# Grattan Institute on transport projects: a better mousetrap?

In ‘*Road to riches: better transport investment*’ the respected Grattan Institute joined organisations such as universities, independent authorities and lobby groups in putting forward ideas on transport ‘investment’. Like others it proposes additional controls over public spending; a better mousetrap to ensnare ratty transport project proposals.

The report drew media attention to cases of economically questionable government infrastructure spending, such as on the highway between Colac and Geelong. Duly reported in the press as a reason for citizens to feel aggrieved and to curtail political instincts.

This article argues the report underestimates the challenges of improving transport investment; challenges whose root causes include deficient national governance which cannot be addressed by a better mousetrap. It proposes a new direction for research by the Grattan Institute and others: a stable transport role for the Commonwealth as the first step towards improving governance.

## The report

The report provides a mix of well and little known facts, interpreted with varying accuracy. Two examples:

* The report, like many others, correctly points out most economic activity in Australia occurs in large urban areas. Like others, it concludes that economic growth is constrained by a relatively low share of transport infrastructure spending in those places. Such a conclusion, while possibly right, does not necessarily follow. It would be true only if increased economic growth would result from further, marginal, rather than average infrastructure spending. This relates to specific proposals, it cannot be generalised. Moreover, beneficial proposals can occur outside capital cities;
* The report shows disparities between spending on various highways, implying major cross subsidies between roads. This is pivotal to transport policy as it can shed light on questions such as: have roads that compete with rail routes been subsidised at the expense of roads that do not; anti-competitive effect if not intent? What are the prospects for ‘road reform’ unless cross subsidies are unwound? The report does not seem to recognise the significance of what it reveals. Nor does it ponder why the various ‘road reform’ efforts ignored these types of questions and data.

The report proposes a three stage process to deal with government transport ‘investment’:

1. Spending only after publication, by tabling in parliament, of a benefit-cost assessment;
2. Spending on all proposals that pass such an assessment;
3. Independence of this spending from Grants Commission processes.

There is some merit in the ideas. There also are pitfalls. Before discussing pitfalls, some comments on specifics follow.

## Specifics

1. **Spending only after publication**

This has been proposed in various forms by advisers, universities and even lobby groups.

Increased transparency has a better chance of acceptance than overt control.

Transport spending choices can and will be made for any number of reasons, including ‘political’ ones. Indeed at times the electorate might want decisions made for reasons other than the ‘economic’ matters set out in expenditure assessment manuals. However, in a democracy it is important for the electorate to know what is done in its name and why.

An apparent novelty is parliamentary tabling of assessments. In effect this means assessors report to parliaments rather than to governments. The case for this is compelling at the Commonwealth level after the High Court’s 2014 decision in *Williams (No. 2)*.

The novelty may be less important and more questionable for the states: states are responsible for relevant infrastructure and hence their investments do not create the governance problem of influence without responsibility; states have fewer limitations on government powers for spending; not all states have an upper house; (therefore) state arrangements are less likely to be nationally uniform or stable.

1. **Spending on all project proposals that pass such an assessment**

I do not agree with this idea. Among the technical reasons for disagreeing is that most of the benefits of transport projects under current guidelines are personal travel time savings. Not all time savings are capable of generating any form of national income. A sure way of bankrupting the country would be to ‘invest’ in all ‘economic’ projects that increase mobility and cut travel time, popular though that might be.

Rather than spending to reduce holiday traffic jams, lift inner city property values or facilitate urban sprawl, transport investment should increase the ability of communities, particularly those with ingrained economic or social disadvantage, to participate in types of activities enjoyed by the more privileged. An accessibility agenda may hold better prospects for fairness, economic growth, community acceptance and paying for itself than the current travel time-mobility paradigm that dominates government transport ‘investments’.

1. **Independence of spending from Grants Commission processes**

While arithmetically satisfying, this may be misguided.

The issue is said to arise when the Commonwealth spends outside the ‘national network’. If so, the question is definition of the network. The network does not meet the current problematic definition. Because this is well known and easily fixed it is a national disgrace.

Were the network defined in line with an appropriate role for the Commonwealth the ‘problem’ would disappear. In fact, the problem would become a strength; providing Commonwealth and state governments with an incentive to focus on their proper roles.

## Fundamentals

Beyond these and other specifics are fundamental questions arising from the report’s idea of increasing the power of unelected officials and institutions relative to those who have been elected. I become concerned when transport commentary blames politicians but ignores problems like:

* Diminishing confidence of experts in work published by governments and public authorities. Some published work is embarrassingly wrong or inadequate;
* Attitudes in transport policy, notably roads. At times officials have been described as recalcitrant or flouting the wishes of elected governments. Together with a wide gap between transport and broader public policy, these would be dangerous traits;
* Advice given to politicians may be inadequate, biased or wrong.

For those who feel this harsh, consider a few recent *public* examples, all with major implications to transport policy and projects in Australia:

* The Productivity Commission, perhaps acting on advice from the Department of Infrastructure and Transport, stated that the national access regime is not intended to apply to roads. The relevant legislation gave roads as one of the two examples of infrastructure to be covered by the regime;
* Infrastructure Australia’s (former) office of national infrastructure coordinator in late 2013 suggested that all urban transport projects be tested ‘as if’ there was road pricing. This could be done now, immediately dealing with a principal question about urban transport ‘investment’ without exacerbating community concern that ‘road pricing’ is code for higher tax. The suggestion has been forgotten, notably by ‘the new’ Infrastructure Australia which called for a study into road pricing;
* The Bureau of Infrastructure Transport and Regional Economics radically revised road data in each of its last two annual publications. In 2014 it revised road spending upwards by around $5billion, resulting in a large deficit which was raised as a concern by Dr Michael Keating AC and Luke Fraser. In 2015 it revised revenue substantially upwards, Commonwealth excise alone by around 25%, and presented dubious new items in a way that appeared to repudiate Keating and Fraser’s findings. On any reasonable analysis Keating and Fraser’s concerns remain valid;
* The High Speed Rail study phase 2 report purported to demonstrate that demand for services in the NSW southern highlands would be of the same order of magnitude as at Newcastle or the Central Coast. No explanation for this highly implausible result was provided, although it is the only reason for the belief that the economic priority for high speed rail is Canberra-Sydney rather than Newcastle-Sydney;
* Probably the most consequent transport project in post war Australia, Sydney metro, is reportedly being constructed with ‘break of gauge’ tunnels that are too small for current commuter trains. The extraordinary independent and expert review of Sydney transport by Mr Ron Christie AO, which sounded warnings about metro ‘breaks of gauge’ has, even more extraordinarily, apparently been forgotten.

There are plenty of other examples, not least of which is a general reluctance of infrastructure advisers to publicly deal with national objectives like defence or system-interoperability and railway standardisation.

With such deficiencies it is unlikely that any mousetrap for politicians, no matter how good, can stop the rodent like plague of trumped-up transport infrastructure ‘needs’.

At this time transport infrastructure is not a sector in which any participants, including advisors and executive governments, should be entrusted with unlimited public funds or a free floating budget. Certainly the idea of spending on all supposed economically meritorious transport proposals should be dismissed forthwith, and every major proposal should be explicitly assessed for ongoing impacts on social and economic opportunity.

A key challenge is how to stop the rot and questionable practices that affect some advice in the sector. Denouncing politicians or short term political processes, while edifying, is futile. Similarly, calls to introduce ‘pricing’ to all transport and its infrastructure, as a tactic to remove every decision from ‘political influence’, are naive at best.

National governance is key. Stability in the political and commercial environment is essential for optimal infrastructure. In Australia the bedrock is the Constitution which delineates and allocates power. There are serious questions about whether a root cause of the problems of government investment in transport in Australia is a long term drift away from Constitutional concepts of federalism and separation of powers.

That the drift continued under Commonwealth and state governments of various hues and many Ministers, and many Departmental heads, suggests deep seated issues. The bureaucracies, who benefit from an increased role but blurred accountability that arise from the drift, bear some responsibility for its unfortunate outcomes.

The drift should have stopped with the decision in *Williams (No. 2)* but continues. In fact it seems that further drift is being urged by some organisations.

The Grattan report raises the matter tangentially. Its proposal for greater parliamentary involvement in decisions on infrastructure echoes a wider issue about rebalancing the exercise of power between executive and other branches of government.

In this context, rather than continuing to refine mousetraps, those with the luxury of independence might turn their minds to basal matters such as improving governance by:

* Constitutionally faithful and therefore stable roles of: the Commonwealth in transport; the executive and Parliament within the Commonwealth. Professor Saunder’s general principles are worth considering;
* Greater transparency and scrutiny of executive government decisions about infrastructure contracts, including those which operate to restrain competition to established or new infrastructure, such as non-compete or compensation clauses;
* Application to transport, particularly roads, of the principles of Government Trading Enterprise reforms and the National Competition Policy, with an especial focus on increasing the role of markets in identifying proposals for truly major infrastructure and a greater voice for the community in proposals elsewhere;
* Application of fundamental governance precepts such as: alignment of responsibility with power, independence of decision makers from beneficiaries rather than just independence from government; the government is to protect the public interest, not merely advance a transport spending agenda;
* More rigorous scrutiny of the practices of advisory institutions and departments.

One of the difficulties faced by independents like the Grattan Institute is the ‘clubiness’ of the transport and infrastructure fraternities. It is unlikely discussion on the above matters would be universally welcomed. However, Grattan would be helping not only the general community, but those in the transport sector, by vigorously pursuing the types of questions that are broader than, but deeply influence, transport investment.

J Austen

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*J Austen is a former official with Commonwealth and State governments, who worked in departments, research bureaus and statutory authorities. He is happily retired. Further background can be found at thejadebeagle.com.*

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