

EMBARGOED UNTIL 10.00 AM THURSDAY 8 MARCH 2001

'THE CASE FOR ROADS' CONFERENCE

**REMOVING LEAD FROM THE SADDLEBAGS:
CHALLENGES FOR NEW ZEALAND IN A
GLOBAL SETTING**

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**AUCKLAND
8 MARCH 2001**

REMOVING LEAD FROM THE SADDLEBAGS: CHALLENGES FOR NEW ZEALAND IN A GLOBAL SETTING

Sketching out the backdrop to our discussions today on roads is pretty straightforward.

New Zealanders want higher living standards. To achieve them, we need a growing economy. Growth requires us to use scarce economic resources efficiently, and to compete successfully in the world economy. To do so, we cannot afford to have lead in our saddlebags. Among other things, we need efficient infrastructure. As far as transport infrastructure is concerned, by far the greatest handicap is roading – for New Zealand and for Auckland in particular. The title of the last government's consultation document *Better Transport Better Roads* sums up in a nutshell the priority that must be given to roading reform if we want the benefits of a better transport system for economic growth and higher incomes.

That outline of my argument should not be controversial, at least among the community at large. A 1999 Massey University survey of New Zealanders' attitudes and values about politics and government found support for economic growth came out far ahead of other goals.

Some people make the point that there's more to life than material well-being; they say things like 'money isn't everything'. That's perfectly true, although such sentiments tend to come from relatively well-off people rather than the poor. If we are concerned about poverty, we have to be concerned about economic and employment growth. Redistribution can't go far towards solving problems of poverty, and indeed welfare can easily make them worse. I will believe most people are unconcerned about their incomes the day unions stop making wage claims.

And New Zealanders have good reason to be concerned about the state of their incomes. On average they have grown far more slowly than in other countries for many decades. New Zealand's per capita economic growth rate in the period 1900-97 – practically the whole of the last century – was only 41 percent of the developed world average. Australia's was only 58 percent. Growth effects compound: a hundred years

ago average incomes in New Zealand were around 50 percent higher than the developed country average; today they are some 40 percent below that average.

It doesn't have to be like this. We know that countries can go from the third world to the first world in a generation – Singapore, Hong Kong, Taiwan and Korea have done just that. New Zealand was making up ground in the 1990s – the 1991-97 expansion was the longest and strongest since the 1960s. Since then, among other things, policy inertia, modifications and reversals, and a general failure to press on with economic reform, have taken their toll. On the government's own figures the economy looks likely to grow by only 2 to 3 percent a year in the years ahead. This is a recipe for losing further ground.

The debilitating consequences of such an outlook in today's more open and mobile world should not be underestimated. Average per capita incomes in Australia are now some 40 percent higher than those in New Zealand – and yet Australia is struggling to hold many of its most able and enterprising people. Countries can reverse a 'brain drain': Ireland showed that after its economic reforms of the late 1980s, as did New Zealand in the early 1990s. But equally, the problem can become endemic: Tasmania has been losing people for years, and official projections suggest its population could halve by 2050. I suggest not many New Zealanders want the country to become an economic theme park.

To avoid that outcome, much will have to change. There are no 'circuit breakers' or 'silver bullets' in the economic management business: a country has to get many things right, and keep on making improvements. Spurts of activity followed by siestas won't work. We know that in our businesses; it is no different in our national affairs.

Internationally, there is no longer much debate about the requirements for growth. The countries that are getting ahead are striving to make themselves attractive for business and investment. They are embracing globalisation, reducing regulation and compliance costs, upholding property rights and the rule of law, focusing on core government activities including infrastructure, reducing taxes, avoiding inflation, upgrading

education, removing obstacles to employment and reducing welfare dependency. Overall, this is an agenda for smaller, better government, and for greater economic freedom and individual responsibility.

New Zealand needs to do all those things. It must aim to do them better than other countries to offset its disadvantages of size and location. In addition, if we want prosperity we must value and reward excellence and achievement while holding to our traditions of fair opportunities for all. A loser-oriented and profit-deriding society will attract losers and repel winners.

A key issue for a small, remote economy is transport and communications costs. New Zealand can only prosper through specialisation and trade. Containerisation and other technological changes in industries like sea and air transport and telecommunications, as well as policy reforms, have dramatically cut costs and had the effect of bringing New Zealand closer to world markets. Waterfront employment reforms have greatly increased the viability of industries like forestry, which is why the hard-won gains must not be lost. But the costs and quality of internal transport services are equally important for international competitiveness. We have made much progress with domestic transport services such as air travel, rail, trucking, taxis and coastal shipping. The standout exception is roading.

As far back as 1993 the Business Roundtable released a major study on options for roading reform in New Zealand. Its ideas were quickly picked up and developed by people in government agencies. Regrettably, as in many other areas that are crying out for reform – the water industry is another example – they have subsequently gone nowhere. A combination of a lack of political leadership at central and local government level, parochialism and vested interests have frustrated any real progress.

The basic problem with roading management diagnosed in our study is that it operates on a Soviet-style model – just like so many other things in New Zealand 15 years ago. Roading is determined by central and local government planning – it is not driven by consumer demands. Resources are allocated to a large extent by political and

bureaucratic processes rather than commercial criteria. Rationing in the form of congestion, rather than pricing, is the norm in key parts of the system. Capital funds are allocated by an arbitrary benefit/cost limit that tells us that something is seriously wrong with either the level of funding or the calculations, or both.

The contrast with telecommunications could not be greater. When the Post Office ran the telephone system the main congestion problem in Auckland was telecommunications – making a call in the central business district or getting a simple telephone connection was an exercise in frustration. Today's telecommunications system is market-driven: owned by profit-making firms, using market prices to equate supply and demand, and directing investment to where it is most needed to meet customer demand. The days when the main complaint politicians received was about telephones have long since gone.

Yet the Soviet mentality remains alive and well in roading. A classic example was a statement by the Wellington Regional Council a few years ago. It resolved that:

... the capacity of the roading system should only be extended to meet the needs of commercial road users and off-peak, rural and recreational travellers, rather than the needs of peak period car commuters.

Commenting on a similar mindset in the United Kingdom, the economics editor of the *Financial Times*, Martin Wolf, recently wrote:

Imagine that customers were deterred from visiting a supermarket by the length of its check-out queues. It would be astounding if the company's board refused to expand capacity on the grounds that this, too, would ultimately become crowded.

Yet the same people assert that additional road space should not be provided because it will become congested ... The rational approach is to manage congestion through prices, rather than queues, and to invest in additional space, provided users are prepared to cover marginal costs, including the social and environmental costs.

Auckland's congestion problem is a national disgrace; I cannot understand why it has

not become a huge political issue. Cities with population of a million or more around the world don't typically snarl up the way Auckland does. I submit there are three basic elements of a solution to Auckland's problems:

- First, build more road capacity. Transit New Zealand's 10-year plan is only an economy version of what was envisaged in the 1960s, but it should be implemented urgently without planning delays.
- Secondly, face users with the true costs of services by introducing proper economic pricing. This means, in particular, peak and off-peak charges for roads, but it is equally foolish to underprice or give special privileges to public transport services through subsidies and regulation.
- Thirdly, put the management and operation of roads (not the planning function) on a similar basis to other utilities like telecommunications, and extricate it from political control. Running the system on a commercial basis, subject to necessary regulation, is consistent with public ownership, at least in the first instance, but ideology should not prevent examination of private sector options. Already companies owning around \$3.4 billion of tollroads are now listed on the Australian Stock Exchange, and there are many examples of public and private sector partnerships in roading around the world.

I want to stress the importance of all three elements of this package for any fundamental solutions to Auckland's problems – and they apply to the rest of the country as well. This conference would do no one a service if it just argued for spending more money on roads. It makes no sense to go on building roads endlessly to meet peak demand at current prices: the economic distortions and waste would be as great as those associated with earlier follies such as livestock subsidies. And we cannot hope for timely and efficient decision making while roads remain under direct political control: the present state of affairs is clear-cut evidence of that. The problem is not the people but the dysfunctional system.

As far as Auckland is concerned, I would also add that it would make little sense to remove road management from existing authorities only to put it in the hands of one large regional organisation. There are problems of monopoly in roading just as there are in some other utilities, and we should not compound them by eliminating the scope for competition that does exist. At the very least, having two or more operators in the region would encourage useful rivalry and experimentation, and comparisons of best practice.

Other sessions at this conference will look at alternatives to roading, such as so-called 'smart growth' planning strategies and public transport. The problem with these is that they are economically costly, they restrict people's freedom, and, as a serious solution to the problem, they don't work. Passenger transport has a role to play, and it should be allowed to find that role without public ownership or subsidies in competition with other properly priced transport modes. But when it can at most account for somewhere between 5 and 10 percent of peak demand for transport in Auckland, it is time politicians got things in proportion and devoted most of their efforts to the services that 90 percent or more of the population want to use.

A few years ago New Zealand was a world leader in its thinking about roading, but it is now lagging much of the world in putting it into place. We have talked the talk but not walked the walk. We cannot hope to match other countries' improvements in economic performance if we don't take advantage of new approaches to road management, pricing, investment and technology. Bottlenecks in areas like housing, schools, water supplies and roading put strain on the economy, and the export industries in particular, when New Zealand was growing rapidly in the mid-1990s. These problems haven't been solved; they remain a constraint on faster growth.

Roading is a big chunk of the economy. People in some parts of Auckland are about to receive a share of a dividend of over \$150 million from Vector. The economic costs of road congestion in Auckland have been estimated to be the thick end of \$1 billion annually. The Auckland region as a whole could receive the equivalent of the Vector dividend in the form of lower costs and higher output perhaps six times over, each

year, if transport problems were seriously addressed. The benefits would be multiplied nationwide. The stakes are very high. I hope this conference results in a giant wake-up call to those responsible for decisions about roading in New Zealand.