

The case for spending on Central Canada's infrastructure

The state of public infrastructure in Ontario and Quebec is an impediment to the health of a productive economy

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Quebec's Philippe Couillard and Ontario's Kathleen Wynne are forging an interesting [alliance](#) in Central Canada, one that represents the country's largest economic region and a population of over 20 million.

Both premiers are joining their voices in tackling the issue of the federal government's share of infrastructure funding. In short, they claim that around 5 per cent of gross domestic product should be invested annually to build and maintain proper public infrastructure and, consequently, that Ottawa should increase its investments to 2 per cent of GDP, thus keeping it stable and predictable.

It is no secret that both provinces are facing hard times and, most importantly, large deficits. The devaluation of the loonie is starting to work its magic, with exports responding favourably, but both provinces will need more than a boost from their export sectors. As Mr. Couillard said: "It is known all over the world that the fastest solution to a job crisis is the construction of infrastructure."

So, with Ottawa looking at surpluses sooner than expected, would higher federal spending on public infrastructure be a good use of taxpayers' money? The economic argument says yes, but the political argument is not so clear-cut, which is an easy assessment as the political dividend of infrastructure spending is undoubtedly less interesting for Ottawa than outright tax cuts.

Politics aside, and focusing on my home province of Quebec, the state of our public infrastructure truly is not what one would hope it to be, in large part because of underinvestment from both the provincial and federal governments. Between 1979 and 2000, Quebec's real aggregate value of public infrastructure fell from \$26.5-billion to \$19.5-billion (measured in constant 2002 dollars), a level last seen in 1970. During this period, the share of new investments funded by the federal government in Quebec declined more or less evenly, going from peaks of over 10 per cent to as low as 1 to 2 per cent in the past few years. Yes, the federal government has stopped spending as much as it used to, but the provincial government has not invested as much as it should have either.

The economic argument is more straightforward. We keep hearing about Canada's declining productivity and, in that light, any investment made in the country's public infrastructure that could have a positive effect on the course of business would be a step in the right direction. With Ottawa eyeing surpluses, this is an opportunity that could be seized.

In Quebec, with its relatively low private non-residential investment spending, there is not much risk of "crowding out" other forms of investment by injecting public money. In that view, the impact on the province's productivity should be significant, especially in the current context of underinvestment and limited capacity from the provincial level. Quebec's situation is particularly difficult because of its size, low population density and rigorous climate, all factors making the task of maintaining the quality of its infrastructure quite challenging.

Budgeting and prioritizing are of course at the heart of the issue, but looking at it from an economic point of view, it is hard to make a case against more public spending on our deteriorating public infrastructure.

Just like they say about having a healthy lifestyle, we cannot afford not to take care of Canada's public stock of capital and declining productivity.

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