

# RCCAO report says Ottawa is profiting from Ontario's infrastructure investment

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The Liberals have made increased infrastructure spending a key part of their agenda for their majority government, and a new report from an advocacy group backs up many of those claims.

The new report from the **Residential and Civil Construction Alliance of Ontario** says the province is spending less on infrastructure than it should be to guarantee long-term prosperity (three per cent of GDP instead of a little more than five) .

The alliance is a labour and business group that advocates for the construction industry on infrastructure and transit investment and regulations to help speed up project approvals.

The report was written by economic analyst **Paul Smetanin** and also says there are a limited number of options to back infrastructure expansion.

Either Ottawa comes in with financial assistance, Ontario cuts its infrastructure spending or the province runs persistent, large deficits for the foreseeable future. Either of the latter two options poses serious risks for the province.

"In Ontario, taxes would have to go up 10 per cent" if the province were expected to bear its infrastructure needs on its own.

Smetanin says there's an additional reason for Ottawa to come to the table with money: The feds are profiting from Ontario's investments without bearing any of the costs. That comes in large part from income and sales taxes that are generated from large infrastructure expenditures.

"If you were to share risks and rewards equitably and consistently, you would expect the federal government to come to the table to the tune of \$7.2 billion a year," Smetanin says. "If the status quo continues, provinces and municipalities will continue to run deficits."

The Liberals have said for most of the past year that Ottawa needs to start contributing to Ontario's infrastructure funding, contrasting what they believe is federal neglect of Canada's largest province with funding to support resource economies in Alberta and Newfoundland and Labrador, as well as pipelines to export Alberta bitumen. Not surprisingly, Minister of Infrastructure **Brad Duguid** welcomed the report's conclusions on Monday.

"There's no question, if you look at the numbers, Ontario is on the short end of the stick when it comes to infrastructure funding. Highways alone, the province contributes 26 times more than the federal government, so we have a huge shortfall in this country," Duguid said. "We're stepping up because we know it's important to our economy, but we urge the federal government to recognize the importance as well."

Not only provincial Liberals have argued for an increased federal role in infrastructure spending: Federal Liberal Leader **Justin Trudeau** says that Canada's sounder budget leaves Ottawa room to step in to assist provincial budgets.

Nevertheless, Smetanin says he didn't speak with either provincial or federal Liberals in the writing of his report for the RCCAO.

"This is just a statement of facts," Smetanin says. "We wanted to understand on an evidence-based basis whether they had a point or not."

Smetanin's earlier research suggested the five per cent threshold for infrastructure spending has been used repeatedly by former infrastructure minister **Glen Murray** to demand a larger share of spending from Ottawa. Murray explained repeatedly in 2013 and early 2014 that Ottawa has essentially left infrastructure spending to the provinces and municipalities, which are spending roughly two and one per cent of GDP, respectively, leaving a two per cent gap where Ottawa should be.

Smetanin says that if government spends more than five per cent on infrastructure they start to reach the point of diminishing returns, while below five per cent they run the risk of underinvesting in infrastructure, or investing so little there's no margin for error.

"The number of 5.1 per cent is the top. Anything beyond that, you're doing too much. Anything less, and you're putting the economy at risk," Smetanin says. "At 3.1 per cent (the status quo), any bumps in the road — that actually has a much greater negative impact than if we were closer to the 5.1 (per cent mark). We don't have the luxury of getting it wrong."