A borrow and build plan for transport

The Federal Treasurer is reported to be considering bond sales to fund infrastructure. A modest 20 year federal borrow and build program for road and rail could give Australian commuters worthwhile benefits within a few years, transformative changes within a decade, and a complete transport infrastructure solution by 2033.

Such a program could involve annual borrowing of 0.6% of GDP: in 2013-14, $10 billion. Half of this could then be used for 50% subsidies to private projects. This would give new expenditure on road and rail of $15 billion. (As an example, on a population basis New South Wales share of this would be $4.5 billion a year.)

With this level of transport infrastructure spending, and a likely fiscal multiplier of 1.5, total annual expenditure in the community would increase by $22.5 billion (1.4 % of GDP)

In round figures, annual tax revenue on this would be $6 billion - $4.5 billion to the Commonwealth, and $1.5 billion in GST to the states. This would give very welcome relief to budgets across the nation.

The program would take two or three years to become fully established. After that the above figures would grow year by year in proportion to the growth in GDP.

Federal borrowing spreads the load to a surprising degree. Extra annual debt servicing cost for the program at, say, 5% per annum would be $500 million. Across the population of 23 million this would come to only *$22* per person in the first ***year***, $44 in the second ***year***, and so on.

Total funding available from the program over the 20 years would be over $300 billion in current dollar terms. This should be sufficient to provide a high standard system of urban and nonurban road, rail, and light-rail by 2033. It should also leave something over for a substantial start on the much-needed Brisbane-Sydney-Canberra-Melbourne high-speed rail link.

Over the first two or three years of the program, while larger plans are being developed, targets for spending could be on shovel ready projects, work on bottlenecks in metropolitan roads, and an attack on the huge backlog of spending needed for country roads and bridges.

The borrow and build program would solve our transport problems by bringing an ideal mix of private capacities and free government financing. Until now, struggles with inadequate funding have tended to lead to poor outcomes, with whole generations of expressways build too small for the long-term need, and railway developments lagging badly.

The guaranteed regular funding stream from the borrow and build program will help with decision-making; spreading the new funding sensibly across road and rail, and assuring that the size/capacity of new projects is sufficient to meet long-term future needs.

A target should be to be always working on at least three large projects in each of our major metropolitan areas. Doing projects in series as we are planning for at present is glacial. We need work going on in parallel on a number of projects. This will also help to establish the crucial balance between road, rail, and light-rail.

Major projects, now postponed indefinitely, could be possible quite quickly. For example, a cross harbour Sydney rail tunnel giving to and through access to the city from the Northwest would be possible early in second decade of the program. Also, this could be engineered for double-decker trains fully compatible with the present system.

Under the program, tolls and transport ticket prices should be considerably less than 50% of full commercial rates, and there would be no need for the reintroduction of tolls on existing roads.

Tolls have the same economy dampening effects as taxation. They have effects on consumption, work participation, education opportunities, and family life. Keeping tolls lower would strengthen the economy.

Looking more broadly, the program would give a much-needed boost to confidence and jobs in the short term, and would improve the cost- base, the jobs base, and the general efficiency of the economy progressively over the whole 20 years. It would also take the weight of having to provide for major transport infrastructure off federal and state budgets.

A never mentioned piece of arithmetic is the fact that with average money GDP growth of 5% per annum, any given debt shrinks to half as a proportion of GDP in under 15 years. With money GDP on track to more than double by 2033, Infrastructure Bond debt at that time under the program should be around 7.5% of GDP: a tiny price for the next-generation to pay for an excellent transport infrastructure base.

Over time GDP growth will also reduce the significance of our current debt. If this debt were unchanged in money terms by 2033, it should have fallen from about 12% of GDP at present to around 4%. Thus, on these assumptions, total net debt including Infrastructure Bond debt, at the end of the program might be close to be very safe low level at present

All of our resources, both public and private, will be needed to deal with the transport needs in providing for a likely 30% increase in population by 2033. Federal funding through the issue long-term 'Infrastructure Bonds', joined up with the construction skills of the private sector, will enable this challenge to be overcome.

We must act quickly. Without a quick, vigorous attack on the transport infrastructure problem we face escalating traffic congestion, and likely gridlock within 10 years. Also, completion of the program will come just in time to help offset the severe budget implications of population ageing due to hit around 2030.

If a decision were made in the future to extend the program beyond 2033, the ongoing flow of funds would be more than sufficient to fast-track the completion of a high-speed rail network down the eastern side of the country.

Poor transport infrastructure is robbing us of jobs and progress. A federal borrow and build program would give a fast track solution to transport difficulties, and a major boost to jobs and the economy for 20 years. It is too good an opportunity to miss.