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Infrastructure to 2030: Growth, Innovation and Finance

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1. Infrastructure and Growth

The OECD-Report on Global Infrastructure Needs clearly shows how important infrastructure networks are for future growth. This is not only the case for countries in development, but also for OECD-countries which already have a well functioning infrastructure. Let me take the example of Switzerland which has a modern, open and internationally linked economy. The key-infrastructures for future growth are:

- Electricity
- Telecommunication and IT
- Land and air transport

I have to admit that the importance of infrastructures for future growth is underestimated in Switzerland – as in many other OECD countries. Infrastructures are mainly discussed from an ecological or budgetary point of view. The economic dimension is normally neglected in political and public discussions and this is dangerous because bottlenecks in infrastructures become bottlenecks for economic growth. I hope that the OECD Report will help start this necessary debate.

2. Main challenges for the Infrastructure Policy

In future the vital infrastructure-networks will have to meet the following challenges:

- Sufficient capacities for future economic growth
- High quality and reliability for a modern economy
- International connectivity (transborder infrastructures)

Capacity, modernization and international linking are the three main challenges for our key-infrastructures. To meet these challenges two elements are crucial:

- Improve the efficiency of infrastructure networks: the OECD Report contains a lot of valuable recommendations in this respect (more competition, demand management, life-cycle management etc). Let me add a word on the new technologies (like IT and telecommunications). They are in fact very promising: they can improve efficiency and reliability of infrastructures, they can enlarge capacity and improve demand management. But the integration of new technologies into existing infrastructures is far from being trivial – as many

examples show. An intelligent management of research, development and application is therefore needed here.

- Secure the long-term financing of future infrastructure needs.

3. Financing future infrastructure needs

The OECD-Report states: “The central message of this document is that a gap is opening in OECD countries between the infrastructure investments required for the future, and the capacity of the public sector to meet those requirements from traditional sources.”

This is in fact the main challenge we all face. Let me make three remarks on this challenge:

1. The state has an overall responsibility for performant infrastructures. It can involve the private sector for the planning, financing or management of infrastructure networks – but the final responsibility remains with the state.

Having said this, we should distinguish between infrastructures that can be financed and managed entirely by the private sector (telecommunication, electricity, air transportation), and infrastructures that need public or at least public organized financing (land transportation, esp. railways).

2. For the “Private sector infrastructures” the state has to provide a legal framework that guarantees performant and reliable infrastructures. In this respect the regulation of liberalized infrastructure networks is crucial. It should not only promote competition but also – and this is perhaps even more important – guarantee that the necessary long term investments are made.

3. For the “Public sector infrastructures” the state has to take over the full responsibility for the reliable financing of the infrastructure network. It is true that the short-term oriented budget processes tend to neglect long-term needs like infrastructure investments. So we have to reflect how we can bridge this gap between long-term needs and short term budget processes. I would like to make the following proposals:

- In the long-term, the best solutions are user charges: they should cover the long term costs, including external costs, and they should also be used for demand management.
- Because the introduction of user charges is politically difficult and may take a lot of time, we need a second best solution: Earmarked taxes. In the transport sector vehicle licence fees and fuel taxes are earmarked in many countries. I know that ministries of finance don't like this, but it is the only way to secure the necessary long term investments in the transport sector as long as we do not have user charges.

- Finally we should introduce infrastructure funds: they considerably reduce the risks of short term thinking in the field of infrastructure planning and implementation. In Switzerland we established a fund for the big railway projects and a second fund for the motorway network and urban transport. These funds are financed by earmarked taxes. Without the railway fund, it would simply have been impossible to construct the New Railway Tunnels across the Alps and modernize our railway network.