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Transport Policy: A Replay of the Economic Past?

In February 2000, shortly after the Labour-led government was elected, the then Business Roundtable chairman Ralph Norris gave a speech entitled 'Can New Zealand Afford to Replay the Economic Past?'

It was not a partisan speech. Mr Norris noted that under National-led governments, New Zealand's economic framework had been weakened since the early 1990s and economic performance had suffered.

He went on to warn, however, that the new government's policy directions, involving more spending and regulation and higher tax rates, seemed likely to make matters worse.

"What seems to have been forgotten about virtually all of these policies", he said, "is that New Zealand applied them in the past and they did not work."

The transport sector vividly illustrates the replay of the economic past – dramatically in the case of the buy-back of Air New Zealand and the railways, and the repurchase of the private shareholding in Ports of Auckland by the Auckland Regional Council, but in other ways as well.

The general direction has been away from a more private-sector and market-driven transport industry to a more centrally directed and politicised one.

Transport in the Muldoon era of the 1970s and early '80s was characterised by pervasive central and local government ownership of ports, airports, airlines, shipping and rail operations, restrictive licensing of road transport and taxis, protection of railways and widespread subsidies. Services were typically unreliable, inefficient and a drain on the taxpayer – the government had to bail out Air New Zealand and the railways in the early 1980s, and the railways again a few years later.

Even the Muldoon government recognised the need for change. It introduced the system of road user charges for heavy vehicles, removed the 150 km limit on road freight, deregulated domestic aviation, and was moving towards the partial privatisation of Air New Zealand.

With more widespread liberalisation after 1984, major improvements occurred in the sector. Just one example: a 2005 World Bank study found that rail freight rates declined by about two-thirds in real terms from 1983 to the late 1990s.

Progress stalled in the 1990s, however. National deregulated coastal shipping in 1994 and sold its shareholding in Auckland Airport in 1998, which led to significant improvements in performance, but it failed to carry through with earlier plans to move ports into the private sector and with the promising Better Transport Better Roads initiative to introduce new governance, investment and pricing disciplines in roading.

The costs of inaction were high. Port industry reform initially delivered large gains but under local government ownership over-investment is rife, returns are poor and badly needed port rationalisation is obstructed.

Yet ports typify the paralysis and replay of the economic past of recent years, which is behind the slump in productivity growth and economic recession.

There was no need for the government to buy back Air New Zealand, as former chairman Selwyn Cushing recently argued, rather than allow a takeover or merger. Although the company has continued to perform well operationally, it has been a bad investment for taxpayers: the stake is worth less than the \$1 billion it cost the government.

The rail buy-back looks like being an even bigger drain on taxpayers. Indeed the government accepts that Kiwi Rail will be a loss-maker, meaning that it will further undermine economic growth prospects.

None of the government's arguments for the acquisition stacks up. If a government were determined to subsidise rail, the logical approach would be not to run the business but to put services up to tender, given the

overwhelming evidence that privately owned businesses generally outperform publicly owned ones. Opposition to the possibility of subsidising a foreign operator makes no sense – any subsidy would be for the benefit of users, not the owners of the entity. Moreover, if rail has fuel efficiency advantages with high oil prices – which is unclear in many situations – it should not need subsidies.

The prospects of any significant shift of freight from road to rail are poor, as truck efficiency is steadily improving and rail is better suited to larger freight movements than New Zealand offers. It is inconceivable that On Track can achieve a commercial rate of return on its \$10 billion asset base, and likely that much of its land (valued at around \$5 billion) should be put to alternative uses.

We now have a situation in which road transport, which covers more of its costs than rail, will be distorted by subsidised competition. In addition, cost benefit analysis suggests many socially profitable roading projects are not being undertaken. Moreover, government policy has diluted the role of cost benefit analysis in investment decisions, further undermining economic efficiency.

Ideological restrictions on tolling and public private partnerships have prevented the private sector playing a role in roading. The Public Transport Management Bill which is before parliament would bring commercial or non-contracted private bus services under greater political control.

Overlying all these developments is the New Zealand Transport Strategy which is a throwback to Muldoon-era attempts at national planning and coordination. We are back into targets, such as a 30% freight share for coastal shipping, that bear no relationship to reality. For all their imperfections, properly structured markets and efficient prices do a far better job of coordination than central planners.

The sign across the transport policy highway of recent 10 years should read: 'Wrong Way, Go Back!' Past mistakes should be undone. There should be a much stronger focus on economic efficiency.

Projects such as rail electrification in Auckland should be allowed to proceed only if they satisfy a rigorous economic analysis. Market-based approaches such as a carbon tax or a capped ETS should be applied across all modes if action is taken on climate change grounds – there is generally no case for additional regulations or subsidies. Public transport should be allowed to find its own level without subsidies in competition with efficiently priced roads. The wisdom of merging Transit and Land Transport New Zealand into a mega transport agency should be reviewed.

None of these changes should be problematic for a National Party founded on private-enterprise rather than state-control principles, but nor should a modern Labour Party have difficulties with them.

In Australia Labor governments at both federal and state levels have privatised (or kept in private hands) airlines, rail operations, public transport, ports and airports, entered into public private partnerships, opened transport markets to competition and introduced road tolling.

We should stop allowing ideology to trump sound economics and practical experience. The costs of experimenting with a replay of the economic past are high and growing.

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