If infrastructure is Canada's solution, let's at least do it smartly

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How many people thought a Powerball ticket was the way to get rich quick? Governments across the country – and even the Bank of Canada, albeit with a caution that there will be a lag between decisions and actual spending – seem to be hoping that infrastructure spending will get Canada quickly out of the economic doldrums. But the old, boring ways of getting rich – diligent planning and smart asset allocation – apply to infrastructure, too.

Canada needs infrastructure. Governments have been underestimating the economic benefits of public transit, for example. Good transit connects people to jobs that better match their skills. That makes business and workers better off. Congestion and a lack of infrastructure limit these connections. That adds to the economic costs of congestion.

But we'll only cut down on the economic cost of congestion if we build the right projects.

Over the next 10 years, the new federal government plans to increase total infrastructure spending by $60-billion. Should Ottawa finance local infrastructure? Often, it should not. Grants reduce the accountability of recipients, who are spending other people's money. This confuses taxpayers, who don't know which elected official handles tax-raising and spending choices.

The new federal government is also proposing a Canadian Infrastructure Bank. The bank would allow cities to borrow at the low rates of interest the federal government pays. The savings from low-interest rates will be an illusion. The federal government pays lenders low interest rates because lenders know that taxpayers are the guarantors of cost overruns.

Private borrowers have no such option if they go over budget. Cities also have less room to tax mobile citizens. A lower federal government interest rate is an insurance policy that taxpayers give bondholders. This does not benefit society, and is simply a transfer of risk onto taxpayers.

The benefits from infrastructure can be substantial. But projects also differ dramatically. Governments should ensure that all major infrastructure investments are subject to cost-benefit analyses. But the federal government has already decided how much funding should go into its three priority areas: one-third each for public transit, green and social infrastructure. It's already

put its thumb on the scale of the cost-benefit analysis. Rather than a top-down decision of which projects are best, Ottawa should enable a bottom-up plan to let cities identify projects.

How should cities and provinces instead be financing their infrastructure? Ontario is planning $130-billion of capital spending over 10 years. Alberta plans to spend $34-billion on infrastructure in the next five.

Tolls can cut congestion and finance infrastructure. Ontario is taking tentative first steps on road pricing through a pilot high occupancy toll lane. The ring roads in Calgary and Edmonton are also ideal locations for HOT lanes. Likewise, Ottawa can meet its promise of a toll-free option for the replacement of Montreal's Champlain Bridge if it installs a HOT lane.

Canadian cities, particularly those in Southern Ontario, should sell electricity distribution companies. Cities don't need to own electricity systems, especially when prices are regulated. Cities need to own local roads and other critical infrastructure. Selling what they don't need means they can acquire more of what they do need.

Public-private partnerships can make socially worthwhile projects financially justifiable. Governments should only go on their own when doing so costs less than subsidizing private provision.

Governments should not be building quickly and excessively on infrastructure. Smart investments on projects with the greatest long-term benefits are a ticket to a good future.