



Business Council *of*  
British Columbia

# Building BC for the 21<sup>st</sup> Century

Presented to:

**Construction Council Vancouver Island:  
Capital Project Forum 2015**

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# Business Council

- ▶ 260 large and medium-sized companies and institutions from every sector of BC's Economy
- ▶ Represents over 25 % of BC's Employment
- ▶ Thoughtful public policy and economic leader
- ▶ Non Partisan Collaborator
  - » First Nations
  - » Educational institutions
  - » Governments
  - » Industry
  - » NGOs





# BCBC's Work

## Areas of policy focus

### » Competitive economic climate

- infrastructure
- regulatory
- trade
- environmental sustainability
- certainty and access to the land base

### » Energy

### » Innovation and Productivity

### » Human Capital

### » First Nations



# Importance of Infrastructure

- Strong positive returns on infrastructure investment
  - » 1980s David Aschauer estimated rate of return of 50%+
  - » subsequent work shows lower but still positive returns
  - » shown to lift GDP per capita
  
- Boosts economic output
  - » directly through planning and construction phase
  - » infrastructure services are inputs into production process of other sectors
  - » lifts productivity
  
- Improves quality of life



# Larry Summers, former Chair of the US Council of Economic Advisors...

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- ▶ “The US needs long-term budgeting for infrastructure that recognizes benefits as well as costs.”
- ▶ “Projects should be approved with reasonable speed.”
- ▶ “The budgetary arithmetic associated with infrastructure investment is attractive at a time of record low real interest rates and when there are enough unused economic resources that greater infrastructure investment need not come at the expense of other spending.”

Larry Summers “Why Public Investment Really is a Free Lunch,” [Financial Times](#), October 6, 2014



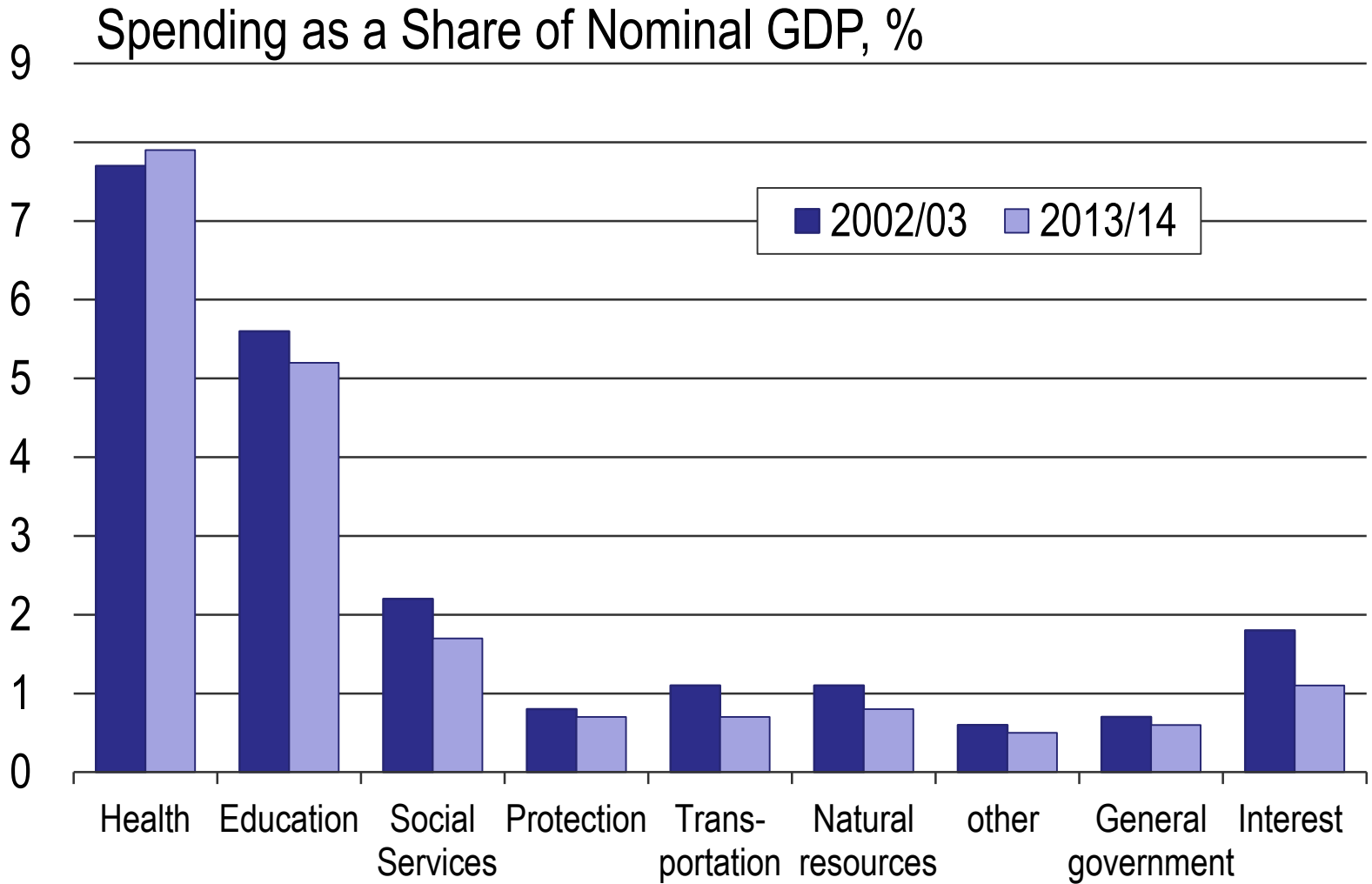
# Governments Are Generally Not Well-placed to Meet Growing Infrastructure Needs

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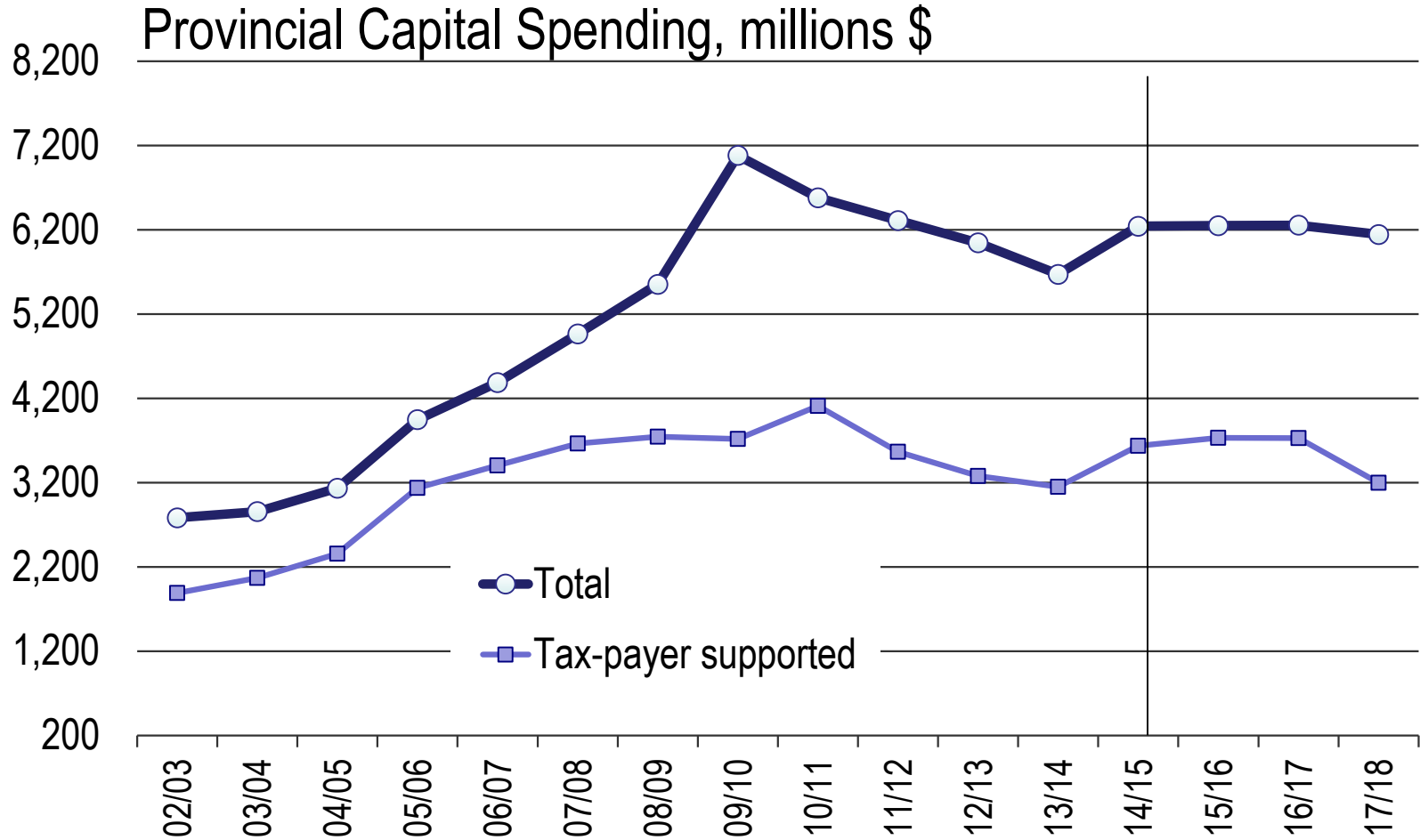
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- ▶ Constrained public budgets
- ▶ Aging population and growing demand for healthcare funding
- ▶ Slower economic growth
- ▶ Environmental concerns
- ▶ Projects increasingly complex

# Health Care Takes More Resources

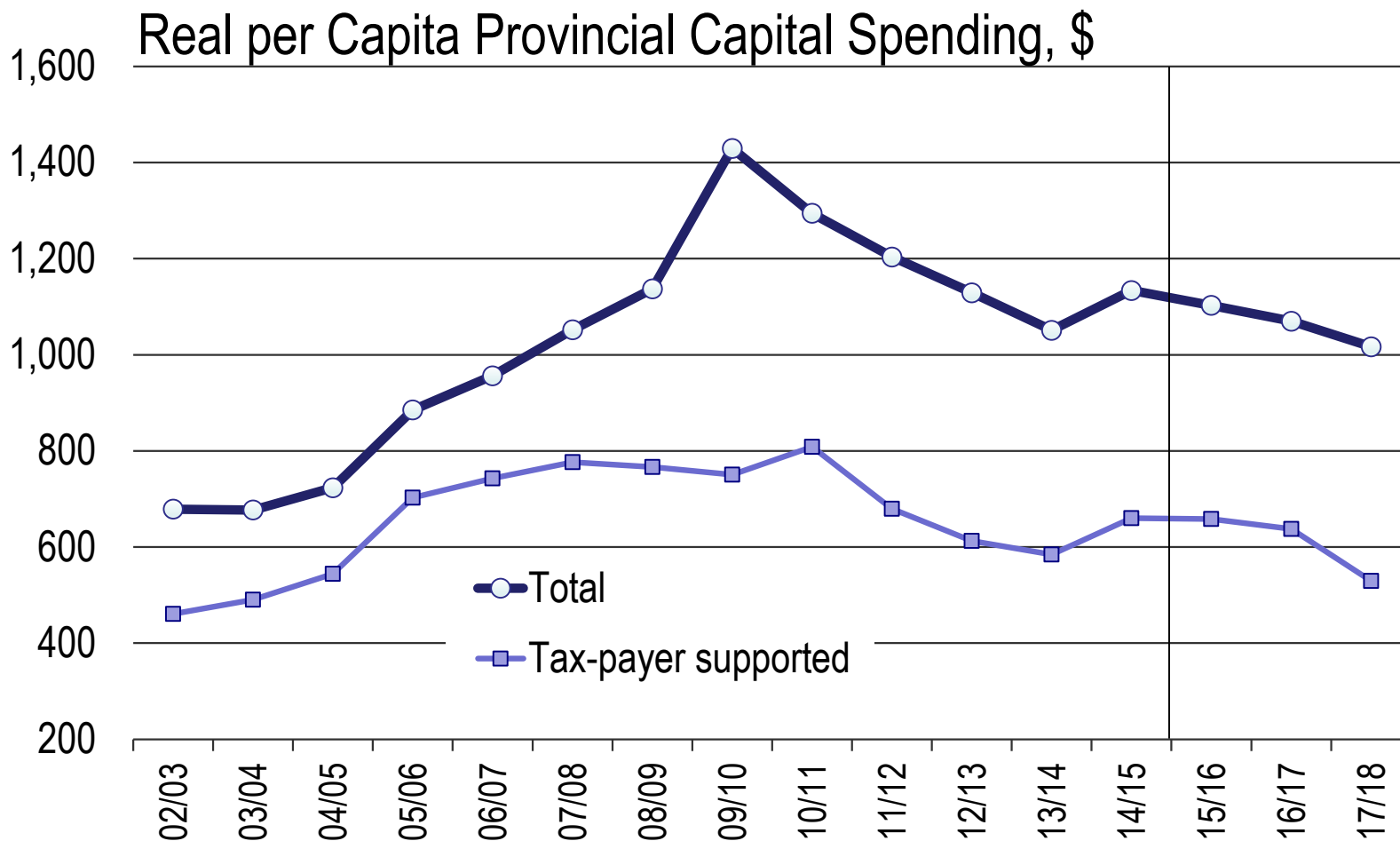


# Total Provincial Gov't Capital Spending Stable

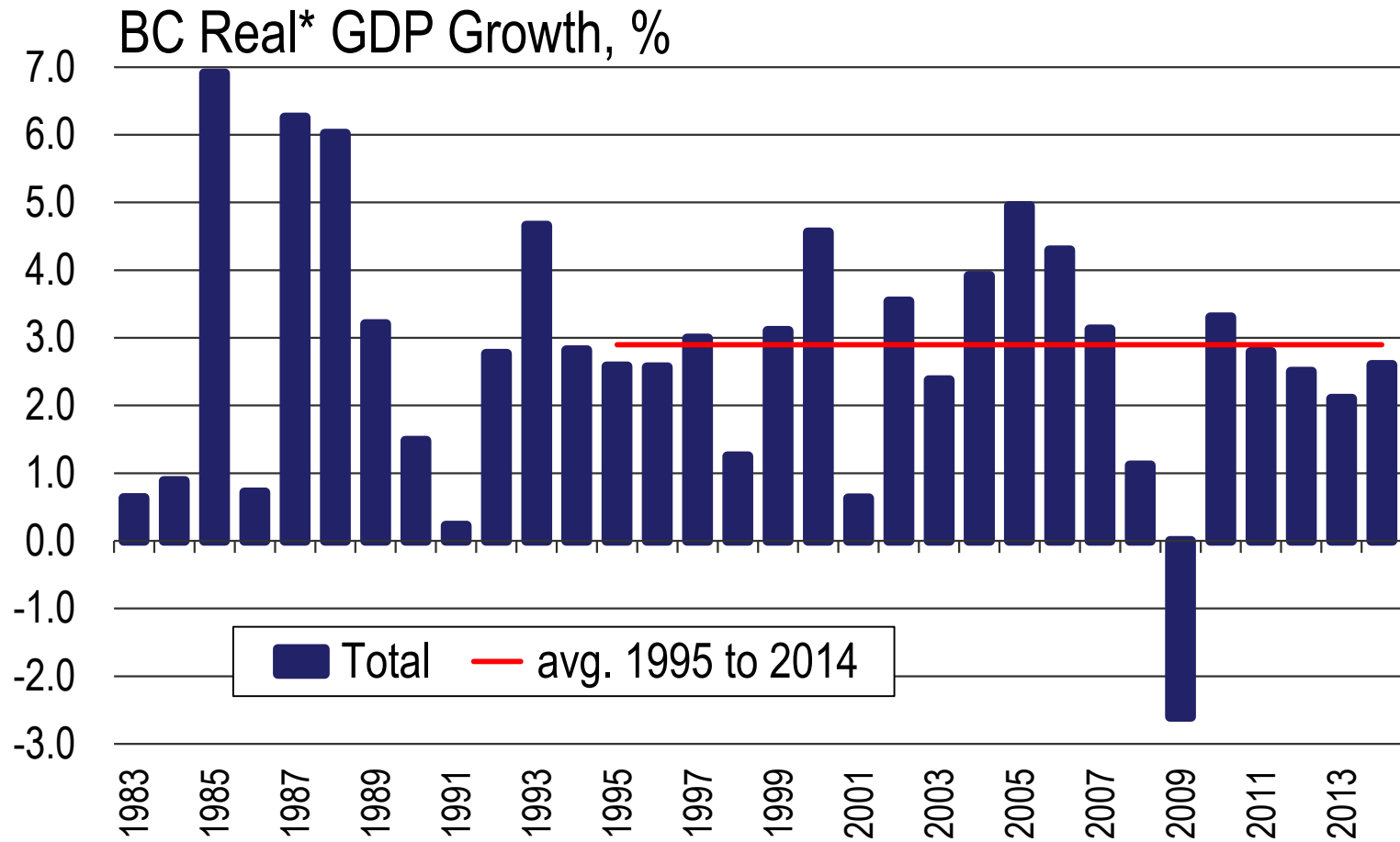




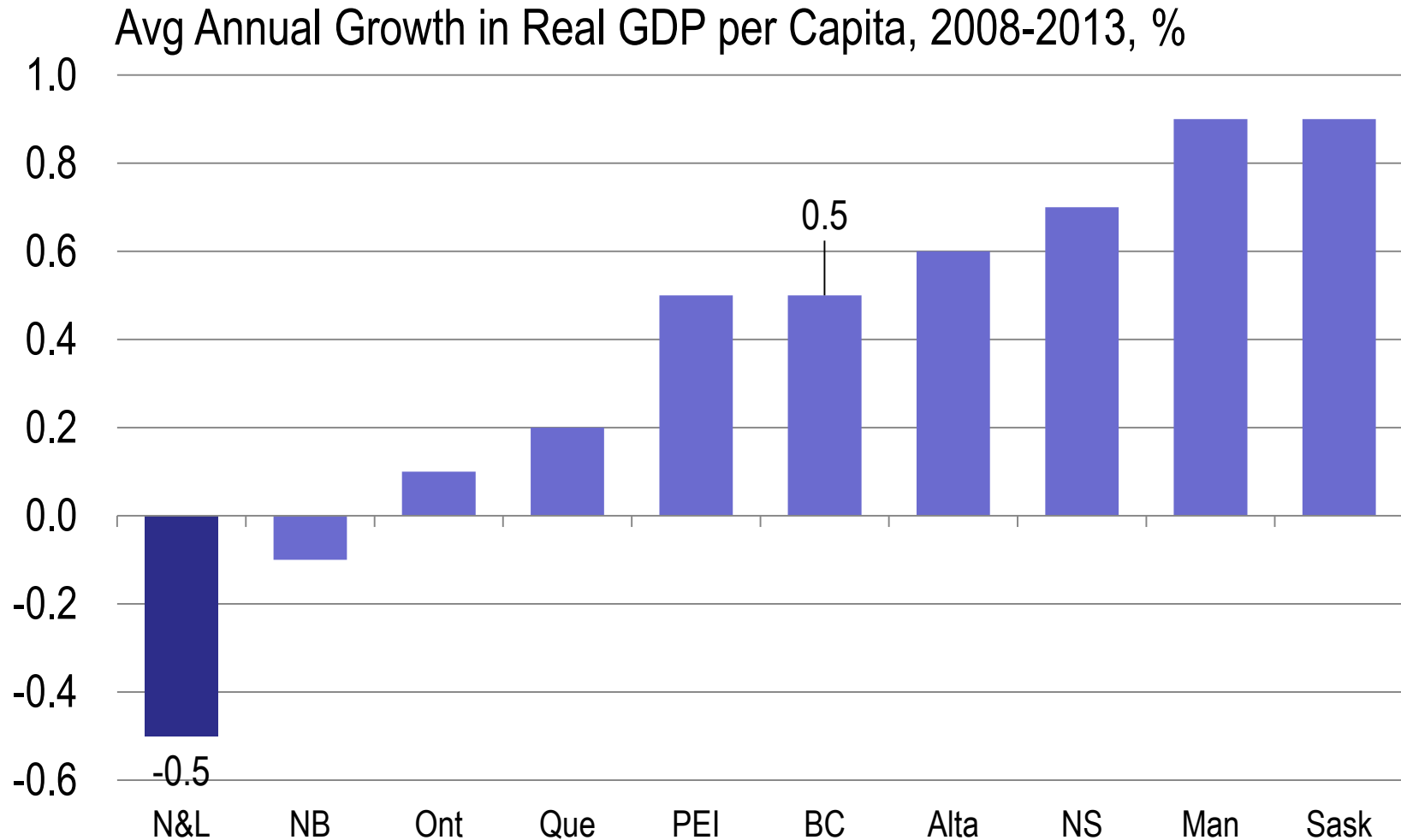
# But on a Per Capital Basis Edging Lower



# Sub Par Economic Growth



# BC Middling Performer on GDP per Capita



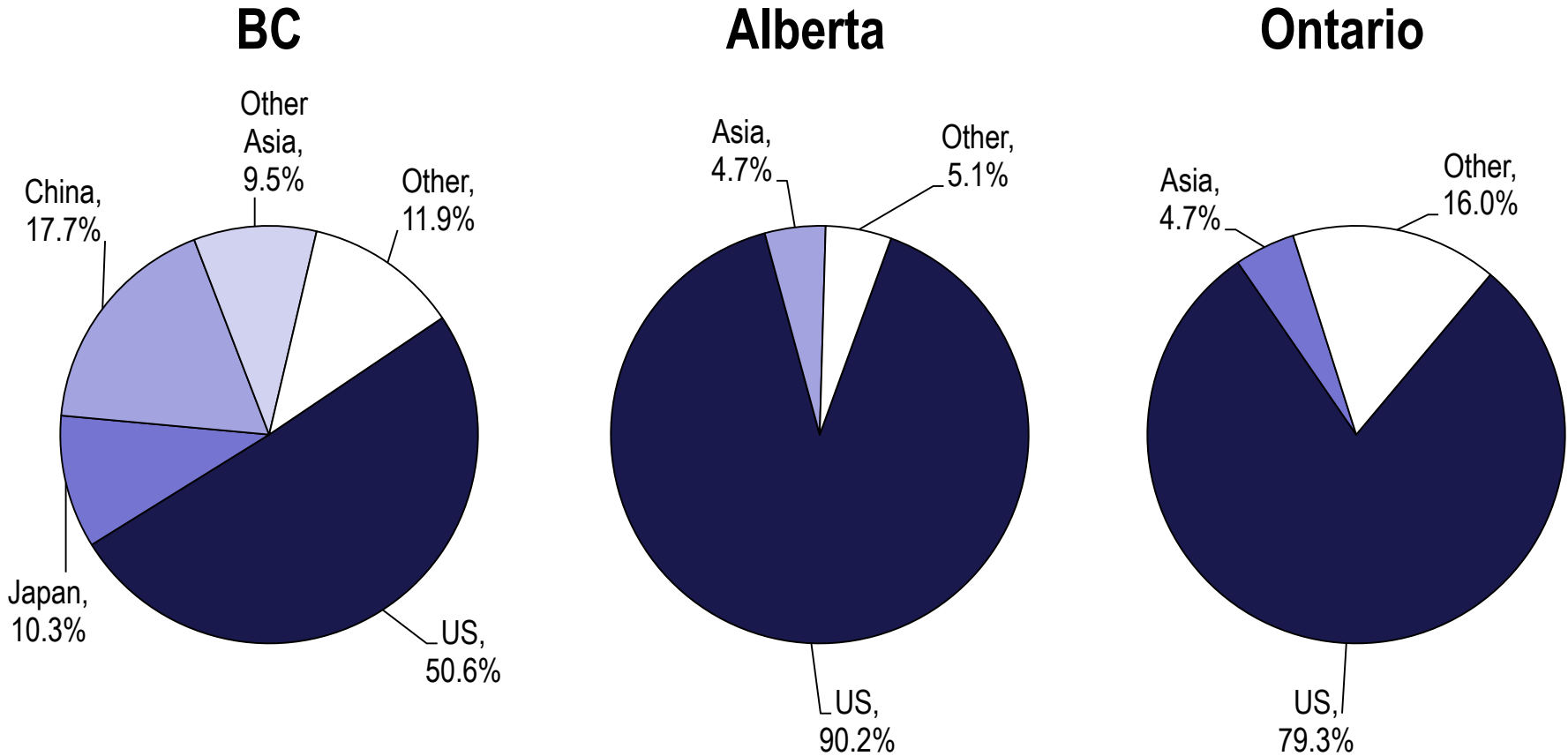
# Factors Shaping Infrastructure Needs

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- ▶ Trade and greater integration with Asia – Gateway role
- ▶ Population growth
- ▶ Demographics – aging
- ▶ Urbanization
- ▶ Globalization and competitiveness
- ▶ Communications and information revolution
- ▶ Environmental considerations
- ▶ Aging of existing infrastructure assets

# Diversified Trade: A Long-Term BC Advantage

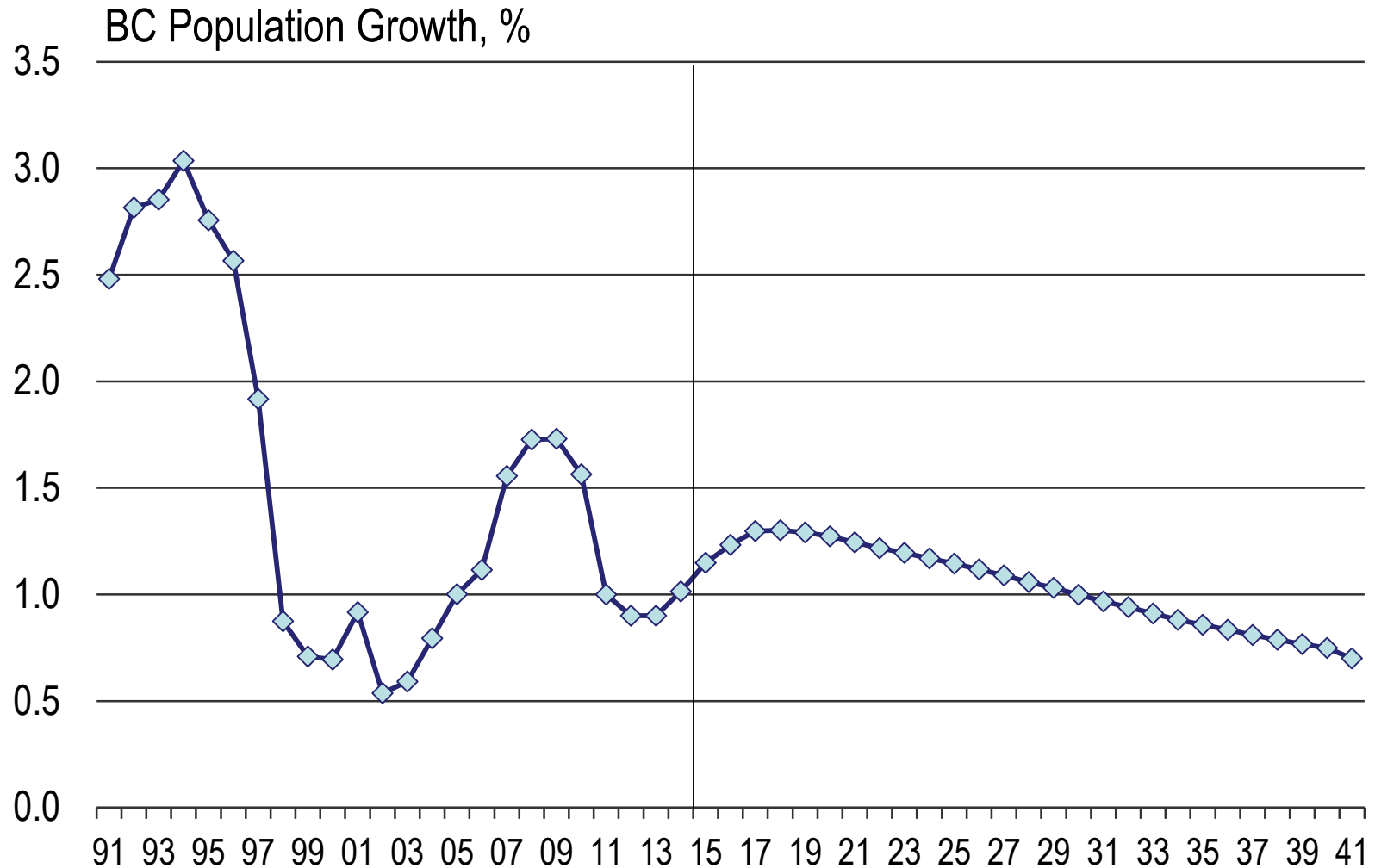
(average annual share of international goods exports by province, 2014, per cent)



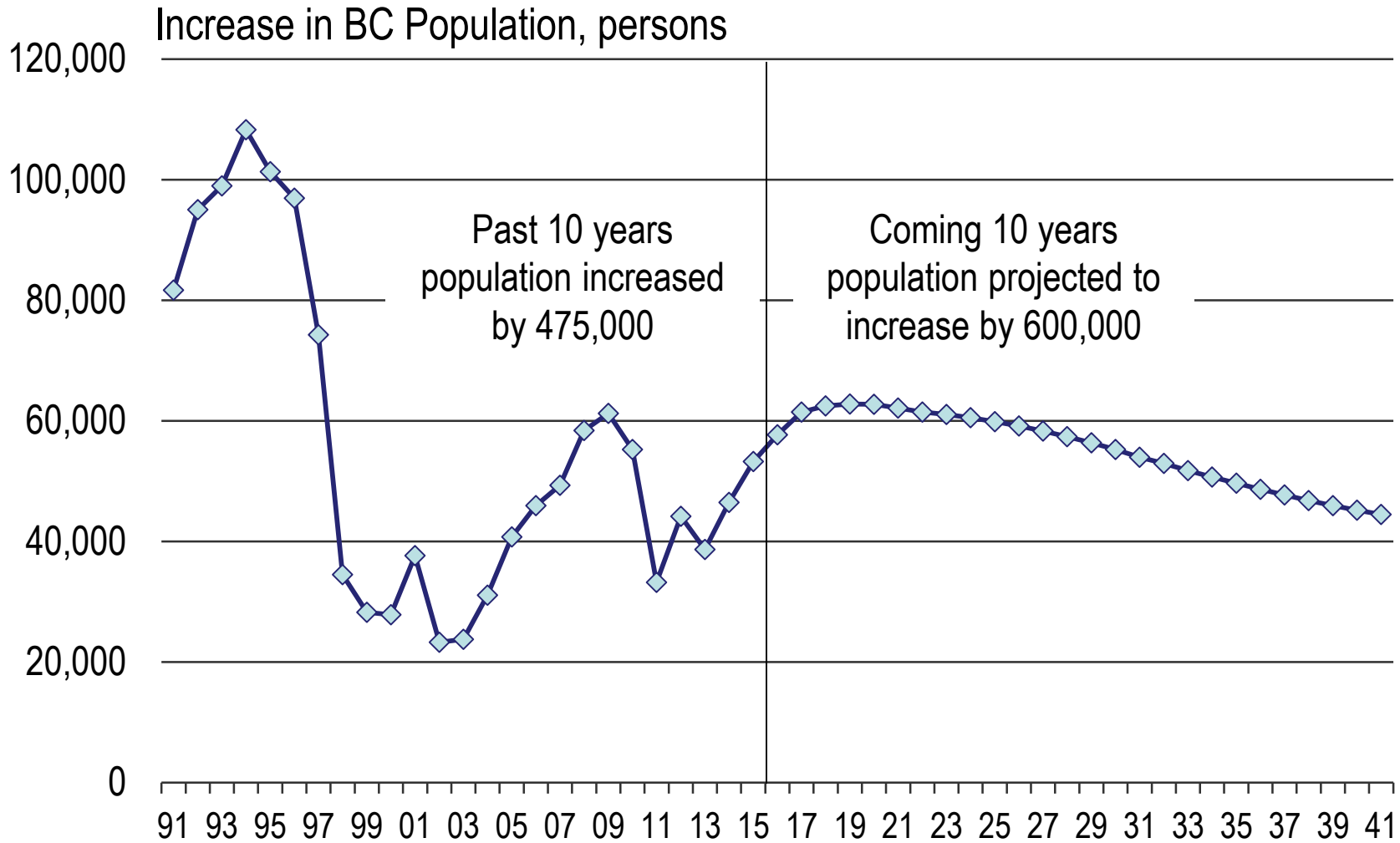
# Rise of Asia Continues – Top 10 Economies

Country	GDP 2014 (US\$ bn PPP)	Country	Projected GDP 2030 (US \$ bn PPP)	Country	Projected GDP 2050 (US \$ bn PPP)
China	17,632	China	36,112	China	61,079
US	17,416	US	25,451	India	42,205
India	7,277	India	17,138	US	41,384
Japan	4,788	Japan	6,006	Indonesia	12,210
Germany	3,621	Indonesia	5,486	Brazil	9,164
Russia	3,559	Brazil	4,996	Mexico	8,014
Brazil	3,073	Russia	4,854	Japan	7,914
France	2,587	Germany	4,590	Russia	7,575
Indonesia	2,554	Mexico	3,985	Nigeria	7,345
UK	2,435	UK	3,586	Germany	6,338

# Population Growth Slows

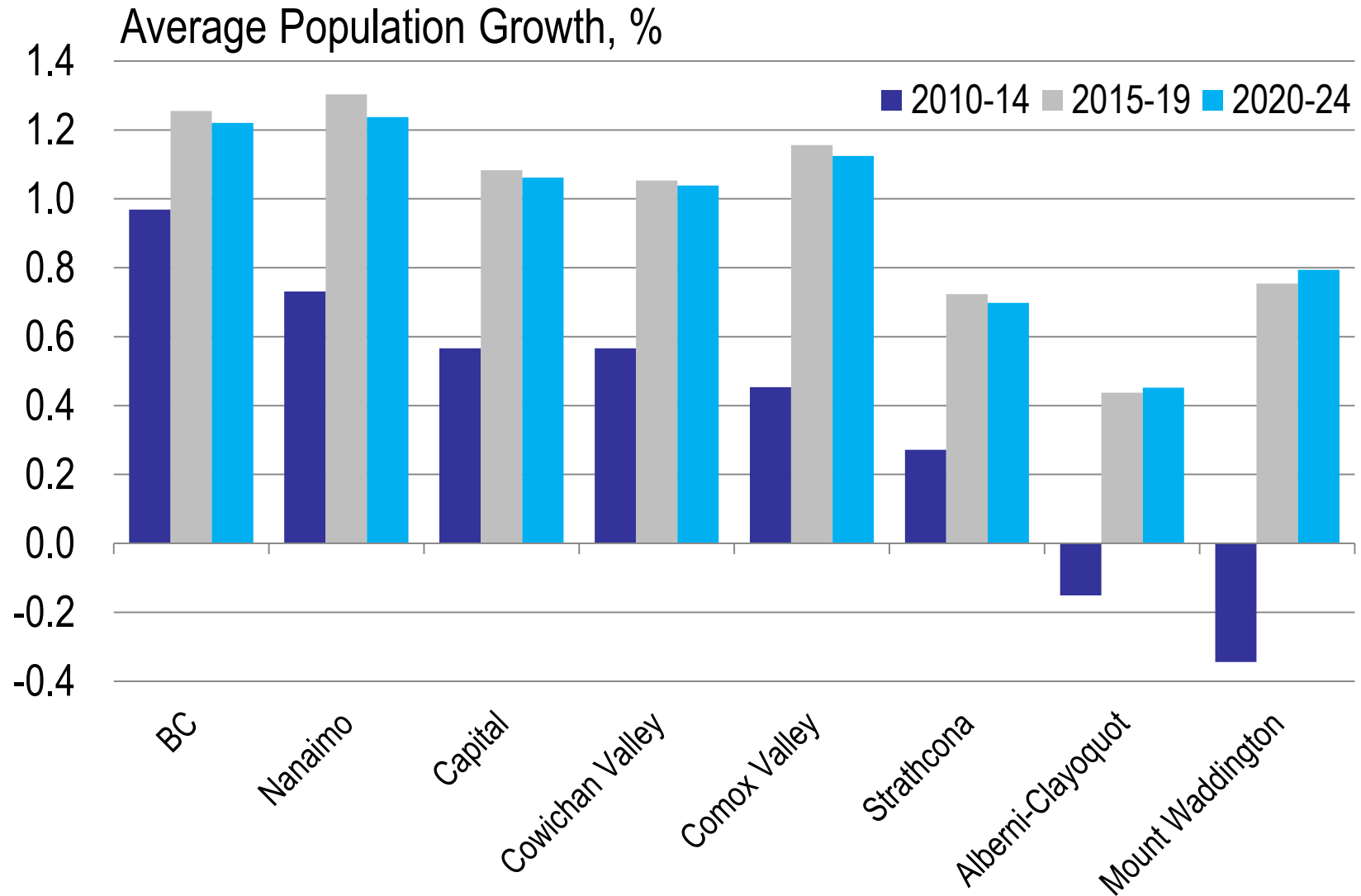


# But Actual Increase in Coming Years Higher than Recent Past

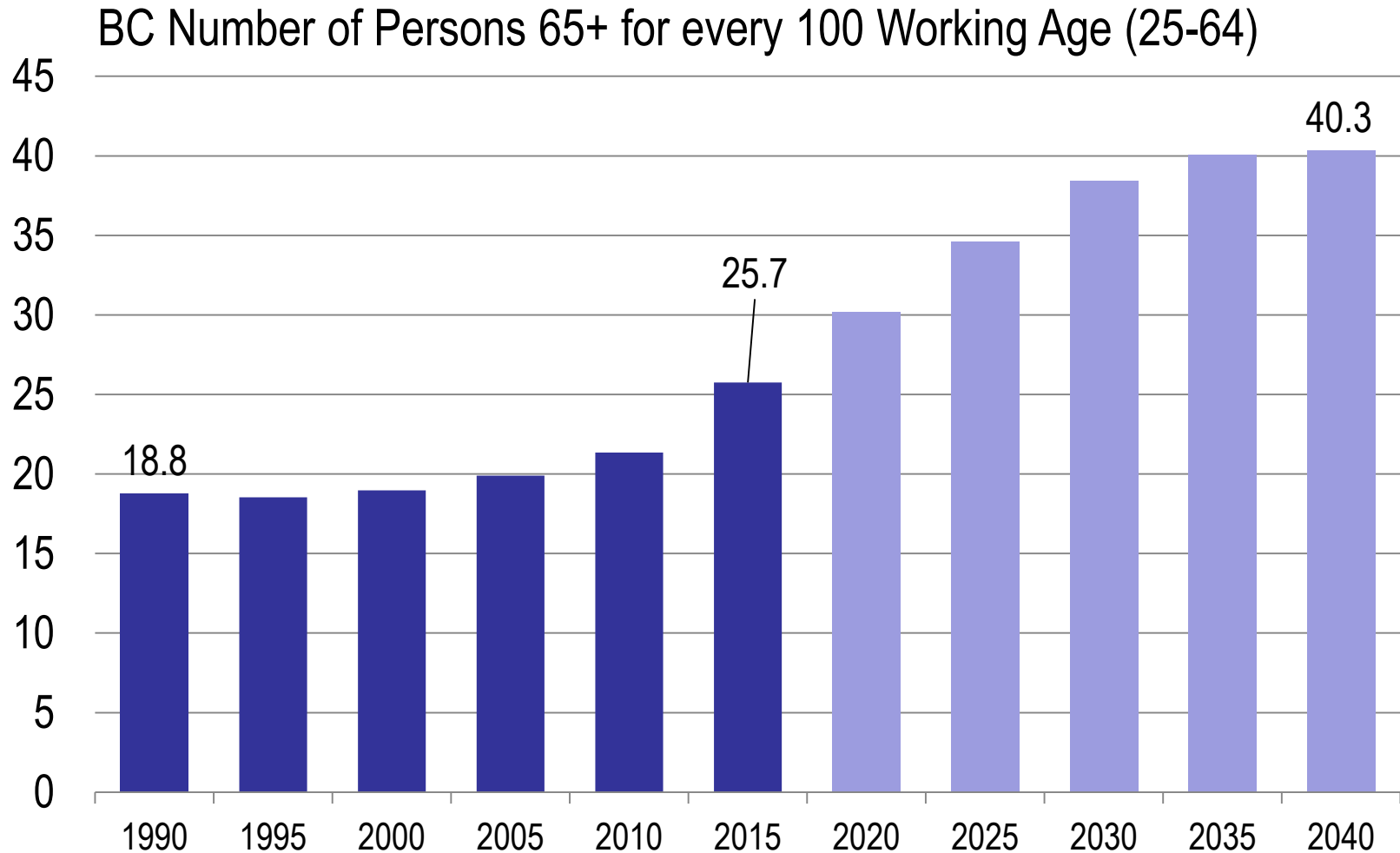




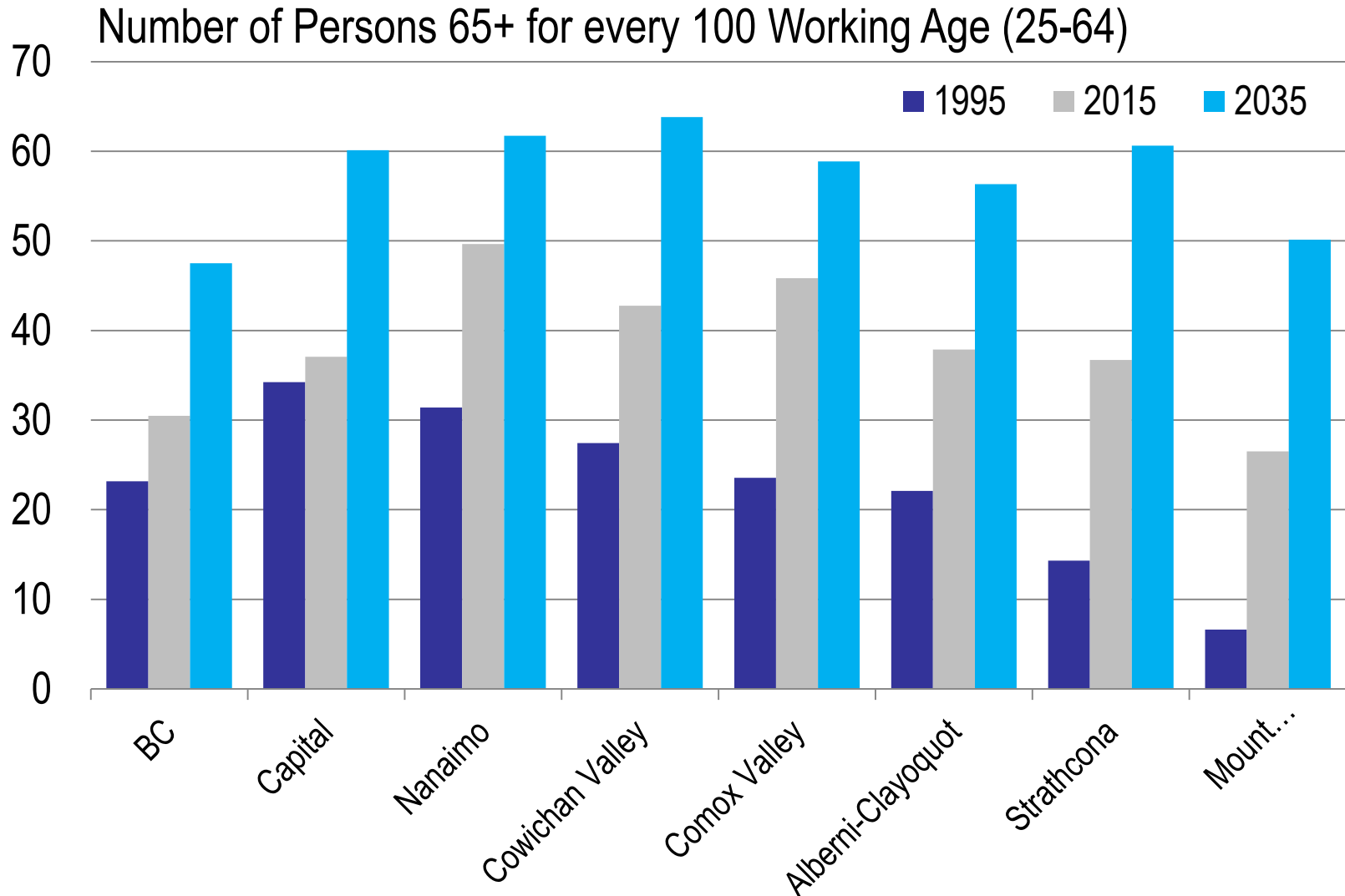
# Stronger Population Growth Expected on Southern Island



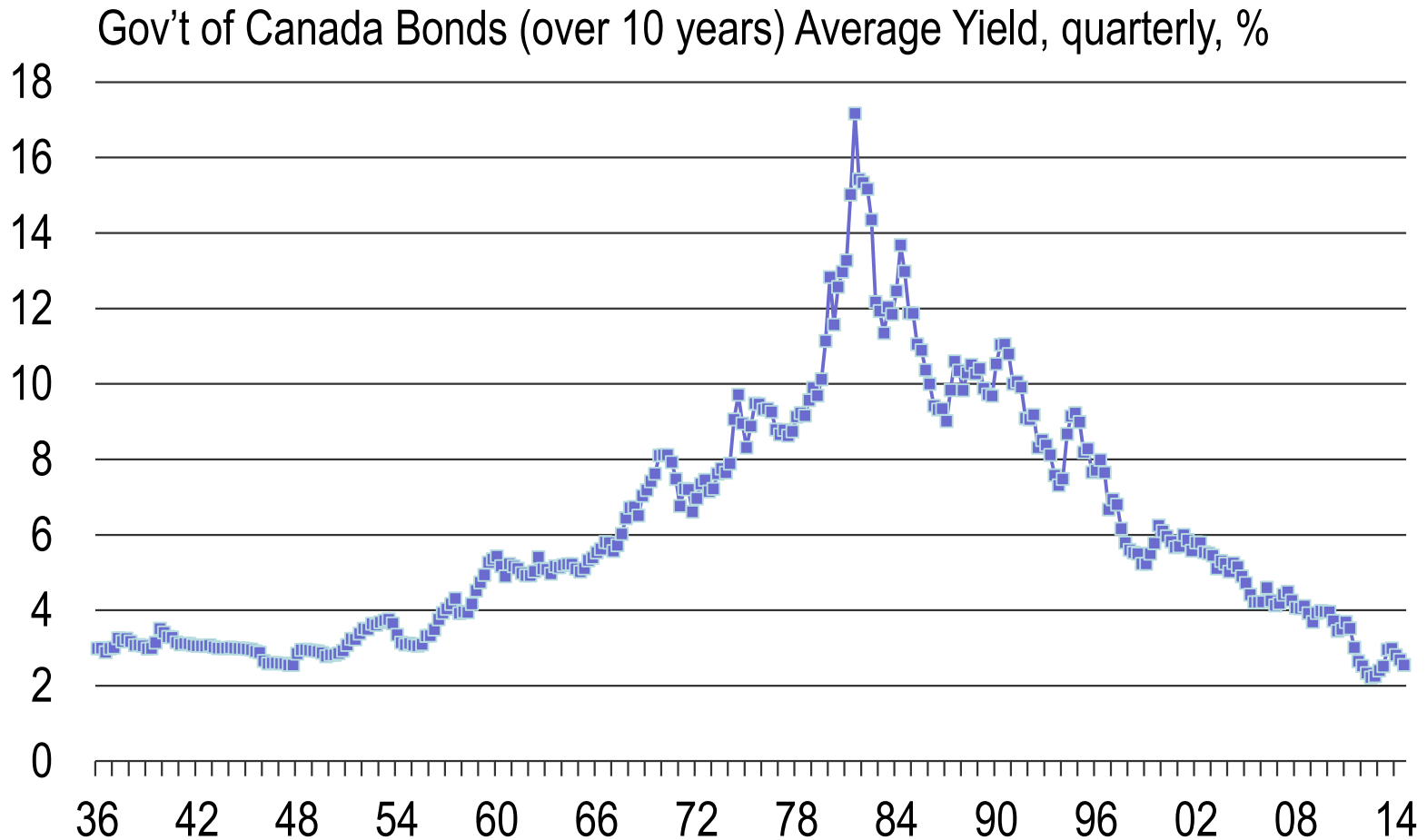
# Ratio of 65+ to Working Age Population Climbs



# Island Expected to Age More Rapidly than BC Average

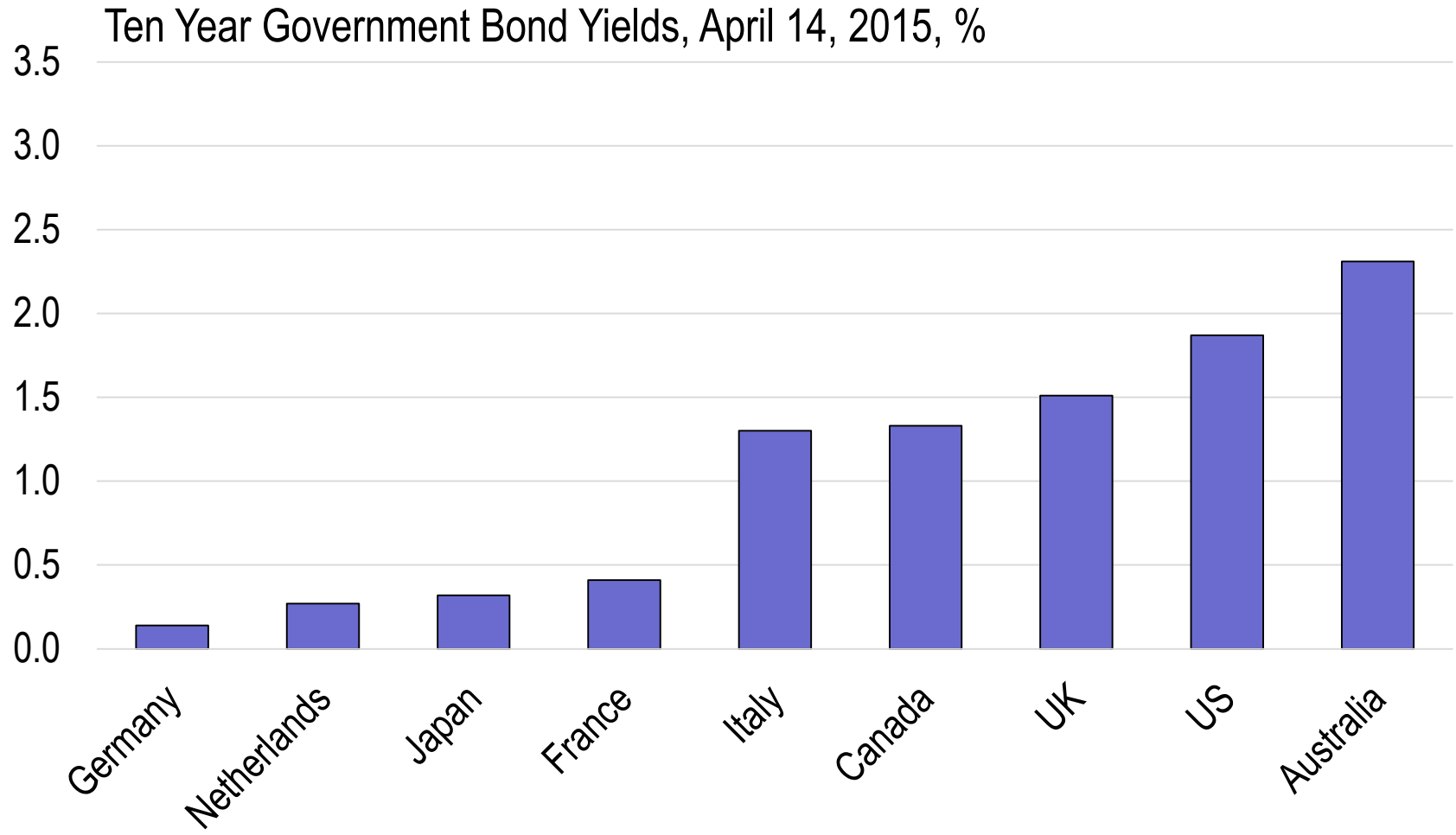


# Record Low Borrowing Costs





# Remarkably Low Interest Rates



# Infrastructure Deficit

- ▶ Historic shortfall has left an infrastructure deficit
  - » Canada used to invest equivalent 5% of GDP
  - » fell to 2% and has climbed back to 4%
- ▶ Aging infrastructure also a concern
- ▶ Municipalities are now responsible for the largest share of the nation's stock of infrastructure
- ▶ Given the age of infrastructure assets, financing will have to flow into maintenance

# Financing Infrastructure

- ▶ Government financing rests mostly on tax revenues and funds garnered from borrowing
  - » federal government routinely supports infrastructure investment
- ▶ Private resources
  - » growing role for private sector including user fees
  - » banks important financiers
  - » bond market also has a long history of providing debt financing
    - P3s, IPPs, YVR, BC Ferries, Port Authority

# Broadening Finance Options

## ■ Pension funds

- » predictable and stable cash flows
- » higher returns than other fixed income investments
- » offers the opportunity to deploy large amounts of capital
- » better marching of assets and liabilities

## ■ Barriers

- » shortfall of a pipeline of projects
- » governments like to retain control of natural monopolies
- » costly to build up in-house expertise
- » infrastructure may not be a good hedge against inflation



# Recommendations from BCBC Paper

- ▶ Develop a long-term strategic infrastructure plan
  - » help coordinate regional development strategies
  - » prioritize projects
  - » create pipeline of projects
- ▶ Leverage financing opportunities
  - » take advantage of historic low borrowing costs
  - » tap private sector capital and expertise
  - » amend province's accounting policy – current treatment of self-supported debt at BC universities
  - » consider a provincial infrastructure fund administered by a stand alone agency
  - » review capital requirement & taxation capacity of municipalities
  - » green bonds

# Recommendations from BCBC Paper

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- ▶ Seek support from federal government
  - » make infrastructure a top priority in all discussion with the federal government
  - » continue to advocate for the importance of the Asia Pacific Gateway
- ▶ Make greater use of demand management tools
- ▶ Improve the regulatory environment

# Recap

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- ▶ BC has done well in making strategic infrastructure investments
- ▶ But we need to invest more in infrastructure in BC, especially economic infrastructure
- ▶ Need to build new and upgrade existing assets
- ▶ Implement a long-term infrastructure strategy / plan
- ▶ Focus on developing new and innovative ways to finance infrastructure

# From the October 2014 IMF World Economic Outlook

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- ▶ Advocates a stepped-up pace of infrastructure investment across the OECD, led by the public sector
- ▶ Notes that public sector capital spending has trended lower as a share of output across the advanced industrial economies in recent decades
- ▶ Argues that record low borrowing costs for high quality credits, coupled with continued economic slack, make today an unusually opportune time to expand public sector infrastructure outlays



# From the October 2014 IMF World Economic Outlook... continued

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- Emphasizes that well-designed infrastructure investments in projects that generate high social returns can reduce rather than increase government debt burdens
- The IMF estimates that smart infrastructure spending that catalyzes private sector investment and improves productivity and competitiveness may boost a jurisdiction's GDP by a ratio of 3 to 1 per dollar spent

Source: IMF, World Economic Outlook, October 2014.