

WORKING TITLE: Building a New Canberra Every Year, for 50 Years

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The biggest fiscal problem Australia faces is that we are not borrowing enough to meet our short term circumstances or long term objectives. Australia's population will nearly double by 2075. We are currently growing by around 400,000 people - the population of Canberra - every year. If we were serious about quality of life, economic prosperity and intergenerational equity, that means that Australian taxpayers should be investing in building the equivalent of all of the schools, roads, prisons and hospitals in Canberra, each year, for the next 50 years.

There are three main ways that we can deal with the enormous cost of the population growth. We can increase taxes, we can cut spending on existing services or we can borrow money. The fairest and most economically efficient way to fund the upfront needs for all that social infrastructure is to borrow the money and repay it over the very long life of the assets - especially when there are record low interest rates. The least fair, and least efficient, way would be to cut pensions and spend less on health. Needless to say, the Abbott government has opted for the latter.

A company that wanted to expand rapidly usually does so out of debt, not earnings. BHP Billiton, for example, has been in debt for 130 years it has been in business. In fact, during the mining boom, a period in which its revenues were at an all-time high, its total debt 'ballooned' by 300 per cent. By Joe Hockey's standards BHP has not only been 'living beyond their means' for their entire history, they were even unable to 'balance their budget' when coal and iron ore prices were at all-time highs.

BHP's rising debt and ongoing deficits are not, however, evidence that the company is poorly run. Their seemingly 'unsustainable' finances are simply evidence that Joe Hockey has no idea what he is talking about. BHP spent more than they earned during the mining boom because they were investing in multi-billion dollar mines which they expect to be profitable in the coming decades. Unlike BHP, or indeed anyone who has ever bought a house, Joe Hockey says it is irresponsible to borrow money to invest in assets that deliver long term benefits.

Australia has low levels of public debt. They are low by historic standards, low by international standards and very low by corporate standards. The former CEO of the National Australia bank, Cameron Clyne, once said that if Australia was a company it would be accused of 'having a lazy balance sheet'. That's corporate speak for not having enough debt. Put simply, if Hockey was a CEO he'd be sacked for his refusal to invest in growth.

Spending more than you earn is not irresponsible, indeed, it is often evidence that you are making good long term plans. Anyone who has ever borrowed to buy a house, invest in their small business or even to fund their university degree has 'lived beyond their means' according to Joe Hockey silly prescriptions for how to manage a nation states finances. The term mixed message is entirely insufficient to describe hockey's simultaneous belief that governments shouldn't borrow for infrastructure but that students should borrow \$100,000 for their degrees. From government!

Peter Costello urged parents to have three kids, one for mum, one for dad and one for the country. Indeed, he even created the 'baby bonus' to encourage them to do so. John Howard increased our immigration intake by around 84 per cent¹. Both factors mean that Australia population growth rate surged under the Howard government from around 2 million per decade at the end of the 20th century to over 3 million per decade at the beginning of the 21st century. Between 2010 and 2020 our population will grow by around 4 million. That's a lot of new folks on the roads.

Business who are serious about doubling their customer base invest in better IT and bigger call centres, before the new customers arrive. Families who plan to have lots more kids need to invest in bigger cars and maybe even bigger homes, before the kids arrive. Governments who want to double the population need to spend up big on infrastructure, before our new citizens arrive. it makes neither economic or political sense to fund such infrastructure spending by cutting pensions and spending on health.

But Abbott's plans to double our population aren't the only reason we should be borrowing more at the moment. Unemployment is rising, wage growth is at record lows and GDP growth is slowing. Put simply we are heading for a recession and, apart from Tony Abbott's pick for our new secretary of treasury, virtually every economist who doesn't work for a bank believes that austerity is bad for the economy and bad for society.

The ups and downs of the Australian economy are known as the business cycle, and while economists quibble over its length, the most common estimate is about 7 years. The GFC started in 2008 and the Australian economy began to slow markedly in 2009. Believe it or not, the GFC was seven years ago.

When the world economy slowed, and the global financial system teetered on the edge of collapse (before it was bailed out by taxpayers), Wayne Swan, backed by the Senate, acted swiftly to pour tens of billions of dollars worth of demand into the Australian economy. Not only did it help keep Australia out of recession, the approach was supported by both Malcolm Turnbull and Tony Abbott at the time. Sure they quibbled about the size of the stimulus, but neither of them opposed running up debt and deficits to keep Australia from entering recession.

But while the effectiveness of fiscal policy remains constant, the effectiveness of those pulling the levers is a variable. Joe hockey's simplistic mantra that we should live within our means is neither good short term management nor good long run strategy. Rather than behave like the treasurer of the world's 12th largest economy² he is acting like a cash constrained sole trader who is worried he can't get an overdraft.

¹96/97 - 104,551 to 06/07- 191,907 permanent arrivals. Source:
<http://www.immi.gov.au/media/statistics/historical-migration-stats.htm>

²(Nominal GDP)

Australia future prosperity, like that of BHPs shareholders, will not be determined by the size of our surplus, but by the wisdom of our investments. It is not our deficit that is unsustainable, it is the current treasurers belief that spending less on education and infrastructure is in our long term interests.

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