

TITLE: Debt is not the villain

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The idea that the Coalition would oppose an increase in the Commonwealth's debt ceiling makes about as much economic sense as its hostility to a market-based mechanism to address climate change. But, as with most of Tony Abbott's big calls, it clearly makes good short-term political sense.

In an age of slogans it is much easier to argue that government debt is bad than to argue it is good. But macro-economic variables are neither superheroes nor villains, and making good policy decisions is a bit harder than picking who to barrack for.

Australia's level of public debt is among the lowest in the world. In fact, at less than 10 per cent of GDP, the Commonwealth's Net Debt is so low that the financial sector has urged the Gillard Government to issue more government bonds than is actually necessary to ensure the 'liquidity' of the government bond market. In other words, investors are keen to lend more money to the Commonwealth than the Commonwealth actually needs and, in order to keep the finance markets happy, the Gillard Government is obliging.

The idea that government debt is 'bad' is as flawed as it is popular. Leaving aside the fact that Australia currently has very little public debt, has always had very little public debt, and the finance sector supports an increase in the debt ceiling there are a number of good economic reasons that Australia should be carrying a greater level of debt rather than a lower one.

First, Australia has the fastest rate of population growth in the developed world. In the past 20 years our population has grown by around 5 million (31 per cent) and while new migrants may bring skills, ideas and business networks with them it is unusual for them to bring roads, public transport, hospital beds or other infrastructure.

Put simply, a high rate of migration requires a high level of public funding for new infrastructure unless we are happy to experience a steady decline in the quality and availability of that infrastructure. A quick look out the window in Sydney most mornings would suggest that successive governments are happy to spread the historic stock of

infrastructure more thinly across a growing population but it is less clear if that is what the population, old and new, would prefer.

This is not to suggest that immigration cannot make a positive contribution to our society or even to government budgets. But the timing of that contribution is important, and there is little doubt that we will need to invest more in infrastructure in future than the taxes paid by new migrants. And when short-term spending needs exceed long run revenue expectations the obvious solution is to borrow now and repay later, unless of course you are happy to use population growth as a way to steadily erode the quality of government services.

Second, just as households and businesses borrow money today to create greater wealth in the future the same possibility exists for governments. Many people now take for granted the roads, phone wires, electricity, water and sewerage infrastructure previous generations of politicians borrowed to build, but would we do the same today? Was Whitlam really a spendthrift socialist for wanting to replace the back yard dunnies and pump out trucks with a modern sewerage system?

The logic of good household management, we are told, means that you don't spend more than you earn. In turn we now have a political class that tells us that all infrastructure should be funded out of the current year's tax collections. Such logic is as inefficient as it is illogical.

Public debt is not 'good' or 'bad', but the decisions about what to spend money on and how to raise tax revenue clearly can be. The problem is that the phoney political debate about the merits, or otherwise, of debt have crowded out the opportunity to have important debates about where governments could invest more and where they could invest less.

For example, is spending up to \$50 billion to build 12 new submarines in Adelaide the best way to protect manufacturing jobs in Australia? Is the taxpayers \$30 billion annual contribution to so called 'self funded retirement' the best way to reduce the pressures of population ageing on the commonwealth budget? Both major parties seem to think that the answer to both questions is yes. It's time we put as much effort into debating the quality of the assets we are investing in as we do into the way they are funded.

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