

TITLE: In infrastructure funding, nothing is certain save debt and taxes

AUTHOR: Dr Richard Denniss

PUBLICATION: Australian Financial Review

PUBLICATION DATE: 8/10/2013

LINK: http://www.afr.com/p/opinion/in_infrastructure_funding_nothing_3lrUUrS3lwpUxtNpIBsKL

While the Coalition is yet to turn around a boat carrying asylum seekers, it has already made a stunning turnaround on the issue of government debt. Having raged against the ALP's high-taxing, high-spending ways for the past six years Joe Hockey now wants us to be a bit more sophisticated in our approach to public finance.

After spending years deliberately conflating public sector debt and private sector debt in order to better scare the electorate, Hockey now wants us to distinguish between "good debt" which is used to fund infrastructure, and "bad debt" which is used for recurrent expenditure.

In theory this is an important distinction. Most people understand that there is a difference between borrowing money to buy an appreciating asset like a house and borrowing money to fund a transitory experience such as a holiday. But the fact that so many people are willing to borrow money to buy a new car, an asset that will lose 50 per cent of its value in three years, suggests that in practice many people struggle with the difference.

Infrastructure is one of those words that is easy to say and hard to define. Most people accept that roads are infrastructure, but is a highway to nowhere really a good investment? Implicit in Hockey's language is the notion that it is OK for governments to borrow money to build big things made out of concrete but that we shouldn't borrow for the delivery of government services. But what about education or preventative health?

While borrowing money to buy a new car is likely to be a bad investment, borrowing money to put oil in your car if the warning light is flashing and you are out of cash is a great investment. And just as preventative maintenance on your car pays big dividends, so too does public investment in preventative health. But despite decades of so-called "economic rationalism" in Australia, successive governments still manage to keep a straight face while explaining that preventative health is some form of luxury that we simply can't afford.

BENEFITS OF INVESTING IN EDUCATION

The same is true for education. The empirical evidence of the long-run benefits of major investments in early childhood education and primary schooling is overwhelming. But while we expect university students to borrow money to fund their higher education, the way our national accounts and budgets are put together imply that education is a form of pleasurable consumption rather than a long-term investment.

Hockey is right to start a new and more subtle conversation about public debt but he and his colleagues were wrong to have done long-term harm to the quality of such debate in the pursuit of short-term political advantage. That said, Labor has no excuse for not trying harder to do what the Coalition has now begun.

Making good public-spending decisions is hard; indeed, it is much harder than making good private-sector decisions. While private-sector spending can be quantitatively evaluated with reference to profit, public-sector spending must be evaluated against the vague notion of the public interest. Should we really spend \$50 billion on 12 new submarines or would six be enough? Was the cost in money and lives of our involvement in the war in Iraq justified? Should we show leadership or sit back and free ride when it comes to tackling climate change? Should we spend more on education for indigenous children in disadvantaged communities?

No matter how many categories we put in the budget papers we will never be able to answer questions such as those. It is meaningless to talk about public debt being “good” or “bad”. What we need is a discussion about the kind of country we want to build, the kind of services we want all people to have, and the kind of things that we don’t mind people missing out on.

If previous generations of Australians thought debt was bad then there would be no Sydney Harbour Bridge, no roads between Sydney and Melbourne and no navy or airforce. Both sides of politics are committed to rapid population growth and the million or so people that move to Australia every four years require schools, roads, hospitals and housing. Whoever is in government will have to spend a lot of money on all forms of infrastructure, and if they don’t borrow to pay for it they will have no choice but to increase taxes. For Hockey, the choice has become clear.

Dr Richard Denniss is the Executive Director of The Australia Institute, a Canberra based think tank. www.tai.org.au