



Conversations
That
Matter



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- Mr. Dodge, welcome to Conversations That Matter.

- Good to be here.

- Thanks for joining us. When we take a look at the position that Canada is in economically right at the moment, what's your assessment of how we're doing?

- Well, we've had a very good year. The last four quarters, we had 4% growth, that's pretty good, and certainly far above what we could sustain over a long period of time.

- Well, that is the key, isn't it? Can we keep our foot on the gas like that?

- No. So our potential growth is somewhere around 1.6, 1.7, 1.8% a year. So we had slack in the economy which is being closed up. So we've had a good year, better than, certainly, I think all of us expected at this time last year. Next year will be okay. Still absorbing more of the economic slack. But by the time we get to 2019, we'll be back able to grow at our potential. And so the real job of economic policy is, how do we increase that potential?

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- Let me ask you that very question, then, how do we do that?

- Well, in part, it's investment. We were talking earlier today about this, and in public infrastructure. But obviously, investment in plant and equipment, and investment in human beings in terms of the skills we need. I mean, that's part of the answer. The other part of the answer, of course, is that we need to think hard about how we can increase our productivity and what changes we can make in the structure of our economy that will allow us to be more productive. Because the one thing we know is that our labor force is not gonna grow very rapidly if at all over the next decade or so.

- So we need to be efficient, but we also need to be investing.

- Exactly.

- But what's the climate for investment right now? You take a look at, in light of the Tsilhqot'in land claims case, if you want to get into resource investment, you need to ensure that you're working with First Nations. And so we see resource development not quite at a standstill, but almost, and so how do we start to move forward beyond that?

- Yeah, so I wouldn't... I mean, on the resource side, there are a number of issues. You've mentioned one, the regulatory environment, the land claims, all of that, that environment. I mean, that has got to be solved by us collectively through governments to deal with that. That's part of it. Part of it, of course, is that we've got lower prices than we had at the peak. It's unlikely that, certainly, on the oil and gas or the hydrocarbon side, that we're gonna have much improvement. We may have some improvement in some metals and minerals. But by and large, we're not gonna have that sort of a boom. We're getting a little kick right now to lumber because of the excess demand in the United States, but that's not gonna last for long. It's going to have to be in both the manufacturing and service side that we somehow manage to make, A, the right investments, both in people and machinery and equipment, and that we look to find ways to organize our businesses in a more efficient way so that not only can we take advantage of technological change, that we are making the investments we need to make in development of new products. On that side, the real burden, if you will, is back on business to do its part to raise that productivity.

- I've got to get you to hang on for a second while we take a quick commercial break. We'll be right back.

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- Absolutely, there is. We've got to move people, we've got to move goods, we've got to move electrons. We've got to move that so that people can flow, that people can flow across borders, that goods can flow across borders, and so that information can then flow across borders. That is a real challenge for us all, and in many cases, government will play an important role in that. But it's not up to government alone. Well, business and government have to work together to make those investments which will enhance the value of new capital or enhance the value of our human skills going forward.

- I've had a conversation with Jane Bird about how we develop infrastructure projects in not only British Columbia, Canada, and it appears that this is an issue around the world. You can look to Russia and they're grappling with the same thing. How important is it that we create those kinds of partnerships between the private and the public sector?

- Well, I think it's extraordinarily important. It's important, I think, for, it's not so much for financing reasons, although that is important, and it's been held out to be very important. I don't think that's the most important thing. The really important thing is to have projects where the real focus is on the economic return from the project or from the group of projects that are being undertaken. And the private sector involvement in those projects, either through financing it or through tolling arrangements or whatever.

- Or operation and maintenance, and so on.

- Exactly. The private sector involvement is very important because it leads to, doesn't always guarantee, but it leads to greater efficiency and effectiveness in the operation of a project, but even more important, it really means that in order to undertake a project or undertake the investment, that it must be viable because the private sector partner will not go along unless there's a degree of viability. Doesn't mean that it's risk-free, right? It doesn't mean that it's risk-free. And somehow the risks on any of that need to be shared, and it's important that the risks be shared also because that really means that there's a discipline in the selection of the project and a discipline in the operation and maintenance of that infrastructure.

- But do we have the structure, nationally and even provincially, to really start to address some of these infrastructure gaps? Or are we doing it in a more ad-hoc manner?

- Well, some of it is done, and ad hoc has got negative connotation to it.

- Yes, it does.

- We are doing, a fair bit of it is local and must always be local. And that really relates to urban transit networks and so on. Those have to be local. In that sense, they're gonna appear to be ad hoc because they've got to deal with local circumstances. Beyond that are some of the bigger things that are truly

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national. So we're sitting here in Vancouver. The Port of Vancouver is a national enterprise because the economies of the interior of BC, Alberta, Saskatchewan, indeed, in Canada as a whole rely on the efficiency and effectiveness of getting stuff out through the Port of Vancouver and getting stuff in through the Port of Vancouver. Yeah, there are some things that are truly national, there are some things that are truly local but have important implications. If the City of Vancouver or the City of Toronto or City of Montreal have very poor urban transportation networks to move people around, they become less attractive places for people to be, less attractive places then for industries to come, and hence cannot serve as growth pulls in the same way as they could if that domestic-local transportation network was more efficient.

- If we're investing money in that kind of infrastructure, that is good debt to take on, and so when you're running a deficit, if it's going into that kind of infrastructure program, that's pretty good fiscal policy. But that doesn't look like that's what we're doing at the moment.

- So it's absolutely appropriate, whether for a business or for a government, to borrow to make an investment that yields a return. Absolutely. Indeed, that's a good test as to whether you ought to spend that money. The problem. The problem comes, how you extract that return, right? And so if you're thinking of it, if you're thinking of schools and hospitals, for example, which are supportive of health and education and post-secondary education and so on, the real product is not the school and the hospital, it's that system, and if that whole system functions well, then that is good for growth, we provide the skills that we need. You can't finance a school or a hospital through charging people as they come in the door. You can charge them for parking perhaps, but because the infrastructure is part of the public service that is being given, right? So those, how do you support those public services? And how do you support that infrastructure? Then for that, some generalized tax, like the HST or some generalized consumption tax, perfectly reasonable way to support that. But when you undertake a major program of investment in schools and hospitals, you better be willing as a government to say, and we're gonna pay for it by an extra point on the GST or some way, because if there's not a revenue flow coming, then you cannot judge whether that investment has been worthwhile. But even more important, you don't have a revenue support to maintain those investments over time. That's quite different than a public use infrastructure like roads, where you actually can put a charge on the use of that just like pipelines, which are totally developed privately, put a charge toll on the use of the pipeline, or railways, put a charge on the use of the railway.

- This is our second break. We'll be back in a moment.

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- So you bring up pipelines, and I know that you've floated the idea before, of saying that a pipeline really ought to be a more infrastructure-driven project run by the government, or at least a lead from the government. Do I have that right from what you've suggested in the past?

- For the private side, whether it's pipelines or whether it's railways or whether it's airlines, for the private side, the main thing that government does is to provide the regulatory framework in which that operates. And so, yes, it's very important that the government think very hard and work very hard on the regulatory framework, which includes, as you mentioned earlier, dealing with aboriginal peoples. It's very important that the federal government work hard to ensure cross-provincial border flows. That could be power, it could be water, all of those things. And rather than allow the country to be balkanized and have very inefficient systems because they end at the provincial border.

- We talk about the Canadian economy. It's been steaming along pretty nicely, close to 4%. But there are some threats on the horizon. NAFTA. We're uncertain about where it's gonna go. And the US economy isn't performing the way that was projected a year or so ago.

- No, I don't think so. I think the US economy is performing about as every reliable economic analyst said it was gonna perform. There were some people that had hopes that somehow there would be a big fiscal injection. That has not taken place.

- And it doesn't look like it's going to either, does it?

- Well, and to the extent it does take place, it's gonna take place through corporate tax cuts, which have a very low immediate impact on the economy.

- Rather than in the infrastructure investment.

- Rather than in infrastructure investment, or, indeed, rather than tax cuts, which largely will flow through to consumers and be spent quite quickly.

- But do you think that our relationship with the United States economically is in peril in any way? Or is it pretty much gonna be, carry on as normal? Stay calm and carry on as normal.

- Normal has not been problem-free, right? There's always bound to be problems. It's going to take a while to resolve in some way, shape, or form the softwood lumber issue and so on, right? But the threat to NAFTA I think is very real. We have been used to, we've built a number of supply chains North America-wide in the last 20 years that would be threatened if NAFTA were to break down. Not all of it by any means. I mean, it's important to remember that I think only about 60%, maybe more than 60%, of Canada-US trade takes place under NAFTA provisions rather than under the normal international WTO provisions. And in the interim, while we don't know what the outcome is going to be, quite naturally,

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people will sit on their hands and they're not gonna make investments while things are that uncertain. Yeah, so there's some very negative things on the horizon. In the short run, it's an uncertainty. Negativity. In the longer run, if we don't end with some sort of a reasonable arrangement with the Americans, I think in the end we will, it may not be NAFTA as we currently see it. We'll end with some sort of reasonable arrangement. Because there's too much at stake for both American companies and for us in moving to less efficient arrangements for production here in North America. It makes us less competitive as North America in dealing with the rest of the world. And in the end, it means lower real incomes for Canadians, although if NAFTA were to fall apart, we would see some downward pressure on the Canadian dollar, which would provide a bit of an adjustment mechanism.

- Third and final break before we get back to this fascinating topic. We'll be right back.

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- To protect our own wellbeing and our ability to participate in that economy, we have to be aware of these factors. Do you think that we have the capacity right now and the vision to be prepared for that?

- Well, it's very discouraging. Not particularly discouraging in Canada. But the lack of American leadership and the inward focus, it's almost like the defeat of The League of Nations after World War I, where the United States backed away from the world. Well, once again the United States is backing away from the world. And we saw what happened when the US backed away from the world after World War I. And at the same time, we have the European project, which is very dubious. Let me put it that way. Forward movement at the moment on the European project is dubious. So that's rather discouraging. So we in Canada, where I think we are still pretty outward-looking. We are. We have so far maintained, domestically, the will to look outward. We're not a major power, but we've got to do what we can in order to protect that, and that means working, finding ways to work with the Americans. One always has to hope that the Americans will come around, that this is a temporary phenomenon in the United States. One continues to hope that the Europeans will come around. For a while, it looked like this summer that maybe it was a good step. Now, with Madame Merkel not being able to form a government with the rise of the right wing populism in Eastern Europe. With Brexit, that looks less optimistic. Yeah, I think we've got a lot of work ahead of us. And I think it's really important that the business community in this country maintain and reemphasize the outward-looking opportunity... Emphasize investing in the opportunities that will allow us to participate in this changing world, which is not necessarily the world we would have preferred.

- Right. It's starting to move beyond our control.

- Yeah.

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- Yeah. Thank you very much for doing this. I appreciate your insights.

- You're welcome.

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