



Financing Infrastructure

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The title of this year's OECD Forum is Climate Change, Growth and Stability. Infrastructures – transport, energy, water, telecommunications and so on – are a vital component of all three of those interrelated themes. Infrastructures are a means for promoting growth and prosperity across the economy and contributing to the quality of life of citizens and of their environments. And, in today's globalising world, infrastructures are essential for a nation's competitiveness, for the efficiency with which our economies operate, and for our ability to mobilise the skills, information, knowledge and resources that determine our capacity to innovate.

But can we continue to deliver the infrastructures needed to sustain growth and quality of life in OECD countries in the future? And can developing countries step up the development of their infrastructures in ways that will allow them to continue to expand their economies, feed their growing populations, reduce poverty and raise their standards of living? This will be quite a challenge. In many Member countries, infrastructures are old and sometimes in poor shape, and a major investment effort will be required in maintenance, upgrading and renewal. Moreover, climate change is beginning to make its mark, affecting the performance of infrastructures through more frequent droughts, hotter summers, and more frequent extreme weather events such as flooding and hurricanes. And then, there is the globalisation process itself and the emergence of new markets and new players on the world scene, which is helping to lengthen supply chains and aggravate congestion around key ports, airports and transit corridors.

So there are some very good reasons why the OECD should be paying serious attention to developments in infrastructures. Indeed, the OECD is home to a lot of policy work in this field – from the activities of the Environment Directorate on water and the Directorate for Science, Technology and Industry on telecommunications, to the work of the International Energy Agency and that of the International Transport Forum. The OECD project on Global Infrastructures to 2030, which we completed last year and which brought a lot of this work together from across the Organisation, explored how the long-term infrastructure challenges facing governments and businesses worldwide could be met.

In a nutshell, the project's main finding was this. A gap is opening up, particularly in OECD countries, between the infrastructure investments required for the future, and the capacity of the public sector to meet those requirements from traditional, public sector sources.

So where is the financing to come from in future? The bulk of infrastructure investment tends to come from the public sector, but – as you all know -- it is here that pressures on budgets and tax-raising capacity are already starting to be felt. In the advanced countries, public capital investment has accounted for a steadily declining proportion of total government expenditure. At the same time, social expenditures have increased their share quite noticeably. The two mainsprings behind the increases in social spending have been health and pensions. Both are expected to expand strongly in the coming decades. They are likely to outpace the growth of government budgets and that of GDP by a substantial margin. So the scope for public investment in infrastructures within government budgets will be increasingly constrained.

What are the options for governments? Despite growing pressures on public budgets, general and local taxes will continue to provide the single most important source of financing in many cases. However, in most OECD countries and some of the larger developing countries, ageing populations are likely to lead to shrinking wage bills and reduced tax receipts. Public budgets, fed by taxes, will not by themselves be sufficient to bridge the burgeoning infrastructure gap. Indeed, there is no single solution, no magic bullet that can do the job. What will be required is a diverse package of innovative measures. These include more innovative approaches to private sector finance, such as through, Public Private Partnerships, greater diversity of public sector revenue sources, for example through more widespread deployment of user fees (such as tolls on roads and bridges), dedicated long term public funds, smarter application of new technologies, and better demand management. Innovation on that scale poses fundamental challenges to both governments and businesses.

With me here to day to discuss these issues with you are, in alphabetical order:

Agustín CARSTENS, Secretary of Public Finance and Credit of the Government of Mexico.

Andrew HUNTER, Head of Macquarie Europe, who are also sponsors of this panel event.

Richard LAVERGNE, Secretary-General of the Observatoire de l'énergie in the French Ministry of Ecology, Energy, Sustainable development, and Town and Country planning..

Pierre LORTIE, Senior Business Advisor at Fraser Milner Casgrain, and former president and COO of several of the operational arms of Bombardier Canada.

Hamish McRAE, Associate Editor and principal economic commentator of the UK newspaper *The Independent*

We shall organise the discussion in the following way. I shall ask each of the panel participants in turn to speak for a maximum of 8 minutes on a particular aspect of infrastructure development and financing. We will start with Andrew HUNTER, who will be followed by Minister CARSTENS, and then by Richard LAVERGNE, Pierre LORTIE

and Hamish McRAE. I will then open up the floor for questions. Towards the end of the session, I will take a few minutes to wrap up proceedings with a few personal remarks.

So without further ado, I would like to invite Andrew HUNTER to begin.

Key questions

- How are infrastructure needs evolving in the speakers' respective countries?
- How to ensure long-term sustainability of infrastructure?
- What role should the public sector play in developing future infrastructure?
- Does the subprime crisis and perhaps rising level of inflation put the availability of infrastructure financing at risk?