

For immediate Release

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Laurentian Economics Dr. David Robinson blasted the economic understanding of the supporters of the Maley Drive Extension today.

“There are so many errors in their thinking that it is embarrassing.” he claims. “I am including MP Marc Serré for saying that this project adds to the local GDP. That is a popular line. The Chamber of commerce uses it. It is also an error we teach Econ 101 students to avoid. It shows neither Marc nor the Chamber understands macroeconomic accounting,” said the economist.

“They are actually counting a cost as a benefit,” said the economist. “Either very sneaky or very stupid.”

“Technically, if the City burns money, even that adds to the GDP,” said Robinson. “so in a simple-minded way, Marc and the Chamber are right. But if you burn money on a bad project you have to take it away from good projects. It is called opportunity cost in Econ 101. Moving money from good projects to bad projects has no effect on the GDP. Maley Drive will have no effect on GDP”

The city had a cost benefit study done. Robinson claims it was either incompetent or dishonest.

Robinson points out that the city hired AECOM to do the Environmental Assessment for Maley Drive. Then the city hired Tony Ceccuti away from AECOM to be general manager of infrastructure. Then Tony hired AECOM to do the cost benefit analysis. “Maybe the pool of brains is just too small,” he joked. “This incest with consultants seems to have given birth to a mental handicap in council.”

“The project is also fiscal disaster,” the economist said. “It will cost every man woman and child in the city \$1000. It will generate almost no tax revenue”

“People should ask themselves if they want to pay \$1000 for the project. Should their kids pay \$1000 for the project.”

Robinson says that the benefits go to very few. If you live south of Elm would you pay more than \$100?. I wouldn’t. Councillors should be asking if the people who voted for them will get \$1000 each in benefit from Maley. Some will lose as taxes go up and property values go down.”

“I won’t say anything about the effect on traffic,” said Robinson. I know there are serious questions, but I want to stick to the economics,”

For further information, contact

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Statement: The Maley Drive Extension Has not been Justified Economically.

Dr David Robinson, PhD,
Economist
March 17 2016

Various politicians, the Chamber of Commerce and the City engineers claim that the Maley Drive Extension is a good deal. These people are committed to selling the project and, unfortunately, are not qualified to speak on the economic impacts. As a professional economist I am willing to say that anyone who claims it is good for the local economy is simply ignorant of basic economics.

As an economist I have contributed to the City's economic development strategy. I have awards for City council and the Community Builders. I initiated the new School of Architecture in 2006, and I identified the Mining Supply and Services sector as the key growth sector for the City in 2002. I also teach regional economic development. It is fair to say that I am at least as qualified as Mayor Brian Biggar to speak on the economic impact of the project

There are three main economic arguments in favour of the project. They are all false.

Error 1: The benefits are greater than the costs.

a. Costs are underestimated

The total cost will be \$1000 per man, woman and child in the city of Greater Sudbury.

Council hopes to get \$54 million from senior government. City taxes will cover the rest.

The project in total will cost over \$115 by the most optimistic estimate. The average project in this class in Ontario runs 38% over estimates. Previous estimates put the cost well over the current optimistic estimate:

In 1995 the cost was supposed to be \$12.145 million for a two-lane route. In 2005 this jumped to \$31.2 million as the engineers decided a 4-lane route was needed. A few million more were added to cover widening Lasalle, bringing the cost to \$35.8 million. In 2008 the cost was to be \$45.8 million. These figures come from the "Maley Drive Extension/Lasalle Boulevard Widening Municipal Class EA Addendum", May 15 2008. In 2009 it was estimated to cost \$115 million. In 2012 the estimate was \$129. Council hopes to pay only 1/3 of the cost of this project. A reasonable estimate of the total cost would be perhaps \$160 million.

The Mayor states that the City will not get the federal and provincial money if the male proposal is withdrawn. This is false. The city will get a share of federal and provincial money but the funds may be delayed by a year or 18 months while a new proposal is developed.

If the money is spent on Maley Drive the city will not get money for other projects. Senior government will not give Sudbury more than their City's share when there are so many more pressing projects elsewhere.

b. Benefits are overstated

The City paid for a study that was designed to support the project, the ``Cost Benefit Analysis of Maley Drive Extension- Phase 1, prepared by AECOM, October 29, 2015; in support of application for federal funding under the Build Canada Fund.”¹

The title indicates that the analysis was intended to be biased.

The consultants included reductions in vehicle carbon dioxide emissions. This was either incompetent or dishonest. Building roads does not reduce emissions. Building roads induces vehicle traffic, and therefore increases emissions in the long run. Furthermore, the estimate was based on current vehicle efficiencies, which are in fact declining, so that even if the item were valid it would be overstated.

The consultants overstated time savings.

The consultants included estimated job creation and additions to GDP as benefits. This is double counting. It is equivalent to saying that when you hire someone to fix your roof you should count what you pay them as a benefit to you. It is still a cost. Any accountant can tell you that.

Error 2: The project does not add to GDP and create jobs

The chamber of Commerce claims that spending in Maley will add to the local Gross domestic product. This argument results from failure to understand national accounts. It is totally fallacious. There are two major errors.

a. The money will be spent anyway.

Public spending is always added to the GDP. Even if the City were to give the money away it would technically be added to the GDP. However if the money is withdrawn from other uses, the withdrawal must be subtracted from the projects.

Both City money and senior government money will be spent whether or not Maley goes ahead, so there is no addition to GDP.

At best, some spending might be shifted to the city from other communities. This is unlikely in the current situation.

b. Few jobs will end up in Sudbury

If contracts are given to outside firms most of the spending will leave the city. Technically it will appear on the city's books, but in fact it will have little effect on the local economy.

¹ The study was badly done. For a critique, see ``Maley Drive: How Not to do a Cost-Benefit Analysis” on the INOTD Website. http://inord.laurentian.ca/15_11/Maley_CBA_Review.pdf

For an earlier cost-benefit analysis see <http://inord.laurentian.ca/Toolkit/CT11-CBAandMaley.htm>

Even if contacts go to local construction firms, part of the labour force will come from outside the region as temporary hires or through subcontracting. The city has many tradespeople, but does not have large numbers of unemployed construction labourers or heavy equipment operators.

Error 3: What we give up is worth more than what we get

The true cost of a project from an economic point of view is the opportunity cost - the value of the best project or combination of projects that you give up.

The same money spent on other road improvements could save 20 lives over the next 20 years. If these road improvements are delayed by Maley Drive, and they will be, Maley will have cost lives.

The key investments that the city can make to attract new jobs are in improving the downtown. If downtown projects are delayed by spending on Maley Drive, and they will be, Maley Drive will have hurt the City's economy.

The Maley Drive Extension is at best a marginal project. Many other projects offer greater benefits per dollar. Some members of council are now claiming that they have enough money for all the road repairs and improvements that the people of Sudbury need and want. This is highly questionable when KPMG reports that the City has a \$700 million infrastructure deficit which is growing.

No ranking of projects by cost benefit ratios has been done. This is simply unacceptable. Council should be spending money where it does the most good, not on projects that have a small payoff per dollar spent.

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