



PARLIAMENT OF NEW SOUTH WALES

JOINT SELECT COMMITTEE ON THE CROSS CITY TUNNEL

The Committee received the attached document on 20 December 2005 from the Hon Michael Egan in reply to the following questions taken on notice during the public hearing on 6 December 2005.

1. Considering the Australian public sector debt is low by international standards were your tactics about debt devised for electoral gain rather than responsible management of the state's finances?
2. Is it correct that your key motivation in promoting the Cross City Tunnel as a public private partnership was to keep down the State's debt?

Op ed article for SMH by Michael Egan

Why we need PPP's

The controversy over the Cross City Tunnel seems to have fuelled renewed opposition to private financing of "user pays" public infrastructure, or PPP's as they are commonly called.

Opponents, however, ignore or gloss over the alternatives, of which there are really only three.

The first is to go without.

The second is to divert funds from schools, hospitals or some other community service. And the third is to "pay" on the never never.

Some critics, though, seem to assume another possibility, namely that public resources are so plentiful that almost everything we want or need can be funded from them.

But unless they are arguing for significant tax increases, these critics are either knaves or fools.

They often argue that in previous times we financed all public works from taxpayers' funds, so why can't we do so now.

They seem to forget the days when the "dunny man" was a twice weekly visitor to the unsewered half of Sydney's suburbs, when households waited three or four years to have a phone connected, when streets in new suburbs were often unsealed, or when programs to carpet and air-condition classrooms, provide computers in schools or disabled access at railway stations would have been regarded as fanciful, unaffordable luxuries.

These days the public purse funds more than it has ever done before.

Just consider the 105 per cent increase in hospital and health funding over the last decade, or the 85 per cent increase in education funding, the 107 per cent increase for public transport and taxpayer funded roads, or the 173 per cent increase for community services. Or, indeed, the huge increase in Budget funded public works.

Although a number of media charlatans have asserted that public infrastructure investment has declined in recent decades, the exact opposite has actually occurred.

Prior to my departure from office, the state's capital program was 33 per cent higher in real terms than the level of the nineties, about 66 per cent higher than the eighties, and over 200 per cent larger than the seventies. And it went even higher with Andrew Refshauge's Budget last May with some \$8.2 billion earmarked for this year's capital investment program alone.

But even these massive budgets are not enough to fund everything.

Why then, don't governments just borrow more?

The answer, in a nutshell, is because debt costs money.

The money you need to service and pay off the debt has to come from somewhere.

Let's assume that the Carr Government had kept borrowing at the same rate as all of our predecessors.

Instead of virtually eliminating general government debt as we did, we'd now have debt of around \$25 billion, with annual interest bills of around \$1.5 billion.

Tell me which schools, which hospitals, which police or fire-stations should be cut each year to pay this bill.

Or should we simply keep borrowing to pay the interest?

Hardly a wise long-term solution, I would have thought, given the prospect of an ageing population with relatively fewer and fewer taxpaying workers to fund more and more retirees.

That's why, rather than racking up debt, some projects stand out as sensible for applying the user pays principle.

"Very well", say some critics, "but why not have a publicly owned toll road? Why let the private sector, rather than the taxpayer, make huge profits?"

The answer, of course, is that none of these projects actually guarantee profits.

There is risk in every investment, as the Cross City Tunnel investors are well aware, with early patronage and revenues way below the levels required to service and pay off their debt, let alone provide a return on their equity.

Imagine the hue and cry we'd be witnessing if taxpayers were now lumbered with these risks and the prospect of services being cut or taxes increased to fund the shortfall in revenues.

The simple truth is that the Carr Government knew right from the start that there was no such thing as magic money, and we weren't going to try to fool ourselves or the public that there was.

I have very few virtues and, as those who know me understand, modesty is not one of them.

So I make this boast: the last decade was a golden era in financial prudence and consolidation. It leaves a legacy that governments on both sides of the political fence can properly draw upon for a long time to come.

I can only hope it's a legacy that will last for generations and not be squandered in a decade or two.

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