consciously start to spend less money on other things so that I am actually, finally, reducing the principal amount of my loan.

I'm bringing back the piggy bank. It might not be a trinket toy with a slot sitting in the corner of my room, but it's an attitude to saving, an attitude I used to have that got lost somewhere along the way.

Anyone else want to join me on a let's-bring-back-the-piggy-bank revolution?

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