Ottawa's bold new plan for economic growth is eerily familiar

By Thomas Walkom
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At its core, the federal government's "bold" new plan for economic growth is strikingly familiar.

The scheme, worked out by Finance Minister Bill Morneau's hand-picked advisory panel, relies on privatization, deregulation, public-private partnerships and user fees.

It would reserve profitable public infrastructure for the private sector but have governments alone foot the bill for those schemes — such as environmental remediation and First Nations projects — that are destined to lose money.

It would have the government set up a new agency to convince foreign investors that Canada is open for business.

The jargon is modern. The report, released last week, talks several times about creating "a flywheel of institutional capital participation" — whatever that means.

By and large, however, the message is old: Canada is in danger of lagging. It needs a "more resilient workforce" including hundreds of thousands of additional immigrants.

Above all, it needs to attract more private capital.

Successive governments of different political stripes have been saying similar things for years.

To be fair to the Advisory Council on Economic Growth, which produced this plan, it should be acknowledged that Canada is in a bit of a pickle.

The world economy, upon which this country relies, is near-stagnant. In spite of the low dollar, manufacturing in Canada has not picked up enough to counter the slump in oil revenues.

Many Canadian businesses are profitable. But too few are reinvesting these profits in increased capacity.

As anyone who rides the Toronto subway can attest, there is a dire need for new infrastructure spending.

At the same time, the world is awash with money. Savings are so plentiful that investors are willing to pay for the privilege of parking their cash in so-called negative-yield government bonds.

The advisory council has concluded, quite logically, that there should be some way to mobilize this capital to fulfil Canada's infrastructure needs.

But is this the way? The panel, if I understand it correctly, thinks it insufficient to simply have the government borrow money at rock-bottom interest rates in order to build the things that need to be built.

Rather, it wants private capital to build and own, in whole or in part, these new infrastructure projects.

To make ownership worthwhile to private investors, the government would "attach revenue streams" to both new projects and to some already in existence.

Simply put, this means figuring out way to let private participants reap profits from, say, a bridge or subway line.

This is an old strategy. It is the one that underlies, for example, Ontario's Highway 407, a toll road built with money raised by the provincial government and owned by private-sector operators.

It is also the strategy behind the current Ontario Liberal government's baffling plan to sell off most of Hydro One, the provincial electricity transmission monopoly.

The report calls on the federal government to “create a flywheel of re-investment … by catalyzing the participation of institutional capital in existing assets.”

I think what the authors mean by this is Ottawa should privatize something.

The problem with privatization is that it usually ends up costing consumers more. Various auditors general around the world, including Ontario’s, have made that point when examining public-private partnerships.

The report seems to acknowledge this when it notes that the federal infrastructure development bank it wants set up may have to suffer “below-market” returns for a while in order to assure a steady profit stream to its private-sector partners.

The report also calls on Ottawa to alter the regulatory regime to make it more “predictable” and provide investors with “certainty.”

In theory, this isn’t a bad idea. But in practice, it usually means the kind of environmental deregulation that Stephen Harper’s former Conservative government applied to projects such as pipelines.

Still, this is a coherent report. It speaks to a basic reality — that now is a good time to build big pubic infrastructure projects.

But it forgets that the pension funds and other big institutional investors it wants to woo don’t necessarily have the whip hand.

We may need their money. But with the world suffering a surplus of capital, they need a safe place to park this money — one that will earn them at least something.