

# Tradeable Claims for Infrastructure Development

The Inquiry asks

*What are the impediments to the development of liquid, tradeable claims on infrastructure projects?*

The following outlines a liquid, tradeable claim for general use by the Government, and by others in Society, as a way to create credit for any Capital Investment. The vehicle is PrePayments with Discounts adjusted for Inflation. (PPDI for short). They are simple to create and with modern technology easy and inexpensive to administer. They require no special legislation or changes to accounting or tax regimes. They can be introduced quickly and incrementally. They enable the government to have fine control over infrastructure investments and, in consultation with the Reserve Bank, the supply of money. They enable the Government to monitor in real-time how the infrastructure investments are performing. The Government can maintain full employment and retire all Government Debt. The example set by Government will mean all Australian enterprises, including State Governments, will have the means to retire all foreign debt while still leaving Australia open to foreign investment.

## PPDI Creation by Government

A PPDI is a PrePurchase of a future commitment with a Discount attached. Organisations and individuals buy PPDI's from the Government. Liquidity is supplied by allowing PPDI's to be transferrable and by the Government facilitating transfers. Future Commitments to Government are Taxes, Duties, Licence Fees, etc. That is any future payment due to the Government.

It is suggested that Government issue PPDI's with an 8% Discount. An 8% Discount is about equivalent to a 100 year bond rate of 5% in cost to the government. PPDI's can be adjusted for inflation because governments can ensure payments to government will increase with inflation. An 8% PPDI will be a very attractive investment, particularly for superannuation funds and gives a way for Government to provide economically attractive investments for savers.

Assume a person buys a PPDI for \$100 with an 8% Discount. In five years time it can be used to pay \$100 + 5 times \$8 or \$140 of taxes. If inflation was 3% the \$100 would be able to pay \$158.

Governments should issue PPDI's for specific projects. The reason for this is to keep track of the cost of projects and how long it takes to get back the investment by measuring increased taxes and charges created by the investment. For example if a tollway is built to the New Sydney Airport the increases in taxes from services along the route attributable to the route plus the fees from the toll ways can be compared to the PPDI cost.

To compete with Government PPDI's, businesses and organisations will offer PPDI's at differing rates. It is likely that home finance will stabilise around the same Discount or a little lower than Government PPDI's. It should be noted that an 8% Discount is equivalent to a mortgage rate of 6.1% over 30 years. It is expected that business finance through PPDI's will have to be higher because a business PPDI does not have government backing and hence is a greater risk.

The Government can control the money supply through issuing PPDI's. When there is a downturn in private investment the government can increase the number of PPDI's it creates. When private investment increases the Government reduces the number of PPDI's.

Governments can retire all public debt through issuing PPDIs to pay off the debt.

Using this mechanism the Government can remove all debt and never issue any more. It will be able to fund more infrastructure including the National Broadband Network, Public Transport in our Cities, Roads throughout the country, Hospitals, Schools, Universities all without going into debt. How much the government funds will depend on the demand from private investments but the system can be tuned to give everyone in Australia who wants to work a job.

## **The Lower Cost of PPDIs versus Debt**

PPDIs remove interest on interest on investment credit. The way we create credit with debt means that debt has interest on interest costs. For long term investments interest on interest becomes a major part of the cost. For example an investment over 50 years with an interest rate of 5% will cost 40% more in funding costs than a 5% PPDI over 50 years. This reduces the total cost of the project by 22%.

Importantly reducing the cost of infrastructure with PPDIs means funding income will mostly stay in Australia and so increase our total wealth. This in turn increases the Government Tax collection without increasing the Tax Rate or alternatively allows lower Tax Rates while still collecting the same amount of Tax.