The Roads Ahead
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I am very pleased to be here and I thank the International Roads Federation and the Australian Roads Federation for the invitation. This is an important conference and I am particularly glad that Australia is able to host so many guests from Asia and the Pacific.

The questions you are discussing here are genuinely interesting ones which affect the lives and social amenity of almost every person in every country. They touch on technology, the environment, economic efficiency, community safety, regional development, globalisation and many other issues.

I want to start the conference off from a different angle. Not, if you like, from the road surface up, but from the policy and political angle of any central government down. Because when governments think about roads and their funding, they think of the overall economic and social objectives first, then of transportation services and finally of the roads themselves. I admit, though, that looking at some rural roads in Australia, and the suspicious timing of their construction around the dates of elections, you could be forgiven for thinking that, sometimes at least, it was the other way around.

Let me begin with the economy.

Here in Australia, there is always an assumption that we will have, and are indeed entitled to have, a first world standard of living. This assumption arises because, in the main, we have always had one. And where did that standard of living come from?

It came from the natural inheritance of a continent, enjoyed by a small population, and mostly at a time when the things we produced and sold were more valuable than the things we bought.

The Australian Defence Model – some called it the Australian Settlement – was built on generous terms of trade flowing from the production and export of wool, grains and gold which underwrote high tariffs and high protection for domestic manufacturers. In turn, those same manufacturers were obliged to pay, in world terms, high wages, wages set by government tribunals.

This game lasted a very long time. It lasted in earnest from around 1870 to 1970. But by the 1970s, the wheels had started to fall off. The value of the things we produced and sold, mostly commodities, ended up low in price and the value of the things we bought – colour televisions, machine tools, trucks – were high in price. In other words, the terms of trade had shifted markedly against us. So by 1983, when the Labor Government came to office, and I was sworn in as Treasurer, Australia was in position of long-term structural jeopardy.

We were not alone in this. Other countries and other societies with agricultural/industrial structures similar to our own were feeling the pinch as well. Argentina was perhaps the most obvious example: the country that shared equal billing with us at the turn of the 20th century as the country with the highest living standard in the world. Buenos Aires was the Paris of the South – much grander than Sydney. Argentina's pampas was the backbone of its economy and, like Australia, it didn't have to worry all that much about industrial production. The world was happy to sell Argentina its wares, as a visit to Buenos Aires even now will still make clear.

Australia had one other thing going for it that kept us in the game longer. It had the remnant of what was called British Imperial Preference – the markets we were able to enjoy in Britain to the exclusion of other primary producing countries.

But the problem for Argentina, and for Uruguay and for a host of other countries was that governments or the public lacked the will to make the necessary changes. To realise that in a world increasingly opening itself to competition that there was no future for cloistered, uncompetitive economies. Some people may recall my references to a banana republic in the mid 1980s, and the warnings inherent in those remarks, for Australia if it was not to recognise its problems and to make major changes.

But Australia did change. Unlike Argentina or Brazil, Australia made a fundamental turn. The Labor Government 1983 to 1996 effectively dismantled the Australian defence model. In its place it opted for an open economy which would allocate financial and material resources more efficiently than was the case under the distorting effects of the tariff.

It did the same with the financial system. And because arbitrarily fixed wages could no longer be sustained if we were to develop a flexible economy able to compete in the world, it deregulated the labour market into the bargain.

In sync with a floating exchange rate which was better able to absorb external shocks like, the Asian economic crisis of 1997, this permitted the domestic economy to grow with interest rates commensurate with its new, low-inflation paradigm, underpinned by a remarkable doubling of trend productivity.

In fact, we have never looked back. And if I may make just a slight political point, the current government has had a high growth, low inflation free ride, for six years now, like it had won a ticket to the Big Dipper. From the beginning of the last worldwide upturn in 1991, Australia has, for every quarter of those eleven years, had the highest annual GDP growth with the highest trend productivity in the industrialised world. And I will bet that in next month's *Economist* magazine, in that monthly matrix near the back page, Australia will be up there at the top again. In 1995, John Howard called it five minutes of economic sunshine. In fact it has been a decade-long solar flare.

The relevance of this to your industry is knowing what happened and why it happened and what must continue to happen. To understand that, as an island continent in the South Pacific, Australia is on its own. That we will never belong to the North American market of more than 300 million people no matter how wishful the government is about a free trade agreement. That we will never belong to the United States of Europe. That what we will do, and what we can do, will depend on our own cleverness and our own determination to remain in the competitive stakes.

And every bit of every industry, every sector and sub-sector, will have to be just that much more competitive if, in the end, someone else is not to eat our lunch.

Because short of the calamitous prospect of global war, globalisation is not going to be stopped in its tracks.

The technologies that facilitate it – that is, digital technology and cheap communications - aren't going to disappear or slow down.

Developing countries in Asia, Latin America and Eastern Europe are not going to give up their hard-won efforts to integrate themselves into the world economy. Asia has experienced deep problems, but even in Indonesia, the country worst affected by the financial crisis of 1997/98, poverty is still much less than it was before opening up began.

The stark message for all commodity producers is that the global terms of trade aren't going to suddenly flow back in their direction of commodity producers. Power relativities among nations are changing in the direction of those societies that can maximise the use of information and draw on all the capabilities of their members, and that are open to the world.

In Australia, we have to work on the basis that no one owes us anything and that while we will always be appreciative of any bit of good fortune that comes our way, we must know that it will never come to us as of right.

This means that you just can't say to the farmers, or the workers: 'You adjust but some of us need not adjust.'

The secret of mutual dependence is mutual obligation. And our obligation means that, sector-by-sector, plant-by-plant, service-by-service, we all have to have a go. This industry – the roads industry – knows what that is about because it has adjusted.

The first area Australia has had to look at is the integration of transportation, whether by road, sea, rail or air.

In Australia in the 1980s we faced a flagging level of investment in public infrastructure.

Indeed, in respect of the railways, a half a century of flagging public investment. As a consequence, trucks ran up and down the east coast carrying containers on roads ill-designed for them, to destinations that should have been served more adequately by rail and by sea.

But, meanwhile, on the sea front we used to see the stevedoring companies prepared to hold the country to ransom in order to maintain oligopoly profits, with not even a labour force of their own. Rather a large pool of employees on which they could draw; a pool managed by their surrogate partners, the maritime unions. Is it any wonder that the truckies thought 'I'm in for this too.'?

But the selfishness of the stevedoring companies, and their grasping, could not be tolerated. The Labor Government caused waterfront employment to be cut by three quarters and obliged the stevedoring companies to stop corrupting the waterfront, to stop holding our good name and our competitiveness to ransom.

It was these things that caused the government I led to reform the ports terminals and to lift the level of public expenditure in national transportation infrastructure. I might add, despite heavy investment by the Labor government in port rationalisation and reform I think we still have a way to go. Stevedoring companies are more efficient, but because of their protected positions, there are frequent reports that insufficient benefits have flowed through to shippers. I have not seen definite figures on this. The problem is now is, how do we manage private sector monopolies, ports and duopolies. Indeed some companies have gone a long way in vertically integrating, including with rail infrastructure, and I fear without real competition principles being applied, problems will have to be dealt with in the future.

In respect of national transport investment in the Labor years, this included amongst other things, the building of the first standard gauge railway between Melbourne and Adelaide. It included a significant, though not a primary, upgrade of the Sydney-Melbourne and Sydney-Brisbane rail lines. It led to the rebuilding of bridges. It led to the lifting of bridges so containers could be double-stacked. It led to the straightening of railways through hills to guarantee faster speeds and more stable loads. It led to more efficient land bridging.

And when this was accomplished my government set up the national rail freight corporation so a reliable national rail freight service could be run around the continent.

Special attention and special funds were allocated to the Port of Melbourne given its pivotal location between the eastern seaboard and the railway to the west and the sea road to Tasmania. Special attention was also given to the Port of Brisbane so it could compete with Sydney and Melbourne.

As for the roads themselves, for us it stood to reason that the best way of meeting the continental demands of this country was to have a national system of highway building and highway management. The 1991 Inter-governmental Road Funding Agreement gave the Commonwealth full responsibility for the National Highways System, state and territory governments responsibility for arterial roads with municipal governments responsibility for local roads.

My government laid down major funds for the Newell and Hume Highways in the One Nation program and later, funds for the urgent and necessary upgrade of the Pacific Highway along parts of the north coast of New South Wales. We also provided funds for many black spot programs in urban arterial roads as we did for more major city cum national projects like the Hans Heysen tunnel through the Adelaide Hills.

I always believed we needed an integrated land transport system. A road system of national highways complemented by major city arterial and ring roads and a rail system competent enough to provide reliability and to do the kinds of things that were inappropriate for the roads.

We are now much further down the pathway towards that design than we were in the 1980s.

There will always be arguments about the appropriateness of the effort; about who should be doing what and by how much. Whether fuel excises should be allocated in some hypothecated way to the task of building and maintaining roads or whether that function should be satisfied by a measured line appropriation in the budget. The roadies will argue for hypothecation, the generalists will say that a community is made up of many parts and the government should budget for each function independently regardless of the source of the revenue.

The transport minister in the mid 1980s, Peter Morris, talked me into hypothecation when I was Treasurer. I can only tell you he got the better of me. But it did kick highway building along on a scale unseen before.

Let me say something about the private provision of public infrastructure. We’re doing a lot of it, but very little of it is properly defined. I believe this is one of the most important debates we are yet to have in the area of public policy. Our priority has to be an efficient and competitive economy, but that is not necessarily the same thing as simply moving public sector monopolies to the private sector.

In the early 1990s to lift economic activity I introduced things called infrastructure bonds. These were introduced with the express desire of seeing an acceleration of public infrastructure provision by providing funding off budget. When properly applied, this bond program was a useful complement to public and conventional private sector financing. But the financial engineering industry sought to distort the use of the instrument and the Treasury sought to curtail its use. Nevertheless, it did kick start a new way of looking at public infrastructure and indeed many projects but I do believe the time has arrived to reconsider how important public infrastructure ought best be provided.

There are two major criteria for the provision of public infrastructure, especially in roads such as cross city tunnels, ring roads and motorways. And those criteria are cost and risk.

Nobody can borrow in Australia as cheaply as the Commonwealth and the State governments. No business has the cash flows of the Commonwealth and the State governments.

Perhaps I should make the risk point first. No organisation in Australia can more competently or more safely handle financial risk than the Commonwealth or the State governments. A set of private individuals investing through a trust or a set of financial institutions is not in anything like the same position as governments in these respects.

The relevance of this is that tunnels and motorways are currently being designed to minimise the financial risk to private investors. They are not being designed for optimal transport or flow efficiency. The traffic flow, route choices and mode of construction inherent in these undertakings are, I believe, seriously compromising traffic flow, road amenity and community standards as to construction and design.

Not one of these projects does not lead to incongruous road closures and traffic pressure designed to funnel traffic through projects in ways that minimise risk to investors. Road and traffic authorities became caught up in the developers' and financiers' schemes; indeed they are too often conscripted as the lead agents or surrogate promoters of the schemes. Once a developer and a financier have a road and traffic authority on the hook, that authority becomes their Trojan horse into government.

In the long run the public and the transport operators pay the price for these compromises.

And of course the major compromise is price. The operating costs of these projects are driven up by the fact that it is not the Commonwealth or the State financing them. Developers, their investors and financiers require somewhere between 200 and 400 basis points of extra financing costs than that which would obtain from Government. I could be corrected on those amounts, in some cases it could be much higher.

In part, this is to cover the risk I have just mentioned. But the obvious point here is the Commonwealth and the States are in an unassailable position to cover risk as to usage and revenue. This is not so for property trusts and institutional investors.

The other issues in respect of price, are the ambitions promoters have for fee-based arrangements with projects of this kind, and the demand for profits. Profit is not the driver in road construction by government, it is systemic service and efficiency. I did not build the tunnel through the Adelaide Hills for profit or upgrade the Hume Highway for profit. It was done for reasons of national efficiency.

We are into profit-based schemes because the Commonwealth and State Treasuries want these major capital construction works off the budget and out of the public sector borrowing requirement.

And we have to know, indeed we all know, it is in the end, a financial ruse.

At that fork in the road of national income, you do not need a doctorate in economics to know what is being allocated for a private purpose and what is being invested in for a public purpose. What is truly public and what is truly private.

Roads and tunnels of the kind I am mentioning, are, without exception, for public purposes. It is spending, that bar tricky definitions, would otherwise be a solid part of the public sector borrowing requirement. Seeing through the ruse or pretext that the spending is private by virtue of the user pays principle, because these works are mostly part of a public network or system of traffic. They are the tagliatelle in the spaghetti bowl of our transport system.

This is not to say that they cannot be subject to the principle of user pays. That users enjoy the value of having them and that they have to pay for them. But they can pay or reimburse the public purse just as easily as they might pay a property trust or a set of financial institutions.

I am very much in favour of our city roads, in particular, being upgraded because the economic return from a dollar spent sensibly improving the flow of traffic in our cities tends to be greater than the same dollar spent in the regions, because it cuts travel time for a greater volume of traffic.

I am in favour of well designed cross city tunnels and motorways but I am not in favour of massive design compromises, traffic funnelling and high tollway prices simply because the Commonwealth and State governments want all this to be done off budget.

We can't pretend that this is user pays investment of a private kind when it really is user pays for a very public purpose just because we are being urged to do so by a clutch of merchant banks, property trusts and large banks looking for slabs of easy returns at high margins.

I believe there is a pressing role for the Commonwealth and the State governments to invest tax expenditures directly into these projects. If they are to see these projects built off budget, to use the device of government contribution to minimise financial risk. In this way, the public is not ripped off and their ordinary right to free traffic movement within cities is not flagrantly compromised.

When the State and Commonwealth Treasuries boast about their debt levels to GDP, you can be sure they have managed to massage the statistics, so that all this major construction in roads and tunnels is not brought to the public sector account. The rating agencies should have more to say on these matters.

Even with these qualifications, we have ended up with a transport system which is far healthier than the one we used to have. Not a perfect one by any means, but one which recognises the primacy of the road system, the capacity of rail to do the things that roads can't and should not do. And one that recognises that ports have to be internationally competitive if we are to keep that toehold in world competitiveness on which the well-being of all of us depends.

But, as I said earlier, that doesn't mean that we can rest on the reform task. In a world of just-in-time logistics, the efficiency with which products can be seamlessly transferred across a country and between different transportation systems will be one of the important differences between economies that continue to grow and those which stagnate. And with the expected doubling of the amount of freight carried within Australia between now and 2020, this is an urgent task for us. We need to find ways of running roads at greater capacity while at the same time addressing the congestion that costs the economy an estimated $13 billion a year. This will involve a mixture of new technologies and the development of effective economic signals. It will have to be done while cutting back on harmful emissions and cleaning up the environment.

And that might simply mean a slowing of current rates of growth.

Because notwithstanding valiant efforts by state governments to increase the desirability, utility and affordability of public transport, I think the car is here to stay. It does seem that many people would rather lose their partners than lose their cars, no doubt for the independence and mobility they bring.

In the congestion of our still fast growing cities, public transport will have to play a more important role. This is not just for environmental reasons, but in order to ensure that those in our society who do not have the option of private transport – the sick, the old, the poor, the newly arrived immigrants – are not left behind, are not cut off from the opportunities and benefits of our economy. But cars will remain the dominant form of private transportation.

In their defence, cars are getting better in Australia. Lower tariffs – and I might say only lower tariffs – have made cars cheaper. And import competition and import replacement have made them better. When today, you see well-built cars with safety features and efficient double overhead camshaft engines as standard equipment, the market is light years from where it was, even in the 1980s.

Personally I had hoped that the movement to smaller, more fuel-efficient vehicles would have been greater in Australia than it has been. Many vehicles in these categories have replaced the signature large family saloons we all grew up with in the 1950s, '60s and '70s.

But the advent of the large Four Wheel Drives for urban transport has become a pox on the country of significant proportions. These cars are over-engineered for their urban tasks. They have high centres of gravity. They are heavier and require more driving skills. They corner badly. They obstruct the views of other drivers and they consume twice as much fuel as a smaller car of the under two-litre variety. And, above all, the drivers of these cars threaten everyone else who drives in lighter vehicles.

In fact, we've reached the sorry point where their sales have become self-perpetuating. People are buying large four wheel drives to protect themselves. They are buying them to lower the risk coefficient associated with daily driving in the company of a growing presence of SUVs.

For what it's worth – and I stress for what it's worth – if I had my way I'd tax them off the roads and feel very good about doing it. The problem is that if we wait much longer there will be such a lobby for these contraptions that governments will never take the bat to them. We may even be at that point now.

And this is not just an Australian problem. As anyone who has driven on the roads of Beijing or Jakarta or most other cities in Asia knows, there is an even more urgent problem.

In the early 1990s, around 500 million East Asians lived in towns. By 2020 this figure will have trebled to 1.5 billion. 300,000 new cars drive on China's roads each year. And too large a number of them seem to be great behemoths totally unsuited to the stressed road conditions of rapidly growing Asian economies.

The focus of this conference is 'Roads as Business'. That is important. But roads can only be a business if they also serve other social needs. So it is important that over the next few days you also keep in mind roads in their other contexts: roads as politics, roads as environmental policy, roads as a social good.

I wish you all the best for the conference and I thank you for your attention.