

# 20 year borrow and build plan gives affordable transport, jobs and growth

## Glenn Stevens' recommendation

Last year Reserve Bank Governor Glenn Stevens strongly recommended a multi-year program of federal borrowing to fix Australia's deficient transport networks. He said that such a scheme, based on sale of long-term bonds, would benefit millions of Australians\*.

Coming from such a senior figure in the financial establishment this positive idea with obvious jobs and growth implications, should have been referred immediately to the Productivity Commission.

Unaccountably neither the Abbott government, nor the Turnbull government, acted on this. And Labor and the Greens have sat on their hands and done nothing. And what about the independents?

What is wrong with these politicians? Clearly every person in Australia would benefit from the excellent new transport opportunities that such a federal borrow

and build scheme would bring.

This would be a real economic plan for jobs and growth, while giving real relief to people in suburban Australia. All politicians should do as Glenn Stevens recommends, and come together to support it. (See below)

This current outline shows the benefits of such a scheme, how it would operate, and actions we the public can take to get politicians to pay attention to it. The time has come for action. Any politician, or political party, persisting in ignoring this opportunity must be called to account - at the ballot box on 2nd July.

The outline also shows how federal borrowing could help with the desperate problem of WestConnex's exorbitant long-term toll escalation.

## Commuter and transport benefits

The 20 year federal borrow and build proposal described below is in line with Glenn Stevens recommendations. It would cover both urban and rural

regions, and would bring our transport infrastructure progressively up to world standards within that 20 year time scale.

Commuters and other transport users would see major changes within five years, transformational changes within 10 years, and would have excellent transport networks covering all the nation's needs within 20 years. (High-speed rail could follow).

## Cheaper tolls and ticket prices

Present state and private funding methods have to push all of their costs down on to commuters/users. So too few projects have been workable financially, and those that have been built are too user/expensive. And also increasingly of late, more and more private projects have failed.

The unique advantage of the federal borrow and build scheme involving full or near full federal funding, is that tax feedbacks, first from construction activities, and later from productivity

34—THE DAILY TELEGRAPH, www.dailytelegraph.com.au Thursday, March 22, 2007—34

## LETTERS

# Funding model means states' hands are tied

‘Sixty years of under-investment has left us in our present mess’

Until World War II, NSW, along with the other states, had income-taxing powers and primary responsibility for infrastructure. Thus, when new infrastructure boosted the state economy and lifted taxes, there was an effective offset to borrowing costs. Hence the state's ability to build and fund huge projects.

Australia's problem with infrastructure began in 1942 when, as a wartime measure, the Curtin federal government temporarily took over all income-taxing powers. After the war, despite protests from the states, that became permanent.

Then came the big mistake: primary responsibility for providing infrastructure was left with the states.

Stuck with this responsibility but without the necessary concomitant taxing powers, the states have floundered ever since; and 60 years of under-investment has left us in our present mess.

Private funding cannot fill the gap. It is an expensive model, and only works where there is an urgent need to fix a bottleneck in an existing high traffic area. Even then, further bottlenecks often need to be created to channel traffic to the private investment. The present system is not working. We must move to full federal funding for major transport infrastructure, urban and rural, road and rail.

Ian Spring, Chiswick

**\*Extract from a speech by Reserve Bank Governor Glenn Stevens 10 June 2015.**

...infrastructure spending has a role to play in sustaining growth and also in generating confidence.

... And it is perfectly sensible for some public debt to be used to fund infrastructure that will earn a return. That is not the same as borrowing to pay pensions or public servants.

Amenity would be improved for millions of ordinary citizens in their daily lives. We could unleash large potential benefits that at present are not available because of congestion in our transportation networks.

The impediments to this outcome are not financial. The funding would be available, with long term interest rates the lowest we have ever seen or are likely to.

The impediments are in our decision-making processes and, it seems, in our inability to find political agreement on how to proceed.

...we need to create a positive dynamic of confidence, innovation and investment.



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gains flowing over time from the new infrastructure, would largely offset federal bond interest costs.

So with federal borrowing, and cooperation with the states, much more new infrastructure could be built, and tolls and ticket prices on these new transport works could be very much cheaper, perhaps 75% cheaper, than those financed by the present state/private model. These cheaper tolls could start with M4 WestConnex

### **Jobs and growth benefits**

The scheme suggested could be for a 20 year commitment to borrow 1% percent of gross domestic product each year. In very round figures this would give some \$15 billion extra available for spending on transport infrastructure in the first year, virtually doubling the current rate of expenditure. (In practice, spending would need to build up over a few years.)

With a likely multiplier of 1.5, this would generate \$22.5 billion of extra expenditure in the community, and create up to 150,000 new jobs right across the country. It would also lift GDP by around 1.2%, and reduce unemployment by 1% for the whole 20 year period.

I believe such an ongoing boost to be exactly what the country needs at present. Very significantly, it would also give tax feedbacks during construction of \$6 billion per year: \$4.5 billion to the Federal budget and \$1.5 billion to the states. These funds could be spent on

health and education, or to reduce taxes. (All figures rounded)

### **Next-generation benefits**

At the end of the 20 years in 2036 the scheme would have yielded a total spend of \$450 billion in 2016 dollar terms, and the debt would be 12% of the then GDP. The next-generation would be wonderfully advantaged with a combination of excellent transport infrastructure, a low cost competitive economy, and low infrastructure scheme debt.

### **The M4 WestConnex problem**

The problem for M4 WestConnex started when costs ran away. They jumped up from \$10 billion to \$16.8 billion. Then, apparently in an effort to recover the position, the State government has set a pattern of rising tolls far in excess of commuters' ability to pay.

The initial toll rates are bad enough, but the proposal is that they should grow at the extraordinary rate of 4% per annum minimum for 44 years thereafter!

This is wildly in excess of current or likely future wage increases for lower and middle income earners in Western Sydney. With this rate of escalation the expressway system would become progressively less and less affordable for the 1 or 2 million people it is designed to serve. Surely it must be obvious that a 16% minimum rise every four years for 44 years would be intolerable in current circumstances of low/no wage increases.

If this rapidly increasing toll plan were to go ahead millions of people would be hard hit by the sharply rising cost of using the road. Education and job opportunities would be restricted, living standards would fall, and businesses in Western Sydney would become less and less competitive.

Also, due to the effects of these high tolls, real estate values in Western Sydney would drop heavily and stay depressed for decades.

If put in private hands under tolls currently announced, the new expressway would become increasingly unaffordable, and would be the subject of rat running all along its length. Thus spoiling the lives of people, perhaps another million, from Parramatta to the city. Again for 44 years. People in these areas would never forget which political party did this to them.

### **The M4 WestConnex solution**

To solve M4 WestConnex problem the Federal government, using long term borrowed funds, should buy each of the stages of the expressway from the State government as they are completed. And the State should lease out their operation.

In the meantime, nothing should be done to lock commuters into the current highly unsatisfactory toll pricing arrangements for M4 WestConnex until the results of the Productivity Commission inquiry are known.

### **Action plan**

The circumstances are right for borrowing. Despite the hype, government net debt is very low indeed by world standards, and we have plenty of scope for safe borrowing. Also, Reserve Bank Governor, and lately the IMF, and highly respected businessman Frank Lowy, wouldn't have recommended that Australia enter into borrowing for transport infrastructure unless they thought it was a sound idea.

Rating agencies would welcome this borrowing as a sensible move to improve Australia's productivity.

For whatever reasons of ideology or lack of get up and go, or whatever, Australia's politicians have failed to pick up on this idea. So we the public must force them to pay attention to this opportunity. And every possible avenue of persuasion should be used.

Social media - the questioning of individual politicians on the hustings, action within political parties, print media, electronic media, talkback radio, and every other sort of media must be used to make this happen.

Let's make this the big issue of the July 2 election!

Political inaction is robbing us of our future. Please act now, using this question:

**Do you support referring RBA Governor Glenn Stevens plan for federal borrowing to fix transport to the Productivity Commission?**

There is useful information, contacts etc. to help with this, at:

[www.borrowandbuild.com.au](http://www.borrowandbuild.com.au)

Note: further notes will be posted on the website as the election campaign progresses.

**by Ian Spring BEc (Hons)Syd**