



NEWS RELEASE

Infrastructure spending not an effective tool for fighting recession

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For Immediate Release

TORONTO—Infrastructure spending is not an effective policy for stimulating the economy during a recession, finds a new study by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“Infrastructure projects have very long timelines, and by the time shovels hit the ground on a new bridge, highway or subway tunnel, the recession is usually over and the economic recovery has already begun,” said Finn Poschmann, resident scholar at the Fraser Institute and author of *Fiscal Policy and Recessions: The Role of Public Infrastructure Spending*.

Canada’s economy shows signs of weakness, raising the spectre of a potential looming recession.

When the next recession hits, it’s likely that both the federal and provincial governments will consider infrastructure spending to stimulate the economy—as successive governments have done in the past. It’s important, however, to recognize the practical limitations of such spending to combat recessions.

First, the government must write and pass stimulus legislation, then work with the provinces and municipalities to identify projects, which require permit and zoning approvals. And depending on the size of the infrastructure project, it may also require an environmental assessment before contractors are selected and materials sourced.

Crucially, by the time actual construction starts, the recession will be over and the economic recovery will likely be underway. This means the infrastructure meant to stimulate the economy will now compete with private sector investment, and potentially slow the recovery.

For example, as noted in the study, the 2016 federal budget allocated \$10.2 billion for infrastructure over two years, but by the first quarter of 2018, only about half of the expected money had been earmarked for specific projects.

Moreover, there is an additional practical problem of federal money simply substituting for planned provincial or local spending. Specifically, as the federal government increases infrastructure spending, it may simply replace spending by provinces and municipalities, meaning the level of overall government spending remains the same, except with a larger share from Ottawa. Such substitution between different levels of government has been observed in both Canada and internationally.

“The evidence is clear—public infrastructure spending doesn’t work effectively to stimulate the economy during a recession, and policymakers should be aware of that reality when the next recession hits,” Poschmann said.

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