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**NEW ZEALAND AUTOMOBILE ASSOCIATION  
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**CARS ARE A GOOD THING**

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## **CARS ARE A GOOD THING**

It is interesting to look back on changes in motoring and roading in New Zealand over the past 30 years. There are some ironies in the story.

I remember when I was with Foreign Affairs in the late 1960s handling a visit by a Belgian journalist as part of New Zealand's campaign to maintain access to European markets. He observed in a subsequent article that New Zealand had the best roads in the world and the worst cars – he described them as "patched-up old bombs" ("de vieux tacots rafistolés").

The state of our vehicle fleet and the state of our roads had much to do with the policies of post-war governments.

In the 1950s, New Zealand was still a high-income country. The New Zealand Official 1990 Yearbook tells us that "New Zealanders at that stage were second only to Americans in levels of vehicle ownership". But governments maintained and extended the protection granted to both vehicle assembly and component manufacturing as part of the raft of economically debilitating fortress New Zealand policies. During the 1950s and 1960s tight import restrictions limited the availability of both built-up and completely-knocked-down (ckd) vehicles. The 1970s saw the number of separate car assembly plants grow from 10 to a high of 16 – for a country with a population of around 3 million.

It was the high cost of cars in this protected environment that led to the large number of aged and sometimes unsafe vehicles on the road. From the late 1970s, governments moved slowly to reduce high levels of protection, car assemblers and component manufacturers improved their efficiency, and imports – including second-hand cars from Japan – became more freely available. The process took a painfully long time – uncompetitive car assembly operations in Ireland and Singapore closed in the 1970s as these countries opened up their markets. Today, however, New Zealanders can buy

any car they want, cars are far more affordable for low-income people, the vehicle fleet is more modern, safe and fuel efficient – and yet some people, such as the Greens, still oppose free trade.

By contrast to the state of the vehicle stock 30 years ago, there was a Rolls Royce aspect to New Zealand roading. Of course that was not always the case – road conditions were often primitive in the early years of motoring. In the context of current discussions about road pricing, it is interesting to note that toll roads were a common feature of New Zealand roading up to the 1920s, and were very successful. Like many other industries, however, roading was effectively nationalised, and in the 1950s and 1960s extravagant amounts were spent on roads. Pork-barrelling led to much unused capacity around the country in the form of multi-laned bridges and highways. In a paper I gave to a roading symposium in 1980 when I was working for the Treasury, I reported a study which showed benefit/cost ratios for a sample of state highway projects ranging from 1.07:1 down to 0.38:1. A ratio of 0.38:1 indicates that costs exceed benefits by a factor approaching 3. New Zealand was wasting resources in roading in the same way as it was wasting resources on low-return Think Big projects and subsidised agricultural production.

Ironically, however, the wheel has come full circle. Instead of reining in spending on uneconomic roading projects but continuing to build roads where increases in capacity were justified by demand – as with the Auckland motorway network – governments fell prey to an anti-motoring and anti-roads mindset. A big factor in this was the oil shocks and other environmental scares of the 1970s which led to follies such as carless days and ultimately to Think Big. In the belief that the world was running out of fossil fuels, politicians and lobby groups argued for public passenger transport solutions, and more recently for 'smart growth' planning strategies to restrict so-called 'urban sprawl'. From the early 1990s, an additional factor has been fears of global warming from greenhouse gas emissions.

The result of these influences has been a serious underinvestment in roading, at least if we can believe the use by Transfund New Zealand of a benefit/cost cut-off ratio of 3:1

for roading projects today. On this basis resources are being wastefully misallocated, just as they were at the time New Zealand was overinvesting in roading. Demand for road space is also being distorted by the lack of proper pricing, especially in the major centres, causing an additional set of economic losses.

Around the world there has been a shift in policies and politics as the environmental fears of the 1970s proved largely groundless, although this has been slow to happen in New Zealand. *The Economist* noted in a survey of energy last month that "the idea of hydrocarbon scarcity that once haunted policy debates is now largely defunct". Oil prices are still well below 1970s levels in real terms, fossil fuel reserves and alternative energy sources are plentiful, and energy efficiency continues to improve. Because of inventions like the catalytic converter, unleaded petrol and other technologies, cars pollute much less nowadays and are much more fuel efficient. Driving is also safer today than ever before. These trends will almost certainly continue as hybrid cars and fuel cell technology reach the mass market in the relatively near future.

The international change in social attitudes is apparent from an article headed 'German Greens embrace the car' which appeared in the *Financial Times* of 28 May 2000. It reported that:

After years battling against motorways, petrol-guzzling motorists and anything that slows up a bicycle, Germany's environmentalist Green Party has taken a step towards ending its rage against cars.

A strategy paper by senior figures in the party, junior member of Chancellor Gerhard Schröder's coalition, has acknowledged that any attempt to limit individual mobility simply backfires. Cars may even be a good thing, "synonymous for many with the freedom to decide, at any time, where to go".

The Greens' strategy paper went on to acknowledge that:

For women, the car means security on the streets at night and the possibility of combining family and career. For the old and handicapped, it is a synonym for independent movement.

The rethink by the Greens followed a realisation that their crusade against the car was costing votes, alienating the young in particular. Dutch transport policy has also moved away from an anti-motor vehicle stance.

All this is just commonsense. Cars have probably done more than any other single invention or discovery in history to expand the freedom and enjoyment of ordinary people day in and day out. Despite anti-motoring policies in Europe, the growth in the number of cars per capita has been much faster there than in the United States. People value the convenience, flexibility and privacy of cars. They are perfectly capable of deciding for themselves how much they want to use cars in relation to other transport options – they don't need to have 'smart growth' or 'light rail' forced down their throats. The reality is that as countries grow richer, patronage of trains and buses typically declines. Passenger transport schemes have generally had small effects at most on commuter transport patterns. New Zealand's experience has been no different.

Will the possibility of global warming change these trends? It seems unlikely. The gulf between the rhetoric and the reality on global warming seems to be widening. Even if the Kyoto Protocol were implemented and all countries met their commitments, the amount of 'saved' warming to 2050 would be negligible – about 0.07 degrees according to one estimate. But the Bush administration in the United States has made it plain that it will not adopt costly restrictive measures such as a carbon tax : the science is too uncertain, warming brings benefits as well as costs, the costs of adjustment may well outweigh those of adaptation and, besides, American voters don't take kindly to fuel tax increases. Governments in other countries are also likely to face a voter backlash unless they are able to make a far better case than they can at present for taking action that will cut household incomes.

There are better strategies from both an economic and environmental point of view than those that have been in vogue in the transport sector over the past 20 years.

As far as tax policy is concerned, it would make more sense to concentrate on lower and more uniform tax rates across the board rather than trying to micromanage economic

decisions with special taxes and subsidies. The latter approach is no more likely to be successful than other attempts at central planning. Lower taxes would encourage capital investment in new energy-saving and less-polluting technologies and spur economic growth, which creates both resources and community preferences for higher environmental quality. The greatest environmental advances have been made in the most rapidly growing countries. As a recent paper puts it: "Tax reform is green; 'green' taxes aren't".

As regards roading, New Zealand is also still stuck in central and local government planning mode. In the early 1990s it was already clear to the Business Roundtable that other countries were overtaking New Zealand in the way they ran their roading systems. In a 1993 report we advocated moving away from a system governed by political and bureaucratic decision making to a more user-driven and commercial framework. In essence, this meant treating roading much like other utility industries such as electricity, gas and telecommunications where market-based approaches have greatly improved services and lowered costs.

Government agencies picked up and developed these ideas, but the previous government's efforts to promote a more commercial approach got bogged down in debates with local authorities. Meanwhile the idea of roading services becoming utilities has gained traction around the world. Several dozen countries have adopted the build-operate-transfer (BOT) model of competitively awarding long-term concessions to private consortia to finance and manage new highways as toll roads. Several countries, including Canada, Italy and Portugal, have gone further, actually selling off existing state toll-road operations. Commercial pricing strategies are in widespread use. In France, for example, several toll roads charge higher prices during weekend hours when Parisians are returning to the city; peaks have been flattened and traffic decongested.

Already about 10 percent of major highways in the United States are operated as toll roads. In California a private company is operating a new expressway that has a pricing mechanism with 16 different express lane rates. If you need to travel promptly

in an uncongested lane you are alerted by electronic signs as to the best option and you pay a little extra. If you're on a Sunday cruise you can choose a cheaper lane.

Toronto now has a fully automated toll road using both electronic toll tags and video licence plate imaging, as does the Melbourne CityLink.

Opposition to such developments is becoming less strident. With the new technologies, the inconvenience of stopping at toll booths is disappearing. Rebates of fuel taxes for distances driven on toll roads are reducing the problem of 'double taxation'. Taxes on fuels are becoming problematical as vehicle fuel efficiency improves, forcing moves to direct charging. Tolls are no more 'regressive' than fuel taxes – the evidence indicates that the amount of driving increases greatly with the level of income. Tolls should be a permanent, ongoing funding source for maintaining and rebuilding roads, just like electricity and telecommunications bills – not removed when the initial investment is recovered. Few people object to direct pricing in other utilities. With proper economic pricing and commercialisation there is a more level playing field between roads and public passenger transport, and the case for public transport subsidies – which has always been a weak one – disappears. Several US environmental groups have become advocates of pricing and even of road utilities.

In contrast to this ferment of innovative developments, the stalemate on roading reform in New Zealand is lamentable. Almost halfway through the present government's term there are few signs of progress. There is talk of forming 'clusters' of local authorities to facilitate planning, but commercial models and economic pricing seem to be off the agenda. Meanwhile congestion in Auckland worsens each year, and demand and investment patterns remain distorted by uneconomic pricing.

There is little hope of improvement, I suggest, until the utility model for roading is adopted. Procrastination and the blocking power of entrenched interests are endemic with political decision making. Commercial decision making is not perfect, but uneconomic decisions are not systematically made and mistakes are corrected more quickly. The most speculative of the dotcom companies crashed and burned in the

space of a couple of years in the United States, whereas it has taken that country 40 years to recognise and start correcting the problems of its welfare system – and New Zealand has hardly even embarked on that task. That is the story of politics. Reforms to roading management, combined with similar moves to convert water and sewerage services into commercial utilities (or franchise them), would permit a major and badly needed reshaping of local government – roading and water supply are the main activities of many councils. New Zealand could do with far less local government. For this reason, of course, political resistance from the sector will have to be overcome by any government that is serious about the problems.

Another obstacle in the local government sector that will have to be overcome if there is to be progress on roading is the hopelessly cumbersome procedures of the Resource Management Act 1991. As Transit New Zealand stated in its recent annual report:

... it is frustrating to watch projects, often those which have strong local community support, become bogged down in prolonged consultation, and numerous hearings and appeals. Without such delays, the planning and building of roading projects still takes years to achieve. With them, the benefits to road users can be substantially deferred. As well, the associated expense in participating in these processes chews through money that would be better invested in the roading network and safety initiatives.

There is mounting evidence that the RMA has become a major obstacle to economic growth and needs a total overhaul.

What is the role of the Automobile Association in all this? In my view it has made some excellent contributions, such as last year's 'call for action' based on a survey showing that 83 percent of Aucklanders want the region's long-planned transport network completed. I hope the AA will continue its advocacy role, and will leave you with the following suggestions.

First, maintain a broad approach to roading reform. Don't just simplify the message to 'build more roads', or 'don't divert petrol tax to the consolidated fund' (even though it is true that only the GST rate should apply over and above the charge for road use). It is

sheer folly simply to go on constructing roads to meet demand which is not properly priced. Similarly, just spending more money on roads will achieve little if the present dysfunctional political decision making system is left in place – in 10 years' time there will be another catalogue of bad and delayed decisions. The only real solution is to move roading to a utility model with a variety of direct relationships between users and operators across the country. There is no long-term role for Transfund: we should cut out the middleman.

Secondly, there is no need to take an anti-public passenger transport stance, but there is no need to pander to the public transport lobby either. In a neutral environment roads and passenger transport should be allowed to compete without subsidy. Public transport can only make a modest contribution to transport solutions in the major centres, and little or none in the smaller ones. Councils like the Auckland City Council still have their heads in the sand in this regard. The big issue is roading: the AA should insist that politicians concentrate on the dog and not allow the tail to wag it.

Thirdly, take a principled stance on the global warming issue. The scientific evidence is still strongly contested, and it would be madness for New Zealand to impose economic costs on itself if the United States – where average incomes are now twice those of New Zealand – chooses not to do so. If action is ultimately justified, it should apply even-handedly to industrial, transport and agricultural emissions. Sectors should not argue for special treatment; politicians would be only too likely to pick them off one at a time. A more efficient roading system with less congestion would do far more to lower emissions than many of the measures the government is talking about.

Finally, I suggest the AA should renew its 'call for action' on roading reform. There have been years of inaction, and the issue is still drifting. On many measures of economic performance New Zealand has been losing ground against more successful countries after a period of catch-up in the early to mid-1990s, and it will continue to do so if the weaknesses of major sectors like roading are left unaddressed. My chairman, Ralph Norris, expressed the hope that the 'Case for Roads' conference in Auckland earlier this month would be a giant wake-up call to those responsible for decisions

about roads in New Zealand. I hope the AA will join us and other business organisations in making that call with new urgency.