

TITLE: Business hypocritical on government debt

AUTHOR: David Richardson

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The Chicken Littles are at it again - scaring us about the level of government debt and the deficits that bring about debt.

Gina Rinehart has claimed that the present level of government debt 'is simply unsustainable' and that 'Australia had to take action to avoid following Europe into economic misery'.

Ms Rinehart should know all about debt. She is busily trying to raise \$7 billion in debt finance for the Roy Hill project.

Don Argus, described in one report as a 'corporate veteran' has warned that Australia is in dire need of a productivity boost if it is to offset fast-growing gross national debt and he also warned that 'Australia was set to inherit the same challenges confronting stricken economies elsewhere in the developed world'.

That is the same Don Argus who was once chair of the board of the National Australia Bank. Again, Mr Argus should know about debt. On the latest figures the NAB had total debt of \$345 billion, well above the government debt expected in June this year at \$162 billion, or 11 per cent of GDP.

There is of course no reason to suppose that the NAB is in any difficulty, that's just what banks do. They borrow in order to lend, and as long it's done prudently there is nothing wrong with borrowing. Likewise, that is what governments should do. Borrow when they need to go into deficit for the health of the economy, and repay debt if they need to offset unhealthy booms.

Against that, the Business Council of Australia's agenda has long been to lower debt and it claims 'we need a plan to build sustainable surpluses for the future so we can pay down debt'. We rarely ask why government should repay debt. Westpac, formerly the Bank of New South Wales has been around for almost 200 years and it never saw fit to pay off its debt which now stands at \$450 billion. OK that's a bank and they are different, but BHP Billiton in one form or another has been around for over 150 years and still owes \$62 billion, according to last year's annual report. Nobody complains about the morality of BHP Billiton for spending its money on its shareholders rather than repaying debt. But governments are supposed to have some moral objective involving a debt reduction strategy.

The resident pet shop parrot says debt is too high, but let's ask who is being hurt by the high levels of debt? How are they being hurt? And how will they be made worse if that debt increases a bit? It's hard to think of anyone who is likely to be worse off, even in principle. But we can easily discover people who cannot find work in the areas of Queensland dependent on tourism, manufacturing workers who have been put off and young people working part-time in dead-end jobs around the country. These people can be helped by government spending and others such as the disabled can be assisted if we get the direction of spending right.

One of the reasons the Reserve Bank lowered interest rates was because growth was expected to be below trend in 2013 in part because of 'fiscal consolidation' which is Reserve Bank code for contractionary fiscal policy. That should be a warning. The quest for a surplus is inappropriate at a time when unemployment is at its post-global-financial-crisis peak and expected to continue upward over the forecast years. If anything, monetary and fiscal policy should be mutually supportive.

Many people are doing it tough as the mining sector squeezes out the rest of the economy and people are being put off work, and those that remain tend to be working more part-time hours. When the mining boom inevitably busts, government stimulus will be required to restore something like present levels of unemployment. When that time comes the government will need to act quickly, but the rhetoric about committing to surpluses will work against the use of appropriate policies, no matter who wins the September election.

*David Richardson is a senior research fellow at The Australia Institute, a Canberra based think tank.
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