

Submission to the Inquiry into the Nation Building and Jobs Plan

8th February, 2009

Tax revenue is falling and will continue to fall for the foreseeable future. The Government is seeking to compensate for lost revenue by borrowing money. It should instead reduce expenditure.

Stimulus will not protect the Australian economy. The global economy is in recession. Unless the Australian Government can stimulate the global economy, their efforts will be in vain.

The Australian Government should drastically reduce expenditure in order to reduce public debt to an absolute minimum. Because the global recession cannot be avoided, the Government should focus on ensuring that Australia will have the best opportunity to recover once global conditions improve.

The recession is only beginning to be felt in Australia. It may be some years before conditions improve. If the Australian Government intends to maintain current levels of expenditure, the \$125 billion cap increase described in the Commonwealth Inscribed Stock Amendment Bill will be only the beginning. With tax revenue continuing to fall during the period of recession, new debt will be continually created. Inevitably the \$125 billion cap will be superseded and it will become only a small fraction of the total debt liabilities. The right thing to do will be to implement an austerity budget and maintain this until global conditions improve.

Australian households and businesses have responded to the change in global conditions by reducing their own borrowings and expenditure. People are putting greater focus on living within their means and on saving rather than borrowing. As a consequence, overall spending in the economy is being reduced. Businesses that relied on people spending more money than they had will now see reduced sales. Some of these businesses will become insolvent. The right thing to do will be to allow such businesses to fail, as they no longer provide services or products that are of sufficient value to Australians in the current economic climate. Job losses are necessary, but they will be temporary.

The Australian Government does not have the capacity to change the economic climate on its own. It should recognise this fact and instead of fighting against the tide, reduce expenditure. The Australian Government should not compensate for reduced private debt by increasing public debt. The Government should follow the example of its citizens and reduce its own expenditure. High levels of public debt will be necessarily repaid through higher taxes in coming decades. The negative consequences of high public debt will be far more enduring than those of the global recession.

The high levels of public debt that are inevitable if the Government continues on its current path will be repaid during the same period as baby boomers are leaving the workforce. Australian citizens who remain in the pool of tax payers will be both supporting retiring baby boomers and simultaneously paying off the high levels of public debt that are about to be incurred. As the former cannot be avoided, it is necessary that the latter should be.

Although increasing public debt may win votes for politicians in the short term, please spare a thought for the people who will be paying this money back.

Yours Sincerely,
Alex Hutton