

# Low or no tolls on QE funded expressways

## Summary

The Reserve Bank has announced the establishment of a fund of \$500b for Quantitative Easing ("QE") to strengthen the economy. QE is a method widely used over the last 15 years or so by reserve banks in major countries overseas for the creation of new "free money", typically around 20% of GDP, to be used to boost their economies.

I believe part of this new QE money should be drawn down for the building of new wholly federally owned, not-for-profit, super affordable to the user toll roads ( and new super affordable rail ) across the nation. This will allow a stop to be put to the building of any more crushingly, user- expensive private expressways.

Looking at an average of five major projects for six states at, say, \$10 billion for each project would require QE funds building up to a spending of some \$300 billion in current dollar terms over 15 - 20 years, compared with current Australian GDP of approximately \$1.8 trillion.

It should be accepted that this money generated by QE and spent in the economy has nothing to do with national debt, and also be accepted that this money will never have to be repaid.

For the last year or so our economy has been slowing, but the use of QE could speed us up again and bring brilliant employment, social, economic and national strength benefits across the short, medium and longer terms.

## How QE funding of major infrastructure would work

After coming to a suitable arrangement with the states the Commonwealth government would establish a responsible body to receive and manage the investment funds drawn from QE. Such a body might be called "Commonwealth Major Transport" ie "CMT" and this body would raise funds by selling its bonds to Treasury.

This arrangement would be worked in parallel with states on the choice of projects and priorities. The Commonwealth government would then be responsible for its operation calling on the reserve bank for the advancing of funds as necessary.

A Commonwealth/State format similar to the recent National Cabinet meetings to manage our current virus problem might be a good broad model for keeping up-to-date on priorities. Or the matter could be considered by the Loans Council.

## **Why private tolls are so hopelessly unaffordable**

We are in a time of super high cost private underground expressways in our major cities. The current tolls start off excruciatingly high, then escalate at 4% per annum, so doubling in 20 years.

These high tolls reflect initial high engineering costs, the high overall costs of such lease arrangements, the necessity for private enterprise to profit from the capital invested, as well as the need to pay back the original borrowing.

This list of costs also includes the need to pay inflation indexed, after tax dividends to shareholders throughout the lease and then towards the end of the lease the need to pay off debenture holders. What an expensive indirect messy way to do things!

## **QE funded roads may not even need tolls**

By comparison with the private sector, QE money does not have to be paid back and No interest cost is incurred in its use, cost based tolls on new fully public toll roads funded by QE on a not-for-profit basis would accordingly be hugely cheaper to the user.

In addition the construction of the roads would generate very considerable profits to the construction industry. The tax on these plus the income generated by the multiplier would generate further tax revenue for the Commonwealth, maybe equal to half the cost of the total project.

In fact there is a real possibility that these roads could even be offered from the start on a toll-free basis, leaving their relatively low maintenance costs to be absorbed in the budget? Or maybe not.

## **How QE would improve the economy as a whole**

Forget the dismal prospects being offered by the federal government of a long slow recovery in employment. Sharply increased road infrastructure spending for remedying the deficiencies in our urban and rural roads based on QE “free money”, could be used to get spending up quickly across the whole economy.

A new federal not-for-profit major road building program based on QE would give hundreds of thousands of new steady jobs throughout the economy, many of them lower and middle income jobs.

In the short and mid-term of the plan QE monies could be used on smaller projects to help train sufficient numbers of people in the skills required to meet the full pace of the new road/rail building activities.

These people could be helpfully employed starting almost straight away in a progressive general refreshment of urban and rural roads, work which has been long neglected and could be easily funded by QE.

## **QE for cheaper transport**

Another, different, benefit of QE is that currently we have a huge financial reliance on exports of oil, gas and iron ore but we can be absolutely certain that each of these export elements will be subject to active international competition on price in the mid-term and fierce competition in a declining market in the longer term.

The inevitable reductions in revenue from these sources will have effects on both our national income and our international competitiveness. So, in anticipation of this threat to future export incomes depressing local incomes we must go into the future with lowest possible cost to the user/consumer transport infrastructure across the board.

QE is the only way to achieve this.

## **QE for a better standard of transport**

In the current world environment of many new countries becoming richer, and more effective in their competition with us, now is the time to protect our jobs, national income, and private incomes by using QE to bring our unsatisfactory road and rail infrastructure up to a better standard.

With this in mind we should build no more tube train style, essentially standing room only suburban trains. The seemingly deliberate building of *just too narrow tunnels* on our current tube trains is a sad false economy.

Students should be able to sit and read their schoolwork on the train and while with our ageing population, must older people, those now being encouraged or forced to work longer, have to stand for more than an hour in a joggling suburban train?

## **We have failed to take account of the pain of lower income earners**

The current batch of private toll roads now coming forward will create a growing horrific burden for lower income earners and their families. With this burden from tolls rising at 4% per annum, so much faster than incomes over the years, and with the multigenerational distress this is certain to cause over time, the future looks bleak.

Yet the cold hard reality of this ever escalating burden has been either overlooked or swept under the carpet.

Amazingly no one seems to think about this issue at all. What? Don't the poor people in the outer suburbs count? Also, we don't seem to take into account that people who have to drive long distances in order to take advantage of limited work opportunities at low rates of pay, simply cannot afford high rapidly escalating private tolls.

With wages currently stagnating and in many cases falling, the sharp ramp-up in toll prices quarter by quarter on current private toll roads turns the screw, and is absolutely certain to bring multigenerational destructive family hardship, particularly for renters.

How can any government state or federal with any conscience or consideration for the wider human interest, turn a blind eye to the terrible distress inherent in these out of proportion skyrocketing private expressway tolls?

And, while we are stuck with the current generation of toll roads, we should **not** allow any more of them to be built. We **must** go to QE to fund the super affordable next generation of expressways.

## **Some economics - how much, spread over how long, and repayment?**

Looking at roads only and assuming we build 30 new expressways/railways over the next 25 years across all states for an average of \$10 billion each in current dollar terms, this would give a total of \$300 billion.

On relativities this amount would be drawn down progressively from the government under QE over the next couple of decades and would be equivalent to only about 15 % to our national debt.

Quite a respectable profile in the current world where most relevant countries have much higher proportion of QE. Particularly for an advanced country like Australia trying to cope with a world record rate of population growth.

Further, the international stampede into QE overseas and the weight of commentary make it clear that there will never be any obligation to “repay” any of this QE money.

## **Benefits of QE in freeing up commonwealth and state budgets**

Also to note, reduction in current spending by commonwealth and state governments of more than \$5 billion per annum on roads would free up funds for other worthwhile economic and social benefits.

These would include the opportunity to pay down debt or to reduce taxation or for extra spending on education, health and desperately needed extra spending on the welfare of the growing numbers of the aged.

## **Multiplier benefits for commonwealth and state budgets**

The boost to the economy outlined immediately above does not include the further benefits from the multiplier, the concept in economics which says that spending flows down through the system generating further spending.

The multiplier in Australia is at least two, probably much more. The money borrowed for free and spent on new road construction would generate major and very welcome increases in incomes.

Funds flowing in this way would do wonderful things to support the economy and so help us and our children and their children to escape from the stifling low income trap threatening our country due to increasingly vigorous international competition.

## **QE spending would pick up the economy**

From slipping down slowly nationally as we were doing up to last year and now being in the dumps, a strong QE borrow and build program for transport would progressively change our nation into a strong growth economy.

An economy well-balanced at home, and much more competitive internationally and capable of growing our population in a way that would not be possible without it.

## **Fashions in ideology**

We must remember that many of the ideas guiding members of both our major parties hark back to their university educations in the time of Thatcher, with her anti-government, every man for himself, selfish, individualistic thinking.

For those wanting minimum involvement of government in the economy, i.e. an ideological commitment to private enterprise, a move back to government ownership of major infrastructure assets will not be an easy choice.

But whether privatisation does or does not work elsewhere in the economy, and in my view it generally doesn't, it does not even look like working when compared with the provision of transport infrastructure by QE.

## **MMT**

MMT, modern monetary theory, the new ideology/financial management idea coming forward, is almost a direct opposite of the rigid conservative Thatcher budget ideology.

Instead of an ideology centred on reducing governments and balanced budgets, MMT says budgets should be based on a "spend what you have to" basis. If this general idea is taken up it may have big implications for our future overall national financial management.

This in a way would be a return to the Menzies/Caldwell era, when the major parties were competing with each other to deficit finance growth. How fashions change!

## **Use of QE vital for future national competitiveness**

Also, we must not forget the nation's overall longer term situation. Currently we have a huge reliance on oil, gas and iron ore. This situation is not sustainable.

We can be absolutely certain that each of these exports will be subject not only to reduction in world usage due to global warming priorities, but also to active international competition on price in the mid-term, and fierce competition in the longer-term.

A reduction in revenue from these sources would have effects on both our national income and on the value of the Australian dollar. This would flow on to the real value of personal incomes. So if we want to go into the future with competitive low-cost infrastructure, now is the time to act.

In fact, effective efforts to minimise transport costs will become increasingly important if we are to stop the decline in standards of living and hold on to export competitiveness. Indeed to maintain our national viability in the difficult times ahead, the economy as an overall entity **must** be 'fit for purpose'.

Now is the time to act. Given our government's commendably strong performance through COVID with the cooperation of the opposition they should have significant good sense and political leverage to put QE into effect.

In relation to our international competitiveness, we can afford to fund QE and build while our international competitors recover more slowly, and have to more directly support their businesses and populace after the pandemic.

## **Will the federal government act to get the cheap transport benefits of QE?**

QE is a new idea little understood in Australia, so it is a big ask to think that the more conservative of the Liberal National coalition, and the less open-minded portion of the Labor Party, would readily accept the chance of extending its use beyond that currently recommended by the reserve bank.

It would obviously be seen initially to the coalition to be in conflict with their present total ideological commitment to private enterprise.

But the idea of the use of QE for providing affordable public transport is so good, first in terms of both increasing national economic viability, and second in the avoidance of the cruel family pain which would be caused by any more over-expensive private expressways, that surely it cannot be overlooked by people of goodwill.

In the light of these valuable benefits, surely the QE idea must be carefully examined by both the coalition and the opposition. It is my hope that thoughts of humanity and good economic sense will combine to overcome narrow ideology and failed ideas.

When considered by people of conscience, with an eye to the great benefits to the millions of lower income fellow Australians, and to the future of the country, surely the application of the QE idea to give us all super affordable major transport must be taken up and put into action. Always remembering that other countries around the world are years ahead of us in taking up this opportunity.

**Ian Spring** BEd (Hons) Sydney

Email: [ianspringeconomist@bigpond.com](mailto:ianspringeconomist@bigpond.com)

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

Phone: ( 02 ) 9712 5339

Ian Spring is a completely independent retired business manager who has been attempting to foster funding for transport infrastructure and asks that those using this material please give it some acknowledgment.