

Myths of Infrastructure Spending in Canada

by Charles Lammam and Hugh MacIntyre

As the federal government and several provincial governments plan on collectively spending hundreds of billions of dollars over the coming decade on infrastructure, this report dispels five common myths used to argue for why now is a good time to ramp up government infrastructure spending.

Myth 1 **Government must ramp up infrastructure spending to make up for past neglect**

Proponents of large-scale increases in infrastructure spending often argue that governments have not spent enough in recent decades to expand, or even to maintain, the value of infrastructure that exists in Canada. However, the stock of government infrastructure per person (total value net of depreciation) has been growing steadily over the past 15 years and is now at the highest level since 1971. After adjusting for inflation, the net stock of government infrastructure per person has grown 27.3 percent, from \$16,394 per person in 2000 to \$20,876 per person in 2015 (all in 2015 dollars). Since 2008, annual spending to acquire new public infrastructure has been particularly high, with Canada ranking relatively high on international comparisons of government capital spending.

Myth 2 **Infrastructure is largely the domain of governments**

There is a misperception that Canada's infrastructure is largely provided by governments, with minimal contributions from non-government organizations such as busi-

nesses and charities. As a result, those who argue that Canada would benefit from increased infrastructure spending usually focus on making the case for more government spending on infrastructure, overlooking the major contribution made by the private sector. For over 40 years, the net stock of infrastructure per person from non-government organizations has exceeded that of the government sector. In 2015, the net stock of non-government infrastructure represented 72.6 percent of Canada's total infrastructure stock, up from 63.4 percent in 1971.

Myth 3 **Increased infrastructure spending will spur economic growth**

The argument that infrastructure spending will spur economic growth is one of the most prominent arguments made in favour of increased infrastructure spending. In principle, sound infrastructure spending (a high-in-demand road, railway, or port) can increase long-term economic growth by improving the economy's productive capacity through more efficient transportation corridors that move people and goods across our country and to borders and ports. In practice, however, not all public infrastructure spending fits this bill. For instance, just 10.6 percent of what the federal

government plans to spend on new infrastructure will be on trade and transportation infrastructure. Most is on so-called “green” and “social” infrastructure, the latter including projects such as social housing, community centres, and hockey arenas. Although these initiatives may be appreciated by the community in which they are built, they are unlikely to provide productivity gains. Moreover, infrastructure spending generally fails to stimulate the economy in the short-term because of considerable delays and because the spending may not target the sector of the economy most in need.

Myth 4

With interest rates low, now is the time to ramp up government infrastructure spending

Low interest rates have been used to argue for increased government spending on infrastructure. However, interest rates are only one factor in assessing the costs of increased infrastructure spending. Failing to account for other relevant fiscal and economic costs exaggerates the opportunity provided by low interest rates. Other fiscal considerations include the future operation and maintenance costs of a new

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infrastructure asset, which can be up to 80 percent of the total lifetime cost and are not influenced by current interest rates. In addition, the economic costs of the taxes that fund the infrastructure spending add considerably to the overall costs and should be properly accounted for. A more fundamental problem is that the interest rate argument wrongly assumes that infrastructure spending should always be largely or completely financed by debt.

Myth 5

The federal government should take the lead on infrastructure

A recurring argument in Canada is that the federal government should take on a greater role in provincial and local infrastructure, primarily through conditional infrastructure grants. Such grants give the federal government influence over which projects are undertaken and how they are managed, imposing federal priorities that may not reflect the particular needs of every region. Conditional grants distort local decision making in counterproductive ways by encouraging recipient governments to undertake projects that are more likely to receive funding over others that may be of higher priority to the local region. Federal infrastructure grants can also lead to a deterioration of accountability of the recipient government to taxpayers. If provincial and local governments wish to spend more on infrastructure, they can prioritize the use of available revenue for that purpose rather than calling for additional resources from the federal government. Tellingly, provincial and local government own-source revenues (total revenue minus transfers from other governments) have grown faster than federal own-source revenues over the past 15 years.



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