

## INFRASTRUCTURE PARTNERSHIPS AUSTRALIA CHIEF EXECUTIVE, ADRIAN DWYER

### AUSTRALIAN FINANCIAL REVIEW – INFRASTRUCTURE SUMMIT SPEECH

#### Introduction

- Thank you for the invitation to take part in the Infrastructure Summit today. It is pleasing to see so many of Australia's political leaders, business people and policy makers come together to grapple with the questions facing this country's economic future.
- In particular I'd like to acknowledge the Summit sponsor and long standing friend of *Infrastructure Partnerships Australia*, Luke Houghton from Deloitte. Thank you for your continued support.
- The Infrastructure Summit, as is the fashion with most of these events, throws up very familiar arguments about the value of reform to our economy.
- It would not surprise you to hear that we are now in the leanest period of reform in Australia's history. We have to go back to the national competition policy era of the 1990s to find evidence of the last great micro-economic reform push.
- Most people in this audience would agree that productivity-enhancing reform – removing market distortions and barriers to competition, delivering better consumer choice and protection through targeted regulation – will all help to grow the economic pie.
- Indeed there is little dispute about the need for micro-economic reform in a post-mining boom, post-financial crisis era. And in the infrastructure sector at least, we know what the solutions **are** to the majority of the problems we face.
- The work of my own organisation, *Infrastructure Partnerships Australia*, the *Productivity Commission*, the *ACCC* and *Infrastructure Australia* have all been vocal on the need for competition policy reforms across the energy, transport and utilities sectors.
- It is not for want of ideas that we see no progress on these issues.
- The point I want to make today is that after 27 years of continuous growth, we have **forgotten** how to prosecute the case for reform.
- Moreover, we have **forgotten** the general practice of the reform business. As a result, there is an abiding inertia at grips within our politics – **an inertia that has let our reform muscle wither**.
- In short, the Australian horse has gotten fat in a good paddock for want of a run.
- The risk is that if we do not restart reform, Australia may lose the global race for competitiveness and miss out on the opportunities that come with a growing and dynamic economy.

### **The centre is shrinking**

- There is no one individual to blame for this sorry state of affairs. Finding alignment between the political class and the community it represents is probably more difficult than it has ever been.
- Part of the reason may be that the centre of Australian politics is shrinking. According to new research released in April, over the last two decades, the Australian public has drifted to the extreme poles of the political landscape.
- As politics has fragmented and become a game of single issues, it has become much harder to negotiate outcomes in the interest of the whole community.
- And it has become much harder still to prosecute the case for reform to a public that is deeply sceptical of its politicians, and in a media environment that encourages snap judgments on complex issues.
- This reality is further reflected in the 2018 Edelman Survey, which showed trust in Australian institutions has plummeted, with government perceived as the most broken institution of all.
- With voters drifting away from the political centre and common sites of deliberation vanishing, some policy makers and academics are arguing that what we need is a crisis.

### **We can't wait for a crisis**

- While we shouldn't hope for a crisis, there is certainly some historical truth to the argument that without one, Australia may not be able to make the case for a new micro-economic reform agenda.
- The success of the 1980s reforms was due to a remarkable constellation of factors too long to recount here.
- But in large part, the achievements of that era came down to the ability of the Hawke/Keating Government to capture the centre of Australian political life at a time when the economy was characterised by severe recession.
- Back then, growth was stuck in the doldrums, unemployment was around 10 per cent, and there was a prevailing urgency to aggressively engage in a race to save the country's future.
- These dire economic circumstances set the foundation for a bold agenda in the 1980s and the concerted reformism of the 90s under Howard and Costello.
- But these same conditions do not exist today. We neither have a stable middle ground or an economic crisis upon which to draw.
- So it is of little value to look back to a political era for lessons when the ground upon which we need to make reform has so radically changed.

- I'm not arguing that there are no lessons to draw from the past.
- But we shouldn't be so enthralled by our nostalgia to think that the past offers a perfect guide to the future.

### Intergenerational challenges

- The risk in all this, is because we are still grappling with *last* generation's reform challenges – including those issues that have apparent bipartisan support like road user charging – we cannot begin to face the challenges and opportunities facing *this* generation. ***The horse is in no state to run.***
- We are woefully unprepared as a nation to tackle the seismic shocks about to hit our economy.
  - Automation of blue and white collar jobs;
  - convergence of our transport and energy sectors; and
  - record population expansion in our cities
- ...all present unprecedented challenges that could completely upend our traditional models for managing change.
- And these challenges come at a time when Australia is already behind the curve in preparing for the rise of a booming and urbanised middle class in Asia.
- The prolonged absence of competition reform is showing up in the failure of wage growth to keep up with productivity.
- We are seeing it in congestion in our cities; in higher electricity and utility prices; and poor service reach across our public transport networks.
- And while the headline stats may say we are doing ok, the average person in the street is still feeling pain.
- The community is clearly frustrated with the failure of the political class to resolve these persistent problems.
- And the community being deeply anxious about the future, is expressing their frustration in populist demands on Government.
- Yet despite some notable high points in NSW and Victoria, we have not sought to flex our microeconomic reform muscles in an attempt to resolve the underlying economic causes of this disaffection.
- Instead we have seen threats of direct intervention into infrastructure markets that have been largely free from interference for the last 30 years.

- I know this trend is deeply worrying to the infrastructure sector and the business community more broadly.
- And while I understand the Government's motivations to intervene in markets, it will not deliver the outcomes it desires. In fact, it will just make matters worse.
- If we too readily indulge the forces of populism we risk a pervasive backlash against the principles of open market economics, and will jeopardise the progress of the last three decades.

### Getting the horse back in the race

- So how do we get the horse back in the race? We need to direct our focus to those few high-impact reforms with the best prospect of political success.
- The Chair of Infrastructure Australia, Julieanne Alroe just yesterday put forward a compelling reform blueprint similar to the National Competition Policy payments programme and Asset Recycling Initiative.
- In her speech, she argued for the Federal Government to make additional infrastructure funding available to states and territories – over and above existing allocations – in return for the delivery of public transport franchising and competition reform across a number of areas, including the electricity market and urban water sector.
- These are initiatives we wholeheartedly support. They would, undoubtedly, go a long way to improving services for the public and freeing up essential capital for new infrastructure investments.
- If successfully implemented, this approach would address the failure within these markets and relieve some of the pressure on our living standards.
- Most importantly, it would give our political leaders the clear air and momentum they need to embark on more ambitious micro-economic reform programs.
- But the most impactful and hopeful reform currently available to government is road user charging.
- Australia faces profound challenges in managing and expanding our transport network in the face of rapid population growth.
- This challenge is made even harder by the fact that our road funding base – made principally of fuel excise and taxes – is in **rapid** and **terminal** decline.
- Currently about \$18 billion per year is collected in fuel excise charges, but with the rise of electric vehicles and more efficient modes of transport we can no longer rely on this funding source to pay for and manage our road infrastructure.
- But we should treat electric vehicles as an opportunity, not a threat.

- In my view, the next three years presents a once in a generation opportunity to progress action on road reform by attaching road user charges to the inevitable rise of electric vehicles.
- If we can make this happen within the next three years, we can deliver enduring change with limited pain.
- Next year there will be 8 to 12,000 electric vehicles driving away from car dealerships. The year after, that number will double.
- In the not so distant future when electric vehicles are the car dealership mainstay, it will simply become too difficult to make this reform a reality.

### Longer term reform agenda

- But these reforms only deal with the challenges of the **last** generation.
- To prepare for the more fundamental shifts facing **this** generation, we need to change the way we think about charging for and delivering infrastructure.
- Over the next 30 years Australia's growing and ageing population will mean more people accessing services with less money to pay for it.
- As a result, we'll need a new market model to drive down the cost of services while pushing up the quality.
- Governments' role as sole provider of services will need to shift to a more blended-model, where government is instead a purchaser of services.
- This will necessarily involve greater private sector involvement in the provision of transport and social infrastructure.
- Introducing more contestability **for** and **within** markets will be politically very difficult.
- But unless we address the growing operational cost of services in health, education and public transport, we won't have the money to build new rail lines and new roads for the community.

### Talking about reform

- To help institute these longer term competition policy reforms we will also need to change the way we **talk** about the reform business to engender more trust in the outcomes we seek.
- As Fred Hilmer so eloquently stated in his 2017 Rattigan Lecture, "reform ideas come to life via vivid stories".
- Paul Keating made a similar point in the past, remarking that enacting reform was a matter of spinning a tale about complex ideas.

- The tale with the most deep cultural appeal to our values as a nation is one about fairness.
- The issue of fairness comes up right across many infrastructure sectors.
- But the issue of fairness is perhaps most apparent in the pursuit of road reform.
- We need to tell the story that right now, the tradie driving a Holden Commodore is paying vastly more than the inner city professional driving a Toyota Prius.
- And while the owner of a Tesla pays higher tax at the point of purchase, they pay nothing at the point of use - yet they benefit from well-serviced roads that other motorists pay hundreds of dollars a year in a tax to use.
- It is these types of stories that we need to tell the public to show that there is a better way.
- And when we tell the story of reform, we should try as best we can to purge 'econospeak' from our language.
- If we start talking about prosperity instead of productivity, we can begin to speak to people across multiple political fault lines, and in terms that relate to their everyday material circumstances.
- It will require the collective leadership of the political class, business and the community to pull this off. But if we are successful, we can translate complex reform ideas into a coherent narrative that the public can believe and have faith in.

## **Conclusion**

- Kick-starting micro-economic reform remains a critical concern for Australians.
- But if we are ever to break free of the inertia that grips our politics, we must begin the practice of reform again, and get the horse back into the race.
- Focusing on those few high-impact reforms with the best prospect of political success is a start.
- But if we are to remain competitive in the age of a rising Asia – and with population pressures and rising technological disruption at home – we will have to change the way we think about infrastructure reform and crucially how we tell the story. Thank you.