Canadian Centre for
Policy Alternatives
BC Office

PROTECTING THE CROWNS

The role and value of public enterprises in BC

By Sylvia Fuller

November 2002

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About the author

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Introduction

GETTING GOVERNMENT "OUT OF BUSINESS" IS A KEY COMPONENT OF THE neoliberal agenda. In many places throughout the world public corporations have been sold to private shareholders or forced to compete in deregulated markets. In British Columbia, privatization has been placed firmly on the public agenda with a slate of recent announcements heralding significant changes for major Crown corporations, including the sale of all government-run liquor stores and privatization of large chunks of BC Hydro.

The privatization of Crown corporations is a serious step with far-reaching repercussions. Given the dictates of trade agreements, it is also likely irreversible. Well-informed public debate is essential if we are to make the right decisions for the future of all citizens of BC.

Unfortunately, the information the general public receives about Crown corporations is often both limited and biased. Efficient operations and reliable benefits do not make for splashy news stories. Mainstream reports thus focus on financial difficulties and so-called "scandals" related to the operation of Crown corporations, fostering the impression that privatization is both necessary and inevitable. Missing from the news are the important economic, social, and environmental functions served by Crown corporations that would be seriously threatened by their transfer to the private sector.

This report tries to provide balance to some of the obvious biases and blind spots in mainstream coverage of Crown corporations. It provides an overview of some of the key issues that need to be considered when contemplating the future of Crown corporations.

It begins with a quick outline of the scope of public enterprise in BC today, followed by a general discussion of the economic, social, and environmental objectives that distinguish Crown corporations from their private sector counterparts. While it is beyond the scope of this report to discuss all Crown corporations in detail, short descriptions of BC Hydro, ICBC, BC Ferries, and the Liquor Distribution Branch illustrate the importance of these objectives for four of the most important Crowns in BC.

The report then turns to the issue of privatization. After two decades of privatization programs around the world, we have a large pool of information about how privatization tends to occur and its typical effects. This evidence should inform our thinking about the role and value of BC's Crowns. The concluding section of the report evaluates the future prospects of public enterprise in British Columbia and suggests ways to improve the performance of Crowns so that they best serve the interests of British Columbians.

Why do we have Crown Corporations?

At a time of weak private sector development and high foreign ownership, Crown corporations undertook tasks that the private sector was either unable or unwilling to accomplish and provided a strong local entrepreneurial tradition that continues to be important to this day.

PUBLIC OWNERSHIP OF LAND, RESOURCES, AND INFRASTRUCTURE HAS A LONG history in all market economies. Historically, Canadian citizens have collectively owned land and public facilities such as highways, schools, ports, airports, parks, government buildings and other assets. Canadians have also shared ownership in commercial enterprises, so-called "Crown corporations." Crown corporations such as the CN railroad, the CBC, and the provincial Hydro utilities played a key role in the development of both national and regional economies. At a time of weak private sector development and high foreign ownership, Crown corporations undertook tasks that the private sector was either unable or unwilling to accomplish and provided a strong local entrepreneurial tradition that continues to be important to this day.

In British Columbia, Crown corporations and agencies currently provide a wide array of products and services to local governments, businesses and individuals, including energy, insurance, transportation, land management and property assessment. Broadly speaking, BC's Crown corporations can be grouped into three main types:

- Commercial Crown corporations pay their own expenses and generate revenue for government by selling services such as auto insurance and electricity at commercial rates.
- Economic development Crown corporations also sell services to the public or undertake projects to provide economic benefits to the province. These Crowns may or may not break even, so they may receive financial assistance or revenue from the province.
- Social and government service Crown corporations and agencies generally receive financial support from the government to deliver social programs and other government services.[1]

Although Crown corporations are publicly owned, they are operated at arm's length from government. A Board of Directors, rather than the government, exercises control over day-to-day management activities. But while Crown corporations are operated in a commercial manner, their purpose remains markedly different than that of private sector companies. While private enterprises are chiefly concerned with private profit, Crown corporations pursue both commercial and public policy objectives. In effect, they have a "triple bottom line", seeking to balance economic, social, and environmental goals.

BC's major Crown corporations and agencies

Commercial Crown corporations

BCIF Management Ltd.

British Columbia Hydro and Power Authority (BC Hydro)

British Columbia Liquor Distribution Branch

British Columbia Lottery Corporation

British Columbia Railway Company

Columbia Power Corporation

Insurance Corporation of BC

Provincial Capital Commission

Economic Development Crown corporations

BC Pavilion Corporation

BC Transportation Financing Authority

British Columbia Ferry Corporation

British Columbia Securities Commission

British Columbia Transit

Okanagan Valley Tree Fruit Authority

Tourism British Columbia

Social and government services Crown corporations and agencies

BC Assessment Authority

British Columbia Buildings Corporation

British Columbia Community Financial Services Corporation (Four Corners Community Savings)

British Columbia Housing Management Commission

Homeowner Protection Office

Land and Water British Columbia Inc. (formerly British Columbia Assets and Land Corporation)

Provincial Rental Housing Corporation

Source: Office of the Comptroller General, Ministry of Finance and Corporate Relations 2002

The economic role of public enterprise

Although it is fashionable in some quarters to promote unregulated markets as a cure-all, publicly owned corporations make economic sense in a number of areas. This is particularly true in cases where a single supplier model is most efficient or where essential services must be provided. Crown corporations can also help assure a fair and equitable distribution of benefits from shared resources and foster long-term economic development, community control and accountability.

Sectors such as electricity transmission, water, and other utilities have traditionally come under public ownership in various parts of the world. Often designated as "natural monopolies", it is difficult for entrepreneurs to enter such markets because operations tend to be highly capital-intensive and require specialized skills and technology as well as a high degree of co-ordination. Because of this, services in these sectors can often be provided more efficiently and cost effectively through a single corporation than through competition (for example, it makes no sense to have multiple electricity grids).[2] Government ownership helps ensure that corporations do not take advantage of their monopoly position to gouge consumers and realize super-normal profits.[3]

Public utilities are also commonly placed under public control through ownership or strong regulation because they provide essential services, making the maintenance of stable supply and low rates extremely important. Writing in the context of power failures in Auckland, New Zealand following the privatization of electricity, journalist Will Hutton wrote:

> *Electricity is not a commodity like a designer dress where an interruption of supply poses no wider consequences; it is a precondition for successful modern life. If the owner of the power and distribution system fails to maintain supply and so loses revenue, this is not just an issue for the shareholders of the*

enterprise. It is an issue for everyone. In economic terms, electricity is a public good. This means electricity companies—like water, gas and rail companies—cannot be run on the same commercial terms as firms in markets where there are many suppliers and the consequences of poor decision-making are restricted to the firms themselves.[4]

Public ownership also makes sense where large-scale investments in energy, transportation, or communication infrastructure are necessary. Because the government enjoys a better credit rating than private corporations, Crown corporations can borrow money at more favourable rates and can thus finance such projects more cheaply than the private sector. Public ownership also shares the risks and equalizes the costs of such important investments among all those who benefit from them.

Commercial Crown corporations not only pay their own costs but may also pay dividends to the provincial government that can be used to support government programs generally.

Citizens similarly share the benefits derived from such investments. Rather than seeking to maximize shareholder profits, Crown corporations seek to guarantee access to their services at the lowest possible cost. When Crown corporations have particularly profitable years they may also provide rebates to customers, as BC Hydro and ICBC recently did.

Commercial Crown corporations also provide an economic benefit to all British Columbians through the generation of surplus revenue. They not only pay their own costs but may also pay dividends to the provincial government that can be used to support government programs generally. Of the commercial Crowns, the three largest revenue generators are the BC Liquor Distribution Branch, the BC Lottery Corporation, and BC Hydro. Together, all of BC's commercial Crown corporations contributed $1.4 billion in revenues to the government in 2001/2002.

Another reason for public ownership is to foster regional entrepreneurial creativity and to enable the community as a whole to exercise some control over economic development and resources. Unlike private-sector corporations, Crown corporations are accountable to the public, not to particular share-holders. This can be especially important in the context of a globalized economy where ownership of and control over most large corporations in BC is largely international. While regulations can provide an alternative mechanism for some community control, they may not be effective, particularly when money for enforcement is in short supply. Regulations also tend to be prohibitive in nature, specifying what cannot be done, rather than what could be done, and are thus a limited vehicle for fostering broader goals.

An orientation to community goals helps

Contributions to the Consolidated Revenue Fund (the source of all program spending) from commercial Crown corporations and agencies.

2001/02*	$1.4 billion
2000/01	$1.5 billion
1999/00	$1.4 billion

In 2001/02, contributions from specific Crown corporations to the Consolidated Revenue Fund were as follows (in millions of dollars):

COMMERCIAL CROWN CORPORATIONS	
BC Hydro	$332
Liquor Distribution Branch	$636
BC Lottery Corporation	$449
Other	$2
Total commercial	**$1,419**
TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES	
BC Buildings Corporation	$15
Other	$3
Total	$18
Total net contribution of Crown corporations and agencies	**$1,437**

*Fiscal year ends March 31

Sources: Office of the Comptroller General, Ministry of Finance and Corporate Relations—Public Accounts 2001/2002 ensure that important social and environmental goals are met. It can also be advantageous from a business perspective insofar as it can allow greater scope for innovation and long-term planning. Private capital is highly mobile, and private corporations have faced increasing pressure in recent years to maximize short-term shareholder returns. Rather than pursue long-term growth strategies, corporations increasingly seek to invest capital and profits where they will earn the highest immediate return and hence boost share prices. Investing in research or capital-intensive technological improvements often suffers, and much of the profits derived from private corporations operating in BC are instead re-invested outside the province. Crown corporations have greater freedom to pursue innovative entrepreneurial strategies as well as those that have a longer-term focus. Because Crown enterprise collectivizes the risks associated with innovation, it can be a key stimulus for economic development and job creation. Indeed, Crown corporations have been at the forefront of research and technological development in a number of areas including road safety and the development of environmentally friendly energy sources.

Because they are accountable to the public as a whole, Crown corporations' economic focus is also broader than that of corporations beholden to private owners. Crown corporations consider the economic effects of their operations on local economies and the province as a whole when making strategic decisions. ICBC, for example, has a policy of preferring BC investments when all other factors are equal—it targeted 20 per cent of its investment portfolio to BC-based investments under the last board of directors.[5] A crown corporation may also follow policies to ensure that local communities benefit from their economic activities at various levels. The Columbia Power Corporation, for example, has a policy to ensure that 80 per cent of all hires for its Arrow Lakes Generating station live within a 100 km radius. The corporation also acts as a partner with the Columbia Basin Trust to encourage social and economic development in the region most affected by dam construction.

In addition, Crown corporations are more likely to use local suppliers for the goods and services they require than are multi-national corporations, both because they are sensitive to local political pressures and because decisions are made within the province rather than as part of global or North American sourcing arrangements.

Crown corporations are more likely to use local suppliers for the goods and services they require than are multi-national corporations, both because they are sensitive to local political pressures and because decisions are made within the province rather than as part of global or North American sourcing arrangements.

Because head offices and research and development are located in British Columbia, Crown corporations provide a set of highly skilled local jobs that are usually located elsewhere in the case of large private enterprises.

Crown corporations may also play a direct role in the development of regional economies. In some cases (and with mixed results), Crown corporations have been established as a solution of last resort to take over the operations of corporations central to local economies that were unwilling to continue the business such as occurred in the case of Skeena Cellulose.

Finally, because political considerations have often prevented Crown corporations from

Economic benefits of Crown corporations

- Provide most efficient use of resources in cases of natural monopoly;
- Ensure stable supply and low prices for essential services;
- Provide low-cost means of constructing necessary and expensive infrastructure;
- Assure fair and equitable distribution of benefits from shared resources;
- Invest in research and development;
- Pursue innovative entrepreneurial strategies and long-term growth;
- Use local suppliers and provide local highly skilled jobs;
- Foster regional development, local control and accountability;

expanding the scope of their operations, ICBC and BC Hydro in particular have engaged in numerous partnerships with private sector enterprises. While forcing Crowns to enter partnerships rather than expand the scope of their activities is not always the best option for the Crowns themselves, these partnerships have helped foster private sector business opportunities and have stimulated the private sector through the transfer of knowledge and expertise.

The social role of Crown corporations

Although commercial Crown corporations provide important economic benefits, they are not solely concerned with economic matters. Indeed, one of the defining features of Crown corporations is a broader social mandate. The social role of Crown corporations can be seen most directly in the subsidized rates they offer to those who could not otherwise afford their services, and in the way they equalize access. Indirectly, Crowns foster more desirable social outcomes than their private counterparts by providing better employment conditions and by helping to pay for social services with their profits.

One of the defining features of Crown corporations is a broader social mandate. The social role of Crown corporations can be seen most directly in the subsidized rates they offer to those who could not otherwise afford their services, and in the way they equalize access.

When it comes to basic human needs the market often falls short. In recognition of their overall social value, Canadian governments directly subsidize some needs such as health care and education. Crown corporations are a mechanism for subsidizing other important basic services such as transportation and housing. Since Crown corporations operate within a framework of public accountability, they are the best vehicle for ensuring that subsidies are not abused.

Private corporations are often interested in serving only the most profitable customers, engaging in "cream skimming" or "cherry picking". Crown corporations, on the other hand, have a mandate to serve all British Columbians. As a result, they equalize access to services among different socio-economic groups and geographic regions, ensuring that it is not simply the wealthy and urban who have access to necessary services. The profitable high volume routes in the BC ferry system, for example, help subsidize ferry service to smaller population centres, ensuring the maintenance of reliable transportation links. Residential electricity rates are equalized so that areas that are more expensive to serve can still access electricity at reasonable rates.

Crown corporations also contribute to the social fabric by providing good jobs. BC's Crown corporations provided 32,300 jobs to British Columbians in 1999, with BC Hydro, ICBC, and BC Ferries together accounting for almost half of the total.[6] Historically, Crown corporations have been an important source of good jobs for women, aboriginal workers, and minorities. They continue to provide more equitable employment opportunities than many of their private sector counterparts, with active policies to promote pay equity and equal employment opportunities for historically disadvantaged groups. Crown corporations are highly unionized and provide most employees with both reasonable wages and higher job security than comparable private sector firms.

In addition, Crown corporations serve broader social concerns indirectly through the transfer of surplus revenues to the provincial government as well as through their investments in various research and development,

Social benefits of Crown corporations

- Subsidize important services for those who could not otherwise afford them;
- Ensure equitable access to services;
- Provide good jobs and more equitable employment opportunities for disadvantaged groups than the private sector;
- Provide dividends to government that help pay for social programs;

conservation and prevention, and community development initiatives.

Crown corporations and the environment

The fact that Crown corporations are not tied to an exclusively economic "bottom line" also means that they can afford to give more weight to the environmental impacts of their decisions. This is particularly important for BC Hydro, as electricity generation has the potential for significant environmental damage. Approximately 80 per cent of BC Hydro's power is generated through dams.[7] We now know that the establishment of large-scale dams carries significant environmental (and social) costs. However, now that the dams are there they provide a renewable source of energy that is relatively "green", particularly when compared with coal or natural gas-powered electricity plants.[8]

Because BC Hydro has a mandate to balance environmental with economic objectives, managers have an incentive to invest in the research and development of environmentally friendly technologies. Since these technologies may not initially provide high rates of return, private corporations accountable to shareholders and focused on short-term value have little incentive to follow this path.

BC Hydro also has an incentive to reduce consumption insofar as it is obligated to provide service to all and increased consumption requires the construction of (expensive) new power plants. The corporation has thus developed numerous programs to foster energy conservation. In a market-driven system, by contrast, the pressure is to increase demand in order to maximize profits.

The establishment of public enterprise in the natural resource sector has thus helped to ensure not only that the wealth generated by a region's resources is distributed fairly, but also that resources are more responsibly managed than they would likely be in the private sector.

Environmental benefits of Crown corporations

- Incorporate environmental costs and benefits in strategic decision-making;
- Invest in research and development of environmentally responsible technologies;

BC Hydro also has an incentive to reduce consumption insofar as it is obligated to provide service to all and increased consumption requires the construction of (expensive) new power plants. In a market-driven system, by contrast, the pressure is to increase demand in order to maximize profits.

Four Crown corporation profiles

BC Hydro

BC Hydro is one of the largest Crown corporations in BC, employing approximately 6,144 people.[9] BC Hydro supplies power to approximately 94 per cent of the province's population, and it owns 80 per cent of the province's electricity generation and distribution system. Its primary purpose is to ensure that all British Columbians have a stable source of electricity at a regulated price that is determined by the cost of production. BC Hydro pioneered "triple bottom line" accounting in order to ensure that the corporation operates in an economically, socially, and environmentally responsible manner. BC Hydro's *Triple Bottom Line Report* allows the public to review detailed performance data on economic, social, and environmental performance indicators in order to foster transparency and accountability on all these fronts. In a benchmark study of corporate sustainability reports last year, the Ottawa environmental consulting firm, Stratos Inc. placed BC Hydro second among 57 companies producing such reports. Impressively, the investment advisory firm Innovest ranked BC Hydro first among North American electricity companies in social and environmental performance last year.

Economic benefits:

LOW RATES: BC Hydro's rates continue to be among the lowest in North America. BC Hydro last had a rate increase in 1993. After adjusting for inflation, real electricity rates have declined by approximately 12 per cent in the last decade. BC Hydro's low rates are tied to its position as a regulated monopoly. It is a low cost energy provider because the public

Monthly billings on May 1, 2001 (in C$)

Residential consumption costs per 1,000 kWh

CANADIAN CITIES		AMERICAN CITIES	
Vancouver, BC	67.47	Boston, MA	200.36
Charlottetown, PE	112.41	Chicago, IL	141.23
Edmonton, AB	108.42	Detroit, MI	156.82
Halifax, NS	108.00	Houston,TX	166.40
Moncton, NB	105.10	Miami, FL	150.04
Montreal, QC	69.39	Nashville, TN	97.44
Ottawa, ON	81.81	New York, NY	251.34
Regina, SK	101.42	Portland, OR	102.60
St. John's, NF	95.16	San Francisco, CA	191.97
Toronto, ON	91.59	Seattle, WA	94.53
Winnipeg, MB	68.67	**AVERAGE**	122.01

Source: Hydro Quebec, "Comparisons of Electricity Prices in Major North American Cities."

has maintained a long-term investment in an integrated system of dams, transmission, and distribution lines. As a result, BC Hydro's cost of generating electricity is consistently lower than that of other major Canadian utilities.[10] This benefits residential consumers, and also provides a key competitive advantage to BC businesses. BC Hydro also has one of the highest levels of efficiency in North America as measured by its costs for operations, maintenance, and administration.[11]

RELIABILITY: BC Hydro provides a reliable source of power, consistently outperforming the Canadian Electrical Association (an organization of 15 major Canadian electric utilities) average despite BC's rough terrain and fierce weather.[12]

REVENUE FOR GOVERNMENT: While rates have remained low in British Columbia, BC Hydro's integrated system allows it to buy electricity from other jurisdictions when external power prices are low, and sell power when prices are high, contributing to large profits in recent years (in part because of the large increases in wholesale electricity prices that have accompanied deregulation in California). In 2001/2002, profits were lower than in the previous two years due to lower water levels and declines in market energy prices, but BC Hydro income remained high enough to allow the following payments:

- $333 million paid to the province in the form of a dividend;
- $394 million to the province, municipalities and regional districts for water rentals (charges for water used in hydroelectric generation) and taxes;

Social benefits

ACCESSIBILITY: BC Hydro's low rates and broad geographic coverage mean that electricity is accessible and affordable for all who need it. The "postage stamp" pricing policy means that British Columbians pay the same rates regardless of where they live.

GOOD JOBS

INVESTMENT IN ARTS AND CULTURE, EDUCATION, AND ABORIGINAL DEVELOPMENT: In 2001/2002, corporate and regional donations contributed a total of $1.25 million to over 500 initiatives in four main project areas: Aboriginal, arts and culture, education and the environment.

Environmental benefits

COMMITMENT TO RENEWABLE ENERGY SOURCES: BC Hydro has committed to 10 per cent of new electricity generation from renewable sources and has signed contracts for 19 green energy projects with independent power producers. BC Hydro has also invested significant resources in research into ecologically friendly energy generation, including demonstration projects exploring wind, wave and micro-hydro generation.

RESEARCH IN ENERGY EFFICIENCY AND PROGRAMS TO PROMOTE CONSERVATION: The "Power Smart" program adds up to a cumulative energy savings of 2,350 million kilowatt hours (kW-h) each year (enough to power approximately 200,000 homes), and BC Hydro is currently building a high-tech business park in downtown Vancouver designed to showcase cutting-edge designs to enhance energy efficiency.

PROGRAMS TO MINIMIZE ENVIRONMENTAL DAMAGE: BC Hydro operates numerous programs and projects to enhance fish and wildlife habitat and minimize environmental damage from its operations.

For more information see: BC Hydro, *Annual Report 2002*; BC Hydro, *Triple Bottom Line Report 2002*; the 2002 CCPA report *Public Power and the Political Economy of Electricity Competition: The Case of BC Hydro* by Marjorie Griffin Cohen; and the 2002 Sierra Legal Defense Fund report *Power Grab: The Impacts of Power Market Deregulation on BC's Environment and Consumers* by Greg Simmons.

Insurance Corporation of British Columbia (ICBC)

Established in 1973, ICBC is one of the oldest publicly-owned enterprises in the province. It employs 5,800 British Columbians and is affiliated with about 900 independent insurance brokers. ICBC provides universal, basic auto insurance to all BC drivers and competes in the market for supplemental coverage. ICBC is also responsible for driver licensing, vehicle registration, and commercial vehicle compliance.

Economic benefits:

LOW RATES: Operating as a regulated monopoly, ICBC provides universal basic auto insurance to BC drivers at rates that are among the lowest in the country. It does this in spite of providing more generous benefit coverage than is found in privatized jurisdictions such as Ontario and Alberta.[13] ICBC is able to provide these low rates because of the economies of scale inherent in its monopoly position.

PROFITS REMAIN IN PROVINCE: Because ICBC's financial mandate is to operate on a break-even basis, when the corporation makes money, it gives it back to policyholders.

INVESTMENT IN LOCAL ECONOMIES: Under the previous Board of Directors, ICBC targeted 20 per cent of its investment portfolio to BC-based investments.

Social benefits:

NONDISCRIMINATORY RATE SETTING: ICBC uses an individual's driving record to set rates. Private insurers, by contrast, typically use demographic profiling—a practice recognized as discriminatory by both the Supreme Court of Canada and the Ontario Human Rights Commission.[14] Because of this, young drivers and families with young drivers in particular face much higher insurance premiums in jurisdictions with private auto insurance.

EXCELLENT COVERAGE: ICBC's basic coverage is one of the best auto insurance packages in Canada, with relatively generous coverage for medical and rehabilitation benefits. Because ICBC is the basic insurer for all BC drivers, the corporation also takes responsibility for damages caused by hit-and-run drivers.

GOOD JOBS THROUGHOUT BC: Because ICBC is based here, and is not part of a larger multinational corporation, head office jobs, sales jobs, and call-centre jobs remain in BC. The ICBC system is also more favourable to small repair shops because it pays body shops every two weeks. The Automotive Retailers Association estimates that almost half of all body shops in the province would go out of business if ICBC were to lose its monopoly position.[15]

FEWER UNINSURED DRIVERS: Because ICBC handles licensing as well as insurance, fewer uninsured drivers are on the road in BC than in jurisdictions with private auto insurance.[16]

SAFER ROADS: ICBC is internationally recognized for its research and investment in road safety. Since 1997, ICBC has contributed between $30 and $60 million annually towards road safety. Such programs make economic sense because they help lower claims. Since ICBC insures all motorists, they know that they will capture the benefits of any investment made in road safety.

For more information see the CCPA study *Down the Road* by John Young

BC Ferries

Marine transportation in BC used to be served by private ship operators, including Canadian Pacific and Black Ball Line.

When both private companies were paralysed by labour disputes in mid-1958, Premier W.A.C. Bennett announced the creation of a public ferry service. New ships and terminals were built, and service between Vancouver (Tsawwassen) and Victoria (Swartz Bay) began in June 1960.

Today, BC Ferries has grown to a fleet of 40 vessels, serving more than 46 destinations.

While the safety and reliability of BC ferries cannot be questioned, the BC Ferry Corporation has experienced serious difficulties in recent years, particularly in relation to the notorious fast ferry program. While the goal of revitalizing the province's ship building industry through the export of aluminium fast ferries was noble, it was also fundamentally misconceived. A number of independent reports commissioned to study what went wrong with the program have highlighted the fact that the decision in favour of fast ferries was made with insufficient analysis. In particular, the business case for the decision was never properly made. While pursuing broader social and economic objectives in the course of business is wholly appropriate for Crown corporations, it is important that these decisions be based on rigorous analysis, not wishful thinking. Not only did the fast ferries not meet the needs of the ferry corporation, but there was no realistic analysis of the costs and benefits of focusing British Columbia's ship building industry on the export of aluminium fast ferries.[17] Ultimately, uninformed political considerations were allowed to override the judgement of BC Ferries management, with unfortunate effect. As the Auditor General concluded:

> *The idea of using Crown corporations to deliver publicly-provided services of a commercial nature is sound. Properly applied, such an administrative mechanism can be more cost-effective than direct service by government because if gives more room for the application of business practices. However, BC Ferries has not been allowed to apply these practices in an organized and consistent way.*[18]

The high profile failure of the Pacificat "fast ferry" program dealt a serious blow to the corporation's finances. In addition, the per centage of the operating expenses per passenger recovered through tolls, catering, and other income declined from 91 per cent in 1996, to 81 per cent in 2000. An aging fleet also means that capital expenses are likely to be high for the coming years.

However, it should also be noted that in contrast to the very similar Washington state ferry system, BC Ferries operates with smaller overall subsidies. BC Ferries also operates three substantially profitable routes while the Washington state system does not break even on a single route.[19]

In 1999/2000 the provincial government took a number of actions to address what had become a fiscal crisis for the ferry system, including removing $1.096 billion of the corporation's debt, transferring funds to cover the deficit, and dedicating 1.25 cents of the motor fuel tax to subsidize ferry service.

Economic benefits:

SAFE AND RELIABLE TRANSPORTATION: BC Ferries is an integral part of the overall transportation system for coastal BC, linking not only the major population centres on Vancouver Island and the mainland, but also relatively isolated coastal communities. As such, it is part of the economic lifeblood of the islands of BC's coast.

REASONABLE FARES: Fares on BC ferry routes are competitive, and in many cases lower than on similar public and private ferry systems in North America, and much lower than on the largely privatized ferries of Europe.

Social benefits:

ACCESSIBILITY: BC ferries provide vital transportation services to areas that could not be serviced profitably at equivalent service levels by private providers. The heavily travelled BC ferry routes are self-financed and subsidize fares on less profitable Gulf Island, Sunshine Coast and North Island routes.

GOOD JOBS: BC Ferries employ more than 4,500 British Columbians.

For more information see: BC Ferries, *"Our History—A 40 Year Heritage of Service"*, BC Ferries *Annual Reports* 1999 – 2000, 2000 –2001, 2001 –2002

BC Liquor Distribution Branch

In BC, the Liquor Distribution Branch (LDB) regulates the distribution, importation, and retailing of beverage alcohol under the mandate of the Liquor Distribution Act. The LDB operates 224 liquor stores, and oversees the operating agreements of special beverage alcohol retailing programs such as private beer and wine outlets. The LDB's centralized distribution system is responsible for distributing product not only to LDB retail outlets, but also to privately owned cold beer and wine stores and to licensed establishments throughout BC. The role of the LDB is set to fundamentally change, however, as the provincial government has declared its intention to privatise liquor stores in the next two years.

Economic benefits:

GOVERNMENT REVENUE: The Liquor Distribution Branch is a significant source of revenue for the province. For fiscal year April 2001 to March 2002, sales reached a total of $1.8 billion. Net revenue for the same fiscal year was $637 million, which was remitted to the provincial government. When various taxes are added to this total, we see that the LDB contributed $974 million to local, provincial, and national governments in 2001/2002.[20]

PROMOTES BC WINERIES: The liquor distribution branch promotes quality BC wines through special "Vintner's Quality Alliance" (VQA) sections.

Social Benefits:

PROMOTES RESPONSIBLE DRINKING: Although the LDB is a highly profitable Crown corporation, it differs from private liquor retailers in balancing the drive for profits with a social mandate. The misuse of alcohol can lead to a variety of social problems, and the LDB promotes programs designed to mitigate these. Sponsorship of "dry grads", programs to promote moderate consumption, and anti-drinking and driving campaigns are just some of the examples. Internal programs, such as violence prevention training, also ensure that employees are capable of responding appropriately to problem customers.

LIMITS SALES TO MINORS: The LDB's social mandate and well-trained staff also suggest that liquor sales to minors are less likely to occur than in a privatized environment.

GOOD JOBS: The LDB employs approximately 3,500 British Columbians. Liquor distribution employees are paid fair wages that are significantly higher than they could expect in the regular retail sector. Higher wages reduces turnover in the stores, and this coupled with in-house training ensures knowledgeable staff.

PRICE AND SELECTION: The centralized liquor distribution system provides for equal pricing of liquor products throughout the province, and government liquor stores provide greater variety and selection than would otherwise be available in many areas.

For more information see: *LDB Annual Report 2001/2002*

The many faces of privatization

DESPITE THE MANY ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS PROVIDED by Crown corporations, it is an article of faith for many on the right that privatization of public enterprise is desirable. Privatization can be broadly defined as the transfer of services and functions from the public to the private sector. In terms of Crown corporations, the main forms of privatization are:

- Selling public assets or corporations to the private sector (e.g., Air Canada, Alberta liquor stores).
- Contracting out some of the Crown corporation's work to commercial firms (known as "outsourcing")
- Paying the private sector to finance and/or run public projects ("public-private partnerships" or "P3s").
- Reducing or eliminating government rules about the number of companies allowed to enter a particular market, the prices paid by consumers, the kinds of services provided and how much profit can be taken. This is known as "deregulation" and can mean forcing Crown corporations to operate as if they were private corporations. Deregulation takes regulatory authority away from governments (i.e., the public) and increases the influence of the market. Because it limits the role of government and increases the size of the private sector, deregulation is, in effect, another form of privatization.

Different forms of privatization may be pursued in isolation or combination. Public corporations have been sold to the private sector without introducing competitive forces through deregulation (as in the case of British Telecom and BC Gas) just as it is possible to deregulate the marketplace and open public corporations to competition without disbanding or selling the Crowns altogether.[21]

Symbolically and ideologically, however, the different forms of privatization are part of an integrated neoliberal agenda that first took hold in Margaret Thatcher's Britain. Pioneering the notion that government should "get out of business," Thatcher's key strategists oversaw a wide-ranging program of privatization at home. They also travelled around the world extolling the virtues of privatization, providing advice on how to "sell" privatization to a public that was generally pleased with the performance of their public enterprises.

On a global level, privatization of state-owned enterprises has also been pushed by the World Bank and the IMF, and has been a major element of structural adjustment policies imposed on developing nations.[22]

In BC, some of the specific suggestions for privatizing crowns have included the government's recent move to eliminate government-run liquor stores, the promise to introduce full "competition" in automobile insurance, and calls by the Canadian Taxpayers' Federation to privatize ferry routes. BC Hydro is also a target for re-organization aimed at increasing the role of private enterprise in the energy sector. BC Hydro has entered into a partnership with Accenture corporation in which the latter will take over the corporation's Customer Services, IT Services, HR Services, Financial Systems, Purchasing, Disbursement Services, Property Services, Business and Office Services. In addition, the government appointed a Task Force on Energy Policy which recommended in its interim report that BC Hydro be broken into separate entities for generation, transmission, and distribution in order to facilitate the development of privately financed and run power plants. Reorganization along these lines is already taking place. The task force also recommends allowing energy prices to be set competitively via a North American market, again, in order to attract private capital to the electricity industry.

A solution for all ills?

THOSE WHO ADVOCATE PRIVATIZATION GENERALLY MAKE A NUMBER OF CLAIMS about its benefits. Most commonly, privatization is held out as a mechanism for lowering public debt, increasing accountability and extending the benefits of share ownership to the people, and increasing efficiency and lowering costs. More generally, privatization appeals to those who wish to reduce the size of government and expand opportunities for private profit.

A primary thrust of privatization is the sale of assets from the public sector to the private sector. One of the leading justifications for selling public corporations in the 1970s and 1980s was deficits and growing public debt.

Typical of this argument is the position taken by the BC Business Council. In its 2000 pre-budget submission, the Council called for a thorough review of all Crown corporations. It recommended establishing a multi-year process through which to sell provincial Crown corporations and other assets in an attempt to reduce the province's debt. To support this position, the Council estimated that the sale of Crown corporations in BC could yield one-time revenues of between $7 and $10 billion in addition to future corporate income tax revenues. The Business Council also estimated that by reducing the public debt the province would lower its interest charges by more than $600 million a year.[23]

Recent tax cuts have produced a huge provincial deficit, and since the provincial government has promised to balance the budget by 2004/2005, pressure to recoup some of the shortfall through the sale of Crown corporations is likely to increase.

Proponents of privatization have also argued that selling public assets is desirable because it will bring about greater citizen involvement in the economy. "Shareholder democracy" will purportedly increase public participation and thus increase the accountability of (previously) public corporations.

Privatization is also held to improve service and increase accountability to customers.

Another claim that is frequently made is that selling Crown corporations to private sector firms will increase efficiency, allowing both improved service and reduced cost. Purportedly, the overarching concern with profit exhibited by private sector firms leaves less room for inefficiency and waste. Government ownership, by contrast, is held to lead to inefficiencies because managers are shielded from the effects of the stock market. Fiscal accountability is supposedly a low priority in public enterprise because subsidies cushion the effects of inefficiency, because the risk-reward structure is revenue neutral, and because managers have to satisfy multiple objectives. The implication is that public enterprise is inherently less efficient than private enterprise.

Service provision by a single public provider operating under a system of regulated prices in particular is likened to being "held hostage." Proponents of deregulation believe that the competitive market is the best mechanism for establishing "optimum" price and service levels. They thus advocate replacing public sector monopolies with private sector competition and allowing supply and demand conditions in the market to set prices.[24]

A more underlying rationale for privatization is the largely ideological belief that government simply should not be involved in commercial enterprise. Typical of this sentiment is the statement made by Alberta's premier, Ralph Klein upon privatizing Alberta's liquor stores that the whole purpose of the exercise was to "get government out of the business of being in business."

While the belief that government should not be "in the business of business" is a fundamental ideological tenet for many on the right, privatization also undoubtedly serves the practical interests of those who would benefit by the expanded opportunities for business it presents. An examination of the available evidence suggests that opening new investment opportunities for business has been a key goal for those advocating privatization.[25] The industry lobby group the Insurance Bureau of Canada, for example, which includes large national and multinational insurance companies, has been a major player pushing to dismantle ICBC's monopoly position.[26] The pressure for privatization is especially intense in "natural monopoly" sectors, such as electricity, where public ownership has been the norm until recently and where private, mainly US-based energy corporations are eager to gain access to a profitable new market.

Evaluating the claims

Is privatization the answer?

ALTHOUGH EXPANDING THE SCOPE FOR CORPORATE PROFITS MAY NOT BE AN attractive argument for privatization per se, lower costs, increased efficiency, and better service are important goals. So does privatization really deliver on these promises? The following section evaluates these claims in turn, describing the most relevant evidence, and suggesting the likely outcomes for BC Crowns.

Debt reduction

As previously discussed, the BC Business Council estimated that the sale of Crown corporations in BC could yield one-time revenues of between $7 and $10 billion in addition to future corporate income tax revenues. While this figure seems attractive, when it is balanced against future revenue opportunities the benefits quickly disappear.

Take the argument that selling Crowns will provide future income in the form of corporate income taxes that are currently forgone. In the case of BC Hydro, last year the corporation would have owed the province $35 million in corporate income tax were it in the private sector (i.e., net income, not including transfers from the Rate Stabilization Account and customer profit sharing in 2002 of $258 million taxed at the corporate income tax rate of 13.5 per cent). This sounds good until we remember that the province received $332 million via dividends from the publicly-owned corporation in the same time period.[27] For the Liquor Distribution Branch, the government would have foregone approximately $616 million in revenues in 2001/2002 had it only earned tax revenues and not dividends from the corporation.[28] Given the determination with which private corporations pursue tax-avoidance through such mechanisms as shifting profits to lower-tax jurisdictions and other deductions, it is also unlikely that the full tax amount would be collected.

The assumption that the sale of Crown corporations will produce windfall one-time income also needs to be put into perspective. Governments have certainly gained some immediate revenues from the sale of public enterprises. However, we need to remember that if the sale price is right the benefit gained from the amount received should be the same as the value of the dividends lost. In fact, the historical record shows that the sale of public corporations has all too often involved fire-sale prices.[29] Estimates of the revenues to be generated have generally fallen far short of expectations, and public enterprises have typically sold for a fraction of their real value. The sale of Alberta liquor stores, for example, generated profits that were much less than what the assets originally cost.[30]

Privatization has also often included "sweeteners" that further reduce the value citizens receive for public assets. When Canadian National was privatized, the government absorbed $900 million of CN's debt just before the sale. Although the company went from a loss of $1.09 billion to a profit of $142 million after it was privatized, the previous debt write-off suggests that this should not be attributed to the superiority of private management. As Stewart explains, this increase was:

> *…not a miracle of private management, but of debt erasure; it was an act of government. A lot of people, but not the people of Canada, made huge profits. Canadian National is now 70 per cent American-owned, and doing very well indeed. So the effect of this privatization was to take $900 million from the Canadian taxpayer and make a lot of Americans rich.*[31]

While selling a public corporation that requires deficit financing may seem to reduce the need for new borrowing, selling assets with long-term value in order to reduce current operating expenses is short-sighted. In effect, one is "selling the house to reduce the mortgage payments." As political economist Duncan Cameron[32] notes:

> *public ownership procures long-standing benefits to citizens, similar to home ownership for individuals, in that the state company allows for lower cost operation and the build-up of equity value, rather than higher costs to "rent" the service from a private provider, and no equity appreciation.*[33]

Moreover, selling a public corporation that requires public subsidy rarely eliminates government costs. Private corporations are generally unwilling to take on unprofitable services without considerable continuing subsidies. This in turn necessitates costly government monitoring and oversight.

Crown corporations also currently provide some costly services that the government would have to provide if the Crowns were sold or forced to compete with private corporations. In the case of ICBC, the government would have to absorb $60 million in annual road safety investments and approximately $75 million in annual operating costs for the Motor Vehicle Branch, as well as the costs associated with regulating and supervising the operations of private insurance companies.[34]

Given such factors, it is not surprising that in Britain, one of the forerunners in privatizing public enterprises, the overall effect of the privatizations on the public sector accounts has been found to be negative.[35]

Increased accountability and shareholder democracy?

The expectation that the sale of public assets will bring about greater citizen involvement in the economy through share ownership is also not borne out by the evidence.

In some cases, the privatization process starts with an initial public share offering that gives individuals the "opportunity" to purchase shares in enterprises they already own as citizens, often at artificially low prices. What tends to happen, however, is that individuals then quickly sell their shares at a profit to large private investors who end up with control of the enterprise.

In the 1980s, Saskatchewan's Conservative government undertook a Thatcherite program of privatization, arguing that privatization would facilitate "public participation" in the economy. In the end, however, unloading income-earning assets at a discount price enriched only a small group of private shareholders without bringing the promised improvements to the government's books. Based on this record, Saskatchewan professors James Pitsula and Ken Rasmussen conclude that, far from encouraging broader public participation, "privatization led to the loss of ownership and control of significant portions of the Saskatchewan economy to central Canadian and foreign interests."[36]

Of course even in the unlikely situation that most shares of public corporations remained in the hands of small investors, the notion of "shareholder democracy" implies a much more limited vision of democracy and accountability than is encompassed by public corporations in the first place. Shareholder democracy is not one citizen, one vote, but one dollar, one vote. Small shareholders have no real say, and non-shareholders are completely excluded.

By way of contrast, all citizens are effectively already "shareholders" in public corporations. While the fact that private corporations do not need to serve everyone may make them more responsive to some of the consumer desires of those they do serve, those with more purchasing power are often catered to at the expense of those with less.

Crown corporations are monitored and kept accountable to the public in a variety of ways. On a day-to-day basis, appointed Boards of Governors are responsible for directing and controlling the affairs of the corporation, but it is the government which sets its general direction and mandate, and the government has a number of central agencies that help oversee the activities of Crown corporations. Under the *Financial Information Act*, BC'sCrown corporations must provide strategic plans, business plans, capital and operating budgets, and any other information requested by the government minister responsible.[37]

Crown corporations also produce publicly accessible annual reports and other documentation that enable citizens to keep track of their activities. The public reports include information on the results of customer surveys and other measures of customer satisfaction and service goals, as well as information on financial and environmental performance. In addition, crown corporations often consult with advisory groups that include interested members of the public, such as people with disabilities or regular ferry users when making service or policy decisions.

Such public scrutiny helps keep the Crowns accountable. Indeed, the very fact of public ownership encourages people to have higher expectations of the Crowns' conduct. As Herschel Harden notes, "public enterprises are expected to be better corporate citizens and to avoid sharp practices. When they don't shape up, elements of the public, including legislators, get after them."[38]

Such public concern can help discipline Crown corporations if they make poor financial decisions. Equally important, it has played a central role in encouraging Crown corporations to become more socially and environmentally responsible than their private sector counterparts. Democratic politics pushes participants to be explicit about their preferences and beliefs, to adapt them in response to criticism and to make a case for interests larger than their own.[39] Privatization, in contrast, reduces the scope of public information and deliberation. Private corporations may need to be accountable to shareholders' desire to make a profit, but they are not obliged to conduct open proceedings or to publicize the reasons behind their decisions.[40] Deregulation can also diminish public accountability, as demonstrated by the case of BC Rail. Because BC Rail operates in full competition with the private sector, it is the only public body exempted from "Freedom of Information" legislation. The rationale for this exclusion is that the public availability of operational performance statistics or financial data could undermine BCR's competitive position..[41]

In New Zealand, Jane Kelsey has conducted extensive research into the consequences of "aggressive" privatization. In a complete debunking of the "shareholders' democracy" myth, she finds that the real purpose of privatization has been to transfer economic *and* political power into the hands of private corporations seeking maximum profits. Moreover, she argues that, "with no effective protection of consumer interests or guaranteed rights of access, private sector owners have become

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able to determine the quantity, quality and price of New Zealanders' access to basic goods and services, and hence their quality of life."[42]

Increased efficiency and lower costs?

Privatization reduces the scope of public information and deliberation. Private corporations may need to be accountable to shareholders' desire to make a profit, but they are not obliged to conduct open proceedings or to publicize the reasons behind their decisions.

While reducing government debt and enhancing "shareholder democracy" are important justifications for privatization, it is the promise of increased efficiency that is often treated as the most important argument for privatization, linked as it is to claims about decreased costs (both to governments and individuals) and better service.

Not surprisingly, the question of the relative efficiency of private and public enterprise has sparked a great deal of research. If private ownership is necessarily more efficient than public, we should see improvements in efficiency with privatization, as well as declines in efficiency when private corporations are made public. We should also expect that private corporations should outperform public corporations in the same sector.

On the first count, it is worth noting that the history of public corporations worldwide includes many "hospitalization" projects in which failing private corporations were taken over and nursed back to health by public ownership. Indeed, many of the public corporations in Europe and Canada that were privatized in the last couple of decades were originally nationalized because they were so badly managed by the private sector.[43] While not all hospitalizations were successful, the record shows many cases in which public ownership rescued firms that were failing miserably under private directorship.[44]

Of course there are also cases where privatization appears to have improved the performance of (formerly) public corporations. After reviewing numerous empirical studies of privatization, economists William Megginson and Jeffrey Netter conclude that there is at least limited support for the notion that privatization improves the operating and financial performance of privatized firms, although they note that this is not a universal finding.[45]

The findings in regard to private versus public ownership more generally are also mixed. While numerous studies find that private corporations outperform public ones, this is not always the case. For example, a University of Greenwich study of the privatization of public utilities in Europe found that on balance, privatized energy and water companies were no more efficient than public ones, noting "There is no empirical reason to expect that a private utility will be more efficient than a public one. Publicly-owned companies are able to compete internationally in energy, at least as efficiently as private companies."[46]

In fact, fairly comparing the performance of private and public enterprise is notoriously difficult, and complicating factors often bias results in favour of privatization. To mention just a few of the problems with creating truly equivalent comparisons:

- Factors that determine whether corporations are publicly or privately owned, such as the need to ensure universal access to services, also tend to affect performance. This makes it difficult to determine the degree to which it is the structure of ownership per se that affects performance.[47]
- Input prices vary over time, which can confound comparisons of pre- and post-privatization performance. For example, a study of the UK electricity industry has pointed out that the industry has enjoyed lower coal prices since privatisation.[48]
- Selection of the time frame for comparison can affect results. In particular, privatization may lead to the entry of numerous competitors and substantial price reductions in the short-term, only to have competitors bail out and prices return to pre-privatization levels in the long-term, as happened with bus services in the UK.[49]

- Privatization may be more likely to occur when technological advances herald the possibility of improved efficiency. For example, in Britain, the wholesale privatization of utilities may have enhanced efficiency in some cases, but much of this was due to technological advances that likely would have been applied to the public corporations had they not been sold.
- Public corporations often have social and environmental obligations not shared by their private counterparts, and this can put them at a disadvantage in terms of costs.[50]

Ultimately, blanket statements about the benefits or costs of privatization are inherently problematic given the diversity of privatization initiatives.[51]

Accurate prediction of the effects of privatization in any particular case requires specific and targeted comparisons that consider differences in contextual factors and service parameters and quality as well as cost.

In particular, it is crucial that we consider the effects of privatization from the perspective of citizens. Most economic studies that purport to show the "success" of privatization are based on accounting data and it is notable that few provide any evidence as to how privatization affects consumers[52], surely one of the most important questions from the perspective of ordinary citizens.

In fact, it is by no means certain that the benefits of increased efficiency will accrue to consumers. This was made clear in the case of utility privatization in the UK. The electricity industry became more efficient in some respects, but prices for residential consumers rose sharply, leading to windfall profits for shareholders.[53] After water services were transferred to private firms, Britons not only faced decreases in service, but also deterioration of infrastructure, and chronic violation of environmental protection laws. Those who could not afford the higher fees were cut off, and British papers reported stories of parents carting kids to public washrooms to give them a bath.[54] The outcomes of the privatization of Canadian public corporations such as BC Gas and Air Canada also belie the claims of better service and lower prices.

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Privatization and the Crowns
What are the costs?

WHILE A DETAILED ANALYSIS OF EVERY CROWN CORPORATION IS BEYOND THE scope of this report, the evidence most germane to BC's major commercial Crown corporations strongly suggests that privatization is unlikely to prove of benefit to ordinary British Columbians. In fact, the reverse is likely true.

Economic outcomes: The cost to consumers

A recent Canadian Taxpayer's Federation study has advocated privatizing all liquor sales in BC, arguing that most liquor products are cheaper in Alberta, which has a fully privatized sales and distribution system for alcohol. However, as their own report clearly demonstrates, the Alberta "price advantage" is largely attributable to differences in the *taxation* of liquor, not the system of sales.[55] In fact, LDB's economies of scale help keep prices down. If taxation policies remain the same and liquor distribution and sales are privatized, prices are likely to rise rather than fall.

Despite the well-publicized financial problems of the BC Ferry Corporation, fares remain low in international terms. It is notable that in Washington state, which runs a very similar system to BC Ferries, the Legislature's Joint Task Force on Ferries did not receive any interest from private companies to take over its auto ferry routes, and the proposals for privatized passenger service were less cost effective than the public alternative.[56]

In auto insurance, rates for most drivers (and younger drivers in particular) are lower in jurisdictions with public monopolies, such as BC and Manitoba, than in those governed by market competition such as Alberta and Ontario.[57] This is precisely because a market monopoly provides a more efficient structure in this case. Moreover, private auto insurance generally provides far less generous benefit coverage. In Alberta, at fault crash victims are commonly limited to $10,000 a year for medical and rehabilitation benefits as compared to the $150,000 limit in BC offered with "basic" coverage.

BC Hydro also provides electricity rates that are among the lowest in North America. Indeed, electricity is a particularly clear example of the often perverse economic effects of privatization and deregulation. When wholesale power prices were deregulated and set by market forces in Alberta and California, they skyrocketed far beyond what could be explained in terms of rising production costs.[58] While consumers have suffered brownouts as a result of this debacle, they have been somewhat shielded from the effect on their pocketbooks. Residential price caps are, however, due to be lifted soon, at which point consumers will likely to see huge increases in their bills. Albertans already pay more for power than residents of BC, and if the residential subsidies are removed and the Alberta market prices are used, they will pay 2.3 times as much as British Columbians.[59] The Interim Report of the Task Force on Energy Policy acknowledges that moving to market pricing of electricity will substantially increase prices, recommending a minimum 30 per cent increase. However, if BC prices harmonize with those of the western U.S., a likely outcome of moving to market pricing,[60] the task force's figures suggest increases of 100 per cent for residential users and up to 200 per cent for industrial users.[61]

Such price increases would have a devastating impact on BC's economy. Representing large power users in BC, the Joint Industry Electricity Steering Committee has argued that raising electricity rates to "market rates" would have dramatic effects on its members:

> *If prices in BC mirrored mid-C prices in late 2000 and early 2001, massive plant closings would have been the result. With electric power prices exceeding $200 per megawatt hour, shutdowns would include the three electro- chemical plants, the three BCTMP mills, most to the newsprint manufacturing capacity, and all of the remaining metal mines except those with their own generation. Employee layoffs would exceed 6,000 persons. BC was able to avoid this type of disruption to employees, employers, communities and government because of the existing structure of cost-based, regulated rates. This is an advantage that should be maintained.*[62]

It is not only large power users that would be hit hard by increased power prices—all businesses large and small would suffer (as would residential consumers both directly and because businesses will pass increased costs on to the consumer). All in all, the increased power prices that would accompany a move away from a regulated Crown corporation to a market system would take money out of the BC economy, placing it instead in the hands of U.S. energy corporations.[63]

The large gap between claims about the economic benefits of privatization and the reality highlights the essentially ideological nature of privatization rhetoric. The underlying assumption that public enterprise is necessarily unresponsive and inefficient, and that the profit motive and markets promote optimum efficiency and allocation, takes a simplistic view of both human nature and business practice.

The underlying assumption that public enterprise is necessarily unresponsive and inefficient, and that the profit motive and markets promote optimum efficiency and allocation, takes a simplistic view of both human nature and business practice.

Numerous commentators have pointed out the theoretical shortcomings of arguments about the inevitable superiority of private ownership.[64] While personal financial gain may be a strong motivating factor, it is not the only source of entrepreneurial energy. As Hardin notes, public enterprise may be motivated by a variety of impulses:

> *the impulse to do things in a better way for the community; to build something in one's own country or region; to show what one's people can do; to develop indigenous entrepreneurship and innovation; to eliminate gouging of the public by exploitative companies; to keep alive or resuscitate a vital industry and give it the technological and capital base to contend; to meet an important strategic need; to create enterprise sensitive to workers, the environment and other elements of one's community; to keep one's region or country abreast of others, without which it falls behind and, if it grows dependent on others, even loses some of its decision-making powers. Not least is the impulse to do things as part of one's community. Individual pride as a member of the community—sharing its objectives and ideals—comes into it.*[65]

The presumption that the profit motive produces thrift and competence conveniently ignores the many examples of waste, corruption, fraud, and incompetence within the private sector, as well as the actions private corporations routinely take to limit competition. There is ample evidence that private sector monopolies and oligopolies that have resulted from privatization have abused their market power.[66]

Replacing the regulatory barriers that traditionally kept utility prices in check with

In the auto insurance, airline and energy cases, deregulation has meant a quick concentration of the industry in the hands of a few large multinational firms, forcing competition among consumers instead of between providers for service, while sending jobs and profits outside the local economy.

market mechanisms has been problematic precisely because privatization does not necessarily lead to a properly competitive market. In Britain, the sale of public corporations often simply replaced public monopolies with private monopolies.[67] Even when the market has been opened to more than one private firm, the evidence shows that the promise of competition is more myth than reality. In the auto insurance, airline and energy cases, deregulation has meant a quick concentration of the industry in the hands of a few large multinational firms, forcing competition among consumers instead of between providers for service, while sending jobs and profits outside the local economy.

The theoretical underpinnings of the competitive market model on which privatization claims rest quite simply bear little resemblance to the realities of public service provision. The optimum efficiency of truly "free" markets rests on a number of unrealistic criteria, notably that all market actors have perfect information and are able to enter and exit the market at will without transaction costs. In the real world, information imbalances generally exist that can give some actors advantages over others and limit true competition. Gathering the information necessary to monitor private providers of public services can also be costly. In addition, significant barriers such as the necessity for technical expertise or costly equipment can drastically limit the number of firms that can enter a market to replace public corporations. This is particularly true for BC Hydro. While it may be relatively straight forward to open a liquor shop, building and running a large electricity generator is not.

In the case of the deregulation of "natural monopolies" in particular, truly "free" markets just aren't possible. Commenting on the California debacle, journalist Gregory Palast[68] notes that "Electricity isn't like a dozen bagels; it can't be frozen, stored or trucked where needed. And while you can skip your daily bagel, homes and industry will not do without their daily electricity." Attempts to replace regulated prices in electricity with market mechanisms have led to huge problems as a result, including evidence of market manipulation to produce higher prices in Alberta, Britain, and California.[69]

Competition and the profit motive may also have perverse effects in the longer term insofar as they encourage a focus on short-term profits at the expense of long-range planning. Prior to energy deregulation in California, power utilities were guaranteed a profit even if their industry had excess capacity. They therefore built more capacity than needed so as to be able to meet spikes in demand. Excess capacity became costly after deregulation, however, and companies became reluctant to invest in new plants. In fact, companies had an incentive to withhold energy from the market in order to drive up prices—which is exactly what happened in California and Alberta—leading to soaring prices and blackouts.[70]

Moreover, free market competition is not the only mechanism for lowering costs or improving service. The presumption that the "discipline of the market" is necessary to optimize performance not only overstates the link between poor management performance and corporate takeovers (corporations may be acquired because they have built up large pools of cash, and corporations with large cash flow but poor performance routinely buy up more efficient competitors), but also ignores other mechanisms that spur accountability and performance in public corporations. The monitoring capacities of the government, public scrutiny, and the press play important roles in this respect.[71] Those who argue that public corporations face no competitive pressures also conveniently ignore the fact that public monopolies face intense "benchmark" or "emulative" competition in which rates and services are compared with other jurisdictions. Finally, it should be noted that public corporations in BC have already been reorganized in ways that address many of the major criticisms made of public corporations generally. Because the crowns are structured along commercial lines, they already enjoy greater managerial autonomy, clarity of objectives, and strict performance monitoring and assessment of outcomes.

The reality is that public corporations possess important advantages that lower the cost of their services even in the absence of competition. Most obviously, public corporations do not need to make a profit. In addition, Crown corporations have access to lower interest rates than do private corporations. Because the cost of borrowing is lower, costs for capital projects undertaken by Crowns are also lower. Privatizing services also does not mean that the government externalizes all costs of producing the service. Indeed, monitoring and enforcing contracts can be more costly than doing things in-house, particularly when the services provided are complex and quality is difficult to measure. Finally, a single public corporation operating as a monopoly can allow for important economies of scale and integration in purchasing, distribution, and administration that increase efficiency beyond what is possible in a fragmented competitive model.

Most of the efficiency advantages enjoyed by large Crown corporations are predicated on their monopoly position in the marketplace. Those who believe that allowing private companies to compete with Crown corporations such as ICBC or BC Hydro will lower the rates charged by Crown corporations fail to acknowledge this basic fact. It also places the Crowns at an unfair disadvantage to the extent that they must provide universal services while private corporations are free to "cream" the most profitable clients, reducing both the efficiency and the revenue base of the Crowns.

Social outcomes

Because Crown corporations do not set rates for their services strictly on a market basis, a move to spot market pricing for government services will benefit some at the expense of others. In the case of BC Hydro, a few large power customers may be able to negotiate better deals, although the huge price spikes in other places that have deregulated energy markets have now made even the largest industrial users fearful of the consequences of pursuing a similar policy here.[72] Smaller businesses are even more vulnerable to the economic impact of price spikes, and have no real opportunity to negotiate special deals. Individual residential customers are also likely to see their rates go up, especially as they are harmonized with a larger North American market.

While higher residential rates hurt everyone, they are particularly devastating for the poor, and privatization in general risks further harming the least advantaged. One of the hallmarks of public corporations is universal service on equitable terms. Private service providers, on the other hand, often attempt to provide only the most profitable services. Privatizing ferries might lower fares on the most profitable routes if numerous companies competed for traveller business. However, fares would rise and services would be downgraded or eliminated on unprofitable routes. If we view the ferries simply from a market-based perspective, this isn't a problem (indeed, the Canadian Taxpayers Federation sees this as a favourable outcome). If we think of the ferries in terms of transportation infrastructure, however, it clearly is. Privatizing liquor stores will also have uneven effects. Selection and prices will suffer for those buying liquor in smaller centres, but Lower Mainland residents may enjoy lower prices in some instances. Equity of access will be sacrificed.

Moving to a privatized auto insurance system will also likely create clear losers. Because ICBC provides basic coverage to all motorists, the corporation works with a single risk pool. If properly managed this should result in lower rates for all motorists. The single risk pool also allows ICBC to extend affordable protection to youth and families with young drivers who suffer under discriminatory rate setting.

Privatizing Crown corporations will also harm workers. In North America, much of the cost savings from the privatization of services has come from service reductions and/or at the expense of workers' salaries. Often, one of the first things that happens in a privatization is that whatever union was protecting workers' rights is cast off. Indeed, a primary motivation behind the neoliberal attack on government is a desire to diminish the power of public sector unions. This is because, in many cases, the only reduction in operating costs made by the transfer of a public function to the private sector comes in the form of lower wages and benefits for workers. The privatization of the Alberta Liquor Control Board, for example, resulted in the loss of more than 1,000 full-time public sector jobs. Those workers who managed to find jobs with private liquor stores saw their incomes decline by 20 to 40 per cent and, in most cases, their benefits reduced to nothing.[73] For women workers as a whole, leaving the public sector (broadly defined) for the private is associated with substantial wage losses.[74]

Safety and the environment

Experience in other jurisdictions suggests that safety is also a potential casualty of the privatization/deregulation process. The privatization of British Rail created an incentive system that discouraged diligent maintenance. Not only did this ultimately result in the death of four people in a rail-crash last October, it also paralysed the entire transportation system for months afterward as poorly maintained rails were finally repaired. While the organization of the privatized British Rail system was particularly perverse, a competitive, profit-oriented system has an inherently greater incentive to cut corners on safety than a public monopoly for whom profitability is not the sole criterion of value.

The potential environmental impacts of the privatization/deregulation of BC Hydro are particularly worrisome from a public safety standpoint. As noted earlier, using existing dams to produce electricity provides a source of relatively "green" energy. Building large new dams, however, is both environmentally and economically problematic. If private power producers are allowed to generate and sell electricity, the most likely source would be from coal or natural gas fired plants because such dirty production technology is relatively "cheap" and cost is the primary concern for producers in an electricity market.[75] But this technology is only cheap because of the extensive subsidization of fossil fuel production and the fact that energy producers do not pay the costs of the climate change, acid rain, cancer, neurological impairment, respiratory disease and crop damage that it creates[76]. Any policy that encourages an increase in this kind of production is environmentally backward to say the least. As noted earlier, private companies also have less incentive to invest in alternative, environmentally sound technologies that are not immediately cost-efficient, as well as less incentive to promote conservation generally.

Privatization of ICBC might also affect public safety. As it stands, ICBC spends considerable money to improve road safety. This is a smart investment–reducing crashes and minimizing injuries and deaths improves the corporation's bottom line. Were ICBC to be privatized or open to full competition, responsibility for road safety would likely be allocated to an independent government agency that might lack the resources available to ICBC.

While privatizing liquor stores may not compromise public safety in such immediate ways, private liquor outlets may be more lax in their enforcement of liquor laws given their primary incentive to maximize profit.

Privatization is a one-way street

Privatization and/or deregulation would also make services currently provided by Crown corporations open to challenges under the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade in Services (GATS). Once these industries are opened up to for-profit competitors, the rules of free trade kick in. BC Hydro, for example, would not be able to charge BC consumers more favourable rates, or guarantee a stable supply of electricity to BC consumers.

NAFTA also means that prices are set by supply and demand conditions internationally rather than in BC. The fact that BC produces more natural gas than it consumes domestically has not prevented skyrocketing natural gas prices because prices are set in large part by demand conditions in the United States, particularly California. Trade agreements do not allow a two-price system, so British Columbians cannot maintain preferred prices for our resources.

International trade agreements may also undermine the province's ability to tie social and/or environmental objectives to the provision of services in a privatized environment.

Under the terms of NAFTA, foreign corporations whose business is adversely affected by government policy are entitled to compensation for lost future profits. Privatization is thus effectively a one-way street. The costs of compensating the foreign corporations who would enter our insurance, transportation, or energy markets if we privatized Crown corporations would likely prohibit ever bringing these services under the umbrella of public enterprise again.

Future prospects for public enterprise

IT WOULD BE EASY TO START DOWN THE ROAD TO PRIVATIZATION, BUT VERY difficult to turn back. We therefore need to think seriously about the pros and cons of privatization before embarking on a course from which it is impossible to return. Indeed, the Auditor General of BC has argued that no Crown corporation should be sold or dissolved without a thorough public review that would include the opportunity for stakeholder input.[77]

While it is impossible to predict the consequences of privatization with perfect accuracy, a proper accounting of its likely costs and benefits should not contrast the current status quo with an idealized version of what "should" happen in perfect competitive market. Rather, the comparison needs to be between Crown corporations as they currently exist, privatization as it is likely to exist given the nature of the public service in question, and Crown corporations as they can realistically be improved.

As things stand, Crown corporations clearly perform a number of important roles in BC. Public investment and regulation in these key industries has provided cheap and reliable access to service regardless of where people live or how much money they have. The Crowns have also given us more control over economic development in the province and made sure that a portion of the wealth generated in BC stays in BC. Privatizing and/or deregulating Crown corporations might provide some benefits to some people, but it would also risk higher prices, decreased equity and accessibility, declining employment conditions, and lower safety and environmental standards. The evidence suggests that privatizing the major commercial Crown corporations of ICBC, BC Hydro, the Liquor Distribution Board, and BC Ferries would, on balance, risk more than it would gain.

This is not to say, however, that things could not be improved. Mistakes have clearly been made in Crown management (such as the fast ferries), and we should not simply be satisfied with the status quo. Moreover, while privatization has clearly not lived up to its promise, this is not to say that public provision of all services is always inherently preferable. The real question is not whether public or private provision is better *per se*, but which public/private mix is best in particular circumstances. In some cases, it may make sense to provide private alternatives to public provision. By the same token, expanding public services may help ameliorate market shortcomings in largely private sectors such as housing, long-term care and childcare. Crown corporations should also be free to expand their areas of business and move into new markets where this makes sense, rather than being artificially limited by the political fear of stepping on private sector toes.

Alternative methods of improving Crown corporations must also be considered. In so doing, the "best" outcome should not always be assumed to be that which is cheapest or most efficient in the short run, but that which also weighs considerations of equity, justice, safety, and citizenship. At present, the Crowns suffer from an environment that tends to devalue these goals. The media strongly encourages Crowns to model themselves on narrowly defined private sector business practices, management training is now provided exclusively by business schools that are geared toward private sector models, and Crowns tend to hire senior executives with private sector backgrounds. Consequently, many managers are strongly resistant to government pressures to use Crowns for social and economic development purposes or local procurement and job creation.

While having better environmental records than their private sector counterparts, the Crowns could also go a lot further in pursuing environmental goals. BC Hydro, for example, has adopted an impressive array of good environmental programs, but at a basic level the direction in which the corporation is heading does not adequately address the big issue of emissions that contribute to global warming. So far, emissions from BC Hydro are relatively small, particularly when compared to other energy companies, because of the reliance on hydro-electricity. But as demand increases, BC Hydro is looking to gas-fired plants to create new capacity. It is also planning to build a gas pipeline across the Georgia Straight, which will ensure that gas is a "cheap" alternative far into the future. The corporation has only committed to 10 per cent of all new power capacity from renewable sources. We can do better.

Unfortunately, the core review of Crown corporations and government agencies undertaken by the new BC government seems likely to exacerbate these pressures. The core review is supposed to determine which Crown corporations (and other government entities) should remain in the "core" of government. Ostensibly neutral, its guidelines are clearly biased towards privatization. The scenarios that are explicitly envisioned for programs, activities, and government enterprises include elimination, reduction, consolidation, or transfer to the voluntary or private sector. Notably, the possibility that the public interest might be best served by expanding or adding programs is entirely absent.

A balanced approach to Crown enterprise would not start from the presumption of restricting government activity to an ideologically driven notion of the "core". Rather, it would ask how best to use Crown corporations to enhance the well being of all British Columbians. This might involve changes to increase efficiency and cost-effectiveness in some cases, and some private sector practices might contribute to this effort. But it would also focus on capitalizing on the unique characteristics of Crown corporations.

Instead, the criteria by which Crown corporations are to be evaluated are slanted towards narrowly defined economic efficiency, affordability, and accountability. While those reviewing Crown corporations are required to ask whether the corporation continues to serve a "compelling public interest," these interests are undefined. With no explicit mention of principles of social equity or environmental responsibility anywhere in the documentation for the core services review or the Liberals' guiding New Era document, it seems likely that these considerations will receive short shrift when compared with the explicit commitment to "sound fiscal management," a "competitive business climate," and "competition". The focus on measurable performance standards and targets also suggests that easily quantified economic outputs will take precedence over more difficult to measure service quality and accessibility or environmental prudence. Any

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evaluation and re-organization process that fails to adequately account for these broader values that define the unique contributions of Crown enterprise is ultimately destined to do more harm than good.

It is also ironic that while one of the goals of the core review is to ensure that government practices are accountable to the public, the review itself has been exclusionary and secretive. Community input has been conspicuously absent. If the government was serious about organizing services to best reflect the public interest, it would consult with those who have an intimate knowledge of the strengths and weaknesses of government programs: those actually using government services, and front-line workers. Instead, with stakeholder consultation at the discretion of Ministers, community input has been avoided and the entire process has taken place behind closed doors.

In thinking about how to improve Crown corporations, we need to take public accountability seriously. Part of this means improved reporting, but accountability also means being open to information flows in the opposite direction. Performance measures could be a useful part of this, but they need to be derived in consultation with the public and with front-line workers in order to be meaningful, and they should go far beyond narrow questions of economic profitability. ALL of the Crowns, not just BC Hydro, should be thinking in terms of "triple bottom lines," and explicitly including social and environmental issues in their planning.

On the economic level, more focus should be placed on fostering local economic development, particularly in resource-dependent communities. A good model might be that of the relationship between BC Hydro and the Columbia Basin Trust.

As things currently stand, BC's Crown corporations are valuable assets. We need to capitalize on their unique character and contributions, not throw them away or "reform" them in ways that undermine their real value.

Notes

[1] Auditor General of BC 1996/97: 1415.

[2] Cameron 1997: 29.

[3] Malbon 1998.

[4] Hutton 1998.

[5] The newly appointed Chair of ICBC's board of directors, Nicholas Geer, has indicated that "social investments" will be abandoned in an attempt to make ICBC more like a private enterprise.

[6] BC Stats 1999: 1, BC Hydro 2000, ICBC 2000, BC Ferries 2000.

[7] BC Hydro 2002.

[8] Griffin Cohen 2002.

[9] BC Hydro 2002.

[10] Griffin-Cohen 1998, 2002.

[11] Griffin-Cohen 1998, 2002.

[12] Griffin Cohen 2002.

[13] Young 2001; Consumer Association of Canada – BC 2001.

[14] Ontario Human Rights Commission 1999.

[15] Young 2001.

[16] Young 2001.

[17] Auditor General of British Columbia 2000.

[18] Auditor General of British Columbia 2000.

[19] Cutt 2000.

[20] Total includes customs duties and excise tax, GST, net income, social services tax, and property tax. It does not include taxes paid directly by external parties, namely: e xcise duty taxes paid by domestic brewers, wineries and distilleries, and GST and Social Services tax collected by licensees, agency stores and other licensed establishments.

[21] Starr 1990.

[22] Cameron 1997.

[23] The Business Council of British Columbia 2000: 14 –15.

[24] Martin 1993: 193.

[25] Cameron 1997.

[26] Young 2001.

[27] This figure does not include the water rental fees, taxes, and rents in lieu of taxes that the corporation also paid to the province and municipalities.

[28] Office of the Comptroller General 2002.

[29] Samson 1994, Cameron 1997, Hardin 1988.

[30] Laxer et al. 1994: viii.

[31] Stewart 1988: 254.

[32] 1997.

[33] Cameron 1997: 32.

[34] Young 2001.

[35] Bishop and Kay 1994.

[36] Pitsula and Rasmussen 1990: 283 – 4.

[37] Auditor General of British Columbia 1997.

[38] Harden 1989: 59.

[39] Starr 1990.

[40] Starr 1990.

[41] BC Rail 2000: 1.

[42] Kelsey 1995: 137.

[43] Hardin 1989.

[44] see Hardin 1989.

[45] Megginson and Netter 2000.

[46] Hall 1997.

[47] Megginson and Netter 2001.

[48] Pollitt 1995: 102.

[49] Malbon 1998: 23.

[50] Brown 1998: 76.

[51] Those researching contracting-out have tended to find more clear evidence of cost-savings (see e.g. Siegel 1999). There are also, however, many cases in which the reverse is true, with government savings found when services were brought back in-house. Hodge's synthesis of research on contracted services from a number of countries revealed that while contracting out services tended to result in some cost savings (although not service improvements), there was no difference in the cost savings between contracting with the private or the public sector.

Moreover, closer examination cautions against making assumptions about the likely impacts of privatizing Crown corporations based on an uncritical reading of this literature. First of all, much of the literature is methodologically problematic (not surprising given the preponderance of studies that are journalistic in nature and/or reported by the privatizers themselves). Differences in the accounting practices of the public and private sector often mean that savings from privatization are overstated (Sclar 2000). The transaction costs that occur with privatization (such as the costs of monitoring and enforcing contracts) are often not included in the bill, although they increase the cost of private contracting considerably. For example, a study of contracting in the city of Surrey, found that in most instances the City did not have accurate estimates of the actual cost of in-house service delivery. Statements about potential savings were therefore based more on wishful thinking than concrete evidence. Moreover, city managers consistently failed to adequately factor in the costs of contract development, supervision, administration, and the correction of problems with contracted work, thus significantly understating the costs of contracting services. A detailed analysis of 23 contracted cases in Surrey found that in many cases contracting actually resulted in increased costs to municipal taxpayers. (Fairey and Klein 1997)

In addition, studies of the benefits of contracting-out often fail to account for important differences in the services provided by public and private organizations. One of the hallmarks of public corporations is that they must serve everybody. Private corporations, by contrast, prefer to "cream" the most profitable clients. Where there are differences in the clientele or services provided, straight comparisons are misleading (Starr 1990, Fernandez 2000, Sclar 2000). Most studies comparing the costs of public and private services also fail to measure the quality of service. Those that do, such as the study of contracting out in Surrey, often find that service levels declined considerably under contracting-out. If cost savings are achieved as a result of service reductions, this is not evidence of greater efficiency per se.

The cases in which privatization is most likely to lead to cost savings tend to involve simple services such as housekeeping or garbage collection at the local government level (Bendick 1989). But even in relatively simple cases, cost savings don't necessarily materialize, as the Surrey study demonstrates, and studies of privatization also reveal significant problems with accountability and control (Fairey and Klein 1997; Sclar 2000). The more complex work of many Crown corporations means that these problems would be magnified, raising the costs of oversight and monitoring.

The results of privatization processes will vary in part according to differences in the operation of particular public enterprises (some may already be very efficient while others are having difficulty), as well as industry and country-specific issues (Domah and Pollitt 2001).

[52] Megginson and Netter 2001.

[53] Domah and Pollitt 2001.

[54] Stewart 1998: 260 –1.

[55] Canadian Taxpayers Federation 2001.

[56] Joint Task Force on Ferries 2001.

[57] Consumer's Association of Canada 2001, Canadian Automobile Association 1999, Young 2001.

[58] Wallace 2001, Borenstein et al. 2000.

[59] Wallace 2001.

[60] Griffin Cohen 2002.

[61] Simmons et.al. 2002. Figures are derived from comparisons of rates for residential and industrial users in Vancouver with those of Seattle and Los Angeles.

[62] Mulgrew 2002.

[63] Simmons et.al. 2002.

[64] Brown 1998, Martin and Parker 1997, Tittenbrun 1996.

[65] Hardin 1989: 110-111.

[66] See Carpenter and Lapuerta 1999 for the case of British Gas, Hauter and Slocum 2001 and Borenstein et al 2000 for energy in California.

[67] Samson 1994.

[68] Cited in Wallace 2001.

[69] Borenstein et al 2000, Wolak 1999, Ward 2000.

[70] Simmons et.al. 2002.

[71] Starr 1989.

[72] Griffin Cohen 2002.

[73] Laxer et al 1999: 20 – 21.

[74] Mueller 2000.

[75] Simmons et.al.2002.

[76] Simmons et.al. 2002.

[77] Auditor General of BC 1996/97.

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