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Corporate welfare: Now a $182 billion addiction

A fiscal update on business subsidies in Canada

Main Conclusions

- Between 1994 and 2006, the last year for which statistics are available, Canada's federal, provincial, and local governments spent $182.4 billion on subsidies to business
- In 2006 alone, Canada's federal, provincial, and local governments spent $19.3 billion on corporate welfare, almost double the 1995 figure of $10.3 billion
- The cost to each taxpayer who paid income tax in 2006 was $1,291, which was 38% higher than the 1995 figure of $934
- Over 12 years, the total cost per tax filer who paid tax in every year amounted to $13,639 per person (in 2008 dollars)
- Between 1994 and 2006, provincial governments spent $98.5 billion on corporate welfare. The federal government spent $61.4 billion and municipal governments spent $22.5 billion
- Quebec disbursed the highest amount of public money to corporations: over $5.4 billion in 2006. Ontario followed at $2.4 billion, then Alberta at almost $1.5 billion, then British Columbia at just under $950 million
- Since 2004, the federal and Ontario governments have made available $752 million to Canada's automakers, mostly in the forms of grants.

An update on corporate welfare: $182 billion and climbing

When the Fraser Institute published my first study on corporate welfare one year ago, the tally between April 1, 1994 and March 30, 2004 amounted to $144 billion. That was the amount Canadian governments distributed to businesses in the form of subsidies from federal, provincial, and municipal treasuries (i.e., taxpayers) over the 10-year period. One year later, and with two more years of data available, that figure has climbed to over $182 billion for the 12 years between 1994 and 2006.

When last year's study was published, some media commentators expressed surprise at why an institute seen as friendly to market principles would criticize business subsidies or, in other words, corporate welfare. The reason is simple: the data show that competition is

superior and preferable to corporatism. One can favor free markets, limited government, and rudimentary and proper regulation without falling into the trap of believing that everything which might be good for *a* business is good for business in general, or for employment growth, or for the greater economy. In other words, one can and should favor a competitive approach over corporate welfare for the simple reason that competition, not corporatism, works best.

As a prime example of the corporate welfare debate in late 2008, General Motors, along with other automobile manufacturers and companies in other sectors, are notable supplicants in Washington, DC and Ottawa, among other political capitals. They are in search of a handout for their business, their shareholders, and their employees. In mid-November, automobile manufacturers in particular argued that the consequences of not receiving public money would be " catastrophic" (Van Praet and Vieira, 2008, Nov. 19), even though Chapter 11 bankruptcy in the United States would allow such companies to restructure and perhaps live to sell automobiles, but through a leaner business model.

Should any one company fail, parts of it—the valuable parts—will survive and either operate as a healthier, smaller, independent entity, or be taken over by more able competitors. Governments that interfere in the rise and fall of corporations cannot artificially bring back customers to a business that has lost them, perhaps forever; government intervention will only delay the day of reckoning, not only at the expense of others and a healthy industry, but also at the expense of the economy and its overall health.

In summary, the oft-heard cliché that what is good for General Motors (or for any other corporation) is good for the country has never been less true than it is today. With multiple companies lining up around the world for government-financed grants, loans, and loan guarantees, bailouts for one company in trouble will only make it more difficult for competitors in a tough economic environment.

Corporate begging is more earnest this year, but the plain truth about corporate welfare hasn't changed: the practice transfers tax dollars and employment from healthy businesses to risky businesses. Those who desire an in-depth review of why corporate welfare is a failure (and will continue to fail in any new bailouts and subsidy agreements offered by governments) can access last year's full report. At 62 pages, it covers every oft-heard justification for subsidies and the ostensible benefits of corporate welfare, and also explains why corporate subsidies are wrong. I summarize five key arguments against corporate welfare from last year's study at the end of this update.

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Scope of this update

An obvious question readers will want answered is if the change in parties in power in Ottawa since January 2006 has provoked a change with regard to business subsidies. The full answer is not yet available due to the end date of the available data. This year's look at business subsidies adds two years' worth of data to the previous 10; thus, the review covers the period from April 1, 1994 to March 31, 2006, or 12 fiscal years inclusive. Information beyond March 31, 2006 is not yet available from Statistics Canada, which provides the data on subsidies to enterprises in Canada.

Table 1: The cost of business subsidies in Canada, April 1, 1994 to March 31, 2006 (millions of $) *(fiscal years ending March 31)*

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1995-2006
Federal subsidies to business													
Operating transfers	3,270	3,252	4,135	3,825	3,587	3,537	3,682	2,969	4,313	5,083	4,960	4,495	
Capital transfers	721	493	304	808	1,604	1,541	1,906	1,604	642	1,575	1,507	1,568	
Total federal subsidies to business	3,991	3,745	4,439	4,633	5,191	5,078	5,588	4,573	4,955	6,658	6,467	6,063	61,381
Provincial subsidies to business													
Operating transfers	4,264	4,242	4,025	5,069	5,171	6,043	10,289	8,836	11,651	9,809	10,522	9,729	
Capital transfers	419	225	398	302	1,495	1,502	494	585	653	640	782	1,344	
Total provincial subsidies to business	4,683	4,467	4,423	5,371	6,666	7,545	10,783	9,421	12,304	10,449	11,304	11,073	98,489
Local subsidies to business													
Operating transfers	1,212	1,216	1,201	1,006	1,095	1,078	1,159	1,566	1,677	1,770	1,662	1,639	
Capital transfers	488	473	610	737	769	540	395	364	360	418	538	555	
Total local subsidies to business	1,700	1,689	1,811	1,743	1,864	1,618	1,554	1,930	2,037	2,188	2,200	2,194	22,528
Total government transfers to business	10,374	9,901	10,673	11,747	13,721	14,241	17,925	15,924	19,296	19,295	19,971	19,330	182,398

Source: Statistics Canada, 2008.

Note that some, but not all, government business enterprises are included in above figures. Statistics Canada includes only those businesses which it considers independent of government, defined as those which receive less than 50% of their operating budget from government. Thus, transfers to VIA Rail, though substantial, are included in the above figures. Transfers to the Canadian Broadcasting Corporation (CBC), while also substantial, are not included, as the CBC receives more than 50% of its revenue from government and is not considered by Statistics Canada to be financially independent of government. If transfers to CBC were included, the above figures would be higher (Dan Finnerty, Statistics Canada, personal communication, November 9, 2008).

However, a clue to the prevalence of business subsidies offered after March 31, 2006 is available. In the Speech from the Throne, which opened the new session of Parliament in mid-November 2008, the federal government committed to more business subsidies when it noted that the automotive and aerospace industries were "under increasing strain" and pledged to "provide further support for these industries" (Canada, 2008). That was code for additional corporate welfare, of which there has been no shortage during good or bad economic times alike.

Updated summary of corporate welfare: April 1, 1994 to March 31, 2006—$182 billion over 12 years

- Between 1994 and 2006, the last year for which statistics are available, Canada's federal, provincial, and local governments spent $182.4 billion on subsidies to business (table 1).
- In 2006 alone, Canada's federal, provincial, and local governments spent $19.3 billion on corporate welfare, almost double the 1995 figure of $10.3 billion (table 1).
- The total corporate welfare bill (federal, provincial, and municipal) has ranged from a low of $9.9 billion in 1996 to a high of almost $20 billion in 2005 (table 1). In 2006, it amounted to $19.3 billion.
- The cost to each taxpayer who paid income tax in 2006 was $1,291, which was 38% higher than the 1995 figure of $934 (table 2).
- Over 12 years, the total cost per tax filer who paid tax in every year amounted to $13,639 per person (table 2).

Which governments give business the most amount of public money?

Between 1994 and 2006, provincial governments gave more money to business than any other level of government. The breakdown is as follows:

- Between 1994 and 2006, provincial governments spent $98.5 billion on corporate welfare, while the federal government spent $61.4 billion and municipal governments spent $22.5 billion (table 1).
- Among provincial governments, the province that disbursed the highest amount of public money to corporations is Quebec, offering over $5.4 billion in corporate welfare in 2006. Quebec was followed by Ontario at $2.4 billion and Alberta at almost $1.5 billion, with British Columbia placing fourth at just under $950 million (table 3).

A note on automotive sector subsidies: $752 million since 2004

The prospect of additional automotive subsidies has been in the news recently in Canada and the United States. A review of Industry Canada announcements since 2004 reveals that $752 million has been promised to the automotive industry, including $200 million for Ford, $200 million for GM, and $125 million for Toyota (table 4). The money has been pledged and/or delivered from the federal and Ontario governments. The industry is presently asking for additional corporate welfare payments, with amounts suggested by the industry itself at between $2.5 billion and $6.5 billion (Van Praet and Vieira, 2008, Nov. 19).

An overview of corporate welfare: What is it?

A government subsidy to business occurs when a government transfers tax dollars to the business sector for reasons other than purchasing goods or services. In academic jargon, such a subsidy is often referred to as "targeting" because government support is "targeted" at a particular business or industry. In common parlance, business subsidies are known as "corporate welfare." These terms are largely interchangeable.

Note that this definition of corporate welfare does not include tax reductions, deductions, or exemptions for individual businesses or business as a sector. Money earned by individuals or businesses belongs first to those who earned or created it. Thus, in most cases, it is incorrect to label a tax reduction, deduction, or exemption as a subsidy.[1]

Peer-reviewed judgments on business subsidies

Peer-reviewed research on business subsidies does not support government or recipient claims that corporate welfare is responsible for widespread economic growth. At

Table 2: Business subsidies per tax filer who paid income tax, April 1, 1994 to March 31, 2006

Fiscal year	Tax filers (*taxable* returns millions of persons)	Business subsidies (millions of $)	Per tax filer (nominal $)	Per tax filer (2008 $)
1995	14.027	10,374	740	934
1996	14.173	9,901	699	878
1997	14.069	10,673	759	935
1998	14.578	11,747	806	984
1999	14.925	13,721	919	1,110
2000	15.412	14,241	924	1,084
2001	15.602	17,925	1,149	1,315
2002	15.516	15,924	1,026	1,153
2003	15.836	19,296	1,218	1,357
2004	16.173	19,295	1,193	1,298
2005	16.298	19,971	1,225	1,300
2006	15.722	19,330	1,229	1,291

Sources: Canada Revenue Agency, 2008a, 2008b. Conversion to 2008 dollars courtesy of Bank of Canada Inflation Calculator.

Table 3: Provincial subsidy amounts, 2006 (millions of dollars)

	NF	PE	NS	NB	PQ	ON	MB	SK	AB	BC	YT	NT	NU	All
Operating transfers	45	33	71	111	5,198	1,369	257	263	1,448	914	12	4	4	9,729
Capital transfers	6	5	0	0	244	1043	3	9	0	34	0	0	0	1,344
Totals	51	38	71	111	5,442	2,412	260	272	1,448	948	12	4	4	11,073

Source: Statistics Canada, 2008.

Note that some, but not all, government business enterprises are included in above figures. Statistics Canada includes only those businesses which it considers independent of government, defined as those which receive less than 50% of their operating budget from government. Thus, transfers to VIA Rail, though substantial, are included in the above figures. Transfers to the Canadian Broadcasting Corporation (CBC), while also substantial, are not included, as the CBC receives more than 50% of its revenue from government and is not considered by Statistics Canada to be financially independent of government. If transfers to CBC were included, the above figures would be higher (Dan Finnerty, Statistics Canada, personal communication, November 9, 2008).

Table 4: Federal and Ontario automotive subsidies, 2004–2008
Specific funding announcements

Date	Government	Recipient company	Amount (millions of $)	Type of assistance	Source
Oct. 29, 2004	Federal	Ford	100.0	Grant	Industry Canada, 2004
Oct. 29, 2004	Ontario	Ford	100.0	Grant	Industry Canada, 2004
March 2, 2005	Federal	GM	200.0	Grant	Industry Canada, 2005a
June 30, 2005	Federal	Toyota	55.0	Repayable contribution	Industry Canada, 2005b
June 30, 2005	Ontario	Toyota	70.0	Grant	Industry Canada, 2005b
Nov. 21, 2005	Federal	DaimlerChrysler	46.0	Grant	Industry Canada, 2005c
Nov. 21, 2005	Ontario	DaimlerChrysler	76.8	Grant	Industry Canada, 2005c
Dec. 21, 2006	Federal	Valiant	6.1	Repayable investment	Industry Canada, 2006
Feb. 16, 2007	Federal	Linamar	9.0	Repayable investment	Industry Canada, 2007
June 3, 2008	Federal	Various companies: 54 projects	9.5	Grant	Industry Canada, 2008a
Sept. 3, 2008	Federal	Ford	80.0	Repayable contribution	Industry Canada, 2008b
Money committed by federal and Ontario governments, 2004–2008			752.4		

best, a generous interpretation of the literature suggests that subsidies *may*, in very specific locations, produce *some* effect on *some* economic behaviors. For example, the World Trade Organization (2006) notes that, even when considering the most celebrated examples of assistance to business (industrial policy in East Asia, for example), the results indicate that, at best, industrial policy made "a minor contribution to growth in Asia."

At worst, the literature overwhelmingly concludes that there may not be a demonstrable positive impact upon the economy, employment, and tax revenues because of the substitution effect (for a detailed literature review, see Milke, 2007). The substitution effect occurs when employment and tax revenues are shifted to business at a significant cost, and no new investment or employment is created, on a net basis, when the national or international economy is considered. For example, a subsidy meant to "create" film jobs in Alberta may simply shift intended investment away from British Columbia or Ontario. Similarly, a subsidy offered to an automotive company in Michigan will tend to shift jobs away from Ontario or Kentucky.

So why do business subsidies continue? A public choice answer

If the empirical evidence for corporate welfare's economic utility is lacking, the question arises: why does corporate welfare persist? Here, public choice theory is helpful in explaining less-than-optimal public policy (for a full discussion of public choice theory, see Milke, 2007: 40–42). The theory explains that government subsidies to business continue because:

- It is in the interest of some special interests who desire a specific lucrative benefit;

- It allows political actors to appear to be "doing something" (e.g., they are "saving jobs"), which is in their interest as "vote maximizers";
- It is not likely to be opposed by most civil servants because that would contradict their own self-interest (e.g., for job security and/or a larger budget);
- Its cost per person is not enough to arouse the general public to active opposition; and
- Its cancellation would politically endanger some and offend others in a small group of politicians and bureaucrats, including the caucus and other civil servants.

In short, it is obvious in the current environment that business subsidies continue because of the political rationale (i.e., political players want votes), not because of the economic rationale, since there is none that provides a positive social benefit.

Five key problems with corporate welfare

Corporate welfare is empirically unsupportable and is problematic for a significant number of reasons. Here are five key problems with business subsidies (see Milke, 2007 for a more detailed discussion of the problems with corporate welfare, along with examples).

1. Corporate welfare discriminates against other businesses and other industries.

Business subsidies create uneven playing fields between businesses and industries that do not receive taxpayer support and those that do. Subsidized businesses receive an artificial, politically created advantage.

2. There is no guarantee that the "saved" business will remain in the jurisdiction where funding for the company originated.

When governments give taxpayer dollars to businesses in a particular region, there is generally no mechanism that can prevent such companies from later transferring all or part of their operations out of that jurisdiction. Even if location restrictions were written into a contract, a company could later make the case that, without such a change in locale, the company's existence itself is endangered, as is repayment of the original loan.

3. Corporate welfare is potentially harmful to trade-dependent countries.

Countries that offer subsidies jeopardize the overall growth of worldwide free trade.

Such policies are risky for trade-dependent countries such as Canada and those where the annual trade balance is tilted in Canada's favor. Canada is highly dependent on trade and on a rules-based trading system. It is to Canada's advantage to promote fewer subsidies at home and abroad in order to avoid making Canadian firms and jobs the targets of protectionist-minded governments and anti-trade coalitions elsewhere.

4. Corporate welfare undermines confidence in democratic institutions.

Firms that obtain subsidies risk the public perception that they receive government benefits because of close associations with a particular politician or political party.

5. Corporate welfare promotes rent-seeking and distorts economic growth.

As governments grant subsidies to one business or industry, pressure grows for the government to grant additional subsidies to other corporations or sectors. This creates targeted programs for more state "clients" at the expense of a more efficient tax system with fewer subsidies, but with lower overall tax rates. Corporate welfare promotes rent-seeking by creating competition for public money. The end effect is that capital is directed towards targeted businesses and sectors that may not be drivers of future economic growth.

Notes

1 Arguably, an exception to this occurs when one business or sector is given preferential treatment on its own tax burden *vis-à-vis* other businesses who must pay regular tax rates. The Statistics Canada and Industry Canada data used in this study concern direct government payments to individual businesses.

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