Ahmet Jakupi
FINANCIAL SOLUTIONS

24 May 2015

A derailed train killed eight people in the US last week and reignited a simmering debate about the country's crumbling infrastructure. If you're looking for a sign that the US is losing its position as the world's economic superpower, then its rundown roads, rails and airports are a good starting place.

Bridges are literally falling apart. Airport runways are congested and Joe Biden has compared New York's LaGuardia airport to the "third world". For a country so car-focused, it spends far less than others on road maintenance. Meanwhile, America's "high-speed" train manages an average speed of around 80 miles per hour, while trains in Europe and Asia hurtle along at more than twice that speed.

None of this is surprising if you look at how much America spends on infrastructure. Government construction spending has fallen to its lowest level as a share of the economy in more than two decades. America, which once undertook colossal projects like the transcontinental railway system and the interstate highway network, is no longer investing in its future. Now is the time to act. Low interest rates have reduced the cost of financing infrastructure projects, and better infrastructure would deliver a much-needed boost to productivity.

Unfortunately, the above state of disrepair does not just apply to America, Canada and Mexico are in the same boat. Europe constantly spends large sums of capital to keep the continent efficiently connected.

Spending on infrastructure is fantastic way to improve commerce connectivity and productivity which have paved the way for generational economic growth. Accidents such as the AmTrack one mentioned above have been numerous as the massive derailment which rendered an entire city in Quebec toxic due to oil spills. Road ways and rail ways are just on of the areas of concern. Electrical transmission networks are nearing 70 decades in age with no major up grades. Niagara Fall's hydro power generation is even older.

New infrastructure projects must be started not only to renovate the old structures but are needed to keep up with growing demand from consumers, population growth and facilitate manufacturing and commerce. We all bare witness to the congestion on our high ways and even city streets to the point where commute times have doubled over the past decade.

Governments are failing to maintain and keep existing infrastructure functional. New methods of greater efficiency must be deployed to avert a total bottle neck in the flow of people and commerce.

Unmanaged spending in infrastructure could lead to a "Greece" scenario. In order to bring Greece up to German standards, billions were spent on infrastructure. Today, Greece has the best roadways, railways, updated ports and utility networks in Europe. The country lacks the proper methods of collecting utility bills, tolls and taxation from users and citizens.

All signs point to America embarking on a nation wide infrastructure spending program funded at the federal level. Here in Canada, Ontario is underway rolling out such programs at municipal level across the province. Road works and public works projects are all abound. My recent trip to central Florida made it clear that construction and public works are a top the federal government's list. Florida was one of the hardest hit regions after the great recession. America's federal government has earmarked billions in development dollars. Miami was the first to kick off the public works campaigns. Miami is flush with private sector development and real estate prices are above 2007 levels.

24 May 2015

Such a wave of spending across the North American continent would lift GDP and overall economic wealth. Historically, the same wave of spending lifted America out of the recessionary lows post WWII. The one downside of all this spending is potential for increased taxation down the road. If government projects fail to inspire business to rush in and leverage the built infrastructure and drive commerce, taxation will become a heavy burden to bare. An extreme example in present day is Greece. The lack of follow through by the private sector was a nail in the coffin.

Infrastructure will be a drive of growth not just in the broad economic sense but also in client portfolios. When you have billions and even a trillion dollars flow into three nations on a continent wide effort in North America growth will occur in the near term. The big question is once government dollars run dry will manufacturing and commerce sustain such economic growth resulting in longer term predictable growth?

Europe as a whole has a long way to go in instituting solid fiscal reform. China is now entering a new economic phase of lower growth, less infrastructure development and fierce competition in manufacturing from up and coming rivals like Vietnam and even Japan. I see North America the growth engine of capital and consumer consumption over the next decade.