

RBA Stevens' bold plan could give quick fix to transport

In a speech delivered in June RBA governor Glenn Stevens said that it would be "perfectly possible" for the federal government to borrow for a steady long-term program of spending on Australia's transport networks.

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

"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."

He described borrowing for this purpose under present circumstances as being "perfectly sensible" and said that "Amenity would be improved for millions of ordinary citizens in

their daily lives."

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

He called on politicians to come together on an "agreed story" to fix Australia's transport.

Glen Stevens said that by federal borrowing "We could unleash huge potential benefits that are at present not available because of congestion in our transport networks".

My **borrow and build proposal**, which has been developed over 10 years, seems an exact expression of the reform proposition urged by Glenn Stevens.

As outlined overleaf, the program shows how Glenn Stevens' proposal could work to give a 20 year solution

to Australia's urban and nonurban transport agonies and inefficiencies.

It also shows the huge on-the-ground improvements that can be bought about by its doubling of spending on transport infrastructure, and the financial prudence, the life changing social benefits, and the low and shrinking-away-burdens to the next-generation of this plan.

These benefits should make it an obvious policy winner.

Yet, as far as I have seen, the politicians have not responded to Stevens' call, and the press now tell me 'It isn't news'.

It seems nothing will happen without pressure from workers needing jobs, builders needing work, business, commuters looking for relief from their present distress, and, above all, from voters.

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Borrow and build is a good strategy



Reserve Bank governor Glenn Stevens has said it would be "perfectly possible" for the federal government to borrow for a steady long-term program of spending on our transport networks ("Stevens calls for infrastructure projects", AFR, June 11.)

He has also suggested that "an agreed story" is necessary if this program is to be brought into action.

As an independent economist concentrating on transport infrastructure, I believe that I have produced the basis of such an agreed story. In broad, the possibility (outlined in a paper on my website www.borrowandbuild.com.au) is that we should enter into a 20-year

commitment to borrow 0.6 per cent of gross domestic product, \$10 billion in the first year, and to give part of this as grants to otherwise unworkable private projects. Overall this would generate a total of \$15 billion a year in extra spending on transport infrastructure, virtually doubling the current rate of expenditure.

With a likely multiplier of 1.5, this would generate \$22.5 billion of extra expenditure in the community, create 150,000 new, steady full-time jobs, and lift GDP by about 1.3 per cent.

I believe such an ongoing boost to be exactly what the country needs at present. Very importantly, it would also give a tax feedback during

construction of \$6 billion a year.

Debt-servicing costs would be more than offset early on by these tax feedbacks from building activities, and later by tax feedbacks from the new transport infrastructure's further contributions to economic growth.

The program would give us an up-to-date transport system by 2035, scheme tolls and ticket prices on new projects would be about half full commercial rates and new debt shrinks to half as a percentage of GDP over 15 years. So the "debt burden for new generations" is less than one might think.

Ian Spring
Chiswick, NSW

So now is the time for the use of social media to force proper consideration of Governor Stevens' initiative, and, using my version, to try to build support under the heading:-

We must borrow and build.

Ian Spring,

BEC (Hons) Sydney, is a retired independent economist/business manager who has set out to encourage action to solve our infrastructure problems.

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23rd July, 2015

We must borrow and build

THE PROGRAM

How the 20 year borrow and build program would work

- sale of transport 'Infrastructure Bonds' to create annual federal borrowing of 0.6% of GDP
- comes to \$10 billion in the first year
- half to be used as 50% free grants to otherwise not viable private projects
- this draws in private input of \$5 billion
- so total annual spend on road and rail \$15 billion
- a multiplier of 1.5 gives a total increase in annual national spending of \$22.5 billion
- annual tax feedback would be up to \$6 billion
- this would support state and federal budgets

Total extra infrastructure spend by 2035 in 2014 dollars would be over \$400 billion. Analysis shows that this should be just enough to get Australia's transport infrastructure up to competitive world standard.

Off-budget infrastructure debt in 2035 would be only 8% of the then GDP. Great transport infrastructure and low debt - a wonderful gift to the next-generation.

BENEFITS

Australian commuters would get worthwhile benefits within a few years, transformative changes within a decade, and a complete transport infrastructure solution by 2035.

And ticket prices on largely federally funded new work would be considerably less than half full commercial rates.

All sectors of the economy would benefit. I believe such an ongoing boost to exactly what the country needs at present.

The program would also create up to 150,000 new steady full-time jobs, lift GDP by some 1.3%, and reduce unemployment nationally by about 1%. It is just what we need to deal with youth unemployment.

Budgets around the country would be improved. Funding road and rail by borrowing rather than from taxation revenue could allow increases in spending on health education and welfare and maybe for reductions in taxation.

Australia's high cost structure due to

grossly deficient transport infrastructure would be greatly improved. This would help protect employment and living standards, and support international viability in the long-term.

The next-generation would benefit enormously. With transport costs minimised, they would be living in an efficient, and, we hope, internationally competitive country.

DOWNSIDES EXAGGERATED

Contrary to some of the rubbish talked about burdening the next-generation, this generation would have a quite low infrastructure debt burden. With GDP growing at around 5% per annum (2.5% inflation and 2.5% growth) new debt shrinks to half as a percentage of GDP in 15 years. So the 'burden' on the next-generation is a complete furphy.

In the longer term, debt shrinks to virtually nothing. (The Sydney Harbour Bridge cost \$8 million). The Debt of the end of the 20 year program in 2035 would be approximately 8% of the then GDP. And this figure would continue to shrink as a proportion of GDP - halving every 15 years.

Strangely, our current predicament of underspending on transport infrastructure are not really the fault of recent generations of politicians.

The problem began in 1942 when, under the pressures of war, the federal government took over income taxing powers from the states, but left them with transport infrastructure responsibilities.

Thereafter, with no tax feedback to support borrowing, and the federal government allowing major increases in immigration, the states have been unable to move effectively to deal with their problems, and we have had 70 years of under investment.

WESTERN SYDNEY

I use my local region, Western Sydney, to show how Federal borrowing is absolutely necessary to cope with the huge backlog in transport infrastructure, and the burgeoning population of this long neglected region.

The estimated cost of major new projects needed for Western Sydney before 2035 is in the order of \$90 billion in 2015 dollar terms. (See website for 2014 estimates).

Projects necessary for Western Sydney include a new Parramatta-Sydney Express Train Link: the North-West rail link: the Cross Harbour Rail Tunnel: much faster completion of WestConnex:

completion of the Parramatta- Epping Rail Link: full construction of the Parramatta centred Light Rail Network: the desperately needed upgrade of Western Sydney metropolitan road links: the widening or duplication of the M7: the M1-M2-M3 links: and a new Newcastle-Sydney-Wollongong high-speed rail link.

A few of these are in various stages of development but what is happening now, though a real improvement on past neglect, is still far too little far too late. After decades of neglect the recent agreement to sale/lease the poles and wires will provide only a fraction of the funds necessary to fix Western Sydney. Major federal borrowing is the only way.

ACTION WE CAN TAKE

Other states face a similar challenge where possible returns from saleable assets can nowhere near match up to the need.

The only way that major transport infrastructure can be financed, and tolls and ticket prices can be kept affordable, is for a very substantial proportion of invested funds to come from free contributions to projects by the federal government.

As we have seen, federal budgets will be more than compensated from the tax feedback they get from construction, and increased tax revenue later on from increases in productivity.

Forget the whiners who mumble about project selection, and nigger about who is responsible for what. Let's cooperate, make it an open process, and get on and build a new Australia.

My state and federal members, both Liberals, have been supremely supportive, but while I have sent out emails to other politicians across the country I have not had any response from them on this opportunity. Sadly, the press also tell me "It's not news". What are they thinking?

A simple change in policy that can painlessly transform the job perspective and lifestyles of millions of people. If this isn't news what is?

Stevens proposal should be supported by both major parties, but if one does not support it, that party will face multiple terms out of office.

Only federal borrowing can fix transport infrastructure -

We must borrow and build.