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Edited by Kevin Chinnery: kchinnery@fairfaxmedia.com.au

Building boom that needs a policy reboot

THE AFR VIEW

Over two days, *The Australian Financial Review*'s fifth National Infrastructure Summit revealed the scale of mega-transport projects that are reshaping our big cities, confirmed that the infrastructure boom has a long way to run and focused minds on the multiple challenges to be dealt with. Most of all, it confirmed that infrastructure needs to be part of a revived productivity agenda embraced by federal and state governments. The pipeline of massive road and rail projects offer supply-side productivity gains by easing congestion and exploiting technology networks in the big cities as Australia's population grows. But this infrastructure boom is also a massive national investment that needs to be properly planned, put in place and then efficiently run. The time horizon extends decades and generations, rather than the short-term political cycle.

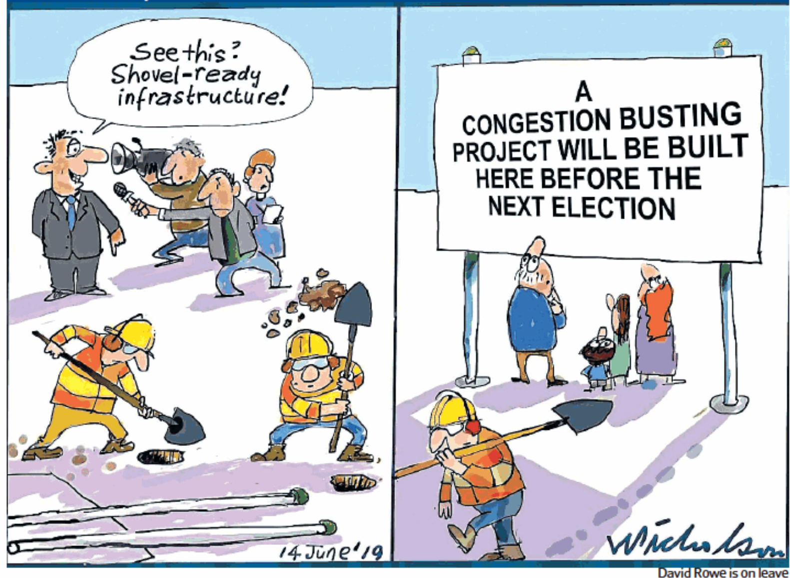
The clearest rallying cry comes from NSW, the state that unlocked the political trap over infrastructure financing. Under former Liberal premier Mike Baird, a first-term Coalition government went to the 2014 state election promising to sell mature assets such as large parts of the electricity network and ports. The pay-off would be invested in an unprecedented wave of greenfield road, rail and social projects that would help digest a population surge generated by the prosperity of Australia's once-in-a-century resources boom. And without leaving a debt hangover. After the unions campaigned against the electricity privatisation, their super funds invested in them. This was world-leading policy innovation.

A key innovation came from then federal Treasurer Joe Hockey's asset recycling payments. These hurdled a financing barrier to privatisation: the privatised entity is liable for 30 per cent company tax that a state government-owned entity doesn't have to pay. In March, Mr Baird's more cautious successor, Gladys Berejiklian, led the NSW Coalition government to a third election win on the trot even while Sydney remained an infrastructure construction site. Now some of the projects are bearing fruit, such as Sydney's $7.3 billion Metro North West rail service, which opened last month. Victoria followed suit, as Premier Daniel Andrews highlighted to our Summit yesterday. In contrast, as NSW transport minister Andrew Constance reminded our Summit, Queensland is now bearing the costs of failing to get on board.

Mr Constance used our Summit to urge the Morrison government to help revive a national asset recycling program to help finance the next wave of infrastructure investment. His critique reveals the shortcomings in the Coalition's population and infrastructure policy. Under Malcolm Turnbull, the government backed off tax reform that could have helped remove state stamp duties on property conveyancing: a tax on mobility that makes it harder for cities to adapt to population growth. In March, Scott Morrison reduced the national immigration intake from 190,000 to 160,000 for political reasons, a move his favoured demographer told our Summit will worsen skills shortages and won't work to disperse people out of the biggest cities. And now, as Mr Constance puts it, the Morrison government is duplicating the functions of state and local government by investing in small-scale infrastructure projects such as commuter car parks. There's even talk of accelerating such projects to give a demand stimulus to the soft economy. Dare we mention the Rudd government's school hall and home insulation debacle?

Worse, the federal government has gone backwards on the policy agenda urged, among others, by its own Infrastructure Australia advisers. This includes a retreat to electricity price controls, backed up with the "big stick" threat of divestment. As industry super funds and foreign pension funds warned at our Summit, this is worsening the regulatory and sovereign risk that threatens to divert Australian retirement savings offshore rather than into relatively reliable brownfield infrastructure assets here, let alone in more risky greenfield projects. At our Summit, federal urban infrastructure minister Alan Tudge could not sensibly engage the basic policy of road-user or congestion charges that could help this massive national investment make our big cities more productive and amenable places to live in. Amid all the technological opportunities of big data, driverless cars and the like aired at our Summit, the size of Australia's infrastructure demands require a policy rethink.

From the Gallery — **Peter Nicholson**



David Rowe is on leave

RBA must be more transparent

Monetary policy

The Reserve Bank buried a big shift on jobs and inflation in a routine speech. That's politically risky in these populist times.

Richard Holden

If you weren't paying close attention you would have missed it. On Wednesday evening, while delivering the University of Melbourne's annual Freebairn Lecture, RBA assistant governor Luci Ellis offered – blurted out might be a more accurate description – a significant update about the bank's thinking on the economy.

In discussing the so-called "non-accelerating inflation rate of unemployment" (NAIRU), which is the rate that unemployment can be driven down to before increasing inflation takes hold, Ellis said: "Over the past five years wages growth has been slower than would have been expected based on past behaviour. We have therefore gradually revised down the estimate of the prevailing NAIRU from 5.25 per cent a few years ago to 4.5 per cent now" and went on to note the RBA model implies there is "a 95 per cent chance it is between 3.5 and 5.5 per cent".

Wow! Just the difference between the current unemployment rate and 4.5 per cent implies there are more than 100,000 of the currently 700,000 unemployed Australians who could get jobs if monetary policy adjusted properly.

Or as Ellis rather obliquely put it: "If Australia truly can have lower unemployment – sustainably – policy should be used to try to get there. As the governor explained last week, that was one important consideration motivating the board's recent decision to lower the cash rate."

If the lower end of the RBA range for the NAIRU is right then there are nearly 250,000 Australians currently without a job, who are desperately looking for one, who could be employed if the RBA gets policy right.

Then there are those who are underemployed – 8.5 per cent of the labour force, according to the Australian Bureau of Statistics – who could become fully employed with appropriate policy settings. Getting underemployment back to the levels of the early 1990s would boost the employment of another 650,000 Australians.

Add to that a wage boost that could naturally boost the labour force participation rate – every percentage point of which amounts to another 200,000 people employed – and the implications of the RBA's new view of the NAIRU are massive.

Ellis' speech was titled *Watching the Invisibles*. Perhaps it should have been called *The RBA's economic model now says a million Australians' job prospects and wages will improve markedly when we set interest rates appropriately*. Less catchy, but apposite.

> *The danger is a backlash where the RBA goes from being trusted, to being micromanaged.*

So, while Philip Lowe has been telling us all to be patient, and that with 5 per cent unemployment, wage rises and inflation will kick in, the bank's own model now apparently says interest rates can go much lower to drive unemployment down and wages up. When did this happen? Last Tuesday morning?

The broader point is about transparency. I think we basically need to trust the RBA to do its job and recognise it has a lot of well-trained, thoughtful people doing a hard task.

Lowe himself, and deputy governor Guy Debelle in particular, have stellar international reputations among, for instance, current and former governors of the US Federal Reserve. Among other things, they handled the events of the 2008 financial crisis remarkably well.

What has been much less well handled is the communications strategy about the path of interest rates. One minute it's 'be patient', the next thing unemployment might be able to go to 4 per cent. And that's not really surprising given the levels it has reached in the US and Britain without sparking inflation.

The bank has missed its self-imposed 2 per cent to 3 per cent inflation target by so much, for so long, it has appeared to some observers it has simply abandoned the target.

And the danger is that this triggers a populist backlash where the RBA goes from being trusted, to being micromanaged. US anthropologist Annelise Riles wrote in *The New York Times* late last year about the prospects of such a backlash.

She observed of central bankers that "most of them attend a handful of elite universities – the University of Chicago, Harvard, Yale, Oxford, Cambridge – to study neoclassical economics, and their early training often involves a secondment to the central banking institutions of another country. In Tokyo or Frankfurt or New York, they operate within a closed set. There are norms of dress: sharp, conservative suits and dark ties, but never fancy shoes."

Riles' piece is part of a small but growing movement to "democratise" central banking. Now, I think this is profoundly misguided, but the RBA had better watch out.

One moment it's a moderately distinguished anthropologist critiquing your footwear, then next it's the guillotine.

By all means the RBA should make the monetary-policy sausage in private. But if it suddenly realises, however belatedly, there has been a major shift in the workings of the Australian economy, then let us know.

And don't bury it in a speech where the main point seemed to be the distinction between "observable", "measurable", "inferable" and "impossible" that was reminiscent of Donald Rumsfeld's famous "known unknowns" and "unknown unknowns" taxonomy.

Richard Holden is professor of economics at UNSW Business School.