DAILY COMMERCIAL NEWS
AND CONSTRUCTION RECORD

July 15, 2010

Underinvestment in infrastructure costs workers, firms: report

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Continued volatile infrastructure investment over the next 50 years could cost Canadian workers up to $51,000 each and cut employers' long-term profits by almost a quarter, an industry commissioned report reveals.

"Our findings create a clear linkage between sustained investment in infrastructure and the prosperity of individual Canadians," according to RiskAnalytica, a Toronto-based risk analysis group, authors of Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth.

The independent report released today, commissioned by the Residential and Civil Construction Alliance of Ontario (RCCAO), explores optimal infrastructure investment environments based on different capital investment and maintenance scenarios over the next 50 years.

The report highlights how the quality and quantity of Canada's infrastructure has a direct impact "on the robustness and resilience of Canada's economy, future growth and productivity."

"This report personalizes the cost of infrastructure underinvestment. It takes something abstract like the $123 billion infrastructure deficit and shows the dollar impact on you as an individual or business," said Andy Manahan, executive director of the RCCAO.

"The public will register their disappointment with potholes and 'worst road campaigns'."

When you break infrastructure down into component pieces, it becomes more comprehensible to the public."

RiskAnalytica concluded that the risk of public infrastructure underinvestment over the next half century could cost the Canadian economy 1.1 per cent of real gross domestic product (GDP) growth. The cost to the average Canadian worker would be between $9,000 and $51,000 and the decrease in after-tax profitability of Canadian businesses could be a long term average of 20 per cent.

"The study reveals that current infrastructure funding levels, even with an uptick over the last decade, has not been enough," said Manahan. "The volatility of infrastructure maintenance spending, as part of infrastructure investment, has also been a problem. As we have said before with asset management, when you let it slip, it does cost you more down the road."

If underinvestment continues, it's estimated that Canadian employers could forgo, on average, a 0.7 per cent per annum increase of their real net profit after-tax, the reported noted.

Returning infrastructure investment to 1960s levels of five to six per cent of GDP is not a realistic target, noted Manahan. But inching that percentage of GDP spending back closer to four per cent would be beneficial to not just the construction industry but to all Canadians.

"There has been some concern at the federal level since Ottawa has been talking about an exit strategy for stimulus," said Manahan. "We know that you cannot have stimulus forever, but we also do not want the taps turned off completely."

Mitigating the underinvestment risk over the long-term would require an increase in infrastructure spending of up to 62 per cent, (a 44 per cent increase for new investment and 179 per cent increase for maintenance), the report stated. The solution goes beyond simply writing bigger cheques to address the infrastructure deficit.

"It is arguably more appropriate to extend the focus to long-term infrastructure policies that maximize economic growth in the future, starting with the current state of infrastructure today," RiskAnalytica concluded. "Stable infrastructure spending, as opposed to the current volatility in spending, promotes stronger economic growth and guarantees more funding will be available for infrastructure."