Too easy to make billions worthless

LET me tell you how I became a billionaire. On a visit to Africa last month I managed to pick up 100 billion Zimbabwean dollars.

It was easy to get it out of the country. I just slipped a $100 billion note in my wallet and flew home. I haven't bothered to bank it, although I reckon it could earn interest of around 10 million Zimbabwean dollars a day.

To be frank, that doesn't mean much to me. It is worth about as much as that $100 billion ... which is nothing. Currency depends on the worth of the Government and central bank that stands behind it.

Which reminds me of all those frequent flyer points I clocked up on Ansett Airlines. Ansett was a fabulous operation. It had the best lounges, the best food and it paid its staff the highest wages. I used it all the time. I earned hundreds of thousands of points that I can use for any flight on Ansett in the near future ... which will be never. Those bonuses are only as good as the company that stands behind them.

Which makes me think of the firemen and police in the city of Detroit. They worked long years at low pay rates to protect the local community. One of their benefits was a guaranteed pension in retirement ... which was all well and good until the city declared bankruptcy in 2013. It doesn't matter how big your pension is if the person supposed to pay it hasn't got the money. After cutting some benefits and flogging the city's art collection, Detroit got out of bankruptcy late last year. Retirees will get their pensions for so long as the money holds out.

How can you tell if a company, a city, or a government is in danger of defaulting on its obligations? Most investors look at its credit rating. The AAA rating is the best and means it is thought to have the lowest risk of collapse. If the rating is below BBB it is considered below investment grade or, in common parlance, junk. Lenders want very high interest rates from junk borrowers. Good credit risks pay much lower rates.

Back in the 1980s under the Hawke-Keating government, Australia got itself into financial trouble and had its credit rating downgraded twice. It took a lot of work by the Coalition, with several surplus Budgets paying off a lot of debt, to get it upgraded. In 2003 we managed to get back to AAA again. That means the chances of the Australian government defaulting on its loans or benefits is very low. But the situation is deteriorating quickly. We are getting back to the level of net debt (the best measure of financial stress) that we had under the Keating government.

The situation at state level is also worrying. Of all the states that got themselves into trouble, Queensland was the worst. Its credit rating was downgraded. The Newman LNP government laid out a strategy to deal with it. But it has just been voted out. The new Government has no plan to deal with the problem.

Soon our Government will release its fourth *Intergenerational Report*. While a Budget looks at the nation's finances from year to year, the *IGR*, published every five years, tries to look over 40 years and assess how the conduct of today is going to affect the Australians of the future.

AT present, most Australians pay no charge to see a doctor. At present, qualifying Australians receive an indexed age pension. These are services that have been provided for past and future generations. Most Australians probably think the government will guarantee them in the future. But if there is not enough money, that guarantee will have all the credibility of a $100 billion Zimbabwean note. That's why a government has to think about how it can finance benefits not just for today or tomorrow but in a way that is sustainable in the long term as well.

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The government raises money from two sources. It can tax or it can borrow.

At the moment the top income tax rate in Australia is 49 per cent, the highest it's been in 25 years. Higher and higher tax rates run the risk of squeezing the economy and reducing the number of new jobs.

Borrowing means loading up future taxpayers with more debt and higher interest payments.

The higher that debt goes, the less lenders will want to keep funding it, or funding it at reasonable interest rates.

Running up debt means things are getting riskier for future generations.

The *Intergenerational Report* will show that future Australians are in a worse position now than they have been at any time since reporting started in 2002.

That's because the management of the past seven years has been at their expense. If you are spending money that you don't have then someone has to pay for it.

The previous government and the current Senate loaded the costs on to those who will be paying taxes and interest bills to about the middle of this century. The *IGR* is going to let them know what they are in for.

Hopefully, it will also explain to the public and parliamentarians how we have to change if we want a credible government and a bearable burden for the citizens of tomorrow.

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