Economic evaluation isn't always what it seems: Report

by LINDSEY COLE Nov 26, 2015

The president and CEO of the Canadian Centre for Economic Analysis (CANCEA) says there's "a little bit of a dirty little secret in the hallways of economic evaluation" when it comes to analysis models around public infrastructure investment.

"The anxious point is that traditional methods are very worrisome," states CANCEA's Paul Smetanin. He says with Ottawa and Queen's Park collectively investing $255 billion between them in public infrastructure over the next 10 years, Canada can't afford to get it wrong. "The anxiety is, if you don't get this right, given the structural weaknesses in the economy...then the cost could be great for generations to come."

A recently released report by the centre entitled "Investing in Ontario's Public Infrastructure: A Prosperity at Risk Perspective" uses a Big Data/Big Analytics approach to assess infrastructure impacts. It was commissioned by the Ontario Construction Secretariat (OCS) and the **Residential and Civil Construction Alliance of Ontario** (RCCAO), who will be hosting an event Dec. 1 to discuss the report's findings and bring together thought leaders for more feedback.

Led by Smetanin, the report addresses the problem of how the "usual short-term focused, input/output economic models can't tell the difference between investing in infrastructure or spending money on ice-cream."

"We wanted to make a very stark point. If those people didn't label those graphs, you wouldn't be able to tell the difference," he says of the modelling. "You won't know if you were looking at the effects of infrastructure or ice-cream spending."

The CANCEA team examined the long-term economic impact of Ontario's 10-year, $130-billion infrastructure plan using its research platform called Prosperity at Risk, which employs agent-based modelling. This is a framework for modelling a dynamic system by means of individual agents and their mutual interaction with each other.

"Many traditional approaches to economic evaluation and allocation don't recognize the unique characteristics of the role of public infrastructure," Smetanin states. "The result is a limited measurement of stimulus effects, which supports a misdirected understanding of socio-economic value, which leads to misallocation."

A "systems thinking" framework acknowledges these interactions in order to understand that an economic system is more than the sum of its parts, an explanation of the report reads.

"Appropriate infrastructure investment generates an economic return on real GDP that is more than 11 times greater than other options relative to a no-investment baseline," he adds.

CANCEA found that for every $1 billion invested in infrastructure as part of Ontario's plan, $1.7 billion in additional provincial tax revenue will be generated.

"This modelling shows us that a $1-billion investment in public infrastructure supports 85,000 job-years in Ontario over the next 30 years. When governments invest in public infrastructure, there are huge returns in tax revenue," says Andy Manahan, executive director of the RCCAO. "We have to make decisions on the right infrastructure in the future and I think this is an example of using an evidence-based approach."

For Sean Strickland, CEO of the OCS, the report's findings reiterate how important it is to know where the growth is going to come from for the construction industry in the future.

"For the construction industry that's always a continuing challenge," he states. "Where's the next area of economic activity? Where's the work going to be? What this report does is talk about the interplay of all these other spinoff factors (from an initial infrastructure investment). A traditional economic analysis would not accurately capture all of the spinoffs."

Manahan states the CANCEA report is a companion report to the one released by Michael Fenn earlier this fall that calls for the right kind of infrastructure that's built with the future in mind.

"This keeps it front and centre that infrastructure is important," Manahan states.

Smetanin states he hopes this report will encourage governments to ensure proper planning goes into infrastructure investment, where they find "an appreciation of what appropriate infrastructure investment looks like. We want it to be data driven.

"We certainly don't want to see the spoils of the political process around a large sum of money," he adds. "You're only as good as what you measure. Your measurements support how to value things."

For more information on the event, which is being held at the Hart House Debates Room at the University of Toronto campus, visit **www.rccao.com**.