Making Do With Less: Crown Corporations in an Age of Restraint

by Senator Normand Grimard

The French philosopher Jacques Maritain wrote that "man is in no sense there for the State. The State is there for man." Paul Valéry said, "If the State is powerful, it crushes us. If it is not powerful, we are lost." Today Governments on both right and left are cutting public services because they cannot find the money to fund them. Reducing the deficit entails eliminating spending. Every legislature in the country now boasts of extensive expertise in the consequences of liquidating its Crown corporations. Parliamentarians, many with great reluctance, have had the responsibility of adjusting the size of government to the needs of the current decade, while all around unemployment, bankruptcies, job losses and seizures by creditors go hand-in-hand with plummeting real estate values and a steadily weakening dollar.

In 1973, Ernest Schumacher published his best-selling *Small Is Beautiful*, singing the praises of small business enterprises. Today economic considerations are forcing governments to embrace smallness, in ways that ten years ago would have seemed far-fetched but are now realities, or at any rate seen as entirely reasonable possibilities.

Air Canada, Petro-Canada and the national railways have managed to preserve their logos. But their ownership has changed. At the provincial level, privatization is under consideration for Ontario Hydro and to a certain extent Hydro-Québec. In February 1996 the *Globe and Mail* informed Canadians that even socialist Saskatchewan might be getting rid of five of its Crown corporations: Saskatchewan Telecommunications, Saskatchewan Power Corp., SaskEnergy Inc., Saskatchewan Government Insurance and Saskatchewan Transportation Co.

It seems like only yesterday that confidently wealthy governments, were considering the nationalization of this or that service in the name of necessity or national pride!

The great Canadian novelist Robertson Davies, who died last December, wrote *The Cunning Man* in 1994. Its narrator describes the arrival of a train in Sioux Lookout, a little hamlet in Ontario, in the 1930s:

> The southern world reached us by the daily appearance of the transcontinental train of the Canadian National Railway, which dropped mail and parcels when there were any. Most of the mail was for my father's mine.

The same situation could have been found in a myriad of Quebec villages with their identical steeples.

It was as though the building of the transCanadian railway by Sir John A. Macdonald in the nineteenth century had paved the way for the expansion of the state as entrepreneur. In a country with so vast a territory, those prestigious names were reassuring, especially when attached to services that could not make a profit.

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To the people, they represented the difference between a government presence and no service at all.

Janet Smith, Deputy Minister with Ottawa's Office of Privatization and Regulatory Affairs, has called these state-owned enterprises "national symbols". She participated, in 1990, in a symposium on privatization programs in Canada and Great Britain. CN, Canadair and the Cape Breton Development Corporation all came up in her presentation.[1] Many others could be added to the list of these *ad hoc* instruments for rapid intervention. But there was a hidden price to pay for them all, and sometimes it was a very high price indeed.

As their revenues declined, governments prompted by both domestic and international considerations began questioning their generosity and the future of their public property.

A first phase saw governments disposing of smaller enterprises. In 1986 the Canadian government sold off Canadair, Arsenals Canada and De Havilland to (respectively) Bombardier, Groupe SNC and Boeing (US); in 1988 it sold Eldorado Nuclear to CAMECO, a corporation held jointly by Ottawa (38%) and the government of Saskatchewan (62%).

Then it was Air Canada's turn. It was sold off in two successive stages, 43% in October 1988 and 57% the following June, to become an ordinary publicly traded company listed on the stock exchange.

On February 1, 1991, Petro-Can, the controversial giant was legislated out of government ownership and in July of that year a block of 19.5% of its shares were offered. A specific Act of Parliament was passed for Petro-Can, but as in the other cases the actual continuance took the form of a certificate issued pursuant to section 187 of the *Canada Business Corporations Act*. In September 1995, the federal government still held 20% of Petro-Can's share capital, according to the *Financial Post*.

Changing the ownership of Crown corporations is a legal and judicial process, but first shares must be as economically attractive as possible. Canadian National Railways, for example, had to sell back to the government the world-famous CN Tower, assessed at a value of $235 million, and other real-property assets with little connection to rail transportation. The federal government will preserve them as national heritage assets. Secondly, the proposed sale of shares has to be synchronized with political developments. For example, to generate maximum impact, the massive $2.2 billion CN share issue was timed for November 17, 1995 — after the Quebec referendum. The price of $27 a share was deemed to be overvalued[2]. But American and international investors were awaiting the announcement from the brokerage houses with impatience.

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Other considerations can come into play. Under section 8(1)(*a*) of Bill C-89, which received Royal Assent on July 13, 1995, no CN shareholder, whether Canadian or not, may hold more than 15% of voting shares. The company's headquarters must remain within the Montreal Urban Community. It must continue to honour its obligations under the *Official Languages Act*. Canada is protecting its principles, its assets, its traditions and its future.

In a wider perspective, the National Transportation Agency is to be metamorphosed into the Canadian Transportation Agency. Railways will be able to cede their surplus lines to new operators rather than simply abandoning them, if Bill C-14 passes. (A forerunner of Bill C-14, Bill C-101, died on the Order Paper when Parliament was prorogued in January 1996.) Social criticisms of privatization tend to be more persistent, however, when accompanied by a simultaneous — or subsequent — reduction in personnel. Unfortunately, such reductions are almost inevitable. CN had scarcely been privatized when it confirmed that 4,000 jobs would be cut in 1995.

CN's unionized employees in Winnipeg turned up wearing mourning when their employer ceased to be a Crown corporation.

Their bitterness is easy to understand. But however natural the disappointment, it may not mask another reality? In 1995, when CN still belonged to the nation, it lost $1.4 billion. This is an enormous amount of money.

Even if Canada once had the assets needed to absorb such a loss, it no longer does. Without exception, Canada's governments — national, provincial, municipal — must all strive to do more with less.

In Canada, 26 federal concerns were privatized between 1984 and 1992. Readers interested in knowing the before-and-after details, or the names of the new owners, should consult a book called *The Political Economy of Privatization*. It gives an excellent summary. Chapter 12 is entitled "Context and Process in Privatization: Canada/Quebec"[3].

In an era when airports are being transferred to municipalities or business consortia, federal parliamentarians must feel their way through the labyrinth of deciding what limits are desirable and practicable. Is profit-oriented management suitable for prisons, for instance? In New Brunswick, a proposal to have a $21 million prison for young offenders built by the Florida firm of Wackenhut had to be withdrawn in the fall of 1995. This experience seems to demonstrate that only intensive promotion will convince the citizenry that such an approach is appropriate.

So where will privatization occur next — the federal Art Bank? Vehicle registration (in Quebec)? Water supply (in the City of Montreal)? A host of these proposals are just that. Editorial writers are as dubious about the water supply idea as they are about private prisons. Alberta, on the other hand, has privatized its land registry offices and its liquor control board[4]. Since 1993, a private company connected with the Chamber of Commerce has been managing parking meters and off-street parking for the City of Montreal.

But outside the federal level there are two proposals of an extraordinary scale. The first concerns Ontario Hydro. Founded in 1906, Ontario Hydro has assets of $44 billion. It is the largest enterprise of its kind in North America, and a committee chaired by former federal Cabinet Minister Donald Macdonald may within the next two years recommend to Premier Mike Harris that it be abandoned — a recommendation Mr. Harris is thought likely to accept. The *Globe and Mail*, while favouring the idea, pointed out on January 31, 1996, that "Nevertheless, many Ontario residents look nervously upon any attempt to sell Ontario Hydro".

Meanwhile, in Quebec, Premier Lucien Bouchard is evoking the possibility of disposing of 10% of Hydro-Québec's assets. Hydro was the "flagship of Quebec's development". Alain Dubuc commented in *La Presse* of February 7, 1996 that: "Hydro-Québec is now a seller and distributor of electricity, and it may well be asked whether we really need a Crown corporation to do that"[5].

It is hard for us to get used to the new leaner governments. But let us not delude ourselves that we can reject essential changes because we yearn for a childish and utopian retreat to a welfare state along the lines of the United States' New Deal in the 1930s. This would be equivalent to revolting against summer or winter.

Elected in Great Britain in 1979, Margaret Thatcher was the first anti-socialist to take power in a social democratic Europe. In 1980, President Ronald Reagan imported deregulation to the United States, whence it spilled over into Canada. But even then, between 1980 and 1984, we believed that governments could solve all problems with their magic wand, as long as they managed more prudently. The eleventh hour has sounded on the universal clock: its two hands are pointing to the deficit and the paralysis the deficit threatens to induce. Other draconian restrictions will affect the taxpayer, and they will get a mixed reception.

Quebec's Inspector General of Financial Institutions, noted this in 1994: "People are inclined to think favourably about deregulation until they encounter some situation they are shocked by what they attribute to lack of government controls."[6]. This frustration will spread.

In short, with the exception of the Armed Forces and the police, virtually nothing is excluded from the possibility of privatization. The old taboos are gone. Or have lost their power over us.

In retrospect, what Ottawa actually did when the Conservatives brought in the *National Transportation Act, 1987* was dust off a host of requirements that had fallen into disuse. Safety was maintained. But union representatives and employees persist even now in claiming there was something fishy about it.

Does this mean that small government will disappear tomorrow? It would be illusory to think so. But the priorities of the cyber age will force parliamentarians to make difficult choices, demanding considerable courage. They will have to stand by them. Ordinary citizens will have to give up free services and subsidies, a process that has already begun in health insurance and social services. But other issues will arise. In rail transportation, for instance, how will the government ensure that outlying cities like, say, Rouyn-Noranda, which are off the guaranteed Halifax-Vancouver axis, do not lose their link to the rest of the country? Will it be by purchasing services? Or some other approach? What will it cost?

Let us have enough concern for Canada's prestige abroad to keep Radio-Canada International, even after 1997! The respect of the world is not something that can be recovered if we throw it away. Parliamentarians, as the chosen representatives of the people, will have to make the decisions. Let us hope that the size of an enterprise will not be the only criterion for cuts. But Canada's future depends on an adequate economic repositioning just as much as on a reworking of its Constitution.

Notes

1. Janet Smith, "Canada's Privatization Program", *Privatization and Deregulation in Canada and Britain*, Institute for Research on Public Policy, ed. Jeremy Richardson, Aldershot, U.K., Dartmouth, 1990, pp. 40 and 44.
2. "CN issue set at $27", *Financial Post*, and CN goes up for grabs at $2.2 billion", *Globe and Mail*, November 17, 1995.
3. See Jan J. Jorgensen, Taieb Hafsi and Christiane Demers, in Thomas Clarke and Christos Pitelis, *The Political Economy of Privatization*, London, Routledge, 1994, pp. 234-272.
4. Mark Lisac, *The Klein Revolution*, Edmonton, Newest Press, 1993, 245 pp. p. 127.
5. Alain Dubuc, "Hydro: le temps des questions", *La Presse*, February 7, 1996.
6. Jean-Marie Bouchard, "Le cas des institutions financières au Québec", in Robert Bernier and James Ian Gow, *Un État réduit/A Downsized State?*, Montreal, Les Presses de l'Université du Québec, 1994, pp. 149-50.