Private infrastructure bank is not in the public interest

By Andrew Jackson
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The advisory council on economic growth chaired by Dominic Barton has proposed to federal Finance Minister Bill Morneau the creation of an independent Canadian Infrastructure Development Bank (CIDB) to help finance $200-billion of public infrastructure projects over the next decade. There is an argument for improved financing tools, but no case for such a lever for massive and costly privatization.

The report of the council reiterates the consensus view that investment in public infrastructure such as roads, mass transit, railways, ports, water and waste water treatment, clean energy and power grids has been too low, and that a major increase could drive immediate job creation while also boosting longer-term economic growth.

Addressing the large public infrastructure deficit could significantly boost business sector productivity by lowering transportation, utility and other costs, and would also help us meet environmental goals such as reduced carbon emissions, and social goals such as more livable and less congested cities.

The CIDB proposed by the advisory council would lever up a federal contribution of $40-billion by attracting $160-billion in private capital from large institutional investors, such as pension funds. The bank would support, through loans or subordinated equity, major infrastructure projects ($100-million-plus) deemed to be of national significance, on the basis of an economic-growth agenda.

Where the council goes off the rails is in recommending that major new projects be proposed, financed and operated by the private sector, and this is twinned with a further proposal to raise more funds by privatizing existing federal public infrastructure, such as airports. The CIDB would be a source of finance and expertise to support large private projects which would be partly financed by a revenue stream from which the bank would recoup its investment.

As the Federation of Canadian Municipalities has argued, the CIDB is not designed to fund their priority projects in such areas as mass transit, environmental infrastructure and affordable housing, and could squeeze federal government support for worthwhile non-commercial projects.

The CIDB is instead designed to promote private infrastructure projects that can generate revenues and profits.

The CIDB would put private capital in the driver's seat, and leave funding of socially useful projects to cash-strapped cities. A requirement for user fees would leave out many needed transit projects by public authorities that already charge very high fares.

The advisory council notes that trillions of dollars of patient capital are available to fund such projects, and claims that "bridging the national infrastructure gap through public finances alone would place an unfair and unsustainable burden on taxpayers."

The first major problem with this approach is that private financing would unnecessarily increase the cost of infrastructure investment. Currently, the federal government can borrow at very low cost, for well under 2 per cent, in the case of long-term bonds, or close to zero, adjusted for inflation. Such bonds are mainly sold to large institutional investors such as pension funds, which understandably are seeking higher returns elsewhere.

Michael Sabia, president of the Caisse de dépôt et placement du Québec and a key member of the advisory council, said in a recent speech to the Toronto Board of Trade that “[f]or long-term investors, infrastructure offers something that’s not easy to find today: stable, predictable returns in the 7- to 9-per-cent range with a low risk of capital loss – exactly what we need to meet our clients’ long-term needs.”

That higher rate of return does, however, have a cost for the public.

The advisory council argues and assumes that an arms-length investment bank seeking returns will be better than governments at selecting productive projects and completing them at low cost. But history is replete with examples of botched public-private projects that left governments on the hook for high costs and losses, and public agencies do have the capacity to make good decisions.

There is a case for new financing mechanisms for infrastructure, such as a federal agency or bank to guarantee city and provincial borrowing for new projects that serve national economic, environmental and social needs. This would lower interest costs and also improve the quality of cost-benefit analysis of major new projects.

But massive privatization of public infrastructure would be a major step in wrong direction and should be rejected by Mr. Morneau.

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