January 20, 2014

We must borrow and build

Ian Spring

An ongoing 20 year federal borrow and build program for road and rail would give Australian commuters worthwhile benefits within a few years, transformative changes within a decade, and a complete transport infrastructure solution by 2033.

The borrow and build proposal outlined here would boost spending on transport infrastructure by up to $15 billion per annum, and add 1.3% to GDP. The extra tax generated by this lift in GDP would help support government budgets across the nation.

THE PROGRAM

Sources of transport infrastructure funding relied on up to now - federal taxation, state taxation, federal GFC borrowing, state borrowing, government asset sales, and stand-alone private investments - are all, for various reasons, drying up.

Some major new source of funding is necessary if we are to make realistic progress.

Joe Hockey is considering sale of long-term bonds to fund infrastructure, and in the last few days Andrew Robb has said “We need to seek new ways of funding public infrastructure.”

I now put forward my **specific proposal** setting out in detail how federal borrowing could be used to give a fast-track comprehensive fix to our transport infrastructure problems.

The program being suggested would involve off-budget borrowing of 0.6% of GDP annually – $10 billion in the first year.

Half of this would then be used for 50% free contributions to private projects. Major projects now unworkable would be made commercially viable by this Federal co-financing, and the result should be new expenditure on road and rail of $15 billion per year.

This sum would be available for spending on transport infrastructure - urban and nonurban, road and rail, and light-rail.

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 (1.3 % of GDP).

In round figures, this would generate extra annual tax revenue of $6 billion - $4.5 billion income taxes to the Commonwealth, and up to $1.5 billion in GST to the states: thus adding to the sustainability of budgets across the nation.

While the interest payable under the program would be treated in the Federal budget as an expense, borrowing and spending would be a hypothecated and kept off budget. This would preserve a clear separation between recurrent revenue and expenditure, and borrowing based long-term capital investment.

The program may 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.

This program is cheap, safe and sensible.

GREAT TRANSPORT INFRASTRUCTURE BY 2033

Total spending from the program over the 20 years is calculated to be $408 billion in 2014 dollar terms. (See Table 1)

Table 1: Transport spending under the program

Nominal dollars					2014 dollars			
Year ending June	GDP	Federal Borrowing	Private Contribution	Total Spending	Annual spending	Sub-totals spending	Debt sub-total	Debt as % of GDP
2014	1750	10	5	15	15			
2015	1838	11	6	17	16			
2016	1929	12	6	18	17			
2017	2026	12	7	19	18			
2018	2127	13	7	20	18	84	58	3
2019	2233	13	7	20	18			
2020	2345	14	7	21	18			
2021	2462	15	8	23	18			
2022	2586	16	8	24	20			
2023	2715	17	9	25	21	179	132	5
2024	2851	17	9	26	21			
2025	2993	18	9	27	22			
2026	3143	19	10	29	22			
2027	3300	20	10	30	22			
2028	3465	21	10	31	22	288	227	6.5
2029	3638	22	11	33	22			
2030	3820	23	12	35	23			
2031	4011	24	12	36	24			
2032	4212	25	13	38	25			
2033	4422	27	14	41	26	408	348	8
		349	180	529	408	408	348	8

Note: Figures have been rounded

I believe this should be sufficient to satisfy all our needs for an up-to-date national system of urban and nonurban road, rail, and light-rail by 2033.

The major new Federal money becoming available for transport infrastructure would mean quick pain-free progress towards fixing the perennial backlog in urgently needed national road and rail transport links.

Commuters would see improvements quickly, and get life changing relief within a decade. New urban road and rail would offer commuters good choices between these modes at realistic prices.

WIDESPREAD BENEFITS

The borrow and build program would stimulate the economy, strengthen employment, and, due to the extra tax revenue as outlined above, would give the opportunity for substantial ongoing support to state and federal budgets.

These budgets would gain further benefit by governments' not having to use precious tax dollars to fund major transport infrastructure. There would also be savings due to reductions in unemployment payments.

All this would leave scope for extra

spending on health education and welfare, and/or for reductions in taxation. For reasons mentioned elsewhere, using these funds to pay down debt would be unwise.

Other benefits from the program would be widespread, and long-lasting.

There would be a much-needed boost to confidence and jobs in the short term, and businesses would quickly start to benefit from the direct and indirect spending the program would bring

Construction, building, retail, in fact all the major industry groups, would benefit directly or indirectly from the program.

Relief that the country is finally doing something about transport would add a new buoyancy to the economy.

Early on, while plans and acquisitions for the new wave of capital works were getting underway, strong funding could be directed to urban roads, to rural roads and bridges, to rail improvements, and to other shorter lead time projects.

The program would generate some 100,000 ongoing extra jobs, many of them in metropolitan areas. The timing would be good for the take up of skilled people dropping out of mining construction and vehicle building.

The program would progressively improve the cost base and general efficiency of the economy over the whole 20 years.

With a now reliable flow of federal funds, projects could be built in a sensible order, with straight-through construction of roads and rail, not the wasteful and self-defeating 'one section at a time' method we use so often at present.

Also, projects could be built to full long-term capacity from the start, not the two lanes that turn into three lanes within a decade or so, with all the consequent disruption, delays and extra cost involved.

Federal and state governments, working together, will find it much easier to choose the right projects and the right priorities, and this will make it easier for them to get things done.

On present trends, by 2020 as population grows and travel demand increases, the cost of congestion in Sydney alone is expected to rise to $8.8 billion p.a. The borrow and build program would do much to cut back this cost.

Another benefit is that rating agencies would see implementation of this sensible program is a plus for both state and federal governments.

LOWER TOLLS AND TICKET PRICES

The new program would mean cheaper prices for commuters and industry. With free Federal money helping to support projects, tolls and transport ticket prices on new work would be less than 50% of full commercial rates, and there would be no need for the reintroduction of tolls on existing roads, as is currently being contemplated in New South Wales

Tolls have the same economy dampening effects as taxation. They impact retail sales, business costs, work participation, education opportunities, housing development, and family life. Keeping tolls lower would strengthen the economy.

If our recent history has told us anything, it is that trying to charge full commercial prices for fully private new transport infrastructure no longer works in the Australian environment.

Two examples. First, the highly unfortunate, fully private, Sydney airport rail link, where disproportionately high ticket prices have disadvantaged travellers, and have cost the airport and the city dearly.

Second, while the early toll roads were successful, perhaps reflecting the fact that the best opportunities were taken up first, recent efforts have not done well, and many commercial operations have failed.

This seems to be clear evidence that under present circumstances in Australia user pays does not pay.

Federal government co-investment to support this sector will change the whole picture.

NEW SOUTH WALES AS AN EXAMPLE

To give some substance to the numbers on funds required and funds available under the program to fix transport infrastructure, I have looked at the work necessary in New South Wales to bring the State up to an efficient, internationally competitive transport infrastructure standard by 2033.

For **funds necessary** see Schedule 1.

NSW MAJOR PROJECTS NEEDED BEFORE 2034

Rough Budget estimates of the cost of establishing a satisfactory transport standard for the state by 2034 when the population will have increased by - Westen Suburbs by say, 1 million - whole State by say, 2 million.

Western Sydney	2014 $billions
Absolutely essential	
North-west rail link	9
Cross harbour rail tunnel	12
WestConnex	12
Parramatta-Epping rail link	3
Parramatta centred Western Sydney Light Rail Network	10
Upgrade Western Sydney metropolitan road links	5
Widening or duplication of the M7	5
The M1-M2-M4 links	6
New Parramatta-Sydney express train link	6
Subtotal	**68**
Highly Desirable	
Newcastle-Sydney-Woollongong high-speed rail link	10
TOTAL	**78**

Major NSW projects outside Western Sydney

Absolutely essential	
Melbourne-Brisbane inland rail link	5
Complete Pacific Highway	7
Non-urban roads and bridges	6
Sydney Metropolitan light rail	2
Subtotal	**20**
Highly Desirable	
Augmented mass transit in the Eastern Suburbs	6
Augmented mass transit in the Southern Suburbs	5
Light Rail for major NSW cities	4
Looking beyond 2033	
A preliminary start on Wynyard-Mosman-Manly-Northern Beaches rail link	
A preliminary start on a new Badgerys Creek Airport plus rail, road and fuel links,	
Plus other, say	20
TOTAL	**55**
GRAND TOTAL E&OE	**133**
SAY,	**$90 - $130 billion**

For **funds available** from the program. See Table 2.

Table 2: Potential funds available for spending in individual states (2014 $billions).

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
% of population	32	25	20	10	7	2	2	1	
Initial year's Average	5	3.7	3	1.5	1	0.3	0.3	0.2	15
Five years to 2017	27	21	16	8	6	1.5	1.5	0.8	84
Ten years to 2022	57	45	35	18	13	3	3	2	179
Fifteen years to 2027	92	72	58	29	20	6	6	3	288
Twenty years to 2032	131	102	82	41	29	8	8	4	408

Note: Figures have been rounded

The fair correspondence between funds available and needed seems to show that the borrowing program is about the right size.

From a rough overview I would think that the demand/supply situation for spending in the other states is similar to that in New South Wales.

These totals also highlight the fact that present methods of funding are hopelessly inadequate to deal with the national problem.

In the interest of public discussion I invite others in New South Wales, and in other states, to prepare and publish their own priority/needs/wish lists to help us all to get a feel for the very substantial job involved in fixing land transport.

Maybe these could be submitted promptly to the Productivity Commission to give that body further background to support their own estimates of future transport capital needs.

GOOD DEBT IS GOOD

First, Federal borrowing spreads the load to a surprising degree. The annual debt servicing costs of 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 first **year**, $44 in second **year**, $66 in the third **year** and so on.

Second, a never mentioned piece of arithmetic is that with average money GDP growth of 5% per annum (say, 2.5% real growth and 2.5% inflation) any given debt shrinks to 50% as a proportion of GDP in under 15 years: and to 20% in 30 years.

Third, with the help of this arithmetic, by the end of the 20 year program, with our population by then close to thirty million, the transport infrastructure debt should be a low 8% of GDP; and debt servicing cost per person in 2033, would be under $600 per year - around $12 per week, both in 2014 dollars.

Fourth, by 2033 this debt servicing cost should be more than offset by the productivity based tax feedbacks the new transport infrastructure would generate.

This flow of revenue will start as soon as the first projects are completed, and, indexed for inflation, would soon overtake debt servicing costs.

After that, projects will effectively pay themselves off completely. The Sydney Harbour Bridge cost $8 million.

Fifth, it is almost never wise to use precious tax dollars to repay debt. Since debt is shrinking anyway due to inflation, the net return on tax money spent on paying down debt is probably only around 2%. Repaying debt under these circumstances would amount to fiscal mismanagement, and would be an insult to the taxpayer.

Special note. That the weight of any given debt shrinks as a proportion of GDP as GDP grows is not rocket science. Five minutes, using primary school maths and a $10 calculator, will prove to anyone that the 'burden the next-generation' idea is a **furphy**. See graph.

I believe that this furphy is a major factor holding Australia back, and request that the Productivity Commission address this issue explicitly in their report.

IF THIS IS SUCH A GOOD IDEA WHY ISN'T THE FEDERAL GOVERNMENT BORROWING NOW?

This problem started in wartime 1942 when the Curtin Federal government took over **income taxing powers**, but left the states with primary responsibility for infrastructure.

Since then there has been no direct income tax feedback available to the states from the boost to the economy from major new infrastructure. This has meant that they have not been able to spend, and has led to 70 years of underinvestment in transport infrastructure.

All the way through to now the Federal government has continued to take the easy option and leave primary responsibility with the states. Doing this is particularly unfair now in an era when the Federal government is adding so much to state transport troubles by allowing such high levels of immigration.

The only answer is for the Federal government to take over primary responsibility for major transport infrastructure.

Budgetary accounting practices have

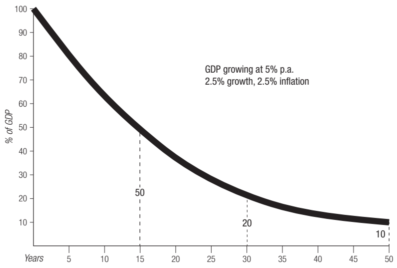
also played a role. Capital expenditure on long-term efficiency-promoting infrastructure is treated in the Federal budget in the same way as recurrent expenditures such pensions and unemployment benefits. This, naturally, has led to confusion over debt and deficit, and has made any initiative to borrow more difficult to justify to the electorate.

However, behind these issues we must recognise that **Australians have an exaggerated fear of Federal government debt.** This seems to be part based on political tub thumping, and small government ideology, and also part based on some confusion in the community on how the system works.

One thing is strange. Australians seem to have sensible views, and do not worry unduly, about personal debt, business debt, or even state debt. But Federal debt! That's another matter!

I hope that the Productivity Commission enquiry report will recommend changes which will help to clear up community difficulties with the relationship between debt and deficit.

Figure 1: Any debt shrinks as a percentage of GDP as GDP grows



And all the time the community is getting the benefit if the new assets.

Concept: Ian Spring

THE POLITICAL DIMENSION

Looked at in the light of burgeoning population numbers, current proposals for road and rail across the nation are laughable inadequate.

Forward spending estimates seem always to be based on perceived availability of funds, rather than a realistic assessment of need.

Commuters/voters, now suffering rapidly worsening traffic congestion, and ever increasing overcrowding on trains realise this. They are quickly running out of hope, and running out of patience.

The consequences for politicians of failing to act quickly and effectively would be severe.

Since it is clear that a major part of our transport infrastructure problem is caused by Federal government policy sanctioning huge growth in immigration - an extra one million people every four years - people will come more and more to look to the Federal government for effective action to solve their problems.

A Federal borrow and build program for transport infrastructure will give such a solution.

With an adoption of a full-scale borrow and build program, and with major spending on **both road and rail**, commuter dissatisfaction will start to ease.

The first political party to commit to an ongoing borrowing program to fix transport infrastructure will gain political credit which will last for decades.

SUMMARY

The forthcoming collision between awful transport infrastructure and huge population growth is our biggest national problem.

Poor transport infrastructure is robbing us of jobs and progress, the whole community is suffering, and our national viability is threatened.

This federal borrow and build program to fix transport, while at the same time boosting jobs and the economy, is too good an opportunity to miss.

THE NEXT STEP

If you support this proposal I ask you please to contact the Productivity Commission at infrastructure@pc.gov.au giving your views. I believe that can be done until March.

Also, I suggest you ask all your professional contacts, and contacts on Facebook and Twitter etc. to do the same thing. We all hate the traffic, and it is my hope that this idea will go viral.

An informed and committed electorate will make it easier for politicians to take action.

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

E: ispring@bigpond.net.au

P: 02 97125339

W: borrowandbuild.com.au