

The role of infrastructure in economic development

The role of infrastructure in driving economic growth was reinforced to me on a recent visit to Vietnam. Vietnam has huge challenges in developing its transport network, alongside other infrastructure such as water supply and waste water systems. But meeting the challenges it is.



Vietnam is stunning in many ways. Beautiful and well planned Hanoi, dynamic Saigon/Ho Chi Minh City, historical Hue and Hoi An, Vietnam has cities that work, reflecting in part the impact of early French town planning. The Vietnamese people are energetic and welcoming, the country's geography and landscape is amazing. And as for the food..... Most impressively, Vietnam is building transport systems to meet the needs of this emerging Asian economic tiger. Impressive new bridges, straddling the many river systems, are being erected apace. Major upgrades of the road network are seen everywhere. Alternatives to the motor car (and scooters!) are also evident, albeit embryonic. Which reminds us how the New Zealand economy has developed, significantly through public investment in the rail under the Vogel Government, and roading in the middle of the last century. While there was a two decade hiatus during the economic liberalisation of the eighties, New Zealand once again has major go forward, with the likes of our Roads of National significance, investment in rail in Auckland and Wellington, and the development of cycle and walking networks. As in Vietnam, New Zealand's investment in transport systems is critical for our economic wellbeing. Private investment is



driven by a public commitment to building infrastructure, a fact driven home to me when my old council, Manukau City, built Te Irirangi Drive, Puhinui Road to Airport and Highbrook Dr, amongst others. Very few people would argue today that the investment by the earlier governments in rail and building a State Highway system throughout NZ, and investment of

my former city council was poor. On the contrary, they have driven community wealth creation. Time will show that our current road and rail investment will also be hugely significant in growing our economy, as will the impressive roading development in Vietnam. So, for those of you who have a chance to visit Vietnam, do so. Not only is it a great place to

visit it is a very good reminder of what has driven significant economic progress in New Zealand: investment in physical infrastructure.

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The Government has done this in a major way with ultra-fast broadband, which fails standard benefit cost appraisal but passes every test of common sense. It's also doing it with education, spending billions of dollars on students, many of whom we know won't maximise the use of that knowledge. The Auckland Council is doing it with the City Rail Link. China is doing it with high speed rail, Denmark with bridges and Dubai with, well, just about everything. The fact of the matter is that

investment of any kind contains some portion of judgement – even the ventures we are certain will succeed (and sometimes don't). In a competitive world, discounting all but the most certain of certainties to minimise the probability of failure is itself a recipe for failure.

Not the only measure

To only proceed with those transport investments which have certain narrowly measurable benefits limits expenditure to low capital value, largely safety-oriented, projects which show instantaneous results.

By their nature, these projects reproduce existing activities and patterns of development and are not transformational. Transformational investments are undermined by discount rates and lifecycle appraisals which prioritise today over tomorrow. It simply is not possible to shift from a motor vehicle-oriented urban form to a more intensified land use using investment supported by conventional cost benefit analysis. Nor is it possible to justify a new regional connection which opens up thousands of hectares of productive land.

These decisions may one day be modelled and demonstrated, but today they require careful value judgement – and this value judgement is not reflected in standard cost benefit analysis, which is why it is fitting that a strategic overlay is applied to major projects. The challenge before us is not reverting to sole reliance on narrow assessments of past decades but making sure that strategic value judgements, when they are made, are as robust as they can be. *Hamish Glen is policy manager at NZCID hamish.glen@nzcid.org.nz*