

ALL TAKE AND NO GIVE PUTS ECONOMY IN REVERSE

Article by Dr. Craig Emmerson, Federal Labor Economics Chairman, and Member for Rankin

For the first time since the early 1980s, when Men at Work played *Down Under*, infrastructure has crept on to the Top 40 chart of public policy priorities. For the sake of our “Great Southern Land”, let’s hope it tops the chart with a bullet.

Two decades of government obsession with debt avoidance have starved Australia of public infra-structure investment.

Public-private partnerships (PPPs), offering the cosmetic appeal of keeping expensive new infrastructure off government books, have failed adequately to fill the void, often hampered by squabbles over an acceptable sharing of risks and returns.

Australia is now paying a high price for the great infrastructure capital strike. Rail and port bottlenecks are stopping primary commodity exporters from taking full advantage of surging world prices. Energy and water distribution problems are holding back major new investment projects.

Dilapidated and inadequate infra-structure is not only contributing to Australia’s worst export performance since World War 11, it is tying our hands in the battle against the harmful economic consequences of an ageing population.

Infrastructure is a key source of modern productivity growth and we need a more productive Australia to pay the health costs of our ageing population.

Entranced by the chanting of the *National Competition Policy* mantra, governments and regulators have allowed access by competitors to established telecommunications, electricity and gas distribution networks at prices below the replacement costs of the assets.

While regulators do include in the access charges an allowance for the cost of replacing the networks (in jargon, the weighted average cost of capital), they routinely set the allowance below the true replacement cost. Cheap access to telecommunications, electricity and gas transmission networks might be good for competitors and for consumers in the short run, but who is going to replace the deteriorating assets?

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Not governments, and not the asset owners confronted with returns below replacement cost.

Telstra’s telephone network is a classic case in point. For the first time, connections are falling as mobile phone users say no to connection fees and monthly line rentals. Competitor access to the ageing network is cheap thanks to the regulators. Telstra’s competitors can cherry pick the profitable customers leaving the others to Telstra.

When privatising the rest of Telstra the Federal Government will oblige the privatised company to pork-barrel National Party electorates. **How will a privatized Telstra, carrying an ageing network on its back, maintain adequate services to everyone, let alone roll out the broadband so essential to Australia’s future competitiveness?**

The revenue that historically has funded the rural network increasingly is being siphoned off by competitors enjoying regulated cheap access to the Telstra network.

States with corporatised electricity generation and distribution systems have milked them of surpluses to pay for other budget priorities. Victoria sold its electricity assets at prices way above their true value, leaving little remaining private cash for maintaining and augmenting the system.

Imposing access to the assets of natural monopolies at charges below replacement cost is fashionable but short-sighted.

The recently-released OECD survey of Australia identifies the problem but fails to offer a solution, other than to correctly advocate a national approach to access regimes.

With the sale of Telstra inevitable after the Coalition gains control of the Senate on July 1, debate should now switch to the wisest use of the sale proceeds. Treasurer Peter Costello wants to use the money to retire Commonwealth debt. Wiping out the Commonwealth bond market is not good policy. **Allowing Australia's infrastructure to go to rack and ruin is even worse.**

Australia urgently needs a national infrastructure plan involving the Commonwealth, the states and the private sector to identify our infrastructure requirements and make sure they are met. And the regulators need to recognize that the owners of distribution networks cannot maintain and replace these vital assets if their regulated access charges are screwed below replacement cost.

If infrastructure is to break into the top 10 for the first time since Men at Work hit number one, governments and regulators will need to start thinking about Australia's long-term future. Otherwise we will be in Dire Straits. Craig Emmerson is the Federal Labor economics chairman and Member for Rankin