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Ottawa’s stimulus fiasco

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Mathieu Belanger/Reuters

The village of Klemtu, in northern B.C., hardly stands out among Canada’s ports. With a population of 450, the Aboriginal village doesn’t get many visitors to its makeshift dock. Even so, politicians in Ottawa and Victoria have come to see Klemtu as a key hub in their effort to stimulate the economy. Starting next month, work will begin on a new ferry terminal at a rocky outcrop two kilometres north of the village. The total cost to B.C. and Canadian taxpayers: $25 million. Granted, that’s only one-quarter of what BC Ferries paid in the late 1990s to build the Duke Point terminal in the city of Nanaimo, but that facility came complete with a stretch of four-lane highway and it serves more than one million passengers a year. Klemtu will be used “at most for a few hours once per week,” according to an environmental assessment of the project. Perhaps fittingly, tiny Klemtu sits on the shores of a place called Swindle Island.

Larry Greba of the Kitasoo Development Corp., a company owned by the local band council that pressed for the new terminal, insists the steep price tag will eventually be offset by fuel savings, since a more efficient ferry will service the new terminal. The project also helps a community beset by perpetual recession, he says. “They have had a bastard terminal since 1996, so this will open a huge opportunity for the community.” Meanwhile, a spokeswoman for the province says the terminal will benefit other communities in the region and create 150 short-term jobs.

There’s no question isolated parts of northern B.C. need better ferry service. But the sheer scale of the Klemtu terminal suggests that, in the mad rush to spend stimulus money, prudence and common sense have been cast adrift. And a close look at some of the other projects funded under the Conservative government's sprawling Economic Action Plan signals Klemtu is far from alone.

The stimulus plan, which the government announced in January 2009 under pressure from opposition parties, was meant to put Canadians to work on shovel-ready infrastructure projects. Originally valued at $40 billion over two years, the Finance Department now says the stimulus measures, including contributions from other levels of government, will hit more than $60 billion. But with the economy well into recovery, critics charge the surge of money flowing out of government coffers is not only needless, in many cases it's been squandered on frivolous projects. And with at least five years of multi-billion-dollar deficits ahead of us, it threatens the long-term health of the economy.

"This represents the largest infrastructure renewal effort in this country in over half a century." So said Prime Minister Stephen Harper upon the launch of the Economic Action Plan. But as past scandals involving this sort of thing have shown, one man's infrastructure is another's boondoggle.

In the early 1990s Jean Chrétien's Liberal government went on a $6-billion spending spree under the guise of infrastructure, which spiralled into a pork-barrel scheme of epic proportions. In one particularly egregious instance, which would become synonomous with wasteful spending, Ottawa funnelled nearly $1 million to build a bocce ball court in North York. So it's somewhat surprising the federal government's action plan website lists at least two bocce ball projects, one of which involves $108,255 in federal money to fix a bocce ball shelter in Woodbridge, Ont.

But bocce is the just the beginning of spending on recreation, culture and tourism projects the Conservative government considers vital infrastructure. A search of the site turns up what could be called Stephen Harper's Hierarchy of Sports Canadian Taxpayers Care About: one bowling alley, two slo-pitch parks, three cricket pitches, six lawn-bowling clubs, 10 skateboard parks, 17 baseball diamonds, 47 tennis courts, 50 soccer fields, 51 curling rinks and 280 arenas and ice rinks, the latter costing the federal government roughly $120 million. In some cases, money went to Canada's wealthiest neighbourhoods, where residents might be expected to finance projects themselves: $90,933 for the Leaside Lawn Bowling Club in Toronto, or the $31,533 that went to renovate a field house in Toronto's tony Rosedale. Some are projects even locals never thought they'd get. For years the Ontario town of Dunnville fought its neighbour Cayuga, roughly 24 km down the road, over which community would get a new arena, since it wasn't feasible to build two. Now thanks to the stimulus, they both get one.

For those more inclined to exercise their minds, the Harper stimulus plan has earmarked vast sums to arts and culture infrastructure—a move critics say is an attempt to erase some of the self-inflicted political damage incurred when his government cut arts funding in 2008. To help creative types through the recession, Ottawa pledged $25 million through a special endowment for arts and creativity. Another $385,000 went to the Bata Shoe Museum, established by the wealthy Bata family—who have a net worth once estimated at $325 million.
Along the same lines, Ottawa has pumped millions into tourism events like folk festivals, comedy shows, gay-pride events and theatre productions across the country. It handed $500,000

to locomotive-train enthusiasts in southern Ontario and is spending $218,480 to produce a 26-episode TV series on the “sunset country” region of northwestern Ontario. The Calgary Stampede, which calls itself the “Greatest Outdoor Show on Earth,” still got $1 million from Ottawa to “increase awareness” and boost the number of “celebrity guests.” In another northern B.C. project, “the world’s largest North Coast First Nation traditional style replica canoe” is being built near Prince Rupert. Along with a dock, the price tag for the canoe is $127,875.

In Quebec, the Conservative government is spending heavily ($60 million over five years) to promote cruise ships on the St. Lawrence and Saguenay Rivers, including up to $1 million to translate into English a theatrical production and another $569,425 for a statue to honour the founder of Baie-Comeau (famously Brian Mulroney’s home town). And in Montreal, the federal government gave an additional $1.5 million in stimulus funds to a circus school, a comedy school and a theatre school, on top of the funding it already provides.

The action plan has also sprinkled stimulus dollars across rural Quebec in the form of hotel and tourist cabins, effectively doling out cheques to private businesses to help them through tough times. In one case, it’s not clear they even needed the money, given the hotel was virtually operational before the cheque was cut. In mid-August, Le Complexe MV Inc. received a $1.1-million grant to build a 100-room, three-star hotel in the remote Quebec town of Havre-Saint-Pierre. Yet by then most of the work was done, and two weeks later the hotel started taking reservations. An official at the Economic Development Agency of Canada for the Regions of Quebec acknowledged the money wasn’t delivered until construction was nearly complete, but said in the case of big projects it takes time to get through the approvals process.

There’s no doubt everyone loves a new sporting complex. And circus clowns are people too. But these are not the sort of projects Canadian taxpayers have ever thought of as infrastructure. This was a historic opportunity to improve the nuts and bolts of the economy, say critics, yet much of the money has been frittered away. “We know we have lots of problems in our general infrastructure, but because the rationale was to get money out the door as quickly as possible, you see soccer pitches, swimming pools and boys and girls clubs getting money,” says Niels Veldhuis, senior economist at the Fraser Institute. After all, just two weeks ago yet another major blackout in Toronto left a quarter-million people in the dark. “You have to ask, is this about doing what’s right for Canada and the economy, or is this about getting as many votes as possible?”

Dimitri Soudas, the Prime Minister’s director of communications, defends the spending on non-traditional infrastructure projects because they provide a short-term economic boost, along with longer-term benefits such as, in the case of arenas and soccer fields, fitter, healthier children. And unlike the Liberals, he says, the Conservative government funded specific projects and didn’t just funnel money through opaque bureaucracies. Besides, he says, most infrastructure projects involve work on highways, roads and water systems. Indeed, along with public transit and municipal buildings, these projects account for more than 80 per cent of the Infrastructure Stimulus Fund.

But that leaves many hundreds of millions spent on other types of projects. And even for those that were about roads and sewers, the average size is quite small, just $2.5 million—about one-tenth the size of the ferry terminal in tiny Klemtu. That's hardly the scale of infrastructure many observers say is needed for the future. Last week the Residential and Civil Construction Alliance of Ontario released a report that argued the infrastructure deficit in Canada—pegged at roughly $130 billion—could cost the economy 1.1 per cent of annual GDP growth over the next 50 years. "In a lot of cases municipalities would tell you they weren't the best types of projects in terms of city building," says Andy Manahan, the organization's executive director.

Some municipalities did try to tackle crumbling infrastructure, only to have more photo-op friendly projects get approved by Ottawa instead. In Brantford, Ont., councillor Richard Carpenter complained to a local newspaper that the city asked for roads, and got hockey arenas and a farmers' market instead. "It turns out the ribbon-cutting projects are the priority for this government," he said. Given the Prime Minister's propensity for photos with kittens, perhaps that explains why five humane societies and animal shelters in Ontario received $5.3 million in federal funds to build or renovate buildings.

Ultimately what angers critics is the timing of it all. Even if laying artificial turf does create jobs, many of the projects are simply too late to make any difference to the economy.
Last month Canada's unemployment rate fell to 7.9 per cent, the lowest level since the start of 2009. Yet across the country those Economic Action Plan signs—which, according to *Le Devoir*, cost between $800 and $7,000 each—are still being erected at a furious pace. That's because planned spending by federal, provincial and municipal governments under the $10-billion Infrastructure Stimulus Fund (ISF) is about to peak this month, eight months after Statistics Canada declared the recession officially over, and a full year since the Bank of Canada said we were out of the woods.

According to a new analysis provided to *Maclean's* by the Parliamentary Budget Office, which will be released in full within the next few weeks, money flowing from the ISF will hit nearly $900 million this month alone. The analysis also shows that by the time the recession officially ended last November, little more than one-tenth of the ISF money is estimated to have been spent, even less than was reported in the PBO's previous update in the spring.

With such meagre government largesse early on, the Fraser Institute argues the stimulus did almost nothing to prompt the recovery. In a March report, the conservative think tank analyzed StatsCan data and determined government consumption and spending made a negligible contribution to GDP growth in the last two quarters of 2009. Instead, it attributed the rebound to rising exports. While other economists questioned the institute's analysis, Prime Minister Harper was livid. He slammed the report as "shabby," and said economic theory shows governments must ensure funds are put to good use to create jobs. (Never mind that in his 1991 University of Calgary master's thesis, Harper took a swipe at the Keynesian economic policy of deficit spending to fight recessions.)

In the eyes of conservative economists like Mark Milke, director of research at the Frontier Centre for Public Policy, every taxpayer dollar now going to jump-start the economy is being wasted. "It takes great gall to claim credit for ending a recession by spending stimulus money when that money was spent after the recession had already ended," he says. "It's kind of an *Alice* *in Wonderland* approach to finance, which one rarely saw under [former finance minister] Paul Martin."

Yet the government's position on the question of timing is simple—the recession never ended. "Statisticians may think the recession is over but the recovery remains very fragile, and ultimately people getting their jobs back is a key factor in determining when the recession is over," says Soudas from the PMO. On this point, the government enjoys some support from Kevin Page, the parliamentary budget chief who has criticized the lack of transparency surrounding the stimulus plan. In an interview, Page said the Canadian economy is still operating well below potential.

Soudas also points out infrastructure was not the only part of the stimulus plan. At the federal level it includes tax breaks for individuals and businesses, reforms to Employment Insurance, a home-renovation tax credit and incentives for home buyers. Those non-infrastructure measures, worth roughly $30 billion—including $9.7 billion to bail out the auto sector—were put in place right away, says Soudas, and contributed to the rebound.

"There's something to be said for that argument, given the stunning rebound in house prices over the last year. On the other hand, government intervention and record low interest rates from the Bank of Canada prompted Canadian households to gorge themselves on mortgage and consumer debt, setting themselves up for trouble. This week the Bank of Canada raised rates again in order to cool down the economy. Now there's a very real risk the flood of infrastructure money being pumped into the economy this summer could fuel the fire, forcing the bank to tighten even further and squeeze over-leveraged households."

Questionable infrastructure spending isn't the only part of the stimulus plan critics have serious problems with. Ottawa has also used the opportunity to pump millions into private businesses and industries through grants and loans. When in opposition, the Conservatives accused the Liberals of trying to pick winners and losers in the private sector. Yet that is exactly what the Harper government is doing now, with almost no disclosure about the terms of the funding arrangements.

Scan through the action-plan website, and taxpayers might wonder whether Ottawa fancies itself a bank or even a venture capital fund. In one transaction, Ottawa provided $2 million in funding to Canada Bread Company Ltd., to "engineer and design" a new plant—even though the company generates $1.7 billion in revenue and has $60 million in cash.

Meanwhile, several stimulus projects involve "start-up" companies, such as $199,000 for a new organic health-food company in Quebec, $120,000 for another Quebec company that plans to make work clothes, and $450,000 for HD Petroleum, a company launched by a former cellphone salesman near Winnipeg to convert waste oil and plastic bags to diesel fuel. (In a recent newspaper interview, company president Todd Habicht boasted HD has attracted 25 inquiries from investors in Africa and the Middle East, which begs the question why government funding was needed in the first place.)

In fact, Ottawa is intent on promoting particular industries, even when there's already too much capacity to keep existing businesses busy. Consider the market for wood pellets, which are burned to produce power. Under the stimulus plan, at least $7.5 million has gone to build or convert four wood-pellet plants in struggling forestry communities across the country. Yet in May, an industry official told a Senate committee there is already excess supply, while the collapse of the euro has decimated wood-pellet exports to the crucial European market. It's a similar story in the slaughterhouse industry, where Ottawa is spending $50 million over three years to expand capacity.

For Kevin Grier, a senior market analyst at the George Morris Centre, an agri-food think tank, the rush of money for slaughterhouses smacks of the interventionist spending policies seen during the Trudeau era. "This government money gets [companies] into a market when they wouldn't be there any other way, because nobody in their right mind would give them the money," he says. Nobody, that is, except the government of Canada.

In the end what the Great Stimulus Spending Spree of 2009 and 2010 will be remembered for is its legacy of infrastructure projects. The truth is no one knows for sure what, if any, impact these projects have had, says Page. That's why his office is currently surveying 1,000 Infrastructure Stimulus Fund recipients about whether the money actually stimulated output and created jobs, with the report due out in the fall. "This is an opportunity to promote transparency," he says. More importantly, if there is another recession, at least there will be some solid, independent analysis about which types of projects are worth pursuing. And which ones equate to shovelling taxpayer money down a deep, dark hole.

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