

## Opinion

# Buy now and pay much more later



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I've often wondered about those advertisements that offer: "Buy now. No payments for 24 months. You pay nothing until 2011."

We all know you can't get a new computer or home entertainment system for nothing. We all know if you pay nothing now, that means when you come to pay for it in two years, you'll end up paying more, including the interest charges on all those payments you haven't made for the past two years. And if a customer misses a payment, the interest charge balloons. The home entertainment system ultimately proves much more expensive.

I wonder if people ask themselves whether it's going to be easier to pay more later than it is to pay less now? Or do they just take the benefit today and leave the worrying until tomorrow?

When I first heard Kevin Rudd before Christmas urging people to "spend, spend, spend" I thought he sounded like one of those pay-nothing-until-2011 spruikers, but that he was being less frank with the customers. There was no mention of when the repayments would start. In fact, there was no suggestion that there would be repayments. It was all so good – immediate consumption without any consequences.

Things don't work that way.

The Government is borrowing money, dividing it up and distributing it to families. A typical family of mum, dad and two children would by now have received two \$1000 bonuses – one for each of the children – and \$900 if dad's income was less than \$80,000. That's \$2900 since last October – enough to get a pretty nice home entertainment system.

And there's no repayment?

Actually, the Government borrowed this money, so it will have to pay interest to the lenders. And since it gets all its money from taxpayers, it's the taxpayers who will foot the interest bill.

During the next two years the Government will increase net debt from zero (the position it inherited in 2007) to about \$200 billion. In round figures that's about \$10,000 for each of our citizens and \$40,000 for our family of four. At today's low interest rates that's a bill of about \$2000 for our typical family.

A family that has done well out of the Labor Government's new spending will receive \$2900. But its share of the Government's future interest bill will be \$2000 a year. The critical question is how many years of interest payments are we in for?

When the federal budget is announced in the next fortnight it will show a massive deficit for this year, next year and the one after. It will detail how much the Government needs to borrow to fund it. One of the questions I hope journalists will ask on budget night is, on what date does the Government expect to repay this \$200 billion? Until then the interest bill is running every year.

It took 10 years to pay off Labor's debt of the 1990s. Today's one-off payments of \$2900 will look like feeble compensation against an interest bill that could last for 10 or 20 years. And that's why I factor in the children for a share of the interest payments. They'll still be coming by the time they get into the workforce.

If journalists ask about the repayment date, the Government will go on

about the global financial crisis. There will be a long monologue about how it is the fault of someone such as George Bush, Alan Greenspan, neo-liberalism or whatever.

The second part of the answer will be about how things would be worse if the Government didn't take the axe to spending, saving \$50 million here or \$200 million there. So just bear in mind how trifling these amounts are compared with the amount of new government spending since last year's budget – \$100 billion at least.

One day Wayne Swan will figure out that the easiest way to control budget spending is to reduce new spending before it starts. He opened the water mains to pump out a river of cash. Now he says he'll need to look at careful conservation measures to hoard our depleted resources.

I would recommend that families enjoy the Government's "buy now, pay later" policy because a bill is coming. And it will be a big one. We don't yet know how many years, or decades, of interest payments are in front of us.

Retailers would not get away with the kind of sales technique the Government has engaged in. Retailers have to detail the number of repayments, the interest rate and the all-up cost before the sale. You get to choose whether to take the package. What's more, if a retailer gives misleading information the interest payments will be suspended. Try getting that from the Federal Government.

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Peter Costello is a former federal treasurer and the member for Higgins.

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