

Infrastructure Obstacles and Opportunities

I should like to make a brief submission related to:

- two major constraints on the effective and efficient planning and delivery of infrastructure in Australia – namely: (a) the financial imbalances that are features of Australia’s federal system; and (b) the politicisation / quasi-commercialization of public services; and
- an option that could probably significantly improve the economic value of some infrastructure investments, and thus at times be better than traditional benefit-cost analysis.

Background

By way of background I note that my first qualification was as a civil engineer and I have spent over 40 years studying both the requirements for effective government and also economic strategy (see [CV](#)).

My career started with the Queensland Coordinator General’s Department. The Coordinator General’s role was created in the 1930s because of concern about the unreliable methods of project selection that had been used for infrastructure (ie the Coordinator General’s initial role and goal was similar to what the Productivity Commission is seeking to achieve through the [Public Infrastructure](#) report). Doing this has often been impossible as governments have tasked Coordinator Generals with organising (major) projects (just as federal governments have now tasked Infrastructure Australia) and a focus on specific projects is incompatible with promoting effective dealings with all projects (and other activities) by the government as a whole (eg because of the different skills required).

However in the early 1970s a new Coordinator General was more ambitious. One of the first tasks I was given involved improving capital works planning. Though progress then was limited to new forward planning procedures, I became familiar with both the difficulty of centralised planning (eg because of problems in accessing required information) and the distorting effect of federal financial imbalances (eg because these required inappropriately-centralised control of infrastructure decisions by state financial agencies presumably because of the need to coordinate lobbying for federal funding).

In my later career I was involved in efforts to promote regional coordination (eg as acting Regional Coordinator for North Queensland for 12 months) and wrote a master’s thesis in 1978 on coordination in government with particular reference to infrastructure. Since the early 1980s I have devoted a lot of effort to study of methods to boost economic development, and since the late 1980s I have also studied and observed at close hand both the theory and practice of public sector ‘reform’ which was hoped would boost efficiency in the provision of public goods and services.

Infrastructure-related documents on the [CPDS web-site](#) include: (2000) [Notes on 'Strategic Infrastructure for Queensland's Growth'](#); (2002) [Public-Private Partnerships for Infrastructure; Defects in Infrastructure Planning and Delivery in Queensland](#); (2004) [Failure in Queensland's Electricity Distribution Network](#); [Review of National Competition Reforms: A Commentary](#); (2005) [Infrastructure Constraints on Australia's Economy](#); [SE Queensland Regional Plan and Infrastructure Plan](#); (2007) [Structural Incompetence and SE Queensland's Water Crisis](#); (2008) [Brisbane's Transportation Monster](#); [Infrastructure Magic?](#); and (2014) [Beyond Infrastructure Despair](#)

Financial Imbalances

The [Public Infrastructure](#) report acknowledges the complexities associated with Australia’s federal fiscal imbalances (ie the fact that the federal government has most revenue while states have most infrastructure responsibilities but are generally limited to narrow / inefficient sources of tax revenues).

However what also needs to be recognised is that those imbalances (which translate into a lack of state / territory capacity to make substantial independent financial commitments) also make it essentially impossible for them to take serious responsibility, or be democratically accountable, for the provision of the public goods and services they are constitutionally presumed to provide (see [Federal Fiscal Imbalances](#), 2003 in *Australia's Governance Crisis and the Need for Nation Building*).

The consequences of those imbalances include ongoing: irresponsibility; buck passing; duplication; complexity; and pork barrelling. Moreover it is likely that some of the infrastructure backlog that has developed in Australia is a product of the inability of state / territories in the 1980s to properly carry out their functions because of the escalation of special purpose federal funding by the federal Government in the 1970s (and consequent further constraint on state / territory initiative).

While I have no specific proposals about how those fiscal imbalances can be remedied, I submit that this should be a major focus of any review of Australia's tax system. Substantially reducing these imbalances should considerably improve the efficiency and effectiveness of governments in Australia – including their role in the provision of public infrastructure.

[Fixing Australia's Federation](#) (2010) includes some initiatives that would complement a significant reduction in federal fiscal imbalances – such as methods to promote strategic evaluation of infrastructure issues and coordination amongst state / territories.

Dysfunctional 'Reform' of Public Services

A second major reason for the infrastructure backlogs that developed in Australia was arguably the dysfunctional public sector 'reforms' in the late 1980s and early 1990s which had the effect of : (a) promoting 'politicised' (ie favouring compliant rather than competent) public services; and (b) seeking to use business-like methods to undertake governments' primarily non-business-like functions.

That process of politicisation, deskilling and disruption of public services is discussed in [Decay of Australian Public Administration](#) (2002). The latter includes an overview of the background to 'reform' and an outline of how the 'wheels fell off'. It suggests that this was due to a lack of understanding of: (a) alternatives to boosting productivity by raising public sector efficiency; (b) what 'governing' actually involves – including the impact of the significant market failures that affect true public goods and services, which render 'commercial' practices ineffective; and (c) the role that a professional public service can play – and misunderstandings of this that first arose from the failure of idealised but unrealistic social reform programs in the 1970s. References to reports on the dysfunctions that then affected governments are in [The Growing Case for a Professional Public Service](#) (2001+).

While competition can add to efficiency and economic productivity in a market context, competitive service delivery can give rise to problems in dealing with goods and services that are subject to market failures (as most real public goods and services are). Serious market failures usually mean that such functions cannot be dealt with in isolation. Rather there is a need for collaboration with the providers of other goods / services and / or with those concerned with non-commercial political priorities. Competitive service delivery and purchaser / provider separation can impede such collaboration. And the fragmentation competition requires can also make it impossible to integrate understanding of the complex issues needed to properly carry out governments' primary function – ie governing. This point is explored further in [Review of National Competition Reforms: A Commentary](#) (2004).

The way in which politicisation and attempts to use inappropriate 'business-like' methods contributed to severe problems in infrastructure provision in Queensland in the 1990s is outlined in [Defects in Infrastructure Planning and Development in Queensland](#) (2002).

When attempts started to be made to catch up on growing infrastructure backlogs, the legacy of dysfunctional public sector 'reforms' arguably meant this led to inefficiency, cost blow-outs and escalating government debt levels. Queensland can be considered as an example.

The Goss and Borbidge Governments in Queensland had been able to achieve very little between 1989 and 1998 because of problems that poorly considered 'reform' had introduced into the public sector. The Beattie Government then seemed to decide (probably realistically) that there was a need for a very large increase in infrastructure investment. But doing so without fixing Queensland's de-skilled and dysfunctional machinery of government was not smart. The budgetary effects of this are suggested in [Recovering from Queensland's Debt Binge](#) (2012).

The [Public Infrastructure](#) report refers to the difficulties that can be associated with the use of Public Private Partnerships (PPPs) for infrastructure. Suggestions that such problems were likely were included in [Public-Private Partnerships for Infrastructure](#) (2002). The latter referred, for example, to:

- the difficulties that governments could be expected to have in dealing with PPPs (because of the complexities of public goods and services which give rise to market failures; problems in maintaining enough technical competence in public agencies; and the risk of corruption);
- the fact that infrastructure systems often need to be managed as a whole, and the obstacle that private ownership and control of parts of those systems can thus create.

Any serious proposals for improving Australia's approach to infrastructure needs to consider both: (a) the need for public service professionalism and competence; and (b) the nature, and the different roles, of government and the private sector.

Increasing Rather than Calculating the Economic Value of Infrastructure

The [Public Infrastructure](#) report emphasises the need for formal evaluation of the economic value of infrastructure investment (eg by conducting benefit-cost analyses). While this is the least that should be expected, assessing the economic value of infrastructure through benefit / cost analysis is arguably not always the best that is now achievable. **Increasing** the economic benefits (rather than merely **calculating** them) is now likely to be possible in some / many cases.

Options for boosting economic productivity in Australia have long been available by the use of what could be called 'strategic market management' methods to accelerate economic 'learning' within industry clusters and economic systems (eg see [A Case for Innovative Economic Leadership](#) (2009) and [Lifting Productivity: Considering the Bigger Picture](#) (2010)).

In the 1980s some hundreds of millions of dollars of potential benefits were added (and about 60 international expressions of interest attracted) by enabling synergies to be discovered in relation to one unlikely infrastructure proposals for which I was responsible for the initial concept development. This would not have been possible through a benefit / cost analysis.

Similar methods could be applied to some other types of infrastructure to boost their economic value - by promoting the discover of linkages / synergies with other's potential economic initiatives. This possibility was illustrated by preliminary suggestions about the National Broadband Network proposal in [NBN's Bigger Picture](#) (2010).