Federal Legislation for the Current Gas Tax Fund Program

In the absence of a legislative framework, infrastructure investment in Canada has waned since the 1940s, resulting in lower levels of productivity and reduced economic performance. Often taking a back seat to entitlement and program spending, the country's infrastructure is now a major concern for multi-national corporations and detraction to foreign direct investment. Legislation reinforcing the commitment to infrastructure investment is urgently needed to provide for a predictable and positive business climate. An environment where Canadian businesses can confidently make long-term investment decisions that will propel our country into a new era of prosperity.

Following the Second World War, Canada was among the strongest nations in the world in terms of public infrastructure investment, enabling an environment where Canadian and multinational corporations leveraged additional capital investments and significantly improved the country's economic growth and productivity for decades to come. By the late 1960s and into the 1970s, public infrastructure investment had started to slow, as different orders of government deferred maintenance on the country's infrastructure system and focused on program spending at the cost of new capital investment.

During the 1980s and 1990s, provincial and federal budget deficits continued to exact a toll on infrastructure investment as the governments of the day sought to balance budget deficits, which had grown to record proportions when measured against the GDP of the country. During this time the municipal infrastructure gap as a percentage of national GDP grew from 2.7 per cent in 1984 to 5.0 per cent in early 2000s (source: TD Bank Financial Group. "Mind the Gap: Finding the Money to Upgrade Canada's Aging Public Infrastructure."May 2004). Starting in 2005, the federal government recognized this challenge and announced the New Deal for Canadian Cities, pledging to commit funds raised through the national gas tax to infrastructure investment. This pledge was reaffirmed in 2008 when the federal government committed to extending the program and providing $2 billion annually for investment that supports sustainable municipal infrastructure. This was an important and welcome decision. While the federal government's pledge of $2 billion is a step in the right direction, more needs to be done. Progress made in restoring infrastructure investment through the Gas Tax Program is encouraging but efforts must be made to protect the value of the $2 billion allocated from the effects of inflation. As competition for infrastructure continues to increase in jurisdictions such as China and India, so do the prices of construction materials in Canada. In the United States, the Construction Cost Index), a gauge of infrastructure expense, grew by 3.5 per cent in 2010 and is projected to grow by an annual rate of 3.3 per cent in 2011, or two and a half times the rate of consumer inflation. Without a provision to review infrastructure investments through legislation, the current rate of investment will fall by half in real terms within 15 years, effectively returning to levels of that prior to 2005.

In addition, legislation is an imperative to ensure that year-over-year program/entitlement expenditures no longer compete with and displace critical infrastructure investment, which is required to help set the stage for a new era of prosperity and productivity. Legislation will provide a more predictable investment climate, the absence of which would incent further deferral of these investments, ultimately adding cost and increasing the burden on taxpayers, in particular, the business community (source: Dr. M. Saeed Mirza. "The Urgency of Addressing Canada's Infrastructure." November 22, 2004). This legislative framework can further act as a tool to help ensure that the tenants of good tax policy are followed, namely: efficiency, equity, accountability, and ease of administration. Current provincial agreements vary greatly in their implementation and the framework for accountability in each jurisdiction also varies.

Recommendations

That the federal government:

1. Establish federal legislation to secure the current federal gas tax program subject to transparency and accountability.
2. Review funding levels in the program every four years to ensure that infrastructure investment objectives are being met

Submitted by the Greater Victoria Chamber of Commerce

The Economic Policy Committee and the Transportation Committee support this resolution.