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**TITLE: Conservative austerity can worsen debt malaise**

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I wonder if Tony Abbott and Joe Hockey know how badly conservative governments are managing their economies in Europe? While Australia "struggles" along with gross domestic product growth of just below 3 per cent and unemployment rate of 5.7 per cent, economic activity in the eurozone declined by 0.2 per cent in the first three months of 2013. In fact, Europe has been in recession for the past six quarters with nearly 20 million people now looking for work.

Germany, Britain and Spain are all being run by conservative governments committed to cutting public spending and returning budgets to surplus as quickly as they can. Strangely, despite the lessons of economic history and the predictions of economic theory, the European economic malaise has stubbornly refused to respond to repeated doses of fiscally conservative medicine. Put simply, cutting back on government spending and employment when the economy is contracting has made things worse, not better.

The problem for more than 60 per cent of the youth in Greece and Spain who are unemployed, however, is that fiscal conservatism has more to do with morality than economics. Amends, the conservatives preach, must be made for the profligacy of the past. What a pity that it wasn't the youth of Spain and Greece that were profligate.

Like their fellow conservatives abroad, Tony Abbott and Joe Hockey seem genuinely concerned about the "sustainability" of public debt, but just because their concern seems sincere doesn't make it logical.

For starters, Australia has one of the lowest levels of net public debt in the world. Not only is our current level of debt low by international standards, it has been low for 30 years. Despite Paul Keating's concern that we might become a "banana republic" in the 1980s, our level of net public debt finished that decade at 4 per cent of GDP, well below the International Monetary Fund's advanced country average of over 30 per cent.

But what is "net public debt"? If a person owed \$5000 on their credit card but had a \$1000 deposit in a bank account they would have a "net debt" of \$4000. Similarly, according to

government accounting standards net debt refers to the difference between total government borrowing and the financial assets that they hold.

Imagine if you owned a \$500,000 house and owed \$300,000 on your mortgage. While you might think that you had done well for yourself by accumulating \$200,000 in net assets the good folk at Treasury would take a much more grim view of your situation. Indeed, with \$300,000 owed to the bank, and no cash deposited elsewhere, Treasury would describe you as having a "net debt" of \$300,000.

When politicians use the net debt of the Commonwealth of Australia to explain our financial situation, they literally ignore all of the physical assets owned by the government. They ignore the billions of dollars' worth of commercial property, they ignore the millions of hectares of land owned by the military, and they ignore the value of the entire infrastructure they have ever built. But even if the government owed more in debts than it owned in physical assets it is not at all obvious why this would be a problem. While the Commonwealth net debt currently accounts for only 11 per cent of GDP, most university students graduate with a debt of more than 100 per cent of their starting salary.

It's unusual to hear conservative politicians arguing for the provision of free university education, and it's even more unusual to hear them discouraging people from investing in their education. Similarly, when a family earning \$100,000 per year buys a \$500,000 house it has a debt/income ratio of 500 per cent but, again, it is rare to hear conservatives discouraging families from buying their own homes.

Governments should, however, be even less concerned about the level of debt than households for the simple reason that they don't retire. While individual politicians and governments come and go, the Commonwealth has been with us for 112 years and is likely to be with us for a bit longer yet. Indeed, if there is no more Commonwealth of Australia then citizens will likely have bigger problems to worry about than the level of public debt.

As governments don't "retire" at 65, or any other age, there is no obvious reason why they should be "debt free" at any particular point in time. Indeed, as the Australia Institute's David Richardson pointed out recently, BHP has been around for 150 years yet it still owes \$62 billion. Strangely, conservative politicians have remained silent about the "profligate" way that BHP has paid dividends to its shareholders rather than paying down its debts.

Like most companies, big and small, BHP uses debt to fund its expansion. As long as the future returns are greater than the cost of interest then borrowing is a tried and true way to grow and create wealth.

With the population growing by almost one million people every three years it is simply not possible to provide the level of infrastructure per person that we are accustomed to while obsessing about paying off debt, rather than borrowing to fund new assets. Australia has low debt by world standards, low debt by historical standards and low debt by the standards of Australian households and businesses.

But just as European conservatives are willing to make the youth of Greece and Spain pay for the profligacy of multinational banks, Australian conservatives are determined to focus voters' attention on the imagined problem of government debt lest they be pressured to solve real problems like the chronic lack of infrastructure in our increasingly congested cities.

Of course, it is possible for governments to waste money on things we don't need, but it is also possible to waste the lives of entire generations in pursuit of austerity policies that haven't worked in the past, aren't working in the present and won't work in the future.

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