

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

Question: bet 73

Topic: Public Infrastructure

Hansard Page: E69-71

Senator Cameron asked:

Senator CAMERON—I am trying to learn about history here and you may have to take some of this on notice. I have a copy of *A history of public debt in Australia*. It is an internal Treasury document by Mitchell Pirie and Au-Yeung.

Dr Henry—Is this an *Economic Roundup* article?

Senator CAMERON—Yes, it is a public document.

Dr Henry—It is a public document.

Senator Joyce interjecting—

Senator CAMERON—It is a public document.

Senator Conroy—I know that you are very relieved, Senator Joyce.

Senator CAMERON—I may have to rephrase that: it is a public Treasury document.

Senator Conroy—'Internal' can be applied to all sorts of things.

Senator CAMERON—Yes. It is a public Treasury document—so do not get too excited. That document shows that, in the period, say, from 1918 through to the early fifties, public debt never came in under about 20 per cent of GDP; in fact, it peaked at about 118 per cent of GDP. Would that be your understanding, roughly?

Dr Henry—I do not carry those numbers in my head, but that characterisation sounds right.

Senator CAMERON—During that period, with that debt and the depression that we had, the various governments continued to build the economy through nation-building initiatives.

Dr Henry—Yes, that is true.

Senator CAMERON—In fact, much of the infrastructure in Australia was built during that period.

Dr Henry—There was certainly a considerable investment in infrastructure during that period.

Senator CAMERON—So investment was made in the basic infrastructure that built the nation in those periods of high debt. One of what John Howard described as the 'iconic' infrastructure projects was the Snowy Mountains Scheme, which started in 1949. In 1949, it looks as though Australian government public debt was over 80 per cent of GDP.

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Dr Henry—I would have to check it, but that number would not surprise me.

Senator CAMERON—The then opposition leader, Menzies, opposed that initiative.

Senator ABETZ—That's right.

Senator CAMERON—Yes, he did. That scheme commenced in that period of huge public debt. That was a 25-year project and a \$100 million loan was received from the World Bank as a proportion of its costings. So isn't one of the lessons from history here that public debt is not the main determinant of whether you should take nation-building projects for the future?

Senator ABETZ—Did any of these nation-building policies have cash splashes in them?

CHAIR—Senator Abetz!

Senator ABETZ—The answer is no.

CHAIR—Dr Henry, would you answer Senator Cameron's question, please?

Dr Henry—Senator, are you asking whether there is a general public policy case for governments to borrow in order to finance public infrastructure? Is that your question?

Senator CAMERON—That is correct, even in times of high debt.

Dr Henry—I think most economists would say that the answer is yes to the first part of the question. As for the second part of the question, I think the response from most economists would be a little more guarded, because it depends upon the economic circumstances at the time. Certainly, there have been times in our economic history when governments have considered reducing public debt as quite important, even though obviously there have been public infrastructure projects that, on a cost benefit analysis, would have been good investments. Whilst it is the case that, provided the benefit cost ratio is sufficiently high, debt is regarded generally as an appropriate financing vehicle for public infrastructure projects, macro-economic circumstances from time to time have been such that governments have considered it prudent to be somewhat more cautious with their borrowing. So I would not want to give a categorical answer to the question.

Senator CAMERON—So, given that non-categorical answer, none of the government's current nation-building infrastructure projects—those projects being to the value of \$8.4 billion for roads and rail, \$43 billion for the National Broadband Network, \$3.5 billion for clean energy, \$2.5 billion for education and infrastructure and \$3.1 billion for health and hospital infrastructure—would run up against your second test; therefore, they should not go ahead. Would that be a fair proposition?

Dr Henry—It is the financing of these projects and, of course, the financing of the budget deficits generally that produce the peak in net debt of 13.8 per cent of gross domestic product; as you would be aware, financial markets globally appear to be very comfortable with Australia having that level of net public debt.

Senator CAMERON—Given that we have heard all the downside today about the debt within Australia, should these investments for the future stand us in good stead in terms of building infrastructure for the economy?

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Dr Henry—As we have discussed previously, investments that contribute to the nation's capital stock certainly can enhance the productive capacity of and benefit the economy when the circumstances are such as to permit strong growth. As a lot of commentators have noted and we have certainly noted, this is a sensible time for governments, not just in Australia, to be building infrastructure.

Senator CAMERON—Thank you.

Answer:

Please refer to the response to bet 121.