

Inside Canberra

Rob Chalmers - bringing you the latest business intelligence from inside Federal Government

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From the Gallery

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- Transurban, the hugely successful roads company, is collecting more than \$1 million in tolls from Sydney motorists every day. It collected \$114 million in the three months to 31 December. Transurban also took \$37 million in revenue from an average 100,000 workday trips on the M2, and \$15 million from its new investment in the connecting road, the Lane Cove Tunnel.

- The company enjoyed a 10 per cent rise in revenue on the M7 to \$50 million in the December quarter, compared to the same quarter the previous year, with 155,000 vehicles using the road every workday. Transurban CEO Chris Lynch believes revenue will rise further as the company improves its roads and increases toll collections.

- Why is this bonanza not coming to NSW citizens through government ownership of toll roads? Simple: Bob Carr, NSW's longest serving Premier, was a dud. In his rush to end all state debt, he declined to provide decent roads and left motorists to the mercy of private tollroad operators.

- Many Sydney motorists prefer to drive to work, despite long delays and being hit by tolls because public transport, particularly suburban trains, were allowed to run down under Carr. This is one of the major reasons the NSW Labor Government will deservedly be kicked out of office at the March state election. But will the Libs under Barry O'Farrell be any better?

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Pay as you go new Gillard doctrine

Julia Gillard has introduced a new piece of jargon to the economic debate. At the National Press Club yesterday – in explaining her plan to deal with the aftermath of the flood disaster – she declared several times, “We must pay as we go.” It is not clear what she means, although the PM gave some indication when she volunteered, “Borrowing is a soft option.” She might be right – it would be softer and less painful for those earning more than \$50,000 who are paying the one-off levy. The point about borrowing for long-term economic infrastructure – roads, railways, hospitals, schools and the like – is that the cost is shared by this generation and future generations benefiting from the infrastructure. It certainly is the most equitable solution.

PM dismisses all critics

Gillard dismissed critics such as Warwick McKibbin without entering into a debate about why pay as you go is better than borrowing, or delaying the move into surplus by 2012/13. *Inside Canberra* agrees with the Opposition that there is no need for a one-off tax levy to deal with the aftermath of the floods, but for different reasons. The Coalition believes that up to \$15 billion of stimulus funds remains unspent. If it is unspent, then that's \$15 billion more that doesn't need to be raised by a flood levy. But what we don't know is whether some, or all of it, is tied up in contractual obligations to, for instance, payments to states to pay contractors for the Building the Education Revolution schools program.

Abbott wants to dump NBN for floods

Tony Abbott says the National Broadband Network (NBN) could be shelved to pay for the floods. This is not a sound argument. Assuming the NBN is a worthwhile project, the government is proposing to invest in it. It should not be viewed as an item on the budget bottom line, such as welfare payments, for that reason. It will cost up to \$43 billion over eight years with taxpayers providing \$26 billion, and the remainder from private investors. The Government will hold a 51% share and, after 15 years, will sell the lot to private investors. When fully operational, income of up to \$2.4 billion a year is expected to cover capital costs and debt. Services outside metropolitan areas will have to be cross-subsidised so that users in regional Australia pay the same fees as city users. There is nothing wrong with that, and it should be enshrined in legislation.

Strong case for borrowing

There are ample precedents for cross subsidies, notably the ordinary postage stamp, which costs the same everywhere. On our hobby horse again, but we believe the funds for flood recovery should be borrowed and we remain of that view, despite Gillard's description of it as the “soft option”. The government wants to both achieve its Budget surplus in 2012/13, while still handling the flood relief funding. ANU economics lecturer, Ian McAuley, makes a strong case for borrowing. He likens the government's situation to that of a house owner who wants to pay off his mortgage

faster, but suddenly finds a hailstone has put a hole in his roof. What a normal person would do is fix the hole in the roof and stop making extra mortgage payments. That, he implies, is what the government should do.

Warwick McKibbin critical of govt

Reserve Bank board member Warwick McKibbin also opposes the levy and has a different, but sound argument. Professor McKibbin said the new tax on households would slow consumer spending unnecessarily, and he called on the government to accept a temporary increase in the deficit to cover the rebuilding. "The worst thing you can do is to stick to a fiscal deficit target for no reason except that it's a political target, and contract parts of the economy to raise revenue when you've had a shock that's hurt the economy," he says. Ominously, Tony Windsor (the rural independent), whose vote is vital to Gillard, has warned her that his vote cannot be counted on in support of the levy. He wants to see a permanent fund to pay for national disasters. We don't like the sound of this, as it suggests the fund would be similar to the Future Fund, which would have capital provided by the government and then invested. It would do nothing for taxpayers until the next national disaster turned up. It is not as good an idea as borrowing or, as McKibbin suggests, delaying bringing the budget into surplus.

Carbon tax versus emission trading

Last week, we reminded readers that Julia Gillard is to set a price on carbon to operate from 1 July 2012. What we don't yet know is whether this means a straight tax on carbon or a return to an emission trading system. We doubt she will go back to a rerun of the emission trading scheme, rejected by the Parliament last year. In announcing the dumping or delaying of a number of green type programs yesterday to pay for flood restoration, she asserted that setting a carbon price would be a better market solution. Yet she failed to explain how simply setting a price would do anything. What is vital and is not being talked about, are the government's plans for development of renewables to eventually replace coal and gas electricity generation.

Sachs gives priority to renewables

Back on 18 July 2008, we reported on the views of eminent American economist Professor Jeffrey Sachs, acknowledged internationally for his work in the climate debate and a personal adviser to the Secretary-General of the UN. He said in effect, the Rudd government was going about it the wrong way in dealing with climate change. All the government's initial concentration was on emission trading. Sachs said the first priority is the fostering of renewable energy technology, and expressed total opposition to emission trading schemes. He prefers a straightforward, simple carbon tax imposed by the government to meet the cap set on total emissions.

Emission trading a rort for screen jockeys

Sachs said of emission trading, "It's such a mess administratively: it only covers a fraction of what needs to be covered, it's hard to implement, it's hard to monitor, it's non-transparent, it's highly political, highly manipulative." Sachs was supported by Vic Carroll, former editor-in-chief of the *Fin* and later the *SMH*. In a letter to the *Fin*, Carroll said, "Nobody knows what a securities carbon emission permit market will look like in 10 or 20 years. On recent form, the market's most agile minds will have packed and repackaged them, leased them, insured them and created forward markets in them, separating them as far as possible from their original purpose ... The most direct solution to the problem of raising the price of pollution is by taxation." The views of Sachs and Carroll are as valid today as they were in 2008.

Greens want feed-in tariffs

The Government's primary initiative in the field of renewables is its legislation mandating that 20% of Australia's energy in 2020 must be from renewables. The renewables market is dominated by solar roof panels on homes and buildings and wind power from turbines. The latter should not be discouraged, but alternatives need attention. The Australian Greens claim to have developed a plan for the country to rely on 100% renewable energy by 2050. The plan proposes mapping re-

Annual debate on the flag

renewable energy sources and funding necessary electricity grid infrastructure. The policy would also include setting a national gross feed-in tariff and giving renewable energy developments pre-planning approval to provide certainty for investors. Greens' deputy leader, Senator Christine Milne, says legislation has already been prepared and the Greens are willing to negotiate to see their plan realised. "Australia has the best renewable energy resource for solar (energy) anywhere in the world," she said. "We are the envy of the world and yet we have Germany and the US pouring money into renewables and Australia still focusing on clean coal technology," Milne added.

As happens every Australia Day, the debate has been resumed on the national flag. Tony Abbott and Julia Gillard, both born in the UK, are against a change in the flag. The argument about the flag, of course, won't be settled until Australia becomes a republic. Polling consistently shows Abbott and Gillard have public opinion against them on the flag and Abbott has public opinion against him as a monarchist. In the Coalition partyroom, opinion is deeply divided on a republic (Abbott is a monarchist, Shadow Treasurer Hockey – like the longest serving former Treasurer, Peter Costello – is a republican). A shrewd Liberal backbencher told us this week that the Liberal Partyroom would certainly have a majority favouring a republic, but the Nationals would have a majority for the monarchy.

Polling favours end of Union Jack

Polling online by *The Age* last year suggests the public is strongly in favour of a republic, with 65% of the 1,931 respondents favouring removing the Union Jack from the National Flag, while 35% want it to remain. An *Age* online poll this week had 64% in favour of removing the Union Jack from the national flag and 36% against it. Of the 70 or so countries of the Commonwealth, only four – Australia, New Zealand, Fiji and Tuvalu – have the Union Jack on the national flag. AusFlag, the body devoted to changing the flag, has some notable supporters, including Ray Martin and Ron Barassi, and spokesman Harold Scruby notes that the Canadian move to a new flag has been successful in uniting both the indigenous people and those of French and British descent. There is a practical reason to change the flag: business people have told *Inside Canberra* over the years that the Union Jack in the corner leads many in Asian countries to assume Australia is a colony of Britain.

Politics of the Murray-Darling Basin

Rural independent, Tony Windsor, appointed by Gillard as chairman of a federal inquiry into the Murray-Darling Basin plan, says states must be prepared to compromise to secure the river system's long-term future. True, but how to arrive at the compromise is the matter at hand. He says if states can put aside their parochialism, then an agreement can be reached. Also true, but parochialism is another word for politics. In NSW, there is no great interest among voters as to the future of the basin, even though NSW contains more of the basin than any other state, all of the Darling and most of the northern bank of the Murray plus the tributaries. Of the 48 federal seats in NSW, only eight are west of the Great Dividing Range and six of them are unwinnable for Labor while the two ACT federal seats are solid Labor. NSW politics is dominated by coastal seats and is Sydney-centric. Victorians are interested in the basin with most of the southern bank of the Murray in that state, plus tributaries. Irrigators are influential in Victorian politics and are fiercely protective of their water rights.

SA suspicious of the big states

Giving away water to the environment or other states has virtually nil support among irrigators within the basin. Queensland has an interest in the northern tributaries of the Darling, but the basin doesn't get a lot of political attention. In South Australia, the future of the basin is a major political issue. Anything to do with water excites interest in SA, and politicians from both sides of the political divide are highly suspicious of the other states and for good reason. South Australia has only 11 seats in the House of Representatives compared to the 48 in NSW, 37 in Victoria and 31 in Queensland, totaling 116. Even in the Senate, SA is outgunned with 12 seats compared to the 36

seats of the three big states of the basin. Given these numbers and the varying interests of the states, a long delay can be expected before agreement is reached on a new plan for management of the basin. It is worth remembering the Commonwealth has no constitutional powers over the rivers of the states, so no agreement can be imposed from Canberra. Nor would a referendum giving the Commonwealth power over rivers have the slightest chance of success. Some forward thinking should be applied to the water problems of SA. When the huge accumulation of water now built up in the basin drains away, the reality of global warming will return – longer and more frequent droughts interspersed with terrible floods.

Tanks the answer for potable water

The water problems not only of Adelaide but all the coastal cities can be attacked in various ways. We reported (5 Nov 10) on the studies by Professor Patrick Troy of the ANU – a specialist on urban development – showing that enough rain falls on the roofs of our major cities to provide the water required, yet it is wasted and storm water is regarded as a problem, not a bonanza. Water tanks, he says, have been banned by state water authorities to make dams economic. Troy adds tanks are said to be dangerous, but lead flushing and lead on roofs are no longer a threat, nor are bird droppings, vermin or mosquitoes. Troy believes the water and sewage infrastructure of major cities is badly run down and replacing this will be a huge cost. Australia's water supply system is severely outdated and is not sustainable, Troy warns. He gives as an example, the "silly situation" where we produce, on average, something like 500 kilos of body waste and paper a year per person, and we use something like 40,000 kilos of water per year per person to shift that from the house to the sewerage system. Professor Troy is calling on the Federal Government to make it compulsory for homes to have large rainwater tanks, greywater recycling systems and dry-composting toilets. He calculates that if this happened, demand for potable water would be reduced by up to 70 per cent.

No wonder houses are expensive

The Demographia International Housing Affordability Survey, which ranked 325 world housing markets by affordability, listed Melbourne as the world's 321st most affordable city, and Sydney was worse. London is more affordable than Geelong. A key element in this must surely be the insistence by Australians for ever larger houses. In November 2009, CommSec released a study it had commissioned which revealed the average size of new homes in Australia at 214.6 square metres was the largest in the world. The second largest was the US with 201.5 sq ms. Way down the list is the UK at 76 sq ms. The average floor space of a new free standing Australian house was 246 sq ms. It's now *de rigueur* for a house to have four bedrooms (two bedrooms, even in units, have long since vanished). Then there is the study, entertainment area, huge kitchen, pool and double garage.

Home buyers have political clout

To assist those families wanting such lavish quarters, politicians are set on keeping mortgage rates to the absolute minimum. They thus ignore the older citizens who have no mortgage but are keen on higher interest for their investments. Those buying homes have much more political clout than the low paid and jobless who can never aspire to buying a home and vote Labor anyway. The home buyer must be pandered to by the political parties. It is time a stop was put to this. For a start, the GST should go on all new family homes and could be phased in, starting with a GST of 2.5% and then increasing it each year till it reaches 10%. Far too great a proportion of Australia's home grown investment pool is taken up with non-productive housing finance. A greater share should go to productive investment in manufacturing, mining and service areas of the economy. We can't whinge about foreign ownership when so much of our investments are tied up in housing.

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