Debt crisis? The real crisis is in giving up on this country's future

Michael Cornish
Published: May 21, 2014 - 2:58PM

The Australian people had been softened up well in advance of this budget. We knew it was going to be tough. We were told that the structural deficit – long-term imbalances between revenue and spending, mostly due to our aging demographics – combined with the debt left to us from the Labor government had created a "crisis" that needed addressing.

Most people seem to have swallowed the story of a crisis whole. It is true that Australia’s public debt reached heights not seen since 1997, but with debt to GDP ratio peak approximately at 27 per cent earlier this financial year, we still have a fair way to catch up on the likes of Germany (81 per cent), the United Kingdom (89 per cent), the United States (100 per cent) and Japan (219 per cent). As if that wasn’t enough, even New Zealand beats Australia in government debt, with a debt to GDP ratio of 37 per cent.

So if it isn’t a crisis, then surely something still needs to be done. Debt is an inherently bad thing, so we want to get rid of it, right? Right?

Wrong. Try telling a first home buyer that debt should be avoided at all costs, and then see how many average Australians could continue to afford to put their own roof over their heads. Naturally, once you have the debt, you want to pay it off sooner rather than later, but that should not stop you from investing in your future – your education, your health, your family. It all depends on what the money is spent on.

Outside of wartime, governments have historically gone into debt to fund social projects or to avoid recessions. They have invested in the education, health and infrastructure that sets the economic foundations for the prosperity of the next generation of Australians, and will keep the current generation supported when they head into retirement. The prosperity of today’s Australia is a debt it owes to the social investments of its previous generations. No one’s personal success is completely independent of the society in which they live. How fast a debt should be paid off therefore requires us to make a trade-off between investing in Australia’s future, and reducing the financial drag of debt.

But then there is the issue of economic timing. Is now the time to pay down the debt, and as fast the government intends? Australia is experiencing an economic slowdown. Youth unemployment has risen markedly since the GFC, and broader unemployment is slowly rising. Monetary policy – the adjustment of interest rates by the Reserve Bank of Australia – is hamstrung from addressing the slowdown out of fear of crashing the property market.

Any first-year university student of economics can tell you that the government should act counter-cyclically, that is, save during the booms, and buoy up the economy with spending during the downturns. This budget is instead pro-cyclical – tightening belts further when times are already toughening. Simple, bad, economics.

Then there’s the issue of equity. Budget cuts are inherently regressive, because the poorer parts of our community benefit the most from government spending. However, everyone now knows how inequitable this budget is. While the debt levy on the rich is temporary, the intended changes to Medicare, university fees, pensions and welfare will be permanent, unless they get reversed.

Although harsh, Medicare copayments may not be insurmountable burdens for the poorest to afford. However, it undermines the social contract that medical care is universally accessible in our society. Medical care should not be determined in any way by how much people can afford to pay for it. Better that people go to the doctor out of prevention, rather than present themselves to emergency out of desperation.

Students can pay more for their education. But how far towards a United States-style system of student loans do we want to go? Uncapping tuition fees raises the prospect of insurmountable student debts, which actively discourage students from seeking an education thus compromising the “smart economy” of Australia’s future. And if one wants to be mercenary about it, we are diminishing the capacity of future generations to pay the tax that is needed to support the increasing numbers of elderly in our society.
However, surely the most inequitable measure of the budget is the removal of the unemployment safety net. Under this budget, unemployed Australians will now face discrimination on the basis of their age. If you are under 30, you have been singled out for special treatment, unable to access unemployment benefits for six months except in special circumstances. Everyone wants to eradicate the scourge of dole-bludgers upon our public coffers, but simply wanting a job is not enough to keep our young off unemployment benefits; there needs to be jobs that they can work in.

Unless they have parents able to support them, what will happen to these abandoned young people? How do they find the money to eat, to afford shelter, and keep themselves off the streets? This is certainly not a good time to be young and unemployed from a background of family breakdown. Get ready for surges in homelessness and crime, Australia. Why are we giving up on our youth? As a rich country, we can afford to ensure that no one is denied a safety net, a chance to find one’s feet and focus on getting a job rather than just the next meal.

Everyone wants to see Australia lay the foundations for a bright future. But this budget "crisis" has been self-proclaimed by the current government, and calling it a crisis does not stand up to analysis. Not only is the government discarding macroeconomic prudence by cutting too hard during an economic slowdown, it is aiming most of its spending cuts at those least able to afford them, instead of investing in their and Australia’s future. This budget fundamentally alters the social contract in Australia by discarding the inalienability of its social safety nets. This is an inequitable budget – and a harmful budget.

Michael Cornish is a Visiting Lecturer at both the School of Economics and School of Social Sciences at the University of Adelaide.

This story was found at: http://www.theage.com.au/comment/debt-crisis-the-real-crisis-is-in-giving-up-on-this-countrys-future-20140521-zrjq1.html