



# When debt really is something owed

## The Modest Member

Scott Ryan

**W**hile some self-declared experts complain about a fixation with debt in the Australian political debate, thankfully the common sense of Australians drives political discussions. People know that when governments borrow, they will eventually have to pay it back through higher taxes.

For the second year in a row, the budget brought before Parliament last week contains an increase in the debt ceiling, lifting the amount the commonwealth is authorised to borrow from \$250 billion to \$300 billion. Yet the government argues that how much we actually borrow — our gross debt — is not as important as net debt.

The government has criticised those who have expressed concern about gross debt figures, as if critics somehow do not understand this concept. A comparison with a home owner taking into account the mortgage minus the actual asset of the home and other personal assets is an example that has been used.

It wants us to consider net debt, as it is obviously a lower figure. Net debt simply takes into account interest-bearing commonwealth assets, subtracting them from borrowings to arrive at the lower figure. Net debt has its place as an accounting and comparative measure, but it does not tell a complete story of commonwealth liabilities.

There are two elephants in the room when considering this accounting measure of net debt — funds such as the Future Fund on the asset side and public sector superannuation on the liability side.

The Future Fund is not a sovereign wealth fund to put aside a windfall in order to save for a rainy day, nor to invest and enjoy the returns in future years. The Future Fund was created to “meet the cost of [unfunded] public sector superannuation liabilities”.

Similarly, the various nation-building funds that are the result of deposits by the previous government are already dedicated to spending in specific areas.

For decades, the commonwealth has been making promises to public sector employees, committing to billions of dollars in future retirement payments without setting aside the funds to pay for them.

These are the famed public sector pensions, which most in the private sector will never enjoy, particularly those of my generation, other than through paying the taxes to fund them. While the previous government closed off access to these schemes, liabilities are still growing.

At the moment, this unfunded liability is estimated to be about \$138 billion. None of this liability is formally considered a “debt”. But it still has to be paid when it falls due as public sector workers retire.

Taxpayers are in effect just as liable for this as they are for the repayment of a bond purchased from the commonwealth to fund the record

deficits of the past four years.

These promised payments cannot be reduced by legislation (nor should they be), as their recipients have a property right in them, which the commonwealth cannot confiscate.

Why is this important in the debate over gross versus net debt?

Because the Future Fund is by law limited to addressing these unfunded liabilities.

Critically, interest-bearing assets in the Future Fund are one of the largest items counted against commonwealth gross borrowings when deriving the much lower figure of net debt. But, counting these Future Fund assets and not taking into account the liabilities they cover, net debt potentially gives a very misleading view of what the commonwealth in effect owes in future financial commitments. It is akin to counting a car as a personal asset, but not taking into account the payments due on the lease.

There are other reasons that gross debt is an important measure.

As the Treasurer conceded last week, government borrowing puts upward pressure on interest rates. This pressure is determined by what the commonwealth actually borrows, not an accounting measure of what we owe in net terms.

Gross debt does matter, both to the pressure on interest rates and to Australia’s vulnerability to international shocks.

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