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Infrastructure & Employment: Dialogue



I was struck by a question that I was asked in connection with next year's "Ideas Festival" in Adelaide. It read

"What is the conversation that we are *not* having?"

This struck a chord with me, because in the last issue, I raised the topic of a conversation that I thought we needed to have in asset management.

And I have to say the email correspondence has been great. Thanks to everyone! In this issue I bring you some of the points raised.

You have two choices: you can put the effort in now to do whatever you can to make a difference, to use your knowledge of life cycle costs to inform decision makers and to plan ahead so that whatever money comes your way is well utilised. Or, you can do nothing.

But the more infrastructure we acquire now, the more our upkeep costs will rise, the greater will be the capital finance we need to repay later and thus the less our flexibility will be in the future. Yes, we have problems *now* but do we really want solutions that prolong the downturn? Effort on the part of asset managers now could make the future better for the community and for themselves.

"They are doing whatever it takes. The problem is, the more you go in this direction, the harder it is to turn around and the harder your exit strategy is."

LAURENCE H. MEYER, a former US Fed governor, on government actions to bolster the economy.

The same argument can apply to building more infrastructure!

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EDITORIAL: The Mind of a 9 year old

We can exhort governments and decision makers with a long list of 'shoulds' and 'oughts' but does anyone really believe this works?

I would like to share with you this comment from a senior Treasury Official in Government. He offered an analogy as follows:

A 9 year old boy has two choices, clean his room (again), because his room is filthy, it has an odd smell about it, his mum has been on his back about it, and he has even been threatened that he wont get any desert tonight if he doesn't; OR go and build a new cubby house in the tree out the back!

Even though the consequences are known, it almost overwhelmingly highly likely that the boy will start work on the cubby house."

I had to laugh, it seemed so apt.

But it raises an interesting point. If our elected members do, on occasion, act like 9 year olds, what can we do?

We could exhort them to 'grow up' - but this wouldn't work with our nine year old and it is unlikely to do any better with elected members - besides, who is prepared to 'bell the cat'?

No, I think the answer is to do what we would do with a child - make the 'correct action' seem more appealing. Couch your argument in terms of what appeals to the decision maker (and not what appeals to you), use their language and not your technical language.

Emotional appeals may do better than rational ones!

Share stories of councillors or elected members who made wise decisions and were recognised for their wisdom.

(or stories of those who made unwise decisions and were sacked by the Government and a commissioner installed to run their show!)



Community Confidence

Dean Taylor, Opus International, NZ writes:

Well having read your piece again I have few random thoughts:

My guess is that we possibly gain an insight into the inter-relationship between a nations public infrastructure and the economy at times of rapid change in business confidence. Arguably there is an optimum level of infrastructure investment that matches the national communities confidence and capacity to do business. Under invest and we throttle the economy, over invest and we burden it.

Because the economy and business confidence is dynamic and face changing and because infrastructure is static there is always the potential for mismatch at any point in time. So I would speculate that we need a long run average approach (nothing to do with renewals!) that attempts to, roughly, **get the balance right**. The question then becomes when step changes in capital construction should take place. Should they lead or lag business growth?

Many argue that there is currently an infrastructure deficit right now because we have been through a period of growth and public services have not kept pace.

If this is true then maybe a prolonged recession will see *over* capacity in public assets.

Which leads me to my main conclusion . I think your Number 3. 'Plan ahead' is the most important message. We have limited influence on a political reaction to spend or not to spend. I am not sure we have strong enough arguments at an AM level to convince them either way. BUT we can make sure that when the money comes we have done enough planning and design to optimise the opportunity and minimise the disasters that will result otherwise.

My plea is for more long and medium term planning

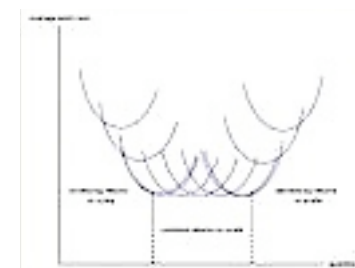
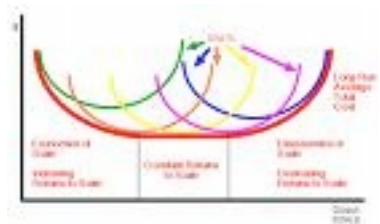
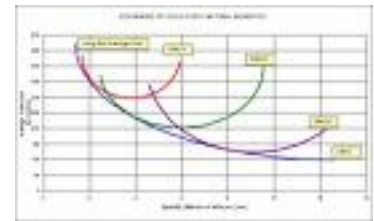
My thoughts on Dean's "Random Thoughts"Comment:

Dean raises a number of very interesting points:

1. While at the local government level asset managers may, indeed, have little scope to exert influence, this is NOT true of asset managers at the state and federal levels, nor for those within public utilities. Can we all prevail on our colleagues in these places to also think through the issues involved in using infrastructure to jump start the economy?

2. The 'long run average' is an interesting concept. Some economists argue that we should spend more at a government level when the economy is depressed and less when it is booming, i.e. a counter-cyclical approach. The 'long run average' is probably closest to Milton Friedman's arguments that the government should be neutral and let the market rule. That market view is, understandably, coming under some suspicion in the USA at the present moment, but nevertheless it bears consideration.

3. I think one of the real difficulties is that we don't have any figures to put on either the Long Run Average (for an idea of the complexity of this notion see the variation in the attached charts) or, come to that, Community Confidence



So my plea would be to work out how we can start putting some figures together that might help decision makers.

Your thoughts?

*I had a long email correspondence with **Dr Paul Christensen, Vemax Management, in Vancouver, Canada.** Paul is that rare breed, an economist who took to engineering (rather than the other way around). With his Masters in Economics, Paul worked for about 5 years as a transportation consultant then started a Ph.D. program in Civil Engineering. A true multi-disciplinary asset manager.*

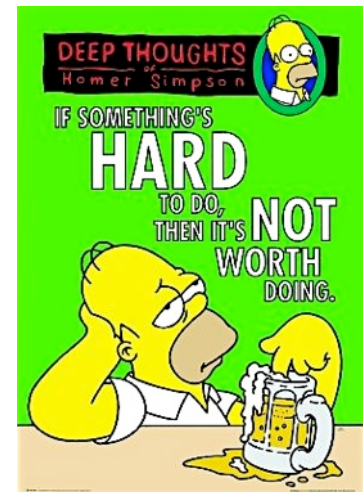
Is infrastructure always “good”?

In the media, more infrastructure is always good and we cannot have too much of a good thing. But is this really true?

Paul writes: “I have been involved in a number of infrastructure investment studies where the implicit assumption is, “infrastructure is good.” But when the most basic of cost-benefit analyses can clearly demonstrate the fallacy of this assumption, arguments such as ‘job creation’ and ‘regional growth’ inevitably pop-up. In these cases, the challenge is to communicate the message in a language stakeholders can appreciate. It’s

often a tough job and there is certainly no guarantee that regional self-interest and political motives overcome basic common sense to the detriment of society as-a-whole.”

My Thought: there certainly are no guarantees, but you can't win if you don't play! My question to asset managers is : “have you even thought of what you can say to ordinary councillors and ratepayers to establish in their minds that if infrastructure does not provide benefits greater than costs, this costs them money in their pocket? Is your analysis good enough to allow you to know when benefits exceed costs, and when they fall short? And are you reinforcing this message in your wider communications (e.g. council newsletters). (see SAM *) Councils that have done this consistently have found that their ratepayers will influence their councillors and that it works in their favour.



Your thoughts?

Paul continues:

“That said, I've also seen instances where clearly 'profitable' infrastructure-related works are nixed because of arbitrarily trimmed budgets and/or odd spending priorities. This can certainly be frustrating for the infrastructure managers who can demonstrate – through sound asset management practice – the long-run savings associated with, for example, prudent maintenance and rehabilitation actions.”

And he asks a very pertinent question: How would a private entrepreneur, who was able to reap all the social benefits (and pay all the social costs) decide? This is a useful way to think of infrastructure decisions.

Your thoughts?

Infrastructure Planning and initiation - done well - is slow

“A common argument against fiscal response to recessionary times is the sheer length of time it takes to actually initiate, for example, grand public works programmes. By the time the trigger is pulled, the recession is over and we're now exacerbating the boom – driving up wages and inflation. That's why I completely agree with your point, “Plan ahead!” If asset managers have a defensible 'wish list' in-hand, they can pull the trigger quickly when economic activity slows.”

My Thought ... and done badly, adds to our future costs.

My Question: Do you have any plans read to run now? If not, what steps are you taking to prepare for the inevitable handing out of funds with short time horizons?

“The bulk of infrastructure need lies within existing infrastructure networks”

Paul: “In this regard, I think it is important to separate maintenance and rehabilitation activities involving existing infrastructure, and new-building activities involving upgrade and addition to existing infrastructure networks. Certainly in North America there is ample evidence to demonstrate the systematic under-funding of infrastructure needs over the past 20 years or so – under-funding that has led to the so-named “infrastructure crisis” of today (see, for example, the recent ASCE report at: http://pubs.asce.org/magazines/CEMag/2008/Issue_01-08/article1.htm). And while there are rally cries for new-building activities, the bulk of needs involve the maintenance, rehabilitation and outright replacement of seriously deficient assets within *existing* infrastructure networks. Not a lot of fancy stuff, but very important stuff from a life cycle standpoint. “

Plans ready to run?

Paul also hazards the guess that “ a great number of infrastructure managers in towns, cities, provinces and states in North America have a prioritized ‘wish list’ a mile long sitting on their desks. So given funding today, I would guess they could launch tomorrow on a number of these projects. This is really a ‘win-win’ situation. Regional unemployment combines with life cycle sensibilities to do the work that’s been ignored for far too long. It’s not a panacea for the economic troubles today, but I do think it can help – and help in a timely way.”

My Thought: I would like to believe that councils have a large list of ‘prioritised works’ ready to run. That would truly be a godsend in the present climate. But when I look into it, I often find that the ‘wish lists’ are just that. They are lists of works that didn’t get funding, or were not expected to get funding. There is no guarantee that work plans were developed or even that the projects were properly cost-justified. In fact, the likelihood of them not being supported in the budget probably discourages fine justification and preparation - after all, why do it, if the projects are not going to get the go ahead? I would really love to be wrong on this one, but my experience to date does not encourage me. Am I wrong?

Is infrastructure worth it?

Paul “A dollar allocated to infrastructure is a dollar we can’t use to lower tuition fees, employ nurses, explore green technologies, add day-care spaces, et cetera. Unfortunately, in my experience these comparisons are tough to make because there exists little consistency in the supporting decision-making practices. That, quite frankly, is one of the reasons I’m keen on formal infrastructure management practices: it provides

the means to quantitatively “account” for the benefits resulting from concomitant expenditures. Less hand-waving, more tangible results.”

My Thoughts (black ones!) How much are we responsible for irresponsible spending on infrastructure? How much is it a reaction to our demands for more infrastructure spending. Seldom do I see media cries for more infrastructure spending either - (1) spell out the renewal and maintenance needs and (2) specify what infrastructure is needed and why. And what do we do in response? Do we correct the warped media views, or do we just let them run?

And my question: is how can we get the clout to correct media misinformation?

How we used Infrastructure Spending in the last Recession

Danier Vanier, Canada writes:

In Canada we have not really started down that road, YET. There have been some announcements in the papers. It might be different if Canada falls in a RECESSION, and that might be announced shortly.

I agree with the general tone of your article, and since I have a long work history (3 decades) I remember back in the 70s when we used to have an annual GRAB of money for projects in the "Federal Labour-Intensive Program" (FLIP). This was for seasonal employment in the winter, where we hired mostly labourers to do construction work that had LOW material needs (fence repair, grounds keeping, etc.). Owing to cold weather and snow, we typically got only 1/2 work of out people, but it employed lower end technology.

I worry that with hi-end infrastructure projects, that we will end up in the Japanese scenario (too much public works and too much infrastructure to maintain). Not only do we need operating moneys to pay for the staff, but also the 2-4% of the replacement value to maintain it and the roughly 2% for renewal.

Peter Hebden, New Zealand writes

With regard to the 'infrastructure for employment's sake', if there were no driver other than 'keep people in jobs' I would agree with your arguments - however, if a more holistic desired strategic outcome-based approach is adopted to drive the infrastructure build choices, then other value propositions can also come into play.....government agencies (central, regional, local) may adopt more open access/progressive infrastructure approaches to drive and fast track both business and community progress/growth....whether they be reducing barriers to entry initiatives through enabling backbones such as open broadband ICT networks....or the creation of more clean, green and energy efficient widgets/environments !!

In summary then, the key points from the dialogue were:

1. **Short term political needs generally trump long term economic ones** - do we give in or do we see how we can work with this tendency to generate better outcomes?
2. **What is the RIGHT level of infrastructure spending** (not too much, not too little) - and how do we measure and make these decisions?
3. **Is Infrastructure always 'good'?** - there is still a need to do your cost/benefit analyses (and I would argue that there is even more need to counter the knee-jerk spending element)
4. **Planning Infrastructure takes time** - start now!
5. **Money spent on infrastructure is at the expense of something else!** - choose wisely
6. **Consider labour intensive infrastructure projects** - they may not be economically efficient, but they could be socially wise.
7. **And for those infrastructure projects that we are confident will be beneficial in the future** - now is a good time!

AND A FINAL THOUGHT



When the economy is booming and consumer demand rapidly increasing, our theoretical private investor who could reap all the social benefits and pay all the social costs, would invest in growth infrastructure to remove the bottlenecks and constraints to growth. He would grow capacity.

When consumer demand was sluggish and the economy not growing, to avoid having to recover his skilled construction and maintenance workforce in some future boom, he would take the opportunity now to use them to do needed maintenance and renewal - and position himself well for the recovery.

