THE CANADIAN INFRASTRUCTURE BANK

Supporting public infrastructure or subsidizing private profits?

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FEDERAL INFRASTRUCTURE BANK: INITIAL PROPOSAL

- First appeared in 2015 Liberal election platform
- Looked potentially positive
  - Federal acknowledgement of infrastructure deficit
  - Defined federal role in infrastructure strategy
  - Initially suggested leveraging low gov. interest rates to support infrastructure investments

INFRASTRUCTURE BANK: PROBLEMS EMERGE

- 2016 Fall Economic Statement and discussion paper
- Stated aims shift from providing low cost financing to attracting private **'Institutional investors'**
  - **Private banks, pension funds, insurance companies, etc.**
  - **Expect 7% to 9% Return on Investment (i.e. interest)**
  - **Investors could retain ownership/partial ownership of infrastructure**

FEDERAL BUDGET 2017

- $2.8 billion over 5 years for Canada Infrastructure Bank
- $35 billion in federal funding over 11 Years
  - Aim to leverage additional $140 billion in private capital
- ‘Transform the way infrastructure is planned, funded and delivered in Canada’
- Legislation in spring 2017
- Accelerated process launched to identify CEO, Chair and BOD
- ‘Operational by late 2017’

WHY? THE OFFICIAL RATIONALE…

- Ideology/mythology of ‘private sector efficiency’
- ‘Leveraging the expertise and capital of the private sector’
- Free up money for social infrastructure with no revenue generating potential

THE REAL REASONS 1: POLITICAL

- Allows federal government to avoid appearance of increased debt/deficit
  - Public accounting rules: federal funds transferred to other levels of governments for infrastructure must be treated as a current year expense
  - Private investment through bank won't be recorded as government spending/debt
  - Gives appearance of lower deficits in short term
    - but will cost public much more in long term, as project costs are repaid at unnecessarily high rates of interest

THE REAL REASONS 2: ECONOMIC

- Pressure on Liberals from big investors looking for better ROI than available on bond markets

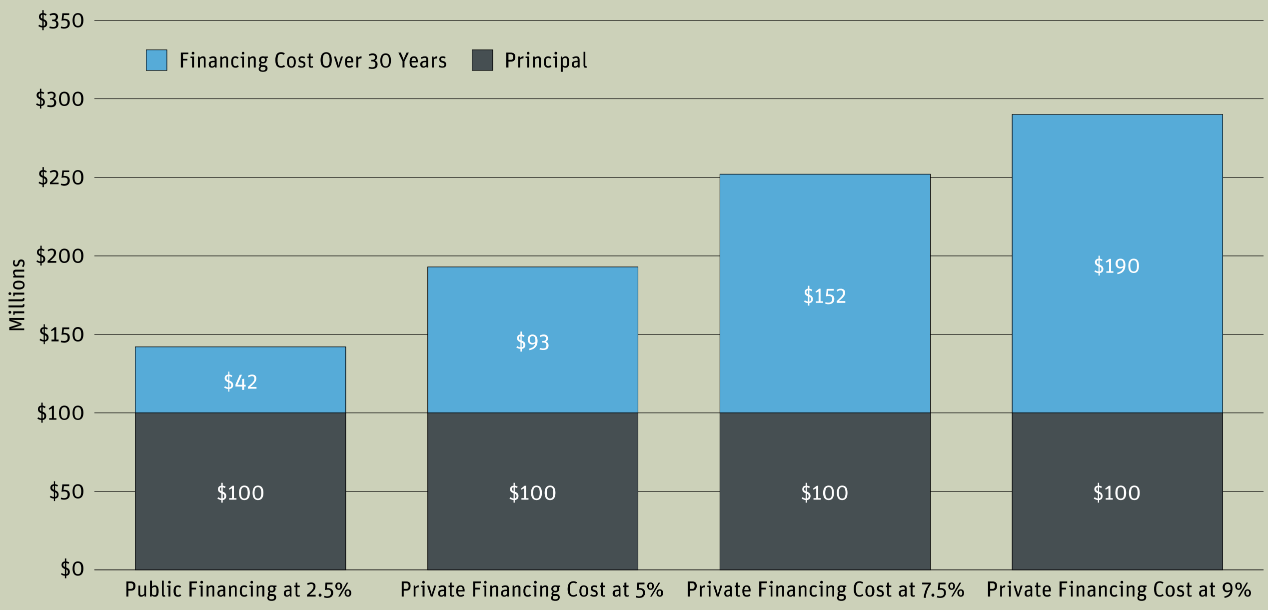
  - $600 billion in ‘excess cash’ held by Canadian corporations that isn’t being invested

- Public infrastructure = “assets that provide stable, long term and predictable returns”

- Federal Advisory Panel on Economic Growth that developed infrastructure bank proposal includes CEOs of:
  - BlackRock, Inc (world’s largest asset manager)
  - Quebec’s Caisse de depot et placement (a pension fund manager that has been a major advocate for P3 investments in infrastructure)

- Private investors expect 7% to 9% interest rates, vs. 2.5% available through regular public financing
- Up to twice as much infrastructure could be built if financed through low rate direct public borrowing
- Means less funding available for future public services or infrastructure investment

FIGURE 1 Private financing can double the cost of infrastructure projects



Source: Toby Sanger for CCPA

WHAT ARE THE PROBLEMS?

Very high financing costs

OTHER POTENTIAL PROBLEMS?

- Proposals to privatize existing public infrastructure to ‘recycle’ revenue?
  - Port of Vancouver, YVR airport and Pearson airport have been suggested
- Infrastructure policymaking by ‘arms length’ bank?
- Private investors might be able to make unsolicited infrastructure proposals?
- Lack of clarity re: role & powers of provinces and municipalities
- $15 billion may be reallocated from infrastructure money already promised in previous budget?

WHO PAYS (AND HOW)?

- Public will ultimately pay for the higher costs of private financing through:
  - Higher ongoing annual availability payments by different levels of government
  - Higher user fees
    - Typically regressive and hurt middle and lower income people harder
  - If revenue-generating public assets such as airports, ports or utilities are privatized, then long-term loss of public revenue sources

ALTERNATIVE PROPOSAL:

PUBLIC INFRASTRUCTURE BANK (1)

(TOBY SANGER FOR CCPA/CUPE)

- Crown Corporation with mandate to provide low cost loans/other innovative financing tools
- Initial capital contributions from federal government (and other levels?)
- Similar to existing federal financing institutions and programs such as:
  - Business Development Bank of Canada (BDC)
  - Export Development Canada (EDC)
  - Canada Mortgage and Housing Corporation (CMHC)
- Also similar to MFA in BC, or various international and national investment banks elsewhere in world

ALTERNATIVE PROPOSAL:

PUBLIC INFRASTRUCTURE BANK (2)

- Federal gov. borrowing backed by government guarantees & can borrow on financial markets at low rates of interest
- Lower financing costs = amount of public funds going to repayment would be much lower
  - less need for user fees, or other ongoing public support
- Include a centre for expertise for infrastructure planning, financing, evaluation and procurement
  - Evidence based, objective, not biased to P3s

ALTERNATIVE PROPOSAL:
CROWN CORPORATION INVESTMENT BANK

- *From C. Scott Clark (Canada's Deputy Minister of Finance, 1998-2001) and Peter DeVries (Director of Fiscal Policy at Dept. of Finance, 1990-2005)*
- Modelled on Export Development Corporation
- Federal government would borrow on behalf of this Crown Corporation by issuing 30-year bonds at rates(around 2 %
- Provinces could then borrow for specific infrastructure projects at rates below what they would otherwise pay
- As long as borrowing and administrative costs recouped, no incremental impact on the federal budgetary balance.

WHAT NEXT?

- While the federal government is trying to move quickly, the bank is not yet formally established
- There's still time to move this in a better direction, given sufficient pushback from the provinces, municipalities and others concerned about the proposal
- Good, workable alternative proposals have been put forward for a public infrastructure bank that actually reduces financing costs and more efficiently uses public money