



Correcting The Infrastructure Deficit

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It seems we used to get a lot more infrastructure before we had the word 'infrastructure'. Indeed, these days we rarely hear the word 'infrastructure' without 'backlog' following close behind.

The word 'infrastructure' came into common usage amongst urban planners, and then government officials, in the 1970s and 1980s. Most Australian cities and regions acquired the majority of their transport, utility and communications networks well before then. So how do we now find ourselves with an infrastructure backlog estimated by bodies such as the Business Council and Infrastructure Partnerships Australia to be somewhere between \$450 billion and \$700 billion? Why has building infrastructure become so hard?

In a period when governments have already increased deficits and public-private partnerships have lost some of their allure post-GFC, the realisation of just how difficult funding new

infrastructure will be in the coming decade has begun to hit home. Of course, there are a few unreconstructed Keynesians who just want to ever expand public sector debt, but saner types know some other solutions need to be found. Various new models of public-private partnerships will undoubtedly evolve over time, but given the losses investors suffered on several Australian road projects in the past decade, this will not be a quick process and governments will have to retain more risk than they did in the past decade.

The ability to fund projects is also being increasingly hampered by the ballooning costs of the projects themselves. Increased material costs (a problem that will only get worse with the introduction of the carbon tax), and increased labour costs (in an environment where the power of unions is increasing) is a deadly cocktail for restraining the cost of projects. As Victoria's desalination plant shows, a government that is desperate to get a project going is unlikely to produce responsible financial outcomes. Environmental issues have also changed how projects can be delivered. Iconic Australian developments such as the Sydney Harbour Bridge and Snowy Mountains Scheme would surely struggle to get environmental approval in the twenty first century.

One solution advocated by many is increased Commonwealth involvement in funding traditional state areas of responsibility, such as urban transport projects. Yet seeking federal funding to overcome vertical fiscal imbalance has so far created as many problems as it has solved. One only has to look at the dispute between the federal and New South Wales governments over the relative merits of the Epping-Parramatta versus north-west rail lines in Sydney to see that further complicating the range of decision makers and funders is far from a sure-fire winner.

One industry commentator recently argued that 'we need to take infrastructure investment decisions out of the political cycle', something which will not, and indeed should not, happen in a democratic society. The desirability of many projects is a matter of legitimate contestability. Whether debating the relative merits of road versus rail projects, or the nation's biggest imminent infrastructure project, the NBN, there should indeed be vigorous political debate.

While it is impossible to justify the behaviour of the previous NSW government, that seemed to radically change transport plans every time it changed premiers or transport ministers, it is also unrealistic to expect a new government of a different political persuasion not to want to alter some aspects of the previous government's pipeline of projects.

However, what is most striking about Australia's infrastructure needs is how the nation's infrastructure backlog has grown in conjunction with the increase in the size of government. It is a rarely stated, but obvious fact that the more money governments commit to recurrent funding programs, the less there is potentially available for major new infrastructure.

Certainly, in the lengthy period of prosperity prior to the GFC, governments, both state and federal, used their increasing tax receipts to employ far too many new public servants, and expand far too many programs, rather than allow the growth of savings, public and private, which might have been available to fund new infrastructure. As well as reining in recurrent spending on employees and programs, the more recalcitrant state governments need to join their more progressive counterparts by privatising power utilities, franchising the operation of public transport



services and facilitating private toll roads.

Of course, one should avoid idealising the past. Colonial governments in the 1880s were just as prone to building railways to nowhere as the current federal government is to building unnecessary school halls, but clearly the comparatively lean nineteenth century governments were able to get more things right on infrastructure than their bloated twenty first century counterparts manage. So if we want to hear the word infrastructure without the word backlog, it might be worth giving smaller government a go again.