The Harper government’s Crony capitalism

By Mark Milke

You might think the federal Conservatives, who added $125-billion to the federal debt since 2008 and will add another $21-billion by the end of March, might be shy about unnecessary expenditures. Alas, that’s not the case, as it appears Prime Minister Stephen Harper and his colleagues would rather hand out cash to corporate Canada instead.

In just the first two weeks of January, the prime minister announced another $250-million for the Automotive Innovation Fund—a federal subsidy program that provides the auto sector with taxpayer cash for research and development.
Mark Milke

You might think the federal Conservatives, who added $125 billion to the federal debt since 2008 and will add another $21 billion by the end of March, might be shy about unnecessary expenditures. Alas, that’s not the case, as it appears Prime Minister Stephen Harper and his colleagues would rather hand out cash to corporate Canada instead.

In the first two weeks of January, the Prime Minister announced another $250 million for the Automotive Innovation Fund—a federal subsidy program that provides the auto sector with taxpayer cash for research and development.

Then the Prime Minister announced $400 million for venture capital, mystifying those of us who thought it was fine to let private-sector angel investors risk their own cash, not that of taxpayers, on high-risk start-ups.

The recent taxpayer gifts are but the tip of the corporate welfare iceberg. Between 1994 and 2007, $202 billion was disbursed by all governments across Canada through subsidies to business.

Whenever politicians wish to shower taxpayer money around, predictable excuses are offered up in defence of crony capitalism.

One is that corporate welfare creates new economic activity, and thus extra jobs and new tax revenues.
The prime minister trotted out a variant of this claim when he asserted that the previous $250 million dollop of taxpayer cash into the automotive fund “returned six times what the government has invested [into] the Canadian economy.”

But if the prime minister actually believes that, then why stop at $250 million? Why not drop another $1 billion or more into that fund, given such supposed multiplier effects?

The claim of magical multiplication effects is akin to dropping $250 million in taxpayer cash from the top of the CN Tower onto pedestrians below.

Of course such soon-collected money will be pocketed and later spent; that cash might create temporary one-time increases in economic activity and spinoff benefits. And no doubt, some politician would point to the ensuing spending as evidence that such economic development strategies work.

But the relevant question is where the money originated in the first place and whether such a “helicopter” approach to economic development is the best use of tax dollars.

Such scattering of tax dollars to the wind ignores the substitution effect. That is where tax dollars must be taken from others (i.e., through personal and business taxes) to finance the new round of crony capitalism.
Is a “helicopter” approach to economic development the best use of tax dollars?
The economic literature on subsidies and the substitution effect is clear: had such dollars been left with individuals and businesses, that money would have been spent elsewhere or saved and invested.

That too would have created economic activity, jobs, and eventually tax revenues for governments. It would have occurred without the inefficient recycling of tax dollars through the political picking of corporate welfare winners—and losers.

As one American expert on corporate welfare, Terry Buss, described it, the hidden victims of crony capitalism are businesses not in on the take and taxpayers in general—“potential losers are always in other cities or states, and few people concern themselves with the national interest.”

Sometimes politicians will admit that crony capitalism is an economic shell game. Still, they and others will defend it on the grounds that other governments subsidize business, so Canadian politicians play the same subsidy game.

But not everyone does. Sometimes, politicians choose differently.

In 1996 under then Premier Ralph Klein, the Alberta government passed the Business Financial Assistance Limitation Act to stop most loans, loan guarantees, and outright subsidies to business (the exception being small
businesses). That came after $2.2 billion in government loan guarantees to various businesses went sour.

In New Zealand, the government stopped subsidizing farmers long ago.

More recently, the Saskatchewan government ended the lucrative film tax credit (which cost the province $100 million over the years). Saskatchewan did so over the wrongheaded objections of some business organizations, such as the Saskatchewan Chamber of Commerce. The Chamber should be opposed to having the government pick winners and losers through tax credits and direct subsidies and instead support more neutral business taxation.

Where pressure exists to subsidize companies or to engage in unproductive tax credit schemes, one antidote is to toughen up existing free-trade agreements to end such abuses of taxpayers and their money. The very point of free-trade agreements is the pursuit of a level playing field and more economic growth for all.

After all, why should taxpayers (and their money) from any city, province, or country be dragged into the competition between corporations? Let companies duke it out without taxpayers being forced into the ring.

This article appeared in the Calgary Herald on January 19, 2013.

Mark Milke is the director of Alberta Policy Studies at the Fraser Institute. He also manages the Fraser Institute’s Centre for the Study of Property Rights.