Senate Economics
Committee

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Brian Collingburn

January 23rd. 2015.

Senate Standing Committee on Economics.
PO Box 6100
Parliament House
Canberra ACT 2600

Submission On: Incentives to privatise state or territory assets and recycle the proceeds into new infrastructure.

Dear Senate Committee,

My submission is that the proposed cure would only deal with the symptoms, for a short time, and that assets can only be sold once.

The infrastructure required, some urgently, by the states and territories require both installation and ongoing maintenance finance. That the reoccurring crises continue indicates that the present system of federal/state finances needs replacing with a functioning alternative.

Fortunately the present short-term crisis has a solution, very low interest bonds. Objections that 'All loans have to be repaid' ignore the fact that investments should have a positive cost/benefit ratio. In the case of government, semi-government, or non-government organizations the benefits are often to the economies and people that are the justification for the existence of the organizations. Education is a cost to government but is essential for the functioning, profitability, of the economy; government is the investment arm of any functioning society.

Teach a man to fish and you have changed an economic liability into an economic asset.

My working life in engineering was about designing economic solutions to problems.

My involvement over more than sixty years in social welfare work and advocacy taught me that social welfare that benefits the disadvantaged is one of the more profitable investments; refer pages 2 and 3 of the enclosed submission.

The proposed short term 'Solution' to the present federal/state financial crisis would leave the states and territories still unable to fulfil there obligations to their people and their economies. Thank you for your considerations

Yours Faithfully,

Brian Collingburn

Encl: Submission to' Incentives to Privatise"
Photocopy, the Melbourne Age, page 17, January 21st. 2015.
Photocopy, Victorian Council of Social Service Notice board page7, May 2006.

The Senate Standing Committees on Economics
Incentives to privatise state or territory assets, a contrary view.

Submission from Brian Collingburn, January 23rd. 2015.

Clause (f) Alternate mechanisms for funding infrastructure development in states and territories.

(i) Short to medium term: With the 10 year bond rate at 2.55%, approximately the inflation rate, the justification for selling infrastructure assets must be for reasons other than financing future infrastructure. As no infrastructure should be constructed without a positive cost/benefit ratio the benefit of the infrastructure will more than cover the debt payment after 10 years. I am enclosing a photocopy of an article on this subject by Peter Martin, the Melbourne Age, page 17, January 21, 2015.

(ii) Medium and long term: A more important question is whether the states and territories should be dependent on taxation controlled by the federal government.

The experiment of federal control of most state and territory finances has lead to a slowly tightening noose that is strangling the states' finances and infrastructure building, thereby strangling the economies of the states.

The welfare of the economy and the people of Australia has always mainly been the responsibility of the states..

As that welfare is the major justification for government then the means to fulfil that responsibility must be available.

One role of the Council of Australian Governments is to ensure that interstate rivalry for investment does not negatively affect any Australian residents. It should also be the council to mediate the needs of the states and territories.

This means that for the welfare of all of Australia, the role of the Commonwealth is to give assistance to states or territories in periods when they are undergoing financial hardship, acting as a benevolent insurer not a policy director.

The justification for federation is to deal only with matters that cannot practicably be dealt with by the states.

However over the last few decades in order to gain votes and serve special interest groups successive federal governments have been reducing the structural tax base and covering the shortfall by reducing financial support for the states and territories as the financial responsibilities of the states and territories are increasing.

The financial burden has been shifted from the Commonwealth to the states by federal policy. This will continue as it becomes more apparent that preschool education is essential for later entrance to the workforce, The paucity of funds for VET education is a major cause of course dropouts, youth unemployment, and the serious shortage of Australian trained tradespeople that has led to an increase in numbers of unemployable Australians. The importing of usually underpaid and poorly qualified workers on 457 visas has disguised skill shortages but the untrained unemployed are a result of failed policies and a social and economic cost of those failures. These problems require state action and state resources.

Changes to Medicare are transferring substantial financial burdens to the states without transferring funds. The states demand should now be 'Responsibility without access to taxation is unsustainable.'

Substantial changes to welfare eligibility and payments will also shift the financial burden, directly and indirectly to the states and territories.

It has become obvious that the 'Age of Entitlement' will not extend to tax expenditure for special interest groups that are now the main cause of the budget crisis. The tax base reduction has been a major cause of the Federal Budget crisis, and a cross party agreement to solve these problems is highly improbable. The drastic reduction of Australian Tax Office staff and funding is already exacerbating this problem.

It is therefore unsustainable for the states and territories to remain in a mendicant relationship with the Federal Government.

The State and Federal Constitutions that allowed the States to permit the Commonwealth to consolidate Personal Income and Company Taxes would allow the renegotiation of those arrangements.

Clause (h). Any related matters:

The economies of the states and territories can only be maximised if the human resources are maximised. Those that are not maximised become costs to the economy through frustration and anti-social activities. Therefore investments in achieving the maximising of economic participation also reduce the many various costs necessary from the effects of social alienation.

To keep the peace it is better that the seeds of conflict are not sown. This requires that everyone in society has a place that allows them self-respect and a feeling of safety, and a role in society that is preferably fulfilling, but at least respected.

This requires education for society and the necessity for responsibility not just economic function and rights, a safety net for mishaps and maltreatment, a facilitated opportunity for gainful employment, and security in old age.

Listed below are social problems that require not necessary costs, but necessary investments

"If a kingdom is divided against itself, that kingdom cannot stand." Mark 3:24

"And if a house be divided against itself, that house cannot stand." Mark 3:25

Investment in the economy includes what is usually called welfare, but is essential for the economy.

1. Inadequate public education is causing a lack of skills and increased unemployability. The economy is being crippled by a lack of value adding skills.
2. Violence, especially domestic violence, is mentally and physically crippling people and their capacity for economic input.

3. Inadequate chronic, acute, and preventative health, mental health and dental care can transform the economically productive into the economically dependent.
4. Inadequate public transport and access is a poverty trap, This denies the poor and especially the disabled the means to escape welfare dependency by access to education and employment opportunities. They are thereby prevented from contributing to the economy.
5. Access to basic legal advice and education, usually given by volunteers, has saved many lower socio-economic people from becoming economic burdens through becoming victims of financial scams and from becoming involved with the judicial system.
6. Police education on, and liaison with, recent migrant groups and other disadvantaged groups, including Police and Citizen Youth Clubs, when adequately funded and functioning, has been limited but has been shown to be an economic investment by reducing alienation, anti-social and criminal offences, and by giving guidance to young people, many of who lack suitable role models.

   This has become urgent as terrorist organizations intend to target police officers and it will become essential for the police and all sections of society to have confidence in each other for both police moral and efficiency in dealing with threats. The states and territories must counteract the bigotry that is fuelling alienation and fuelling terrorist recruitment.
7. The education of young police, especially in dealing with people in crisis mental health situations, is urgent as other emergency reactions have failed. Reimbursement for gaining the necessary skills would be justified by the resultant reduction in escalating crises.

All the above require adequate funding; they are essential maintenance for society and the economy. Neglected maintenance always leads to failure.

The investments necessary are at present beyond the financial capacity of the States as they are over reliant on inadequate federal funding and the accompanying pressure to direct that funding.

But should the states be forced to sell assets because, over decades, the federal tax base has been reduced for political reasons?

Quoting Marias Kloppers on his leaving leadership of BHP Billiton, "Sell assets in haste and repent at leisure." Many state owned assets on the market at the same time would create a market very favourable to buyers especially as those assets would be prepared at short notice and regardless of related economic matters. Previous experience has shown that conditions of sale often give precedence to sale price over user welfare. Even the reduced market value from the asset sale glut would be too much for local investment.

Foreign Investment into industries such as power, water, and dominant industries have not been to Australia's benefit when the foreign investors interests are in conflict with the interests of Australia, and at times pressure from foreign investors is close to black mail. A Federal bonus of 15%! A fire sale of assets will realize less than 85% of their value.

Essential Services such as defence, police, judiciary, power, water and sewerage should never be in a position where equity can be controlled overseas, as can happen with assets used as collateral for loans.

Essential services are just that, and must be under the control, even if not the ownership of the government, otherwise the economy cannot be protected.

Natural monopolies are by nature very difficult to control when out of the control of government; an example, far from unique, being Enron in the USA. A local, state, or national economy can be crippled by a rampant natural monopoly of an essential service.

This does not mean that government assets should not be sold, but that sale should for carefully considered long term economic, not short-term political reasons.

That such a situation has arisen indicates that the states need greater power in controlling financial decisions, even if the Commonwealth remains the means of raising funds, because successive federal governments are constantly offloading costs to the states while reducing the funds to the states. It is feasible that taxes be recognized as going to federal or state coffers, with both need and population considered.. This would also have the advantage of reducing the habit of federal governments transferring the costs of services that are rightly their responsibility.

The experiment of federal control of state finances has led to a slowly tightening noose that is strangling the States' finances and infrastructure building, thereby strangling the States' economies.

Conclusion:

Alternative mechanisms for funding infrastructure development in states and territories are available short term and, with revision of state /federal financial relations, in the medium to long term without resorting to the otherwise unjustified sale of existing state and territory infrastructure and other assets.

Brian Collingburn
January 23rd. 2015.

Abbott passes up the deal of the century

With 10-year bond rates at an all-time low, the government should make the most of it.

PETER MARTIN

Who'd say no to the deal of a lifetime? Tony Abbott would, and it's our tragedy. The 10-year bond rate is the rate at which the government can borrow for 10 years at a fixed rate of interest. Right now it's just 2.55 per cent, an all-time low.

By way of comparison, in the 1970s it exceeded 10 per cent, in the 1980s it passed 16 per cent, in the 1990s it passed 10 per cent, in the 2000s 5 per cent, and until now in this decade it has usually been above 3 per cent. It dived below 3 per cent at the end of last year and is now just 2.55 per cent, the lowest in living memory.

If Australia was to borrow, big time, for important projects that took the best part of a decade to complete, it would have no risk of ever having to fork out more than 2.55 per cent a year in interest. The record low rate would be locked in for the entire 10 years.

Australia's inflation rate is currently 2.3 per cent. Although it will almost certainly fall in the wake of the collapse in oil prices when it is updated next week, the Reserve Bank has a mandate to keep the rate centred at about 2.5 per cent. That means that right now our government is being offered billions for next to nothing, billions for scarcely more than the expected rate of inflation.

If Abbott was the chief executive of a company with good prospects he'd grab the money and borrow as many billions as he could without impairing his credit rating.

In Australia's case that's probably an extra $100 billion. That's enough to build the long-awaited Brisbane to Sydney to Melbourne high-speed rail line, or to build Labor's original national broadband network, or Sydney's $11 billion WestConnex road project, plus Melbourne's $11 billion Metro rail project, plus Melbourne's $16 billion East West Link, plus something big in each of the other states.

And it would cost next to nothing. All each of these projects would need is a positive real rate of return (which several of those listed above lack) and we would get ahead.

All we would need is confidence in the worth of our ideas.

It's rare to be offered money for nothing.

It's happening because interest rates in the rest of the world have dropped to near zero. Japan's 10-year bond rate is 0.24 per cent, Germany's is 0.40 per cent, Britain's 1.54 per cent. Even in the United States, where the economy is improving, the 10-year bond rate is just 1.81 per cent.

Without the ability to earn decent returns in the countries to our north, investors are flocking here and buying our government bonds. In order to get them they are prepared to bid down the rates we have to pay them to all-time lows.

It mightn't last. In October, Reserve Bank assistant governor Guy Debelle warned of a "relatively violent" correction in bond markets. He said as soon as it looks as if interest rates will climb, the purchasers of bonds will demand much higher rates in order to cover themselves for what's likely over the next 10 years. The opportunity will vanish.

If we are prepared to grasp it, there's no shortage of projects that would set us up for decades to come. In education, in health, in the delivery of railway lines into suburbs that are at present barely accessible – in all of these areas there are projects whose benefits would exceed their costs and exceed them by more than enough to pay the minimal rate of interest being demanded.

Some are visionary. Bank of America Merrill Lynch economist Saul Eslake says that if Australia was to get serious about reducing its dependence on coal it would consider paying coal producers to close, and speeding up the commercialisation of battery technologies that would allow Australians with the next wave of solar panels to live off the grid.

It's rare to be offered money for nothing. All we would need is confidence in the worth of our ideas.

The risk is that bad projects would be chosen over good ones and the money wasted. Abbott himself provides reason for concern.

Despite promising during the election to "require all Commonwealth-funded projects worth more than $100 million to undergo a cost-benefit analysis by Infrastructure Australia" his first budget funded scores of road projects without such approval.

Some of the cost-benefit studies weren't even published, in others the figures were massaged to make them look better than they were.

The Grattan Institute's John Daley suggests setting up an independent statutory authority along the lines of the Reserve Bank to vet proposals for spending big money. Its members would be appointed by the Governor-General for terms of five to seven years, it would report directly to Parliament and would publish all of its findings, complete with the assumptions behind them. He says even cheap money should be spent well.

Could the Coalition grab the opportunity before it vanishes? There are some good signs. With help from the Greens it axed Labor's debt ceiling. Since taking office it has run up an extra $78 billion in debt. But it is unorganised, behind in the polls and a prisoner of some of the silly things it said about debt while in opposition.

We have a once-in-a-lifetime opportunity. It'll slip through our fingers.

Peter Martin is economics editor of *The Age*.
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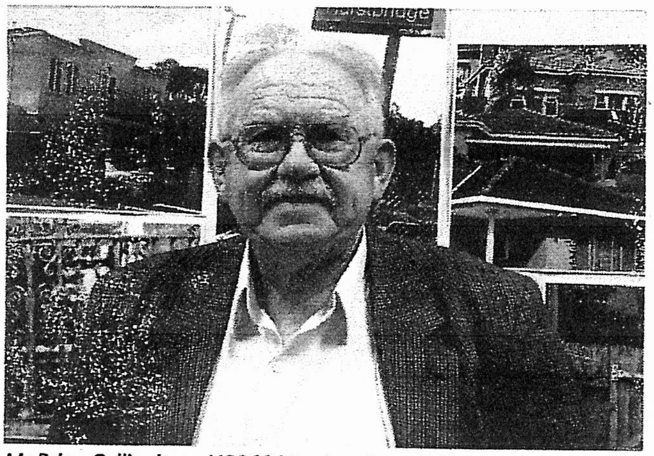
VCOSS and its members: 60 years of collaboration for social justice

PRISCILLA BLAKE



Mr Brian Collingburn, VCOSS Member since 1961

The first couple of paragraphs of an article published in the February 1960 edition of NOW! relates the tale of the establishment of the Victorian Council of Social Service...

When the war finished in 1945 most people found it necessary to take stock of themselves and their plans. Social welfare agencies took the opportunity to evaluate their problems and community needs, and some responsible people considered that the formation of a Victorian Council of Social Service would provide the machinery to co-ordinate the work of agencies, to view the community as a whole, to see the gaps in the social structure and to take steps toward bridging them.

After six months of quiet background work, the Victorian Council of Social Service was established at a meeting in December 1946 at the Melbourne Town Hall. About 250 people from 160 organisations attended, and Lady Herring, who had taken a leading part in the formation of the Council, became its first President. One of the social problems of the time was the shortage of housing in the community, and emergency housing settlements which were established to meet the need were unsatisfactory in many respects. VCOSS immediately became active on this question and arranged a deputation to the Minister for Housing offering assistance to improve conditions at Camp Pell...

We're now 60 years on and it's difficult to escape the feeling that the more things change the more they stay the same! The article makes interesting reading and can be accessed on our website at www.vcoss.org.au

One of the constants at VCOSS over the 60 years since its inception has been the continued support of a large number of individuals and organisations committed to values of social justice and principles of equity and community. That the community sector has grown in strength and clout over the last 60 years is credit to the dedicated work and unwavering commitment of these people. Mr Brian Collingburn is one such individual.

A VCOSS Member since 1961 – 45 years! Brian's childhood gave him a particular perspective on social behaviors and the way many institutions subtly legitimised malpractice. Brian became concerned by what he experienced and saw around him - power abused and wielded without responsibility, and societies most vulnerable too often used as scapegoats. He became a committed campaigner for children - seeking to publicise crimes committed against kids and neglect where he saw it. Brian became a staunch defender of humanistic values over the years and involved himself in many aspects of community work. He is a foundation and life member of the Fitzroy Legal Service and in the 1970s he made an essential contribution to draft occupational health and safety legislation that was put to parliament in 1985. He was active in resourcing the setting up of Parents without Partners, and involved in the Social Service Action Group formed in 1972 by pensioners, beneficiaries and others interested in changing an 'inadequate welfare system.' A passionate communicator and prolific letter writer, Brian has been published extensively over the years on such issues as the environment, public health, taxation, industrial law and occupational health and safety, prostitution, child abuse, homelessness, and education. Despite over 50 years experience in voluntary community welfare work, a recent letter published in the *Age*, 24 September 05 shows Brian hasn't lost his perception or sense of humour! In this letter he wrote:

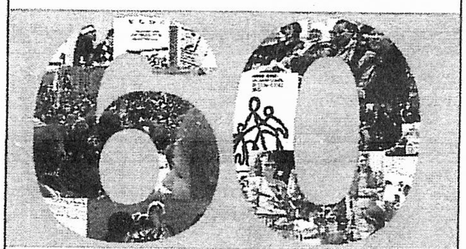
> ...The economy and tax cuts are the main game. When the Pharmaceutical Benefits Scheme is abolished sick and unhealthy low and middle income people unable to afford vital medicines will die. This will drastically reduce the health aged care and pension budgets. Economic rationalism can solve all problems.

Thanks for your support Brian, and to all our members for their ongoing patronage.

We hope you'll all come together for a third sector groove at our "60 years of VCOSS" birthday party on Thursday August 4th (see attached expression of interest form for details).

VCOSS
CONGRESS 2006
Strong Foundations - Working for a Fairer Future

Thursday 3 and Friday 4 August
RACV Club Conference Centre
501 Bourke St



1946-2006

VCOSS Celebrating 60 Years of Collaboration for Social Justice