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Corporate Welfare Bargains at Industry Canada

by Mark Milke, Ph.D.

Main Conclusions

- **Between 1982 and 2012, the federal department of Industry spent $13.7 billion on subsidies to business.**
- **Of that, $6 billion, or 44.3%, was disbursed with no repayment expected (akin to grants). A further $7.4 billion, or 54%, was disbursed with repayments expected (called "repayable contributions"). Finally, $236 million, or 1.7%, was disbursed because of defaults on loans guaranteed by Industry Canada.**
- **On repayments, of the $7.4 billion expended since 1982 in repayable contributions, just over $2.1 billion has been repaid to taxpayers, or 28.8% of all expenditures where repayments were expected.**
- **Since 1982, on all of the above, just $9 million has been collected in interest by the department of industry on all of its disbursements. The department did not provide a breakdown about which contracts were signed that required interest or in which programs interest was charged.**
- **Industry Canada asserts that taxpayers should be patient and that predicted repayments are on track. However, a 2005 analysis prepared for the department by consultants for one assistance program (Technology Partnerships Canada) undercuts that claim. The consultants, Hickling Arthurs Low, noted that expected aggregate repayment estimates in total, including in all future years, have been reduced by $1.9 billion since the original contracts were signed.**
- **This study looks specifically at one federal department (Industry) where disbursements to business are made. It does not attempt to quantify the entire practice at the federal level, nor at all at provincial levels.**

The focus of this *Alert*

This Alert reviews payments made to businesses over the last 30 years by Canada's federal department of industry, a practice known as corporate welfare. The information was gathered through an Access to Information request to Industry Canada. (Note that all figures, unless otherwise cited, are derived from that access request, and are shown as Industry Canada, 2012a).

Corporate welfare is a multi-billion dollar practice that saw federal, provincial, and local governments disburse over $202 billion from 1994 to 2007 alone. The details of those outlays are chronicled in four other corporate welfare reports published by the Fraser Institute since 2007 (see Milke, 2007, 2008, 2009, and 2011).

This report does not delve into individual businesses but instead focuses on the programs overseen by Industry Canada, and repayments and interest paid to the same department. This report briefly discusses the definitions of, justifications for, and critiques of corporate welfare, and details the problems with it. The Alert does not address the empirically proven superior approaches to economic development: an end to business subsidies, lower corporate tax rates, and neutrality between businesses and business sectors. Those remedies have been covered in detail in the previous reports cited above.

Unlike this author's previous reports, which have analyzed corporate welfare on a national basis (Milke, 2007, 2008, and 2009) or provincially (Milke, 2011) this study analyzes corporate welfare only at the federal department of industry. The previous reports gave a "bird's-eye" view of the larger cost of corporate welfare; this report closely examines its practice at the department where subsidies to some of Canada's largest corporations originate.

As a result, the disbursements from Industry Canada will look "smaller"—$13.7 billion to business since 1982—than those listed in my 2009 cross-country report, which found over $202 billion disbursed by federal, provincial, and local governments. However, the snapshot of Industry Canada's practices will help Canadian families (whose tax dollars are used to subsidize business) understand a little better how one department disburses money, under what justifications, and whether corporate welfare is defensible.

This report aims to produce answers to the following questions:

- how are taxpayer dollars specifically disbursed (i.e., under what Industry Canada programs)?
- how much is given with no expectation of repayment?
- how much is disbursed with repayments expected?

Table 1: Industry Canada Financial Assistance Programs Overview of all subsidies April 1, 1982 to February 22, 2012 (in dollars)

	Total Net Expenditures	
	In $	As a percent of all business disbursements
All disbursements	21,968,764,623	N/A
Disbursements to business	13,656,722,026	100%
Disbursements (to business) were no repayment was expected	6,051,438,920	44.3%
Loan guarantees (to business) that later resulted in a subsidy	236,145,186	1.7%
Disbursements to business where repayments are expected	7,369,137,920	54.0%

Source: Industry Canada, 2012a.

About the author

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- how much has been repaid in instances where repayment has been expected?
- how much has been paid to the department of industry in interest?

Findings

Industry Canada has long provided taxpayer-funded subsidy programs for the aerospace, automotive, forestry, high technology shipbuilding, and the tourism sectors, as well as those designated as "strategic." Over the decades, Aboriginal businesses have also been the subject of multiple Industry Canada business subsidy programs, as are regionally-based corporations in Ontario, Quebec, and Atlantic Canada. (See Industry Canada 2012a, and an addendum to this study, provided as a separate file, for details of the departments' many subsidy activities between 1982 and 2012.) Some programs are ongoing and some have been shuttered or succeeded by similar initiatives within the department of industry.

Subsidies to business of $13.7 billion

The Access to Information request reveals that between April 1, 1982 and February 22, 2012, the federal department of industry disbursed $22 billion in assistance programs to government, foundations, and businesses. My analysis removed the money disbursed to governments, educational institutions, and foundations. It thus focuses solely on subsidies to businesses or agencies which themselves provide funding to business (Ontario Community Futures Program, for example). The resulting data show that between 1982 and 2012, just under $13.7 billion was spent on business subsidies (Industry Canada, 2012a).

The $13.7 billion in money transferred to business was disbursed through nine types of expenditures which can be grouped into three general categories (Treasury Board of Canada Secretariat, 2001), as outlined below.

Subsidies not expected to be repaid: $6 billion or 44.3%

Grants, conditional grants, contributions, interest contributions, and other assistance. These are all akin to straight grants, even if under a different moniker (i.e., "contributions").

In the five expenditure types that make up this category of subsidies, the government "does not expect to receive any goods or services directly in return, to be repaid or to receive a financial return" though in the case of grants, recipients will need to meet preconditions (Treasury Board of Canada Secretariat, 2001). In these expenditure types, as per the government's conditions for grants (by whatever name), some repayments occasionally occur as a result of an audit, overpayment, or initial conditions later found not to have been satisfied.

Subsidies expected to be repaid: $7.4 billion or 54% in repayable contributions

Repayable contributions, conditionally repayable contributions, and conditional/unconditional repayable contributions. (The latter is an Industry Canada addition which reports some separate and extra contributions.) The three types that make up this category are all subsidies to business that are expected to be repaid in whole or in part (Treasury Board of Canada Secretariat, 2001).

Repayment, including expectations on partial or whole repayment, will depend on the specific contract signed, and the on-going progress and success of the funded project or company. The differences among the types depend on the type of repayable contribution.

"Repayable contributions" must be repaid without qualification (i.e., they are unconditionally repayable). Disbursements of this type contain specific repayment terms that set out the time and amount of payment(s) due. They are akin to a loan.

"Conditionally repayable contributions" are repayable in whole or in part if conditions specified in the contribution agreement come into being. Disbursements of this type are akin to angel investments where repayments will depend on the success of the product. An example of a conditionally repayable contribution is an agreement that Industry Canada signs with an aerospace manufacturer that requires repayment when a minimum number of new airplanes related to the agreement are produced and sold.

Loan guarantee subsidies: $236 million or 1.7%

Loan guarantees. Subsidies in this category result from the promise that the government will repay a lender the amount guaranteed if the borrower defaults (Treasury Board of Canada Secretariat, 2010). Some repayments occur in this category where the government later recoups some initially written-off capital.

Interest received over 30 years: Just $9 million

Over three decades, only $9 million in interest was ever paid to the department (see table 2). The department did not provide details on which recipients paid interest, or even to which programs interest was paid.

Table 2: Industry Canada Financial Assistance Programs—Business Subsidies, April 1, 1982 to February 22, 2012 (in dollars)

Type of subsidy	Total expenditures ($)	Total repayments ($)	Interest received by Industry Canada ($)
Subsidies not expected to be repaid			Information on interest by type of subsidy denied under Section 20(1)(c) of the Access to Information Act (Only grand total provided.)
Grant	327,128,864	534,754	
Conditional grant	173,500,000	0	
Contribution	5,242,320,683	288,989,522	
Interest contribution*	88,029,910	1,071,710	
Other assistance	220,459,463	44,459,020	
Subtotal	6,051,438,920	335,055,006	
Subsidies resulting from loan guarantees			
Loan guarantee	236,145,186	122,020,663	
Subtotal	236,145,186	122,020,663	
Subsidies where repayment is expected			
Repayable Contribution	1,163,828,180	613,401,095	
Conditionally repayable contribution	6,037,336,537	1,491,894,093	
Conditional/unconditional repayable contribution	167,973,203	20,649,237	
Subtotal	7,369,137,920	2,125,944,425	
Grand total (all 3 categories)	13,656,722,026	2,583,020,095	9,182,088

*Interest that is forgiven.
Source: Industry Canada, 2012a.

In the absence of such information from Industry Canada, even if all $9 million was paid by businesses who were contractually obligated to repay their conditional or unconditional contributions (i.e., the $7.4 billion in repayable contributions), such interest payments over three decades is tiny, barely more than 1/10th of 1% of the original $7.4 billion disbursed.

Of note and to compare, between 1982 and 2012, interest rates set by the Bank of Canada ranged from a high of 16.58% in 1982 to a low of 0.50% in 2009 and 2010. For much of the past 30 years, interest rates charged by the central bank were in the mid to high single digits. The exception has been in the past decade (Bank of Canada, 2012) where rates have been in the low single digits. In contrast to the interest rates paid on loans obtained by consumers and businesses in the private sector—and for which high-risk borrowers often pay a premium—little interest has been paid on Industry Canada's taxpayer-financed subsidies to corporate Canada.

Industry Canada's questionable refusal to release details

The department of industry did not release details of how many contracts require interest to be paid on

Table 3: Repayments as a Percentage of Repayable Programs

Type of subsidy	Total expenditures ($)	Total repayments ($)	Repayments as a % of expenditures	Interest paid ($)
Repayable Contribution	1,163,828,180	613,401,095	52.7%	Information on interest denied under Section 20(1)(c) of the *Access to Information* Act
Conditionally Repayable Contribution	6,037,336,537	1,491,894,093	24.7%	
Conditional/Unconditional Repayable Contribution	167,973,203	20,649,237	12.3%	
Total	7,369,137,920	2,125,944,425	28.8%	

Source: Industry Canada, 2012a.

repayable contributions (loans), nor even under which programs interest may or may not be required. Instead, in its letter noting its refusal to provide details, Industry Canada wrote that Section 20(1)(c) of the federal Access to Information Act prohibits release of information that "could reasonably be expected to result in material financial loss or gain to, or could reasonably be expected to prejudice the competitive position of a third party" (Industry Canada, 2012a and Office of the Information Commissioner, 2012).

However, with the exception of one program listed in the Access to Information request—that of the $183 million Bombardier C Series program—no other program identifies individual companies. Thus, to provide details of which programs have received interest payments cannot "be expected to result in material financial loss or gain to, or could reasonably be expected to prejudice the competitive position of a third party." The department of industry appears to have arbitrarily stretched the meaning of Section 20(1)(c) beyond a reasonable interpretation.

Repayments

Of the $7.4 billion expended since 1982 in repayable contributions, just over $2.1 billion has been repaid to taxpayers, or 28.8% of all expenditures where repayments were expected (see tables 2 and 3).

In the other two categories—disbursements where repayments were not expected and payments made because of defaults on Industry Canada-guaranteed loans—there were repayments made of $355 million and $122 million respectively. Repayments in all three categories thus total just under $2.6 billion (see table 2).

Over the years, Industry Canada has asserted that taxpayers should be patient and that predicted repayments are on track. To examine this assertion, consider as one example the now-shuttered Technology Partnerships Canada (TPC) program in existence between 1996 and 2006 (Industry Canada, undated). There, the department has noted that "TPC projects were long-term (up to 30 years)" (Industry Canada, 2012b). The department has also tried to reassure taxpayers that "TPC repayments are in line with forecasts and are continuing to increase" (Industry Canada, 2012b). That claim is false. A 2005 analysis prepared for the department by consultants Hickling Arthurs Low on the TPC projects specifically noted that "for a variety of reasons, repayments are typically less than originally forecasted" (Industry Canada, 2005: 14). In fact, the consultants noted that at the time of contract (i.e., when a contract was signed between a business and Industry Canada), the expected "aggregate repayment estimates totalled about $4.3 billion, while the current repayment estimates total about $2.4 billion, or 55% of the original aggregated estimates" (Industry Canada, 2005: 14).

In other words, before the TPC program even ended in 2006, optimistic repayment estimates at the time of signing were later reduced significantly, by $1.9 billion, in the case of Technology Partnerships Canada. It is thus not accurate to claim that repayments are in line with forecasts. The forecasts have always been revised downwards.

As it happens, TPC expenditures totalled $3.3 billion during the life of the program, with just over $3.1 billion expended under terms that assumed some repayment some day. Six years after the program has ended, only $789 million has been recouped in anticipated repayments, or 25.2% of the $3.1 billion doled out in repayable contributions (see addendum).

In perhaps the best example of how, even many decades later, repayments do not come close to matching even the initial disbursements, consider the Defense Industry Productivity Program (DIPP). That program existed from 1968 (along with several predecessors in the 1960s), until its termination in 1995 (Industry Canada, 1998: 35-54). Pre-1982 numbers are not available, so with an analysis of only the 1982 to 1995 disbursements, $2.1 billion was disbursed that was to be repaid. Repayments to date total just $767 million, or just 35.6% (see addendum), even though the program ceased operations 17 years ago.

Background on corporate welfare: What is it?

Substantial work has been done elsewhere by this author on business subsidies (see Milke, 2007, 2008, 2009, and 2011). However, following is a brief explanation of why subsidies to business are ill-advised policy for governments.

A government subsidy to business occurs when a government transfers tax dollars to business for reasons other than the receipt of 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, such business subsidies are known as "corporate welfare." These terms are largely interchangeable.

This definition of corporate welfare does not include tax reductions, deductions, credits, or exemptions. Money that individuals or businesses earn belongs first to those who earned or created it. Thus, in most cases, it is incorrect to label a tax reduction, deduction, credit, or exemption as a subsidy, though in the case where preferential tax treatment is given to one business or sector, such special treatment mimics subsidies.

However, a subsidy clearly arises when a transfer of resources occurs, for example, when tax dollars are transferred from the public treasury to one specific business or group of businesses. Governments can and do pick winners and losers in the business world through other means: trade protection, the granting of domestic monopolies (for example, agricultural "supply management" boards), and preferential "Canada first" bidding for government contracts. These are all examples of how governments create an uneven playing field between companies, but they are beyond the scope of this analysis.

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Justifications for corporate welfare

There are a variety of justifications for corporate welfare. Some examples include:

- The Federal Economic Development Initiative in Northern Ontario (FedNor), which has claimed that assistance increases economic growth and, as a result, employment (FedNor, undated).
- The now-shuttered Technology Partnerships Canada (TPC), which made similar claims when that agency asserted that taxpayer-financed business assistance created and maintained high-quality jobs in Canada, and increased personal taxes for provincial and federal governments (TPC, 2006).
- The then-Industry Minister Maxime Bernier's similar defence, in April 2007, of TPC's replacement, the new Strategic Aerospace and Defense Initiative (SADI), when he asserted that "[a]ll Canadians will benefit from the economic growth and technological advancements developed under this new initiative" (Industry Canada, 2007)

A summary of peer-reviewed judgments on business subsidies: they fail

Peer-reviewed research on business subsidies does not support claims that corporate welfare is responsible for economic growth or job creation, two of the most oft-heard claims. At best, a generous interpretation of the literature suggests that subsidies may, in very specific locations, produce some effect on local economic behaviour. Also, this impact is typically offset by losses in elsewhere in the economy from tax rates that are greater than would be the case without business subsidies. (For a full review of the literature on business subsidies, see Milke, 2007: 27-36). Overall, the literature suggests that business subsidies are not the best means by which to encourage economic and employment growth.

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