



For the Record

Pension dollars leaving Canada

Partnership or perish: Why are the pensions of Canadians financing public infrastructure across the Atlantic when our largest city can't afford to replace leaky water pipes?

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Last month, downtown Toronto went dark when a broken water main flooded an underground hydro substation. Although this particular rupture was blamed on cold weather, it focused attention on the urgent need to upgrade the city's ageing water mains which, according to Toronto Water general manager Mike Price, break 1,200 to 1,500 times a year.

A day later, the Canada Pension Plan announced it is investing almost half a billion dollars in a fund that will finance construction of roads, bridges, railways, airports and other public assets, perhaps including water systems, in Britain and continental Europe. While it is crucial that Canada's pension funds remain free to put their money where it will earn the best returns, nagging questions remain.

Why are the pension contributions of Canadian workers financing new public infrastructure projects across the Atlantic when our largest city -- the "engine" of the national economy -- cannot afford to replace its leaky old water pipes? Why are municipalities large and small, from coast to coast, facing huge backlogs in road and bridge construction and repair, water and wastewater systems and other public services? Why do our governments seem incapable of decisive action to address this

growing infrastructure deficit? Why aren't they creating opportunities to put the vast financial resources of the pension funds to work rebuilding Canada's crumbling assets?

It's not as if they would be flying in the face of public opinion. Even those of us who have spent the last few years sounding the alarm about Canada's growing infrastructure deficit were a little surprised by the results of a national survey conducted last October by Environics. It found that more than eight in 10 Canadians believe their national, provincial and municipal governments are not keeping up with the demand for new or improved public infrastructure or services.

The survey shows that the concept of the infrastructure deficit resonates from coast to coast (89% in the Atlantic provinces, 88% on the Prairies, 87% in British Columbia), holding strong regardless of age, gender and income, irrespective of whether people live in cities, towns or rural areas, whether they vote Liberal, Conservative, NDP or Bloc, whether they belong to a labour union.

When 80% of the electorate agrees on an issue, it's safe to assume that our elected representatives might soon come around to that way of thinking as

well. So 2005 could be the year that this country's rundown and inadequate public infrastructure moves from the perennially pending tray to a more prominent position on the national agenda.

That move is long overdue. Canada's infrastructure gap -- the difference between what has been spent and what should have been spent to maintain public assets such as roads, bridges, schools, hospitals and water systems -- is currently estimated at up to \$125-billion, 10 times the combined total of all current government infrastructure budgets.

Studies conducted at McGill University indicate that if this kind of under-investment is allowed to continue, in 60 years the deficit could balloon to a crippling \$1-trillion. That's because when it comes to looking after such public assets, in the long run it's far more costly not to spend money.

At the annual Conference on Public-Private Partnerships held in Toronto in November, Saeed Mirza, a civil engineering professor at McGill, said that deferring maintenance (or not performing repairs at all) leads to much higher rates of deterioration and eventual repair bills that can equal the original cost of the asset. Either that or it has to be replaced, at much higher cost, long before it would

otherwise have been necessary had regular repairs been undertaken.

Inadequate infrastructure not only undermines the living standards of Canadians by condemning them to inferior transportation, health, education, water, electricity and recreation facilities, it also compromises the country's competitiveness in the global economy. The Conference Board of Canada reports that, in a survey of executives of multinational companies, more than 80% said that the poor state of business infrastructure in this country, including civil infrastructure such as highways and border crossings, is adversely affecting Canada as a destination for foreign investment.

Governments, their sights firmly fixed on reigning in budget deficits, have been slow to respond to this looming crisis. With a couple of exceptions, most notably British Columbia, the provinces have been content to wait for Ottawa to take the lead. It has been a long wait.

Now we have the federal government's promise to transfer gas tax revenues to municipalities as the cornerstone of its new deal for cities. While this is a frank acknowledgement that municipal

infrastructure needs urgent attention, and while it is a step in the right direction, it will not change the situation in a significant way.

In November, TD Bank chief economist Don Drummond released an analysis showing that the existing municipal infrastructure gap across Canada is \$60-billion and growing at \$2-billion a year. Coincidentally, federal gas tax revenue transfers will top out at \$2-billion a year. In other words, the "new deal" will not make much of a dent, if any, in the existing infrastructure gap.

Returning to the Environics survey, it is apparent that Canadians not only appreciate the scale of the problem, the majority also realize that the public purse is not the answer. Six in 10 people nationwide agree that it is time for governments to put private sector finance and expertise to work on closing the infrastructure gap. Support for public-private partnerships varies from province to province: It is strongest in Quebec (68%) and the Atlantic provinces (63%), it is solid on the prairies and British Columbia (61%), and it tapers off slightly in Ontario (55%).

Canada's pension funds represent a vast and growing pool of finance looking for the kind of long-term investment opportunities represented by infrastructure projects. It is unfortunate that the lack of such opportunities at home means that large amounts of money invested by Canadian workers is financing major public works projects in other countries.

With combined assets of \$700-billion and an annual growth rate of 8%, public and private pension funds are in a position to make a huge difference to the infrastructure situation. All they need is some good projects offering an appropriate risk-adjusted return for their investors and, of course, a signal from governments that they are ready to commit to the sort of stable, long-term public-private partnerships that have already transformed public services in Britain, Australia and many other countries around the world.

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For more information:

Information on the infrastructure investment deficit is available on The Canadian Council for Public-Private Partnerships website at:
[www.pppcouncil.ca/
resources_infraDeficit.asp](http://www.pppcouncil.ca/resources_infraDeficit.asp).