SENATE SÉNAT

CANADA

DEBATES OF THE SENATE

1st SESSION • 42nd PARLIAMENT • VOLUME 150 • NUMBER 148

STUDY ON THE DESIGN AND DELIVERY OF THE FEDERAL GOVERNMENT'S MULTI-BILLION DOLLAR INFRASTRUCTURE FUNDING PROGRAM

TWELFTH REPORT OF NATIONAL FINANCE COMMITTEE AND REQUEST FOR GOVERNMENT RESPONSE ADOPTED

Speech by:

The Honourable Diane Bellemare

Wednesday, October 18, 2017

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[*Translation*]

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On the Order:

> Resuming debate on the motion of the Honourable Senator Smith, seconded by the Honourable Senator Ataullahjan:
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> That the twelfth report of the Standing Senate Committee on National Finance entitled *Smarter Planning, Smarter Spending: Achieving infrastructure success*, tabled with the Clerk of the Senate on February 28, 2017 be adopted and that, pursuant to rule 12-24(1), the Senate request a complete and detailed response from the government, with the Minister of Infrastructure and Communities being identified as minister responsible for responding to the report.

Hon. Diane Bellemare (Legislative Deputy to the Government Representative in the Senate): Honourable senators, I rise today to speak to the twelfth report of the Standing Senate Committee on National Finance entitled *Smarter Planning, Smarter Spending: Achieving infrastructure success*. The report looks at the design and delivery of the federal government's multi-billion dollar infrastructure funding program.

[*English*]

First, I would like to acknowledge the work done by all members of the Finance Committee. This committee works very hard and bears great responsibilities. I also want to thank the Library of Parliament staff who support the committee in its work. They are doing a great job.

[*Translation*]

My dear colleagues, I would also like to remind you that my comments reflect my views alone, not those of my colleagues in the office of the government representative.

In my speech, I will explain my concerns about the Senate adopting this interim report, which was written between February 2016 and February 2017, because it is focused much more on the past than on the future. I should also note that I am in no way singling anyone out and that my remarks should not be taken personally by anyone who was a member of the Finance Committee during that time. My aim today is to make constructive comments.

I believe it is our duty to be as thorough in our analysis of the reports we receive for adoption as we are in our analysis of the bills we are asked to pass.

As we all know, public infrastructure has always held a significant place in Canada's history. Canada is an immense country. In this geographical context, transportation and communications have held and still hold a strategic place in shaping the country. At the time of Confederation, Prime Minister John A. Macdonald said:

> To prove our determination, let us first build a railway.

That is what ushered in the transcontinental railway to ensure Canada's economic development.

There have been other major investments in Canadian infrastructure since Confederation. After the Second World War and throughout the 1950s, major investments were made in transportation, communications, and social infrastructure. However, as the data in the twelfth report indicate, since the early 1960s, public investment in infrastructure has declined. The percentage of GDP that goes toward investment in public infrastructure declined significantly until the 2007-08 financial crisis. These investments, which totalled more than 3 per cent of GDP in the early 1960s, dropped to 1.5 per cent of GDP toward the middle of the 2000s. It is therefore not surprising, dear colleagues, that our roads, schools, and hospitals are in such bad shape.

Honourable senators, here we are in 2017, 150 years later, and the federal government is proposing a new, highly ambitious plan to invest in infrastructure, a plan that represents more than $186.7 billion over 10 years. This plan is centred on public transit, green infrastructure, and social infrastructure. It is divided in two phases. Phase 1, as announced in budget 2016, stands at $13.6 billion. It targets short-term economic growth. In fact, it seeks to serve double duty: meet urgent needs and support economic growth and the creation of good jobs.

In the short term, infrastructure projects revolve primarily around public transit, wastewater treatment, social housing and the protection of existing infrastructure. This short-term plan involves 32 different departments, and the National Finance Committee's first interim report focuses primarily on analyzing phase 1.

As for phase 2, it is currently being implemented. This phase will ensure Canada's economic and social development over both the short and long term. It aims to support the fundamentals needed for Canada to prosper. Accordingly, this second phase mainly revolves around the activities of the Canada Infrastructure Bank, which was created under Bill C-44. The first interim report deals more with phase 1, not phase 2.

In the first interim report, the committee makes six recommendations, which can be summarized as follows:

1. Develop a national infrastructure strategy;
2. Create a single window for the funding of projects;
3. Adjust the Gas Tax Fund for inflation;

4. Make the funding criteria more flexible for the municipalities;

5. Ensure that the federal government coordinates with the municipalities in its agreements with the provinces and territories;

6. Incorporate lessons learned from previous governments' infrastructure programs.

Let's begin by looking at the first recommendation regarding the need for a national infrastructure strategy. This first recommendation does not really apply to phase 1 of the investment program. In fact, this phase is meant to address existing infrastructures that are in urgent need of repairs, on the local level, where needs have been identified. We need to recognize that phase 1 of the government's public investment plan is both vital and necessary to ensure our economic growth, while also improving the well-being of Canadians. One of the main goals of this phase is to support the transition towards a more diversified economy. The fact is, the price of oil is lower than it has been in quite some time, dropping from over $100 a barrel at the beginning of 2014 to just over $50 a barrel today. The price of oil appears to have leveled out for now, and this has caused a drop in private investment, especially in the oil and gas sector, which threatens the vitality of the Canadian economy. Infrastructure spending will help steer our economy clear of a recession, and help maintain or even accelerate growth.

There is a broad international consensus on the importance of expediting public investment in infrastructure to support both national and global economic growth. A low-interest-rate monetary policy is no longer enough to boost the economy. Public investment is needed, as the Governor of the Bank of Canada has regularly told senate committees.

The managing director of the International Monetary Fund recently told a media scrum that industrialized nations should follow Canada's example and invest heavily in infrastructure, saying, "I really very much hope that Canadian economic policies can actually go viral."

Massive infrastructure investments served us well during the financial crisis of 2007-08, as they kept Canada from sinking into a deeper recession. Not so long ago, the previous government made significant public investments in response to the needs of local governments, allowing them to finance certain projects through the Gas Tax Fund and the goods and services tax credit, as well as through various other public funds.

This brings me to the other recommendations, which basically propose that the current government do the same thing the previous government did. The committee modelled these recommendations on those of the municipal officials who testified before it. I respect this approach. These recommendations are no doubt extremely useful for expediting local investment. However, they fail to address all of the issues involved in infrastructure investment, such as efficient management of infrastructure projects, worker training needs, fraud prevention, and the impact of the investments on employment and productivity. The report is also silent on the current government's approach. How are we to judge whether the recommendations have merit or are more effective if we have no way to compare current practices to past practices?

On another note, the report highlights an alarming situation regarding a potential delay in the allocation of funds for infrastructure projects. This situation has evolved quite a bit since the report was drafted. At the finance committee meeting on May 3, 2017, the Parliamentary Budget Officer raised his growth projections for the GDP, which is connected to infrastructure investments. According to the Parliamentary Budget Officer's *Economic and Fiscal Outlook — April 2017*, the initial delay in infrastructure spending will largely be offset in 2017-18 by higher spending than originally projected. The report states the following on page 27, and I quote:

PBO expects that spending will pick up in 2017-18 to above the level originally projected in Budget 2016 (112 per cent). This would result in overall infrastructure spending being close to 90 per cent of originally projected levels. Remaining money would be spent in subsequent fiscal years.

I want to get back to the idea of developing a national infrastructure strategy. Such a strategy is necessary, in the medium and long term, to have a real impact on economic development. However, it is a massive, complex challenge to develop a cohesive and effective infrastructure-investment strategy, especially since Canada is a confederation made up of a number of provinces and territories. As such, the idea of a pan-Canadian strategy deserves detailed, in-depth study.

However, this report offers no concrete proposals for how to develop such a strategy within the context of Confederation.

Rather, it recommends employing the same approach to major investment projects that was adopted in response to the 2007-08 crisis, which was effective. At the time, the government funded projects submitted by the provinces and municipalities. The government was responding to provincial and local government requests, which seems highly contradictory to me. How can we have a national strategy if we are essentially responding to the requests of local governments? What I am trying to say is that, in the past, we made hasty investments without any real overarching plan because we were responding to requests. That is what was done in phase 1.

Actually, the Finance Committee focused on producing precise data about the more than 8,000 federally funded projects. The committee invested in creating a database called the infrastructure project analyzer. I had an opportunity to consult this microeconomic database, which offers a geopolitical perspective on infrastructure projects. I feel we have strayed from the fundamental governance issues with respect to public investment, and I don't really know what purpose the infrastructure project analyzer serves.

Today, the Finance Committee is asking us to adopt the interim report. I would like to remind my colleagues that Senate standing committees' substantive reports can be tabled in the Senate or presented for adoption. In recent years, substantive committee reports have typically been presented for adoption and forwarded to the government for its response to the recommendations therein.

Although I find the committee report quite informative, it is primarily an interim report. It basically proposes a review of how the previous government did things, without explaining in detail how the current government is proceeding on infrastructure. It also proposes investing in the creation of a geopolitical data analyzer, without specifying its potential usefulness.

As a complementary chamber to the House of Commons, should our role not be limited to identifying new avenues for making public investments as effective as possible, taking a fresh look at these investments, and proposing new ways of doing things?

I hope the final report will make innovative recommendations that will provide assurances to Canadians that their infrastructure investments will serve to improve their economic well-being and quality of life.

That is why I want to express my reservations regarding the need for the Senate to adopt and therefore endorse the conclusions of this interim report. After all, in an independent Senate, should we all automatically unanimously endorse the recommendations made by every committee? I would add, however, if my honourable colleagues are wondering, that I would not request a standing vote.

Thank you.