

Garnaut proposes end to debt ceiling

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Ross Garnaut said the debt limit should be replaced with a system that forces governments to provide Parliament with detailed justifications once certain debt thresholds are reached. **Photo: Luis Ascui**

Jacob Greber and Laura Tingle

Notable economist Ross Garnaut believes the federal government should dump the debt ceiling because it threatens to entrench US-style Tea Party debates about borrowing.

The debt limit should be replaced with a system that forces governments to provide Parliament with detailed justifications once certain debt thresholds are reached, he said.

“I would let the government take responsibility for that debt,” he said at the launch of his new book, *Dog Days: Australia After the Boom*, in Canberra on Friday.

The first parliamentary sitting week of the new government was dominated by a growing political standoff over the Coalition’s plan to raise the national debt ceiling by 66 per cent to \$500 billion.

Labor and the Greens amended legislation on Thursday that would deliver only half the increase sought by Treasurer Joe Hockey. The change was rejected by the House of Representatives and the issue is now headed for a show-down when the Senate resumes early next month.

Thorough debate needed

“I would hate to see Tea Party-type debates becoming important in Australia,” said Professor Garnaut, a former economics adviser to Labor governments.

“If I was managing that agenda, I would first recognise we do have a serious debt problem. Lifting the debt ceiling from one-fifth of GDP to one-third of GDP is not a small thing. It is a big thing. There should be a thorough debate about it, a thorough discussion.”

Former senior Treasury official Mike Callaghan said Australia should use its borrowing capacity to invest in infrastructure that would boost productivity.

Mr Callaghan, a former deputy Treasury department secretary and director of the Lowy Institute’s Group of 20 Studies Centre, lent support to suggestions the government may identify borrowings for new roads and public works separately to debt covering recurrent spending.

Leverage up

“Separating out infrastructure debt, or borrowing for specific projects, can be good for transparency with markets,” he told *AFR Weekend* on the sidelines of a conference on next year’s G20 meeting, hosted by the ANU’s Crawford School of Public Policy on Friday.

Mr Callaghan said reclassifying debt for infrastructure would remove an unnecessary fiscal constraint on the government.

“Let’s face it: if you’re running a company you look at what your profit and loss is, but you could have a big investment if you leverage up. Same thing for countries,” he said.

“It can also help with communication because we have demonised debt, demonised deficits totally.

“The concept of separating recurrent expenditure from the capital budget makes a lot of sense. You can go to the public and say: ‘this debt is building that road, that hospital, that bridge’.”

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