Take the political regulation out of infrastructure

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In the budget, Treasurer Peter Costello wisely turned a deaf ear to the cacophony of voices calling for a massive new infrastructure spending program.

Spearheading these appeals, the Business Council of Australia launched an infrastructure plan for future prosperity, calling for a national reform agenda accompanied by a new secretariat and other administrative machinery. The BCA report discusses an estimated shortfall of $50 billion for roads, rail and water and the need to find $40 billion for electricity investment. This was said to be necessary to underpin a 4 per cent sustainable annual growth rate.

A Committee for the Economic Development of Australia report claimed as evidence of an infrastructure shortfall the drop in public investment as a share of GDP from 7.2 per cent in the 1970s to 3.6 per cent today. But this overlooks the wasteful government expenditure that was occurring in that earlier time, waste that provided the catalyst for the Keating Government's National Competition Policy reforms. Australia's 1970's level of infrastructure spending at 7.2 per cent share of GDP offered scant benefits in terms of growth - China presently sets aside 8.5 per cent of GDP for new infrastructure and this powers a booming 10 per cent growth rate.

An equally fundamental problem for advocates of a radical increase in government infrastructure spending is an absence of data on the existing the stock of infrastructure. As the BCA report acknowledges, privatisation and infrastructure investments built by public private partnerships make historical comparisons meaningless.

All this said, the BCA's 2025 time lines for new expenditures levels is readily achievable without the additional backbone of a new planning committee. Indeed, in the case of electricity investment it would be surprising if new spending averaged less than the $2 billion per annum target since it is presently running above this level.

In fact, it is easy to incorrectly forecast the investment required in electricity. The National Electricity Market has, by-and-large, resulted in timely construction of new generation. Some even maintain that there has been excessive investment in Queensland claiming that a Government, awash with GST funds, is subsidising new power station construction. NSW faces the opposite problem because the Carr Government has shown a willingness to mobilise government funded green groups to justify using its planning powers against a previously authorised coal fired generator. The consequent sovereign risk for private investors in electricity threatens a future shortage of generation capacity.

Government failings in the efficient provision of infrastructure demonstrate the folly of creating a new infrastructure expenditure agency. The appropriate amount of spending on infrastructure and the allocation of that spending will seldom be best resolved by a group of analysts - no matter how wise - reviewing what has been spent and searching out gaps for further disbursements. Government decision making processes lack the profit orientation vital to sound commercial decision making. The outcome of a new infrastructure expenditure agency will inevitably result in the politically motivated waste evident in the Alice Springs to Darwin rail project and spending juggled to please the different jurisdictions.

It is far better to minimise the area for government project decision making. That means having the government exit the field - ceasing to regulate and selling off infrastructure assets - where competitive provision takes place.

Power stations, ports, airports, gas transmission pipelines, rail lines and telecommunications all require deregulation and privatisation. Many of these facilities were built at a time when governments insisted on monopoly provision, usually state owned. Opening them up to new suppliers was a key competition policy reform of the 1990s. This has served its purpose and further reform, made possible by developments over the past decade, is necessary. . New infrastructure facilities have had to find customers in competition with pre-existing facilities. In doing so, the new facilities, including gas pipelines, ports, and telecom lines, have undermined the market power that the original monopolies held.

Such outcomes cry out for the abandonment of the synthetic price setting that regulators must adopt. As the Productivity Commission has argued, this is likely to reduce investment incentives.

The Hilmer report inspired National Competition Policy, the successes of which must be built upon. Now is the time to allow greater scope for market forces and to deregulate prices across a range of infrastructural industries. The alternatives would be new inefficient politically determined investments or a slow bureaucratic strangulation of new development. Important guidance about future directions will be offered by the Prime Minister's Infrastructure Taskforce headed by Dr Brian Fisher, which is scheduled to report later this month.

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