AUSTERITY and its ALTERNATIVES

Re-Purposing Public Enterprise

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ABOUT US

Austerity and its Alternatives is an international knowledge mobilization project committed to expanding discussions on alternatives to fiscal consolidation and complimentary policies among policy communities and the public. To learn more about our project, please visit www.altausterity.mcmaster.ca.

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Abstract

This paper asks how we might re---purpose public enterprise in Canada: what ideas, tools, and techniques are needed to move beyond privatization? To this end, the paper explores the current and historical operation of Canadian Crown corporations in a range of socio--- economic areas (relating to land, labour, capital, and infrastructure), and provides future strategies for revitalizing the purpose of public enterprise.

Part I: Public Enterprise in Canada

> "The settlement of the prairies, the provision of an all---Canadian transportation system, and finally, the adoption of a protective tariff policy are all… major and related elements of policy in the structure of the Canadian economy" (Mackintosh 1939, 7).

The Canadian state has, from its earliest days through to today, played a particularly active (colonial---liberal) role in capitalist market development. State support for markets was not necessarily at its zenith in the Keynesian era of welfare state intervention like we normally hear, and this support for markets and market actors did not entirely wither in the neoliberal era even if laissez---faire may be a familiar motto in other ways.

From the *Report of the Royal Commission on Dominion---Provincial Relations Canada 1867--- 1939*, in reference to the Province of Canada, the British colony in North America from 1841---67 that merged Upper and Lower Canada:

> "The pressure for union grew out of the circumstances of the colonies. … The economic conditions influenced greatly much of the framework and detail of the federal scheme."

Namely, public debts incurred for railways and other improvements of the St. Lawrence transportation system had almost destroyed the credit of Upper Canada in the London money markets. Upper Canada was almost bankrupt, lacking stable tax revenues and needing the resources of the more populous Lower Canada to fund its internal transportation improvements.

This pattern continues with the union: by 1866 Canada had loaned $33 million to railway companies and municipalities contributed $7 million – making up half of government debt, and almost all of it was uncollectible. If canals are included, support for economic development made up 60% of total debt. Clearly the attempt at commercial integration had flopped because of the limited fiscal powers of pre---confederation political units to support debt and raise revenue.

Leading the *Report* to conclude:

> "By the eve of Confederation, transportation had overshadowed everything else in the budgets of the colonies and had seriously strained the public finance systems of Canada, New Brunswick, and Nova Scotia."

Confederation itself was intended to create an economy where the whole would be greater than the sum of its parts through domestic trade and industrialization encouraged by a protective tariff, the Hudson Bay land purchase intended to stimulate Dominion development and link Atlantic to Pacific, and a transcontinental railway project financed by private bonds but underwritten by Treasury funds (so says Mackintosh in 1939).

The Keynesian postwar era, in Canada as elsewhere, is often pointed to as an example of a 'mixed' economy, one with flourishing public and private sector markets and property rights. But, as the story usually goes, neoliberalism in the 1980s and beyond would seek to upend this dynamic, with capital pushing and policy makers opting for a minimalist, laissez faire state form.

While it is certainly true that a wave of public property privatization and austerity---induced public sector clawbacks distinguish the neoliberal period from the postwar era, a longer historical vantage point reveals tangled public---private relations. Most Crown corporations have been used to support private markets and capital accumulation, both in times of emergencies and more generally for fiscal support of 'business as usual' liberal---colonial capitalism. The public and private sectors cannot be understood theoretically or empirically as standalone entities in Canadian capitalism.

There are several explanations for significant federal government ownership, very briefly, organized in chronological order: 1) its British colonial heritage (from the 1600s to 1800s) where land was claimed by the Crown and developed by corporations with a royal charter like the Hudson's Bay Company; 2) nation---building ambitions (from roughly the mid---1800s to early---1900s) orchestrated through the creation of a federal---provincial confederation and national development policies stretching from east to west; and 3) the adoption of Keynesian---style supports for capital accumulation and domestic market linkages (from mid---1900s to late---1970s) through state owned enterprises and other similar entities. Prior to the 1990s, we saw the long---term retention of federal Crown property to service government departments and Crown corporation operations, as well as military bases, airports, and ports.

Mingled with privatization is the persistence of an interlocking web of government---funded and provided services for public and private sectors, today largely centred on financial and commercially---oriented Crown corporations. Crown corporations can be categorized in several ways. One way might be to consider how they operate within the three classical factors of production in capitalism: land, labour, capital – plus infrastructure.

Land: Canada Lands Company

Like most other state owned enterprises, the Canada Lands Company (CLC) traces its origins to the postwar era. In 1956, the federal government created Public Works Lands Company Limited (renamed Canada Lands Company Limited in 1981) to function as an intermediary handling public land development, leases, permits, title transfers, etc. for other government departments. However, the Canadian federal government typically retained its land prior to the 1990s in order to fulfill department mandates and meet the needs of other Crown corporations (notably Canadian National Railways and Air Canada which required a lot of land for their operations), narrowing CLC's activities for the first few decades of its existence. It would later become dormant with the ascension of neoliberal era dispossession. Neoliberal rollback in the late 1980s and early 1990s meant the widespread sale of public property in Canada, particularly land---holding entities like CN (1995), Petro---Canada (1991), Navcanada (1996), and Air Canada (1988), just to name a few. Not only was Crown corporation land included in their sale, privatization deals also created surplus land when commercially viable portions were divested and contaminated or otherwise unmarketable land was retained by the state. CLC was reactivated in 1995 to handle the CN sale and manage the institutionalization of real property privatization, representing a new phase for the public enterprise: shrinking public property rather than enlarging it.

Beginning in 1991, federal bureaucratic policies and formal legislation were altered to *require* the identification and disposal of what is now called 'surplus' land. All public property became seen as having a 'life cycle' with surplus and sale being the terminal stages of public property ownership. Federal government departments' programs are now required to view owning real property as a *cost* of program delivery. There is little incentive to hold land (or other assets) beyond the direct benefits accruing to that public property. Thus, there is every incentive to dispose of it. It became no longer acceptable to view public real property as a 'free good'. The 1991 legislation drew on the 1985 Nielsen Task Force report which essentially scripted the surplus narrative offered as justification for privatizing and commodifying public land in Canada; it also launched the appraisal toolkit. There are now interrelated forms of legislation, regulations, public sector agencies, accountancy standards, benchmarking, disposal rules, and reporting procedures in place to encourage the identification of 'surplus' and its disposal through market sale.

The incentive structure was flipped on its head: holding land (or other property) beyond any direct or immediate benefit would disadvantage a department's budgetary bottom line and disposing of it would be rewarded. According to the *Directory of Federal Real Property*, more than half the catalogue of public land, buildings, and equipment held by the Canadian federal government has disappeared through transfer or sale over the past 20 years. Canadian federal jurisdiction over (potentially lucrative) surplus property is mainly concentrated in cities with fortunately situated ports, railway yards, military bases, heritage sites, office buildings, and can sometimes be found in the most lucrative of all Canadian markets: Vancouver's Point Gray Jericho properties, for example, or Toronto's Harbourfront and CN Tower, or Montreal's Old Port.

The Canada Lands Company is very important actor here. CLC now receives title to all surplus federal holdings prior to market sale and: 1) CLC provides regulatory---managerial support for privatization by collecting rent to subsidize property development, by commercializing public space, and by financializing public land; 2) CLC holds onto vacant, spoiled, depreciated, and/or sensitive land for as long as required before marketable; 3) CLC is also able to draw on the full borrowing power and creditworthiness of the Government of Canada, dodging the influence of secondary financial markets so commonly seen within private real estate today. As a public entity, its market actions are obscured, even rendered mundane.

Items are being regularly added to CLC's portfolio. For example, in March, 2017, the Dominion Public Building, an iconic heritage building in the heart of downtown Toronto, was sold for $275 million to Larco Investments, expanding its portfolio of hotels, malls, apartments, and office buildings. However, 'surplus' does not mean unused or unneeded. At the time of its sale, 1,900 federal employees worked there in various government departments, including the Canada Border Services Agency and the Canada Revenue Agency.

Capital: Export Development Canada, Business Development Bank of Canada

> "On December 20, 2008, Prime Minister Harper and Premier McGuinty announced that Canada and Ontario would provide GM and Chrysler with up to $4 billion in short---term repayable loans managed by Export Development Canada, $2.7 billion of which is from the Government of Canada." (Department of Finance Canada 2009, 173).
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> April 7, 2015. "Canadian taxpayers will fall about $3.5---billion short of breaking even on the money the federal and Ontario governments invested in the bailouts of Chrysler Group LLC and General Motors Co. in 2009. The federal government's sale of the remaining 73.389 million common shares it held in GM will close the book on the investment and the auto maker's period of being derided as 'Government Motors'." (Keenan 2015)
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> October 22, 2018. "The [federal] Liberal government has quietly written off a $2.6--- billion auto---sector loan that was cobbled together to save Chrysler during the 2009 global economic meltdown. The write---off [is] among the largest ever for a taxpayer--- funded bailout…." (Beeby 2018).

The North American auto sector bailouts of 2009, set within the context of the 2008 Global Financial Crisis, might otherwise appear to be extraordinary events borne of extreme circumstance. The subsequent losses for taxpayers in recouping these funds might also seem like an aberration. However, neither state support for capital nor the socialization of private sector costs/losses are particularly unique phenomena (with similar patterns dating all the way back to the pre---confederation Province of Canada). The Canadian bailout of auto giants GM and Chrysler was orchestrated through financing arranged by Export Development Canada (EDC), a state owned enterprise providing financial and technical support for market actors and economic development of various sorts since 1944. And EDC is but one of 49 parent company state owned enterprises at the federal level taking risks, absorbing losses, and guiding markets in this country.

Export Development Canada and Business Development Bank of Canada (BDC) were also called upon to provide liquidity assistance in 2009---10, providing banking sector guarantees of $200 billion through the temporary Business Credit Availability Program (BCAP) overseen by EDC and BDC. BCAP was directed by public---private partnership including representatives from the Department of Finance, the Bank of Canada, EDC, BDC, and private commercial financial institutions. BCAP has since been wound down, and EDC and BDC continue their longstanding focus on providing financing credit and support to Canadian exporters and Canadian businesses, respectively. This includes advisory services, venture capital, insurance, and the like. They were both founded in 1944 to assist with postwar economic transition and stimulus.

More recently, EDC helped the Crown corporation Trans Mountain Corporation (TMC) acquire the Trans Mountain pipeline in 2018 from Kinder Morgan by providing a loan guarantee supporting the $4.5 billion purchase. TMC is a wholly owned subsidiary of the Canadian Development Investment Corporation (CDEV), a Crown corporation created in 1982 to manage assigned assets and to assist with privatization. Legislation introduced in 1998 would have seen CDEV dissolve, but instead the dormant company was reactivated and its funds were used to purchase the Trans Mountain pipeline. The Trans Mountain pipeline is Canada's only pipeline to the West coast (it runs from extraction sites in Alberta to export ports in British Columbia). Similar to the historical creation of Ontario Hydro and Canadian National Railway, its origins are in the private sector: Trans Mountain Oil Pipeline Company was established under Special Act of Parliament in March 1951, initiating construction of the Trans Mountain pipeline in 1952. BC Gas (later Terasen Gas, now FortisBC), acquired the Trans Mountain Oil Pipeline Company in 1994. In 2005, Kinder Morgan acquired Terasen Gas (now FortisBC, previously BC Gas) and Terasen Pipelines, the province's largest natural gas distributor. In 2012, Kinder Morgan announced a pipeline expansion project, which the National Energy Board approved in 2016 invoking controversy and legal challenges from First Nations and environmentalists. Unhappy with the delays, Kinder Morgan sold the Trans Mountain pipeline to the federal government in 2018. TMC was created to acquire, develop, and later privatize the pipeline expansion.

Labour: Canada Mortgage and Housing Corporation, Canada Deposit Insurance Corporation

Canada Mortgage and Housing Corporation (CMHC), created in 1946, has seen its ambit change over the years. Initially, the CMHC assisted war veterans with housing services, by the 1950s it was involved in urban housing renewal and assistance with municipal low--- income housing, by the 1990s it was providing household mortgage underwriting services, down payment assistance for first time homebuyers, information services, selling Canada Mortgage Bonds, and green funds. With mandatory mortgage loan insurance in Canada, CMHC plays a vital role in the stability of the housing market and financial sector, witnessed most dramatically in the context of the 2008 Global Financial Crisis. CMHC's Insured Mortgage Purchase Program committed $130 billion in liquidity support to mortgage lenders during the crisis. It is currently the largest asset holding Crown corporation in Canada with $267 billion in assets.

Canada Deposit Insurance Corporation (CDIC) was created in 1967 to protect Canadian deposits up to $100,000 in the case of a bank failure. The Canadian banking system has long been dominated by the 'big five' commercial banks, unlike American and other banking systems with a network of smaller regional banks, creating stability and predictability, but relatively lower banking sector profits in the Canadian system. In 2017 CDIC was designated the 'resolution authority' for Canada's largest private banks given that it also resolves banking sector issues, not only providing deposit insurance, and banks must now submit resolution plans to CDIC.

Infrastructure: PPP Canada, Canada Infrastructure Bank

Like the Trans Mountain Corporation, another wholly owned subsidiary of CDEV was PPP Canada. Created in 2007, PPP Canada was designed to promote public---private partnership infrastructure and service projects across the country. PPP Canada was dissolved in 2017 when the Canada Infrastructure Bank Act came into force. The Canada Infrastructure Bank was created to replace PPP Canada and expand government support for public---private partnership markets across the country through a $35 billion commitment via the Investing in Canada Plan.

We have many other subnational PPP units in Canada – specialized government agencies that promote and evaluate PPP at all levels of government – practices which will be further entrenched through the new Canada Infrastructure Bank (CIB). CIB started out as a 2015 campaign promise to break with the austerity of the past and fund community projects like urban social housing or potable water for First Nations reserves, though it quickly turned into an opportunity for backroom bargaining with pension funds, and a revolving door for BlackRock consultants serving industry interests. CIB will now exclusively target 'commercializable' infrastructure – toll roads, transit, and bridges; and institute a practice of 'asset recycling' by offering up legacy assets built during the postwar era or earlier using taxpayer dollars and thus far wholly owned by the public sector, like airports, hydro grids, ports, and rail.

All things considered, CIB, with its PPP bias and asset recycling focus, will not only perpetuate the status quo, it will do little if anything to address the scandalous track record of for---profit partnerships in Canada. Canada Infrastructure Bank will push the PPP model as *the* solution to infrastructure renewal and finance, along with all of its baggage, into new jurisdictions and ownership configurations in ways not yet seen in Canada. Like CLC and CDEV, the purpose of CIB as Crown corporation is promoting privatization.

Part II: Re-Purposing Public Enterprise

Part I demonstrated the activist role played by public corporations in creating and maintaining Canadian capitalism (land, labour, finance, infrastructure). With no shortage of actually existing state owned enterprises, what we need now is a re---purposing of public enterprise. Democratizing the public purpose itself is desperately needed, not necessary the creation of new public enterprises – we need different goals at the heart of their operations, and a transformation in:

Ideas – countering the privatization narrative: public administration, public services, and public enterprises all have different capacities. Enterprises (Crown corporations) now largely function as promoters of capitalistic ideals, however their changing mandates over the decades indicate that existing public enterprises can be re---purposed quite easily. Logics should instead emphasize community development, democratic control, generating funds to support social ambitions, and/or sustainable development priorities.

Techniques – generating revenue: subsidizing public services and public administration rather than supporting profit---oriented ambitions through an expansion of public financing opportunities; improving workplace conditions and community control.

Tools – community shares, wage floors/ceilings, buy local provisions, municipal---level corporations, redistributing dividends, drawing on pooled savings, and issuing bonds.

SaskTel, created in 1908, is a current telecommunications sector Crown corporation in Saskatchewan with over 4,000 employees and $1 billion in revenue. It operates according to 5 key areas of focus that might be of use in a broader effort to re---purpose public enterprise in Canada: 1) ethical leadership, 2) improving living standards in the province, 3) increasing access to products and services, 4) enhancing employee standards, and 5) environmental stewardship. Annually, it remits tens of millions in dividends to the provincial treasury, donates millions to non---profits and charities, students and communities, it forms partnerships with

First Nations groups and post---secondary institutions, ensures equitable access to infrastructure and services across the province, practices employment equity, provides employee (re)training along with health and wellbeing services, and implements sustainability initiatives.

A few ways in which the above can be applied to the Crown corporations of Part I:

Canada Infrastructure Bank: providing First Nations and social infrastructure, public trains and transit, through pension investment and/or public bonds

Canada Lands Company: supporting social housing, co---op housing, and urban green space through hospitality revenue

Canada Mortgage and Housing Corporation, Canada Deposit Insurance Corporation, Canadian Development Investment Corporation: encouraging community credit unions through pooled public funds and public bonds

Export Development Canada, Business Development Bank of Canada: lending and insurance for small business to protect community---sensitive jobs, fossil fuel divestment, and green technology

What else might we dream up if these Crown corporations were used to serve community purposes rather than the needs of capital?!

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