Strategic Public Infrastructure for a Competitive Canada

Issue

Public infrastructure investments are linked to enhanced productivity, job creation, and income growth. They also enhance the health and quality of life of Canadians and our communities. Unfortunately, our country faces a significant public infrastructure challenge due to a long period of underinvestment in maintaining existing stock, combined with a growing need to modernize infrastructure such as public transit, roads, water and wastewater, the power grid, and modern telecommunications such as fiber-optics.

Canada needs a national infrastructure investment plan that involves all levels of government, targeted at opportunities that will yield the greatest economic benefits. The federal government must lead the way, coordinating with provincial and municipal partners to introduce a wide range of innovative financing tools, including new mechanisms for raising revenue from both private and public sources that provide stable and predictable financing on an ongoing basis.

Background

Recent studies by the Institute for Research for Public Policy (IRPP), the Canada West Foundation, the Canadian Chamber of Commerce, and the Conference Board of Canada have demonstrated that improvements to labour productivity, growth, and increases to income are tied to public infrastructure investments.

Unfortunately, Canada experienced a long period of underinvestment in public infrastructure by all levels of government. According to The Economist, infrastructure spending in Canada as a percentage of GDP declined annually from 1960 to 2004, from a high water mark of 3 per cent in 1960 to 1.5 per cent in the 1990s; the world average long run expenditure on infrastructure is 3.8 per cent of GDP per year.

A recent report from the Mowat Centre reveals that the federal share of spending on infrastructure has declined from 31 percent to 10 percent over the last 50 years. At the same time, municipalities have been forced to pick up the slack, to the extent that municipalities now account for 67 percent of all infrastructure spending, up from 38% in 1961. This hike in municipal costs is exerting upward pressure on property taxes and hurting business competiveness.

It would be challenging for Canada to be at the head of the pack in infrastructure investment, but treading water at the median will ensure mediocre productivity when compared to other modern economies going forward. Canadians deserve better.

The Canadian government has taken important steps to address infrastructure needs through the introduction of the Building Canada Fund, the Green Infrastructure Fund, the GST rebate for municipalities, and making the Gas Tax Fund permanent and indexed at two per cent.

Even with these announced investments, combined with infrastructure programs announced by many provinces, a gap in funding will remain. Just to maintain our current infrastructure stock at current levels would require an annual investment level of 2.9 per cent of GDP, which is a level higher than the peak year of the recent stimulus program. To maintain our current stock and invest in new infrastructure will require Canada to increase the availability of funds, both public sources and other mechanisms such as user-pay, and a growing reliance on public-private partnerships. It will also require us to investigate other innovative financing methods such as infrastructure banks, tax-increment financing, and sales tax levies for specific, local projects that would be put to municipal voters through referendum.

The alternative – continuing to underinvest in infrastructure – is fraught with long-term, negative consequences. A recent CCPA report found that cumulative public investment in infrastructure has steadily declined from its peak in the late 1950s – and that the cumulative effect of this underinvestment means Canada is missing out on $145 billion worth of infrastructure (CCPA 2013). The impact of an addition $145 billion worth of infrastructure investment would have had an electric effect on the Canadian economy and on job creation in particular. The CCPA estimates that Canadian governments would need to spend an additional $20-$30 billion over the next ten years to return infrastructure funding to historic levels.

If Canada aspires to be a competitive, 21st century economy, it requires 21st century public infrastructure, and 21st century revenue tools to build that infrastructure. This will require the federal government to lead the way in initiating a dialogue with Canadians about the importance of infrastructure investments, and demonstrating that investments will have a positive impact on their everyday lives. It will also require the development of a long-term infrastructure plan that is coordinated across jurisdictions, involves increased investment from public sources that is permanent, stable, and predictable, draws upon private sources of funding and other innovative tools to raise additional investment revenue, and targets funding to projects that will have the greatest economic benefit. Such a shift towards private financing will require significant attention to the conditions that have to be in place for these types of investors to take interest.

Recommendations

That the federal government:

1. Increases, by at least 20 percent, the funds allocated through the 10-year Building Canada Plan.
2. Reviews global best practices in public infrastructure financing, and investigates the feasibility of introducing new public and private financing tools that deliver value for the money invested.
3. Ensures that investments in public infrastructure are targeted to projects that result in the largest net gains for the economy, and must include strategic investments in Canada's major economic hubs, gateways, and public transit systems.
4. Validates the effectiveness of P3 projects to ensure that all parties are able to efficiently manage those projects so that they result in a quality product that is delivered in a timely manner with a reasonable return on investment.
5. Provide stable, predictable and equitable financing in all projects, including advance notice of available funds, criteria and application process to ensure the projects needed have access to the funds available in a timely manner.