

# Intelligence MEMOS



From: David Dodge  
To: The Minister of Finance  
Date: November 3, 2016  
Re: **CANADA'S INFRASTRUCTURE BANK DONE RIGHT**

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Congratulations on establishing the Canadian Infrastructure Bank which, based on evidence, will advise, design and negotiate revenue generating projects as well as using innovative tools to invest in and attract private support for projects of national and regional importance. Congratulations on your focus on “revenue generating projects” – i.e. projects which generate real productivity enhancements as evidenced by the fact that businesses and households are willing to pay for use of the infrastructure just as they pay for use of airlines, railroads, pipelines and electrical utilities. And, congratulations for emphasizing multi-year integrated plans rather than disparate “shovel ready” projects. The purpose of infrastructure investment is to facilitate future growth of income and jobs, not just create jobs today that will be gone tomorrow. Really productive infrastructure projects take time to plan, to build, and to integrate with other investments both public and private.

Finally, you did well to focus on “life of the project” costs and financing. Truly viable, productivity enhancing projects must generate returns that cover the cost of both initial construction and ongoing operations and maintenance.

You also deserve congratulations for establishing and funding the CIB with \$15 billion. But, by allocating most of the \$81 billion you announced to “traditional” grants to provinces and municipalities you missed an opportunity to make the maximum contribution to future growth. I say “missed opportunity” because municipalities and provinces will quite naturally allocate the money to infrastructure projects which address their most pressing political concerns, only some of which will contribute to future growth. You have created no incentive for them to set appropriate charges for the use of that infrastructure, charges which would not only foster the most economically productive capital investment, but also very importantly provide ongoing revenue to maintain and refurbish the new infrastructure. Moreover, without user charges, there is little incentive for households and businesses to use the “free” public infrastructure in the most efficient way.

Minister, you allocated \$47 billion for grants to support public transit and green infrastructure projects. But without tolls or congestion charges for the use of roads for example, transit authorities cannot charge sufficient fares to cover operating costs let alone capital costs. Federal investment could have contributed to greener outcomes and more efficient reduction in journey to work times had you insisted that these projects be, at least revenue generating.

But perhaps it is not too late. You said that details of this allocation will come in your spring budget. Between now and then, you need to have the political courage to explain to Canadians why it is in their interest that they should pay for the use of public use infrastructure, at least in part, through user charges. With this explanation you might then take the bold step next spring of requiring that projects must incorporate some form of revenue generation in order to be eligible for federal capital support, support appropriately coming from borrowed money.

*David Dodge is the former Governor of the Bank of Canada and Chairs the National Council of the C.D. Howe Institute.*