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**“PUBLIC-PRIVATE PARTNERSHIPS:
A CANADIAN HALF-WAY HOUSE?”**

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Not surprisingly, governments which are successful in delivering policies and programmes are those which possess and effectively articulate a “big idea” or theme. Margaret Thatcher’s three governments, starting in 1979, were no exception. Her “big idea” was the progressive reduction of the role of the state, including in business, and a corresponding expansion of the private sector. The policy of privatization was a natural extension of this theme.

When the British Conservative Party’s 1979 election manifesto was being crafted, one of the stated policies of a future Conservative government was the “de-nationalization” of state owned businesses. Only later was the word “privatization” coined. De-nationalization was not new to Conservative Party politics. A previous Conservative government had de-nationalized the steel industry only to have it re-nationalized by a successor Labour government. Thereafter, until Mrs. Thatcher, the policy of returning state owned businesses to the private sector was dormant. However, it remained in the political psyche of U.K. Conservatives.

When carefully deploying the policy a first time following her 1979 election victory, and while confident of the rightness of the de-nationalization policy, Mrs. Thatcher was being cautioned by some of her faint hearted colleagues and advisors that, “yes, the policy has to be pursued, but it will be both difficult and unpopular.” That this advice was very wide of the mark doesn’t matter, the point is that the initial “driver” of privatization was ideology. The pragmatic, but none the less political,

drivers came later.

It was not until Mrs. Thatcher's second term that these largely unexpected drivers of privatization started to have their effect. The use of the London Stock Exchange to dispose of some of the larger industrial companies not only demonstrated that the job could be done despite initial opposition from the trades unions, but that privatization proved to be popular with the electorate, including employees of privatized companies. A wholly new type of shareholder was created and the Treasury became the recipient of funds which both enabled some pay down of the national debt and a substantial further reduction in the rates of income tax, e.g. the top marginal rate was cut from 60 to 40 percent.

Moreover, the fundamental changes resulting from private sector ownership, the progressive introduction of competition by breaking up traditional monopolies and the introduction of non-governmental regulation, started to produce benefits for the citizen in terms of service and the state by way of increased revenues.

While the "big idea" remained central to U.K. Conservative Party policy, increasingly the privatization drivers were the direct benefits which commended the policy to the Party rank and file and to the electorate generally. Indeed, for those 50 plus countries which have adopted the policy of disposing of state enterprises, and the contracting out of services, it is the basic benefits of economic revitalization longer term and the financial benefits short term which appeal. Of course, there are those who cling to the view that state ownership confers advantages which are not available from the private sector. Certainly, this is not the occasion and, with my

particular background, I am not the person to explore that position!

Canada and a few of her provinces have initiated some privatisations and completed some of those initiated. From an observer's perspective, I am satisfied that, without exception, the drivers have been economic. However, it is a fact of our political life that, by and large, the policies of one government are shunned by a successor, at least for a year or so! This is not unreasonable. A new government has its own initial policy priorities and, moreover, before adopting anything from a predecessor, would wish to study and evaluate.

In Canada's provinces there is a mix of positions. Some have but a few provincially owned commercial activities and are considering what to do, some have embarked on a programme of addressing not only the matter of ownership but also "franchising" government services, some have made one or more disposals and are in a "holding" pattern, and others, as yet, are opposed ideologically while needing the economic benefits. The still relatively new Canadian government inherited, in my view, a very mixed bag of privatization experiences: some "technical" successes, e.g., Air Canada, some "deals" which they chose to abort, e.g., Pearson Airport and a number which had not reached the starting gate.

Again, as an observer, I did not detect any central theme or "drivers" behind the Progressive Conservative government's privatization activities. Now, the present government has adopted certain semantics which serve to mask policy and distinguish it from the previous government. The words used are themselves benign, "commercialization" and "partnership." But what do they mean in the context

of present government usage? I don't know, but let me explore with you some interpretations which may illustrate my thesis of possible privatization "half-way houses" in Canada and then go on to comment as to the possible appropriateness of such a position.

I should start by stating that if the present Canadian government has ruled out privatization as a policy, then I am not aware of it. Indeed, to the contrary, without using the "word", some ministers have spoken specifically about possible "sales". So, what does the new language mean? At one level, "commercialization" could mean simply government acting in ways which encourage private sector disciplines to be applied in state owned businesses. If this is the case, then one wonders what disciplines have been applied heretofore! A similar explanation can be ascribed to "partnerships", private sector involvement to enhance market disciplines. It remains to be seen whether this interpretation is correct and, if so, whether the policy is likely to be effective.

Alternatively, if the present language signals a genuine move towards marketplace economics, are there circumstances where such a "half-way house" is sensible? And, furthermore, what about the financial benefits to the government and Canada's beleaguered taxpayers?

To my mind, there are in Canada situations where asset retention by the state is both sensible and indicated. In no respect am I attempting to be exhaustive, so let me suggest but a couple of examples. As a Nova Scotian, the first which springs to my mind is the Naval Dockyard facility in Halifax. While this activity employs a

number of civilians, it is a Services managed base. What ever else the Canadian Armed Forces produce, including professionals of international excellence, I am not aware that the Forces train and develop business managers. So, why not “commercialize” this base, and others like it, by contracting out, or “franchising,” the management and operation for a term of years while retaining ownership of a site which continues to have military strategic importance?

Without attempting to go into the commercial minutae, such arrangement would allow for appropriate audits of the contractors’ books and provide for re-bidding after, say, ten years with the incumbent eligible to re-bid. Cancellation and suspension conditions, including in a national emergency, also would be included. A good example, I think, of a “half-way house”. The economic benefits would not be so comprehensive as those from an outright sale, e.g., there would be no receipt of funds from the sale of physical assets. However, any competent advisor would suggest the levying of an initial franchise fee and suitable annual “refreshers,” profit sharing or both. Before any of you seek to point out that these fees would be included in the charges to the user, in my example the Canadian Navy, let me say that experience elsewhere in the world indicates that such operators are profitable, fees to the state are paid, service characteristics at the sharp end are enhanced and, overall, costs to the user decline.

To take another example, what about airports? A combination of Canada’s size, an overall relatively small population concentrated or focussed in many centers of varying sizes and all demanding access to air services, results in a wide range of airport profitability. The short answer is that there is no one answer. Broadly speaking, I suggest that there are a number of possible solutions to enable moving

away, or at least further away, from Transport Canada airport management. Obviously the large or larger and profitable airports can be sold. Equally, these airports could go what I have described as the "franchise" route. In both instances, the federal government receives money. In both, again as experience demonstrates, the service aspects should improve. The apparent problem lies with the smaller, inadequately profitable or loss making airports. Here the "franchise" structure may involve support payments with incentives for financial improvement.

I prepared these remarks earlier this month and obviously have no knowledge of the Federal Government's 1995 Budget. Nevertheless, contemplating, in the context of my topic, some of the opportunities which the Minister of Finance might have, I considered another "half-way house" - that of a "not-for-profit" company providing a service which, heretofore, was provided by government or a government agency.

Positively, from the Federal Government's prospective, this kind of "half-way house" would mean that government was no longer responsible for determining and implementing "user pay" charges, and making up any cash shortfalls. Also, if delivered, there is, or should be, a not inconsequential reduction in public service personnel. Other benefits would include the selected activity becoming self managed, it may be able to avoid regulation despite providing a monopoly service because of the "not-for-profit" structure, and would be accountable directly to its customers. No Crown corporation, no departmental agency, but a free standing provider of service at cost.

On the surface, “okay”, and certainly a potentially neat budget ploy, but other than for user complaints, where is the commercial discipline? The answer, probably, is to let each such service company be governed by a mix of service providers and customers. Examples come to mind within Transport Canada, such as, air traffic services and harbour pilotage.

I am making the basic assumption, I assure you on personal experience, that under private sector management the financial position and service characteristics can be improved. If the objectives include taking government out of the facilities management business, producing cash and, in the case of loss makers, reducing support monies, then there are choices. These choices range from franchising, with or without fees, to, as noted already, making support payments with enhanced sums for improved financial results accruing to Transport Canada. The basic objective of the latter is that the cost of such support should be less than today’s payments.

Somehow a “half-way house” doesn’t seem to “do it” for genuine commercial undertakings, such as Canadian National Railways. CN is not the creation of government, rather it is the result of government, many decades ago, determining that it had to intervene in consequence of predecessor railroads’ financial problems. Government involvement in CN was not a case of “easy in”, and certainly any exit will be complex. Now, however, I believe that under an apparently commercially minded management with improving operational results, there exists an opportunity which should serve the Canadian Government, Canadian National, Canadian National’s customers and Canada very well. We shall see!

In the foregoing I have set out alternatives which range from conventional privatization techniques to “half-way houses”. While I have used the word “franchise”, this concept can embrace easily various forms of “partnership”. Is this what Canada’s government has in mind? I like to believe that increasingly the government will be pursuing ways in which revenue can be raised other than from taxpayers, costs to government reduced, including the costs of government undertaking activities that it does not do best and, in the process, improving service characteristics where the activities touch the lives of ordinary Canadians.

But is this where government is heading with it’s remarks about “commercialization” and “partnerships”? Again, we shall see. But as I try and bring together all of the remarks made and signals, if that’s what they are, given, I am encouraged. It is clear that such “half-way houses”, as may be envisaged and deployed, will not be appropriate for all of Canada’s state owned business and commercial activities. In some instances straight forward privatization is required. However, I consider that the Government of Canada, and for that matter the provinces and municipalities, have a menu of techniques which can be deployed in order to reduce costs sought to be recovered through the taxation system, raise funds through the sale of assets, improve service characteristics, move responsibility closer to those affected, and thereby contribute to making the lives of Canadians less tax burdensome and less governmentally intrusive.

In order to determine whether an activity has moved from government control, including with the avowed intention of benefiting Canadian taxpayers, in each instance there are two simple tests I commend to you. First, while government, probably, has appointed the senior officers, managers and the chair of an

undertaking; whose responsibility is it to appoint successors or, for that matter, to discharge the incumbents? Second, aside from such operational, service and directly related financial benefits which may accrue; to what extent has public service employment been reduced in consequence of government moving from a control or management position? If the answer to my first question is “persons other than government” and to my second, a number having at least three digits, then the conclusion would be that government was acting in the best interests of us all.

In summation, “yes,” I consider there are a number of scenarios where what I have styled a “half-way house”, between government ownership and operation on the one hand and total privatization on the other, can and probably should be deployed. The challenge, in situations where, structurally, revenues are and are likely to continue to be inadequate, will be to preserve basic and essential services at lower cost with present service quality at least maintained. There are, of course, many situations where this constraint does not apply.

All that is required for positive change is political will.