Policy: **Budget**

Liberal Democrats

www.ldp.org.au / info@ldp.org.au
fb.com/LDP.australia @auslibdems
PO Box 773, DICKSON ACT 2602

Within a small government context, the LDP believes government should fund recurrent activities entirely through taxation and balance liabilities and assets to achieve the equivalent of zero net worth.

Policy

Within the context of a government that limits its ownership of assets to essential holdings, the Liberal Democratic Party (LDP) believes governments should balance their liabilities and assets to achieve the equivalent of zero net worth.

Having achieved that, governments should thereafter run balanced budgets, where recurrent activities are funded entirely through taxation and not through borrowings.

Discussion

Balancing the value of assets and liabilities (i.e. achieving ‘zero net worth’) supports intergenerational equity. If assets exceed liabilities, a government is essentially forcing current taxpayers to provide a bequest to future taxpayers. If liabilities exceed assets, a government is forcing future taxpayers to pay for benefits provided to current taxpayers. Such saving and ‘dis-saving’ decisions are best made by individuals and families.

Balancing the value of assets and liabilities would be achieved by governments with net assets running small deficits until the balance is reduced to zero, and governments with net liabilities running small surpluses until net liabilities are reduced to zero.

Once zero net worth was achieved, governments would plan for budget balance (i.e. achieving ‘zero net operating balance’).[1]

Running balanced budgets means recurrent government activities would be funded entirely through taxation, not borrowings. Governments would fund asset purchases through borrowing, and fund interest costs and depreciation (both of which are treated as expenses) through taxation. All this would ensure that the budget remained in balance and net worth remained at zero. Assets would be valued at market value using international accounting standards.

Running balanced budgets would mean that budgets would not be manipulated in a forlorn attempt to steer the economy towards the 'right' level of economic activity.

The LDP considers that government assets should be limited to essential holdings. The LDP privatisation policy envisages the sale of a wide range of government businesses. In addition, the LDP considers that governments should not hold financial assets. [2] Financial investment should be undertaken by private individuals rather than forced on taxpayers by governments that have no inherent advantages in it.

Consistent with this policy, the LDP considers that the federal government should not artificially maintain a market in Commonwealth Government Securities (CGS). Bonds should only be issued to the extent they are needed to match assets.

Propping up the CGS market (by borrowing in excess of requirements and using the excess to purchase financial assets) is the policy of both major parties. The LDP is opposed to this.

Governments that borrow to invest in financial assets achieve returns (adjusted for risk and after management costs) that fall short of those achieved through private financial investment.

Governments that borrow to invest in financial assets can reduce or distort the supply of funds to borrowers in the private sector, and can increase private sector borrowing costs.

Some argue that propping up the CGS market, thus maintaining a ‘risk free’ $A debt instrument, aids efficient price discovery and reduces search and uncertainty costs. The problem is that CGS crowds out the development of low risk $A private sector debt instruments that could also serve this price-discovery purpose. Moreover, lending to a government that embarks on a leveraged financial investment strategy is low risk only because of the potential to transfer the risk to taxpayers.

Overall, propping up the CGS market represents industry assistance for a handful of players in the financial sector, with net costs for the economy as a whole.

---

[1] Variations from forecasts and revaluations would cause small budget imbalances and deviations from zero net worth. These would be counteracted in the subsequent budget.

[2] While government defined-benefit superannuation schemes are now closed to new participants, some defined-benefit superannuation liabilities remain. The LDP recognises that some financial assets may need to be accumulated to match these liabilities, given that they cannot be paid out prior to the retirement of the beneficiaries.