

# Infrastructure Australia, *A Report to the Council of Australian Governments*

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At the outset of this publication we are told that Infrastructure Australia<sup>2</sup> is determined to 'drive' the development of 'nationally significant infrastructure' (p.6). To this end, it will consider funding infrastructure according to criteria which will be variously 'national and balanced', based on a 'national perspective to complement state and territory ambitions', reliant on a 'triple bottom line' that seeks the 'efficient use of existing infrastructure and resources' while 'optimising the role of both the public and private sector'. All this will be done by using methodologies that are 'robust' and by a commitment to 'one economy, one set of rules', creating a 'seamless national economy'.

The repeated use of catchphrases of this type creates an obvious contrast between this report and its distinguished overseas predecessors, such as the UK White Paper of 1967 on *Nationalised Industries* (Cmnd. 3437), its 1978 successor *The Nationalised Industries* (Cmnd. 7131), Simon Nora's classic 1967 report on infrastructure pricing, and Marcel Boiteux's 2001 report on the choice of transport investments. But those are works of substance. In Infrastructure Australia's report, the substance is ably hidden.

This is a pity because the report does make some sensible points. It stresses the importance of cost-benefit analysis, of assessing costs on a lifecycle basis and of good governance and proper allocation of risks. However, these elements of common sense are then undermined by diagnosis and prescription that are often superficial and, at times, plainly inaccurate.

Diagnosis is scant, especially in view of the sums at stake. Consider the bold statement that 'rail freight needs significant investment' (p.37). On what evidence is that assertion based? It is true that rail freight's share of the transport task on the East Coast has declined in recent years. But it is hardly apparent that that decline is inefficient. Moreover, even were it efficient for rail to transport a higher share of freight, one would want to know why the required investment has not materialised. Is not the cause an industry structure that impedes efficiency, including poor governance of rail assets by State governments and

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<sup>2</sup> Infrastructure Australia was created by the Infrastructure Australia Act of 2008, with the task of 'providing advice to the Minister, Commonwealth, State, Territory and local governments, investors in infrastructure and owners of infrastructure on matters relating to infrastructure'. It is presently chaired by Sir Rod Eddington.

the separation of track ownership from freight operation, rather than any shortage of funding *per se*? Insofar as this is true, little purpose would be served by merely increasing expenditure — as shown by the UK experience under Blair (when vast sums were wasted on a deeply flawed rail-industry structure).

Assessment, though of varying quality, is sometimes even flimsier. For example, the report notes that ‘public transport is not administered and managed in Australian cities as well as in many cities overseas’ (p. 45). This is doubtless true and the admission is welcome, but it is not equally true of all Australian cities; and without going a bit further, it is impossible to draw any meaningful policy inferences. Sydney is, as usual, the basket case; with extensive feather-bedding, restrictive work practices, third-rate management, even worse political leadership, and pervasive and institutionalised corruption. Perth has done somewhat better. Before throwing more money at public transport, taxpayers are entitled to demand much-needed changes in governance. Whether such changes will be required, prior to any funds being given, is unclear.

As for the prescription, it is often disturbing. We are told early on that cost-benefit analysis is ‘not the whole story’ (p. 10). Important issues such as how time and risk should be analysed are not discussed at all. Rather, project advocates are told to ‘demonstrate a project’s strategic fit’ (p.77) and that Infrastructure Australia will ‘consider the rating of strategic fit supplied in the project submissions and moderate the ratings to ensure comparability between projects’ (p.67). How this ‘moderating’ will be done is not explained, other than by saying that in the project-selection phase, Infrastructure Australia will ‘integrate the profiling and appraisal assessments with other data and information. This enables the national productivity impact of individual initiatives to be compared’ (p.67). What ‘the national productivity impact’ means is a matter that readers are left to work out for themselves.

There is a lengthy discussion of the infrastructure requirements of remote Aboriginal communities, but it does not question whether those communities are viable. Rather, the goal appears to be that of achieving some level of ‘parity’ between these communities and others. Here, any form of cost-benefit assessment seems to be suspended (or if it isn’t, the utility benefits of recipients are being given unusual, though hidden, weights). But why not, with equal warrant, take as given the whole pattern of white rural settlement (much of it far older than many Aboriginal outstations), with the obviously absurd results that would entail? As for the greater weight apparently placed on the welfare of Aboriginal Australians in remote areas relative to that of other Australians, even a committed Rawlsian would likely find the implied redistribution difficult to support, especially if it perpetuates communities in which disadvantage is chronic and unavoidable.

The statement that ‘the benefits of a fast and accessible national broadband network to Australia’s international competitiveness are almost impossible to overstate’ (p.64) is no less perplexing. Presumably, if a national broadband network is worth building that is because there is a positive value to Australian users, net of the costs, of upgrading from the existing network. There is no sensible reason why this amount would be ‘almost impossible to overstate’. Infrastructure Australia, instead of adding to the hyperbole, should subject such claims to careful assessment.

Nor is one comforted by the thought that an evaluation criterion will be whether a project has ‘a particularly strong impact on aggregate demand or sensitivity to the economic cycle consistent with the Commonwealth’s macro-economic responsibilities’ (p.74). If resources are under-employed, this should perhaps be reflected in the opportunity cost used in project appraisal; but other than that, why would infrastructure be used for pump-priming, relative to the other instruments available to the Commonwealth? And even if it was to be so used, why would this not be captured through a conventional cost-benefit analysis, rather than be an appraisal factor in its own right? In contrast, how the approach proposed in the document could be justified, or even quite what it means, is left unexplained.

All of this suggests a lack of clear thought; a lack for which checklists of alleged ‘goods’ — such as promoting exports, achieving environmental sustainability and so on — are no substitute.

This is not to say the report is entirely tosh, but it suffers greatly from being neither fish nor fowl: it lacks the frankness, clarity and rigour one would expect from an expert report. At the same time, it lacks the care in drafting, the appreciation of the subtleties, and the honest acknowledgement of political constraints that one hopes for in a departmental statement. The impression is of a document drafted by a committee of mixed quality, with the attempt to do ‘the right thing’ (through references to efficiency and cost-benefit analysis) frequently overridden by a ragbag of currently fashionable concerns.

The result is a kebab in which sensible statements are interlaced with incomprehensible managerialist jargon, weasel words and, at times, garbled economics, the whole being so open-ended as to give the decision-maker what amounts to untrammelled discretion. If that was the purpose, it has been achieved.

It would have been better if Infrastructure Australia had:

1. set out a coherent framework for cost-benefit appraisal, including by specifying a reference approach to the discount rate (including the marginal social cost of funds), the treatment of risk, and provision for ‘optimism bias’;

2. specified instances where shadow prices can be used, and defined the approach to be adopted to determine those shadow prices;

3. identified areas (if any) where distributional weights may be used, and for those areas specified the methodology to be adopted;

4. specified processes for testing data, input assumptions and results so as to ensure robustness;

5. where projects are to be funded through PPPs, defined standards for acceptable risk allocation and for determining a maximum allowed rate of return to private investors, especially when exclusive rights are being allocated;

6. defined 'best practice' regulatory and governance requirements, and indicated that funding would not be available to entities, including State and Territory governments, that did not meet those requirements; and

7. lastly, but importantly, specified disclosure requirements, including those bearing on Infrastructure Australia itself, so that taxpayers could have some confidence that public moneys were being used wisely.

Finally, even by unexacting current standards, there seems to be little justification for subjecting the reader to sentences such as: 'For example, given the increasing internationalisation of the Australian economy over recent decades factors which impact on our national competitiveness such as poor infrastructure provision is increasingly an area of national importance' (p.74).

This utterance displays an irrational aversion to the comma, and reckless disregard for English grammar; it cries out for careful editing, something which a fund endowed with billions of taxpayer dollars might be thought to afford. It is not unfair for taxpayers to hold the drafters of official documents to standards of clarity of expression that should be taken for granted in any of our secondary schools. Without adherence to those standards, it is the quality of thought that inevitably suffers.