

## **NEW PROPOSAL**

### **Tolls 70% cheaper if new toll roads fully federally owned**

A memorandum with the above heading is attached. It has been sent to the Prime Minister in response to the request he made recently for ideas from the public. The following excerpt shows my central idea.

**With our national debt at a very low level, my recommendation is that the federal government, after making suitable arrangements with the states, should borrow by sale of long-term bonds at near zero current low interest rates, commit to rolling this debt over indefinitely and arrange for the building and full ownership of the future cheap for the user public toll roads which we need so desperately.**

**The good news is that tolls on these new fully federally funded public toll roads would be only 20 to 30% of private operators' toll prices. And the really good news is that these tolls would need to grow only in line with inflation after that.**

#### **Getting things in proportion**

Chris Richardson of Deloitte Access Economics is reported by the Canberra Times as saying even after current events "...Australian government net debt will reach only about 33% of gross domestic product, which was modest in comparison with other advanced economies."

10 new suburban rail systems and 10 new urban freeways at \$10 billion each would cost \$200 billion, only about 10% of GDP. This will give a government net debt of under 50% of GDP. Given that the roads at least would pay their bond servicing costs in full, borrowing and building seems eminently sensible and readily affordable.

#### **To the media**

I ask you to have a look at this proposal, and if you want to report on it I ask you please to call it...

#### **"Ian Spring's borrow and build proposal"**

This will give viewers, readers and listeners a way to find my website [www.borrowandbuild.com.au](http://www.borrowandbuild.com.au)

#### **To transport users and to other voters**

If you support a change to full federal funding of new toll ways, and railways and wish to build further support, I ask you please to Email this to everyone on your mailing list who you think might be interested. I ask you also please to use the media in any way you can - radio talkback, letters to the editor, websites et cetera to promote this borrow and build idea.

We will all be so much better off if this idea is adopted.

The better this idea is understood and the greater ground swell that builds behind it, the more normalised and politically acceptable the idea will become.

I think in the current strained economic environment there is a very good chance that the Morrison federal government will accept this proposal. They have done a lot of good things lately and this could be another one of them.

#### **Signs of minds starting to think alike?**

The leader of the opposition Anthony Albanese as reported in The Sydney Morning Herald of Wednesday, 13th May 2020 in an article by Chris Uhlman is quoted as saying

"We need investment in people, technology, infrastructure and in the capacity of government to do good, if we are to be better prepared not just for the next crisis, but for the challenges of the next decade,"

The Prime Minister and The Leader of the Opposition both talking about things in somewhat the same way about concerns about our future needs and both clearly interested in new ideas, perhaps there is the possibility of a new cross-party cooperative spirit emerging ? If this were to happen much could be done.

So maybe we can soon be further on the way to cross-party co-operation on a much more extensive and much cheaper consumer friendly new toll way system and to cheaper new railway systems too for our major cities and beyond. New assets based sensibly on new federal borrowing.

#### **Help for country areas**

In an early use of this new federal borrowing we could take the opportunity to fix up the gravely deficient roads, bridges, communications and rail lines in our country areas.

With stringent budget and income circumstances likely for years ahead we won't get this work done any other way.

The tens of thousands of steady jobs for years ahead in country areas would be a wonderful boost to people who have taken such a hammering from drought, floods and fire in recent times.

*Ian Spring*

# Tolls 70% cheaper if new toll roads fully federally owned

## Open letter to Prime Minister Scott Morrison

Dear Prime Minister,

Thank you for inviting ideas from Australians. I have been writing on transport infrastructure for some years now and my work is on my website.

The new private expressways have high initial tolls set to grow at the impossibly user-expensive rate of 4% per annum, for decades. This means a 50% increase in toll prices in 10 years, and a doubling in 20 years, with further increases after that. These tolls are an impossible burden, especially for lower income earners.

With our national debt at a very low level, my recommendation is that the federal government, after making suitable arrangements with the states, should borrow by sale of long-term bonds at near zero current low interest rates, commit to rolling this debt over indefinitely, and arrange for the building and full ownership of the future cheap-for-the user public toll roads which we need so desperately.

The good news is that tolls on these new fully federally funded public toll roads would be only 20 to 30% of private operators' toll prices. The further good news is that these public tolls would need to grow only in line with inflation after that.

This is possible because public toll roads don't have to bear all the extra costs of private operators, including the need to pay income tax and shareholders annual inflation indexed dividends, and the big one, the need for them to load toll prices throughout all their years of operation in order to pay off their huge debt to bondholders.

The much cheaper federal toll prices of federal future expressways would surely be a relief for the so many low income earners struggling to find enough work. This is particularly true for the 3.2 million Australians trying to get by with their families with incomes under the poverty line, and for whom present spiraling upward private toll prices can only cause two generations of distress,

Prime Minister, I am fully aware that borrowing to revise the whole way of funding major expressways is a big change.

But this is not borrowing to fix some budget hole. It is borrowing to establish long-term readily affordable productive assets of great enduring benefit to the community, particularly to lower income Australians. A very different proposition and one which I believe

will be seen internationally as good policy, and get a plus from major international credit rating agencies.

The proposal for a new federal borrow and build program will certainly require some changes of thinking within all political parties. I believe that borrowing in this way will both get the job done, and give an opportunity to reduce both state and federal taxes considerably. I hope that with your guidance this proposal will be seen as a real winner.

I am encouraged in this by the fact that you as Prime Minister have shown clear leadership, strength, and effectiveness in dealing with a number of other major challenges.

Notably you and your government have stood up consistently against pressures from China, dealt determinedly and with great world-leading success with the corona virus crisis, and you are pushing strong, world-leading initiatives on taxes in order to protect our local media against the Googles of this world.

Prime Minister, I advise that I intend to distribute this submission widely in the hope that various experts in the field of finance, urban planning, engineering and building and other relevant disciplines will support this idea with their trained opinions, and thereby help make it happen.

Thank you again for offering Australians the opportunity to put forward new ideas. I hope you get many more of them. And I sincerely hope you enjoy my personal memories of Cronulla more than 80 years ago.

Yours faithfully,

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Ian Spring is a completely independent retired business manager who has been attempting to foster federal borrowing for transport infrastructure.

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# Full federal funding for affordable future tolls

**Initial public tolls could be 75% lower than their private equivalent, and would rise after that only with inflation.**

The high initial tolls being charged by the private for-profit, PPP, operators of our current new and under construction private expressways in NSW are set to rise for decades by a minimum of 4% per annum. This means a 50 % increase in toll prices in 10 years, and a doubling in 20 years, with further increases after that.

For millions of low and middle income families already suffering from the new normal of low-or-no wage increases, particularly for those living near the edges of our major cities, these runaway private toll prices will quickly grow to be a lifestyle crushing burden.

But for the next batch of new expressways there is the possibility of a much better solution, which will enable tolls on new expressways to be kept affordable.

In a scheme funded by the sale of long-term government bonds, the federal government, after making suitable new arrangements with the states, should take over financial responsibility for the building of all new expressways nationally. Then the government should retain permanent ownership of them, and arrange for these new public toll roads to be operated as public utilities on a not-for-profit basis.

As an option to absolutely minimise borrowing costs, and therefore tolls, on the new expressways, all taxes flowing from the construction of the new road(s), plus the further tax revenue from flow-on effects down through the economy (the multiplier effect), could be taken as an offset to their cost of construction.

After this the net cost established in this way should be funded by the sale of long term bonds. To further ensure low federal tolls, the plan would be never to repay these bonds, but to roll them over 'indefinitely' into the future.

**With this method of funding tolls for new public expressways should be only some 20-30% of the level of current private tolls. Significantly, tolls financed by full federal funding in this way would grow only in line with inflation thereafter.**

The better utilisation of a new fully federally funded tollways, and their lower costs for users, will make a permanent contribution to growth, and so to increasing tax revenue. This will be a significant benefit for all succeeding federal budgets.

And we certainly have safe scope for such borrowing, as the list of national borrowing in the appendix shows. Our national borrowings have for decades been at extraordinarily low levels compared with those of the other nations of the world. What a loss of opportunity to borrow and build the transport infrastructure we have needed all these years. Surely a loss of opportunity which must not be repeated.

# Private toll roads hopelessly expensive by comparison

Private toll operators have many extra costs when compared with public operations, they have to

- **pay significantly higher interest costs on borrowing**
- **generate private sector levels of profits**
- **pay company taxation on these profits**
- **meet shareholder expectations of annual inflation-indexed dividends**
- **then, the big one, charge higher toll prices for the whole period of operation, in order to redeem their debentures in full at the end of the franchise.**

No wonder with all these extra cost burdens private operators have to charge eye wateringly high toll prices. Private funding of toll roads is an over-expensive boondoggle.

Also it is food for thought that in our rapidly changing world after the coronavirus experience, and with work from home likely now to become the new normal for many, current tollway operators will be under enormous financial stress.

Surely it is to be doubted whether we will ever see the building of another over-expensive private tollway. So maybe publicly funded expressways are inevitable anyway?

# Public investment has seen great success in the past

Relatively recent history shows us how public infrastructure can be a great success. Full federal funding in Australia would in a way be a return to the pre-war period, when the states had the helpful combination of income taxing powers and infrastructure responsibility.

In NSW in the 1920s -30s, with this combination in place, and the benefits of the tax feedbacks help with both building and operating costs well understood, the state borrowed and transport infrastructure building boomed. Sydney was soon recognised as having one of the six best transport infrastructure setups in the world.

New assets created at that time included the Sydney Harbour Bridge, a comprehensive full-scale suburban rail system covering most of the then city, good ferry services, and some 200 km plus of tram lines filling the gaps and bringing cheap transport to virtually every corner of the then city.

Borrowing and building by the income tax levying level of government with its so helpful tax feedbacks gave wonderful benefits to the extraordinarily low income earners of that time.

We could repeat that great success now, with roads, and rail other transport modes. Full federal not-for-profit funding offers the prospect of affordable road tolls and railway ticket prices on new federally funded works indefinitely into the future.

## **States lose taxing powers and we have suffered ever since**

In 1942, under pressure of war, the Chifley labour federal government took over the income taxing powers from the state governments. In the immediate postwar period South Australia took action against the federal government in relation to its assumption of ownership and lost.

Chifley, now with the taxing powers, instead of taking responsibility for funding major infrastructure, made the big mistake of leaving this funding responsibility with the states.

Since then the states left with essentially no direct tax revenue from spending on infrastructure, but still stuck with infrastructure responsibility, had to rely for infrastructure spending from limited state income, some federal help, and debt, state spending has been limited for the 60 years since.

It seems that it was the states quondary about how to pay for necessary major infrastructure which then led to the extraordinary level of privatisation which we have in this country, with its huge cost to transport users in Australia.

As well, because of private tollway's sky high cost to the public we have been unable to build enough of these roads when we needed them. This has caused us to miss the chance to build cheap expressways and railways on the surface, and so now with congested cities, and horrible traffic, we have had to go underground at mind numbing cost.

This delay in building the new expressways cost us two generations of diminished growth in national efficiency and GDP. We are all the poorer compared with other countries due to our obsession, unusual among the nations of the world, with private toll ways.

What a sad failure, first a major policy failure by Chifley, then a failure by both federal and state governments over the succeeding decades to wake up to this failure and correct it. I believe we can and must do better in future.

I believe the lesson from the timing is that then our great-grandparents were smart enough to build before the problem, not as we do today after the problem, and have to punch train lines and expressways through, over, or under fully built up areas, an expensive business.

## **PM Turnbull failed on borrowing**

In 2007 then Prime Minister Malcolm Turnbull resisted pleas from a whole spectrum of respected figures in finance, business, banking etc advocating major Federal borrowing for infrastructure.

As I remember it from press accounts at the time he thought about the idea and then put it in the too hard basket. The respected people recommending this action from my 6 September 2007 paper:

*Last year then Reserve Bank Governor Glenn Stevens strongly recommended a multi-year program of federal borrowing to fix Australia's deficient transport networks.*

*Glenn Stevens said that such a scheme, based on sale of long-term Commonwealth bonds, would benefit "millions of Australians in their daily lives". Stephens' successor Philip Lowe has supported this concept.*

*Many others have also advocated such major federal borrowing, including Anthony Albanese, Shadow Minister for Infrastructure, Transport, Cities and Regional Development, ex-Premier Mike Baird at COAG: Greens Senator Di Natali; the IMF; the G20; the OECD; Ross Gittins of the SMH; leading public figure and chairman of the ANZ bank David Gonski; respected businessman Frank Lowy; Peter Crone of Coles; Cameron Clyne formerly CEO of NAB; Pauline Hanson of One Nation, Chris Richardson of Deloitte Access Economics, and Emeritus Professor Frank Stilwell. And leading economists Justin Fabio, Bill Evans and Saul Estlake were reported (in The Australian in 2014) as saying Debt phobia was 'hobbling chance to borrow and build.'*

Prime Minister, with all the support of borrowing at that time, surely this idea deserves your government's serious consideration, particularly under current circumstances. With its long-term contributions to growth and employment, and the overall welfare of Australians serious long-term borrowing would surely be just what we need at present.

## **A personal story**

And now Prime Minister, a story based on my personal experience which I believe has real relevance.

When I was a small boy of four my father was a bank teller in Merrylands west of Sydney, I lived with my mother father and younger brother Ralph then two in Guildford, in Western Sydney.

One Sunday the family had a rare outing, and rode by electric train from Guildford to Cronulla and back on the 17th of December 1939 on the first weekend of the operation of the new electric rail there.

Naturally my memories are 80 years old, but I do have a clear memory of how sunny, and how hot it was, and of a railway station seeming to sit by itself in a sea of hot yellow-white sand. They were in front of the problem in those days, not behind.

## **Public investment would cut rat running**

A major community benefit from lower-toll publicly funded expressways would be a great reduction in rat running along the private streets following the route of the expressway.

It is a feature of mega expensive private expressways that rat runners generate gross road congestion along the roads paralleling them from before first light until late into the night.

For example I'm sure the residents all the way along from Mosman to North Sydney who have thought about the future must be trembling in their boots in anticipation of the arrival of the new Warringah Expressway.

Such a new private expressway, with its inevitably high toll prices, would certainly engender massive rat running. Which in turn would cause near 24/7 blockages along the narrow already crowded main road between North Sydney and Balgowlah suburbs in a high income, high real estate value region.

## Private tollways and railways don't always succeed

Just on 10 years ago, overoptimistic forecasts of daily traffic led to failure by a number of private tollways across the nation.

THE AUSTRALIAN - June 4, 2016

### Public-private road deals take their toll on investors

ROAD TO NOWHERE				
Asset	Daily forecast	Daily actual	Opened	Collapsed
EustLink, Melbourne	258,000	134,000	2008	2011
Clem7, Brisbane	60,000	21,000	2010	2011
Airport Link, Brisbane	130,000	77,000	2012	2013
Lane Cove Tunnel, Sydney	100,000	55,000	2007	2010
Cross City Tunnel, Sydney	95,000	30,000	2005	2007

Our current crop of new privately operated expressways opening soon will find their timing very difficult. With their very high capital costs due to having to build underground, coupled with their top heavy cost structures, their tolls are going to be very high and will discourage traffic.

On top of this their possible traffic volumes have been hit by the gravely diminished traffic we can expect during and following the current health crisis.

The two factors here are the health crisis itself, and the fact that potential users of expressways have learned to work from home and like it. So we will see private toll roads under pressure.

And, if in Australia we need a further lesson in privatisation facing serious difficulties, we need look no further than the United Kingdom.

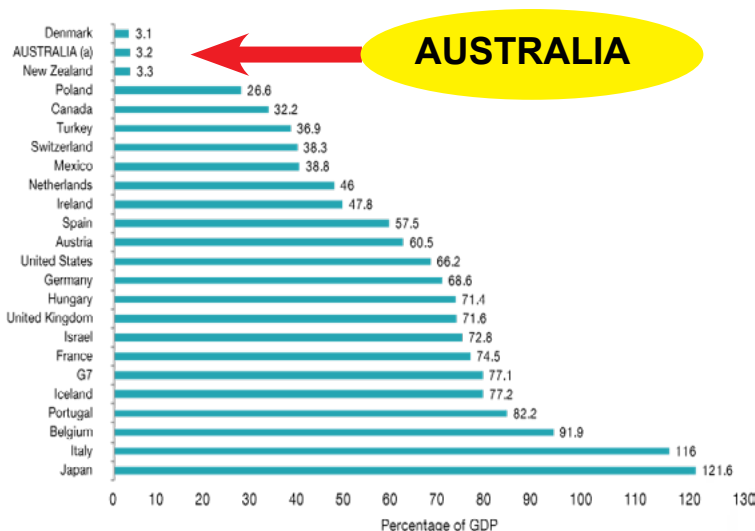
There the extreme right-wing Thatcher Conservative government gutted the public UK passenger rail system, with huge rail close-downs of so many well-established routes. They did this because these lines did not meet Mrs Thatcher's excessively rigorous return on investment targets. They then privatised the rest, selling various bits of it off to a multitude of small operators.

The result was a number of undercapitalised private companies which, after gaining control of these assets, closed down stations, increased ticket prices alarmingly, and

## Appendix

International comparisons of national debt - Parliament of Australia

[https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/BriefingBook43p/nationaldebt](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook43p/nationaldebt)



cut services drastically.

Inevitably with a shift to privatisation the balance between service to the public and profitability changes, and there should be no blind assumption that private is better than public.

In fact when the sale of public undertakings by allowing privatisation is being contemplated, the near certainty of both a reduction in service and an increase of costs to the public should be taken into account.

## In short

This material in the appendix, taken directly from a Parliament of Australia report, shows how wildly out of line we are when compared with the rest of the world in the use of national borrowing to improve our country.

Of course a lot of foreign borrowing will be because of debt overruns et cetera, but on the evidence we can be sure there is a solid base of borrowing for spending on infrastructure.

We are a very rich country, nearly the richest per capita country in the world, with wonderful national assets, but we should be doing much better.

Particularly for the lower income section of our community, who amongst other things, find them selves under increasing pressure from through-the-roof private transport costs - just to get to work.

Our mix of world record high per capita national income, with world record low borrowing, coupled with world record high immigration intake, welcome as it is within limits, explains it all really.

To be blunt this is not a good balance, and it would be really wrong of us to continue to go on the way we are going now.

We must start to leverage our national assets by large-scale sale of federal bonds, and protect our low income earners by using funds gathered in this way to build the future affordable toll roads we so badly need.

Australia data only looks at central government. Excludes Norway, Sweden and Chile which have negative net debt.

(a) Australia refers to financial year 2009–10. Figures from 11 May Budget.

Sources: International Monetary Fund, Fiscal monitor: navigating the fiscal challenges ahead, 14 May 2010; and Treasury, Budget strategy and outlook, Budget paper no. 1, 2010–11.

Unsolicited testimonial.

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