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Submission to the NZ Infrastructure Commission - July 2021

Subject: "Infrastructure For a Better Future"

"Whatever is physically possible, and socially and environmentally beneficial, can be made financially possible." - Social Credit tenet.

In responding to the Commission's discussion document, we propose to examine, amongst other things, two pieces of relevant legislation, namely the Act which established the Commission and the later Infrastructure Funding and Financing Act.

But, before doing so, we must express our deep concern at the enormous disconnect between the rhetoric promising to honour Te Tiriti o Waitangi and the recent announcement by Reserve Bank Governor, Adrian Orr that keeping the capital markets buoyant is top priority.

The esteemed 20th century Quaker economist, Kenneth Boulding, wrote extensively about indigenous economic systems, describing most of them as "gift" economies - the infrastructures and treasures produced by one generation being gifted to the next who were expected to guard and where possible improve on their heritage. Nowhere in Te ao Maori do we find a rule which insists on burdening mokopuna with debt, simply because neoliberal doctrine demands a system of debt-funding which has no ethical or economic basis.

Indigenous cultures understood and practised a basic economic law – the law of opportunity cost: to employ a resource or skill at any one time means sacrificing another activity that could have been chosen. In no way did the demands of paying interest to financiers restrict the choices made. Yet as pointed out by former Lincoln University economist, Paul Dalziel, in *The Decent Society* (1992), "the first call on government funds is its interest commitments on public debt".

So it is astonishing to find that private sector, revenue producing, funding is central to the proposed 3-waters, Local Government and health reforms along with cunning proposals for persuading Maori to adopt the debt-funding mantra.

The 40 year con of free market economics unleashed on the country in 1985 saw private sector profit as more important than investment in public sector social goods and many key assets were sold off. Private sector profit has seen mountains of ratepayer and taxpayer dollars syphoned off into paying interest on borrowed money to private sector funders, many of whom have either created the money lent (in the case of commercial banks) or borrowed it from those very same banks who again created it.

That is why today our rail system can't support fast freight and passenger transport, our water systems are polluted and unreliable, our schools and bridges are collapsing, our hospitals are in crisis, our roading network under massive stress and our electric grid with insufficient capacity for the digital age and EV transformation.

It appears free market economics still reign.

The NZ Infrastructure Commission Act (2019)

25th September 2019 saw the Hon. Shane Jones' Bill enacted. The day before, speaking to the third reading, Mr Jones gave an impassioned speech calling for future public infrastructure projects to be privately funded but put under public stewardship. This is private funding, as distinct from public debt being privately owned by speculators bidding for Treasury and LGFA (Local Government Funding Agency) securities.

Since the GFC (Global Financial Crisis) of 2008, trillions of dollars have been printed by western central banks to rescue the financial sector from its own grievous blunders – at least $9 trillion since the Covid pandemic struck. This money is seeking safe investments – public infrastructures and essential amenities are particularly safe and desirable. Global consulting firms like EY (Ernst & Young) have been particularly industrious persuading governing bodies to adopt the PPP (public-private-partnership) model.

In 2013 (2nd December) NZ Herald columnist Brian Rudman warned Auckland councils against falling for a model which was failing elsewhere. Yet, like rust which never sleeps, we see the PPPs being the main funding source recommended again. Investment in infrastructures which supply in-elastic demand – especially for water and electricity – is especially sought after.

Now for a closer look at funding.

The Infrastructure Funding and Financing Act (2020)

The pre-eminent reason the country's infrastructure is in such a bad state is due to the (supposed) lack of funds. That is time and again the reason advanced as to why projects are not undertaken, either at local body or national level. A glaring example of that was last month when the government cancelled a number of major roading projects.

During the debate on the NZ Infrastructure Commission Bill, the Hon. Phil Twyford signalled the decision to introduce legislation later in the year about "the work I've been leading with Treasury on establishing new ways of funding and financing the infrastructure that's needed .....that will allow private financing to be invested in infrastructure for new urban growth, paid back over the lifetime of the asset...to allow us to tap into a limitless supply of investment capital to build the infrastructure that our cities need."

To Social Credit, Mr Twyford's speech bore all the symptoms of political amnesia.

All memory erased of how his Labour forebears harnessed the sovereign ability of the newly nationalised Reserve Bank (1936) to fund the building of bridges, houses and roads at a service charge averaging just over 1%. That service charge went back to the government in any Bank profit – essentially meaning funding was interest free, and in many cases was debt free.

New Zealand was not the only country to adopt that funding method. For example, the Commonwealth Bank (Australia's central bank at the time) supplied the Australian government with funding on a similar basis for major infrastructure development.

Today we would call that *Putea Pai* – good (ethical) funding.

By contrast Treasury was adamant that private investment must now be the government's policy - advocating a model which "will allow a much greater quantity of debt to be allowed from revenue streams than would be possible through a local authority....". By "revenue streams" Treasury means the collection of "levies" managed by mysterious SPVs (Special Purpose Vehicles). Operating costs are to include interest - in contrast with the alleged acknowledgement of Te Tiriti o Waitangi values.

There is a brief mention of direct funding by the Reserve Bank but this was seen as contravening Fiscal Responsibility Rules designed to keep debt-to-income ratios within bounds dictated by Wall Street credit-rating agencies. But (a) a sovereign central bank does not need credit ratings as it has the right to create (print) sufficient funds for what is needed for the public good, and (b) surely social responsibility and well-being should take precedence over the dictates of privately owned, self elevated, offshore ratings agencies!

Yet in May 2020 direct funding appeared in a jointly authored Treasury and the Reserve Bank report. Presented to the Minister of Finance their 'aide-memoire', titled "Quantitative Easing and Monetary Financing Compared" was compiled at their own initiative.

The report says that Monetary Financing could be used to "meet specific funding needs of the Government at lower cost and with greater certainty than QE (Quantitative Easing – buying bonds on the secondary market)".

Monetary Financing of course means using money creation by the Reserve Bank, which the government owns, to finance government spending.

It is a funding method that has driven China's massive infrastructure build and its Belt and Road plan, and Indonesia has recently adopted it.

A growing list of economically literate heavyweights are recommending the direct funding model. They include:-

- former BERL chief economist Ganesh Nana – "The government can borrow from the Reserve Bank. To be technical, it's literally borrowing from itself".

- former finance minister Michael Cullen - saying that if the bank was going to continue printing money, this should be used to buy Government debt directly to finance things such as building homes and infrastructure. In a recent opinion piece he wrote "We have an unparalleled opportunity in the current situation to make a quantum leap forward in dealing with some of our needs, which require large amounts of capital. That opportunity could well slip past us: a rethink is needed."

- former Australian Treasurer, Paul Keating, in a letter to Australian media backed the call saying Australia's Reserve Bank should buy government bonds directly from Treasury instead of on the secondary market.

- economist Shamubeel Eaqub - "I don't see why we don't jump straight to the RBNZ buying bonds from Treasury direct".

- an IMF research paper from December 2012 called The Chicago Plan Revisited by authors Michael Kumhof (now at the Bank of England) and Jaromir Benes also recommends it. "Allowing the Government to issue money directly at zero interest, rather than borrowing that same money from banks at interest, would lead to a reduction in the interest burden on government finances and to a dramatic reduction of (net) government debt….."

A more comprehensive list is appended.

The past 18 months has already proven that the sky will not fall if the Reserve Bank creates money. It hasn't fallen in any of the other numerous countries where central banks have been undertaking the same process either, some in enormous amounts.

In March 2020 the Bank's Monetary Policy Committee launched its LSAP programme. It has committed to buying up to $100 billion of New Zealand Government Bonds on the secondary market (not direct from the Treasury) by June 2022. To date, it's bought nearly $53 billion worth.

Building infrastructure by raising private capital either through Public Private Partnerships or Special Purpose Vehicles still requires money to be borrowed. Those options are simply an underhand method of the government borrowing money without it appearing on the official books. Ratepayers and taxpayers will still be paying the interest and the loan principal but at a substantially higher interest rate than if the government had borrowed the money directly itself.

Ratepayers expect the money they pay to go towards providing services in their area, not to be the source of a significant contribution to the development of Capital Markets for wealthy investors.

Public/Private partnership schemes likewise have a similar result with ratepayers or taxpayers funding 25year gold plated profit streams for private investors.

Already over $800 million is spent every year on paying interest on council borrowing, when it could (and should) be providing services and facilities for local communities.

This type of free market neoliberal capitalism has led to inequality, poverty and immeasurable damage to New Zealand's social fabric. It has also caused a profound shift away from public ownership of our collective commons and encouraged self-interest, competition and consumerism.

Our connections to our environment, community, society and culture have been steadily eroded. None of that has happened by chance. Unemployment, low wages, punitive social "welfare" and the "free" use by business and others of our resources and environment are structural parts of the existing economic and financial system.

Profits have been privatised and losses socialised as we have moved further and further away from the rights enshrined in Articles 23 and 25 of the United Nations Universal Declaration of Human Rights.

There is something uncomfortably troubling, some may say seriously amiss, when a funding source such as we have outlined, that could provide an interest free (and where necessary debt free) source of funding for infrastructure assets is overlooked for one that benefits private funders, when both are initially created by the same process.

As senior journalist Simon Wilson wrote in the Herald on 11 September, 2020 "New Zealand has a money tree and you can find it in a building at the bottom of The Terrace in Wellington".

The Hon. Willie Jackson, speaking to the Local Government (Community Well-Being) Amendment Bill (2019) emphasised - “Intergenerational well-being is a Kaupapa Maori concept. The bringing together of intergenerational aspirations held by local government and iwi....” and further - “Decisions about funding for community infrastructure will need to be made transparently”. It will be interesting to see how Mr Jackson and his colleagues vote on forthcoming legislation based on Treasury policy.

It will be interesting also to see how the Commission digests and acts on the material in this submission.

Finally a message to Commission Chair, Dr Alan Bollard and the Commission Board.

We respectfully ask to be invited to discuss our viewpoints and share with you the similar viewpoints being promoted by many academics, both here and abroad.

Meanwhile, on behalf of Social Credit NZ, I am pleased to have this opportunity to submit this document to you.

Chris Leitch

Leader

Social Credit

Attachments:

Treasury and the Reserve Bank - Aide Memoire

Simon Wilson – Magic Money Tree

Experts Quotes

Indonesia – Debt Monetisation

IMF – The Chicago Plan Revisited