

Infrastructure

The following statement represents CEDA's current policy on the need to improve Australia's "hard" economic infrastructure - roads, railways, electric power, sea and air ports and other built investment that enables the activities of communities and businesses.

CEDA policy statements represent CEDA's view of policy based on the best available evidence at the time they are issued. They are subject to change as additional evidence comes to hand.

The key problem: Australia is investing too little to meet infrastructure demand

As documented in CEDA's Growth Report Number 54, Australia has developed a clear backlog in several areas of infrastructure. The backlog of economically justifiable infrastructure is estimated to total at least \$25 billion. The removal of this backlog could raise Australia's GDP by 0.8 per cent per year.

At the same time, Australia risks overinvesting in specific niches where current pricing arrangements encourage users to overconsume – such as certain types of water and road use.

The root of the problem: Government structures and processes

Current government structures and processes have been the main impediment to this investment. The evidence suggests these structures and processes, both federal and state, are ill-equipped to deal with infrastructure planning and delivery. Recent policy initiatives, notably the Auslink land transport process, represent encouraging progress. Such processes should be urgently pursued.

Among the arrangements in need of repair are:

- Arrangements to identify earlier and fix faster the shortfalls in spending on road and interstate rail systems, the two areas where the majority of the identified backlog exists.
- Processes to identify government best practice in using public and private resources and government regulations and contracts to meet infrastructure needs.
- Federal and state arrangements that facilitate the direct application of private investment capital to infrastructure wherever appropriate.
- Arrangements between federal and state governments for provision of infrastructure to support major resource projects.
- National markets in areas such as electricity, which currently remain partly regional in character and where social and environmental goals are being pursued in ways which distort investment decisions.

There is no shortage of funds to fix the problem. Private investment funds are readily available to fund viable private projects. And Australia's governments, with their low levels of debt, are in a strong position

to raise debt to fund economically appropriate infrastructure as well. Each form of funding should be used where appropriate.

The long-term solution: Government leadership

In the short term, governments can and should act quickly to reduce this backlog.

More important, though, is that governments ensure that such a backlog does not occur again by fixing the unproductive structures and processes described above.

Many of these issues (electricity, gas, roads, rail, water) are inherently national; national leadership can produce large benefits. But in the absence of a complete rethinking of our federal system of government, much of the burden of implementing infrastructure reforms lies unavoidably with the states.

For that reason, the single most important enabler of infrastructure reform is:

- Commitment by federal and state governments to accept accountability - both for fixing the backlog and for ensuring that we do better in the future.
 - To ensure accountability, governments should agree to specific milestones for reducing the backlog and improving the provision of infrastructure.

Three further specific measures should be explored:

- Further federal government reform incentive payments to the states, of the type that have already proved effective in advancing national competition reforms.
- Monitoring, either by an existing body or a new one, to provide ongoing information to the nation on the state of Australia's infrastructure.
- Clearer and more aggressive spelling-out of the benefits to be obtained from introduction of stronger market mechanisms (whether or not accompanied by private ownership and operation) in areas such as road use (tolls and congestion charges), water use (scarcity-based pricing and water trading) and urban electricity use (variable intra-day pricing).

The opportunity: Cement Australia's international leadership

Australia's high level of policy and financing expertise means that these issues are inherently solvable once they are focused on. In Australia's private sector infrastructure, management skills and technical expertise in infrastructure development and financing are world-class. And Australia's record of economic reform over more than two decades demonstrates that we can create world's best systems for dealing with such problems.

Sources

In compiling this policy statement CEDA has relied upon a variety of sources, including:

- CEDA Growth Report Number 54, *Infrastructure: Getting on with the job*
- CEDA Growth Report Number 52, *Water and the Australian Economy*
- CEDA Growth Report Number 51, *Privatisation: A Review of the Australian Experience*
- CEDA Information Paper Number 81, *Sustainable Development 2003-2004 Seminar Series*
- Port Jackson Partners, *Reforming and Restoring Australia's Infrastructure*, report for the Business Council of Australia