DON'T WORRY ABOUT THE DEBT... BUT BE AWARE OF HOW WE ARE SPENDING IT

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but be aware of how we are spending it

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Abstract: *The COVID-19 outbreak has delivered significant challenge into our lives. As part of the Australian Government’s response, money has been committed to a range of stimulus and support measures. Spending announcements have previously been accompanied by mention of government debt and debt burden, and its supposed impact on future generations. Such language can incite feelings of uneasiness which we argue is both unwarranted and, in many ways, unfair. For individuals, inappropriate levels of personal debt can be reasonably associated with anxiety, hardship, and suffering – although debt, when used wisely, can also be productive, facilitating valuable investments like home ownership and higher education. At a national level however, debt has different dimension and functions, and the assumption that “debt is bad” is not warranted. In the current global environment, increased public debt is crucial to renewed growth and prosperity, and it has never been ‘cheaper’ for governments to borrow. Even prior to current events, many commentators suggested, and still do, that Australia is well positioned to, and should, take on more public debt. Borrowing by government, when spent appropriately, can be seen as an investment in ourselves and the society within which our children will grow and prosper. So, the important question for us as a nation should not be; ‘how are we going to pay back borrowed money?’, but rather; ‘how can we as a nation most effectively use borrowed money to support the delivery of services and employment in a way that will provide the most benefit to our community well into the future?’. COVID-19 has provided us the unique opportunity to rethink and question status quo assumptions about the role of government in protecting and enhancing our society – including questioning old arguments that look to balance the budget and pay off debt as a top priority of fiscal policy. It is the decisions we make now that will define our values and shape Australia’s identity as we rebuild after the pandemic, and for decades to come.*

Australia, COVID-19 and Fiscal Stimulus

In meeting the challenges posed by COVID-19 our nation's focus has primarily been on ensuring the continued delivery of world-class healthcare in the face of potentially overwhelming demand. The pandemic however, continues to challenge our welfare in other ways, not least of which is the impact we are seeing throughout our economy.[1] In an effort to stem the rate of virus transmission, control measures such as physical distancing, isolation, and quarantine restrictions have been widely implemented. These measures impact on the nation's economy by reducing our ability to exchange goods and services. Where these necessary restrictions are put in place many sectors throughout the economy such as arts and recreation, food and accommodation services, and retail trade see a significant loss of demand.[2] The subsequent loss of income for those working in these sectors and their reduced capacity to consume begins a downward spiral in reduced demand for goods and services across other sectors of the economy. It is therefore in support of businesses, maintained employment, and the capacity to consume, that the government has delivered important (and expensive) fiscal stimuli through a range of measures (including income support payments to individuals, wage subsidies paid to employers, special loans and liquidity measures, and more).[3]

The largest single commitment made by government in the way of fiscal support has been to the JobKeeper scheme.[3] Under this scheme businesses have been able to receive AUD $1,500 per worker, per fortnight for qualifying workers. This payment allows the worker to receive a wage from their employer with the intention that the business will then be able to retain the worker under circumstances where decreased demand for their goods or services would not normally make retention of that worker viable.[4] Initially slated to end in September 2020, an extension to the scheme will see payments continue until March 2021 with planned decreases to the amount of the payment to occur in two stages, at the end of September 2020 ($1200 per fortnight) and January 2021 ($1000 per fortnight). It should also be noted that those who work less than 20 hours a week will begin to receive an amount less than that described above from the end of September 2020.[5]

Upon announcement, the government estimated the scheme would support 6.5 million Australians and forecast the cost of the scheme to be AUD $130 billion. This estimate, cited as an overestimate, was subsequently revised, with the scheme anticipating a requirement to support 3.5m workers at a cost of $70bn.[6] The extension to the scheme, as described above, is expected to cost an additional $16.6bn bringing the total estimated cost to $86.6bn, or $43.4bn less than the amount originally committed to.[7] Whilst broadly welcomed as a necessary and timely response to the economic recession brought on by COVID-19,[8] the JobKeeper scheme has been criticised for its scope of inclusion which notably, does not include casual workers who have been with their current employer for less than 12 months,[9-11] and for the early repeal of support provided to services such as childcare. Measures which have a financially disproportionate impact on women.[12]

Calls for the expansion of the program through an increased or continued commitment to funding (and similar continued supplementation to other stimulus and support schemes such as JobSeeker) have, in the past, frequently been rejected by the Australian government with comments such as:

> *"…it means (sic) Australians won't have to borrow as much money. This is not money that is sitting in the bank somewhere, this $60 billion, that is all money that would have otherwise had to be borrowed".*[13]

> *"It is welcome news that the impact on the public purse from the program will not be as great as initially estimated,"…"future generations [will] not have as much debt to pay back".[13]*

And in discussing the governments stimulus and support measures more broadly,

> *"Australians know there is no money tree, what we borrow today, we must repay in the future".[14]*

We argue that these statements promote feelings of anxiety and unease toward government borrowing when this money could be put to use supporting the very people who have been hit hard by the restrictions put in place to control the outbreak's spread. We argue that judicious use of government debt to support Australians now also builds a foundation for the wellbeing of future generations, rather than necessarily saddling them with debt.

Discussing debt

To the household (be it an individual, family, or even a small business), undue levels of personal debt can reasonably be associated with anxiety, hardship and suffering, particularly at a time of income uncertainty and/or loss of income.[15] On the other hand, judicious personal borrowing can have many benefits, for both individuals and the overall economy – facilitating major household purchases and investments (such as home ownership, higher education, and other beneficial decisions). Households who become unable to meet their obligations in servicing their debts may often be placed under significant emotional pressure, placing strain on relationships, lowering quality of life and potentially leading to displacement and loss of security.[16] It is for these reasons that, at the household level, debt and the risk associated with taking it on, should be treated with caution. It is worth noting also that the personal debts of Australians have become very large in recent years, equal now to almost 200% of personal disposable incomes.[17] It is ironic that so much public discourse continues to focus on the supposed dangers of public debt (which is much smaller, equal to around 40% of GDP)[18], when personal debts have increased so dramatically. Moreover, at the national level, public debt has very different dimensions: it is the least risky form of debt, it incurs much lower debt servicing costs, and if used wisely it underpins lasting investments in our public and social infrastructure that enhance our collective quality of life for many years to come.

To support our discussion of debt at the national level it is important we first contextualise how it is referred to in general debate. In supporting a country, a government must make expenditures, these are made on goods (such as highways and other public infrastructure), services (such as public health, fire and police services), and transfer payments (such as welfare payments and the Aged Pension).[19] To pay for each of these categories, governments can raise funds through tax revenue including personal income tax, company tax, goods and service tax (GST), and other local, state, and federal taxes.[20] Broadly speaking, when the amount spent by a government exceeds the amount raised through tax revenue, the government is said to have run a budget deficit, i.e. simplistically, government spending exceeded income. In contrast, if a government's income has exceeded the amount spent, the government has a budget surplus. Where a government runs a budget deficit it must borrow money to pay for the difference, this can be achieved through many different channels – most commonly by issuing government bonds.[21]

The level of national debt proportional to Gross Domestic Product (GDP)

In determining the significance of the level of national debt, it is appropriate that we consider other factors which should influence spending decisions. The first of these is the national level of debt in relation to the overall economic capacity of the country. A country's ability to service public debt largely depends on its Gross Domestic Product (GDP). This is the monetary measure of the market value of all goods and services produced within a specific timeframe (typically a year). Prior to the onset of the pandemic Australia's public debt to GDP ratio (around 40%, including state government debts)[18] was, and will continue to be, among the lowest in the world for a developed country.[22]

Capacity to service interest payments on debt

The second important consideration is Australia's capacity to service its debt. As Australia is an established economy, it is able to issue new bonds and regularly refinance debt obligations in its own currency when they become due. As a result, only the interest repayments on debt are required to be made, and not the entirety of the principal. We must also consider the return on the investment that the borrowed money makes when directed towards growth within the overall economy. Where a government increases its debt to fund expenses that grow the overall output and wealth of the country, such as through funding childcare to support parents' availability to work, or by building infrastructure that supports trade, services, and transport; the resulting economic growth holds the potential to exceed the level of GDP proportional to that of the national debt.[23] That is, over time and with continued growth in the economy, the level of debt may decrease as a proportion of the country's economy.[24] The potential to maintain growth is considerable where funding supports the maximum employment of the population.

Low interest rates and other economic supports

A third consideration regards current interest rates. Simply put, interest rates determine the cost at which the government is able to borrow. In the current global environment, interest rates are the lowest they have ever been; moreover, these rates are currently near the level of inflation within Australia. This means the government can effectively borrow at a repayment cost (in real terms) of around 0%. Subsequently, financing increased debt to fund public services, investments in infrastructure, and job-creation measures to promote economic growth has never been more affordable.[2] Further, current measures of quantitative easing and yield curve targeting, implemented by the Reserve Bank of Australia, support the stability of low interest rates within the economy and the feasibility of carrying large government deficits over time.[25]

An appropriate fiscal response

Finally, we can consider the burden placed on our nation should government choose not to borrow. For an indication of appropriate fiscal responses in times of severe recession such as we are currently experiencing, we can look to historical examples such as the global financial crisis. Of the various policy responses enacted by countries globally, it is those who pursued expansionary fiscal policy and increased their level of national debt that have seen the strongest rebound from the global contraction and growth within their economies.[26] Countries that employed more austere measures, that is, measures which looked to reduce the level of government investment and spending in an effort to decrease national debt, have seen weaker economic recovery.[27, 28]

The role of the economist

It should also be understood that economists do not hold a clear and decisive opinion of what an 'appropriate level of national debt' is. The global financial crisis saw traditional economic theories (such as those that place an emphasis on balancing budgets and reducing public debt) brought into question, and more attention given to previously overlooked alternatives. There is increasing support for theories that consider the level of national debt to be less important than other economic indicators such as employment; indeed, under some circumstances an ongoing increase in public debt may be acceptable, as long as full employment and utilisation of the labour workforce is maintained.[29] Although there is no clear consensus, most economists now agree that an unwavering focus on minimising national debt as a top fiscal priority is a detriment to a nation's prosperity and welfare, especially during an economic downturn.[30, 31]

The role of Government

Further to the argument for increased levels of public debt, it is pragmatic to acknowledge a government will always intervene and play some role in an economy.[32] In some circumstances less government involvement may be preferred; market competition may drive innovation in technology and deliver more efficient outcomes. In other sectors however, a greater level of involvement may promote fairness and equity otherwise unobtainable in a more market and competition-based sector of the economy. However, with the understanding that government intervention is necessary in the context of the economic impact of COVID-19, and that as a nation we are well positioned to increase our level of national debt if it is used to support investment in the growth and prosperity of our nation, we may ask ourselves not 'should we?', but 'where and how can investment be directed, and in whose interests?'.[22, 33]

If we return our thinking to the situation at hand, and arguments for the expansion and continuation of income support payments such as JobKeeper, we can see there is a significant need to support employment and income. Where the underpinning risk to the economy as a result of COVID-19 is unemployment, it does not appear untoward to suggest that efforts should be directed towards maintaining it wherever possible, particularly where a lack of support perpetuates a risk to increasing gaps of inequality. In an apparent effort to reduce the JobKeeper commitment and reduce the debt burden of the scheme the government has repealed first, free childcare; a measure which has been evidenced in other countries to promote higher levels of female participation within the workforce and has been modelled by some studies to make a significant contribution to the Australian economy in the order of $140bn.[34] It is important that we acknowledge that supporting the incomes of those who are unemployed similarly promotes the exchange of goods and services, and subsequently the viability of employment in businesses. Further we can acknowledge that beyond income support payments, increases to national debt arise from increased investment in public goods and services. Where this investment is directed towards goods and services that support growth and prosperity within the economy, the implied risks associated with an increase to the level of national debt, such as our ability to service the debt, are mitigated.

Some implied acknowledgment of Australia's capacity to service an increased level of debt has recently been made by Government. At the time of announcing an extension to the JobKeeper scheme somewhat debt-positive statements such as those that acknowledge Australia's low level of debt in comparison to other developed nations have been made.[35] This is a step away from the intonation of the comments stated above and supports the ideal that as a country we are well positioned to take on the debt necessary to support Australians throughout the pandemic. It must be noted however that no announcements to date have seen the inclusion criteria for the scheme widened, and with no immediate end to the pandemic apparent, there are many groups who have not received, currently require, and will continue to need, income support.

Conclusion

Public investment allows our nation to build wealth-generating infrastructure and to refine and develop our approach to the delivery of services that will bring benefits to our society, both now and for those who come in the future. It is in this sense, we can consider the onboarding of debt now as a positive investment in the future prosperity of our nation. A look at recent history provides a clear indication that pursuing austere fiscal policy during times of global recession may impede economic recovery and Australia is well positioned to take on more debt to support the delivery of economy building initiatives. Therefore, it is vital we question the underlying principles of decision makers to ensure they reflect our ideals and ensure we realise the equitable and prosperous version of Australia that we want to see now and in the future.

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