Crown Corporations and Government Divestment

Jan Pavel, M.A.

FRONTIER CENTRE FOR PUBLIC POLICY

About the author

Jan Pavel is the Operations Manager at International Immigration & Business Consulting. Jan holds a Master's Degree in Political Studies from the University of Saskatchewan and a Master's Degree in International Relations & European Studies from the Masaryk University in the Czech Republic. He has written major research papers on topics that include interest group participation in policy making, transparency of lobbying, the productivity of the public sector and e-government. Jan also contributed to research on flow-through shares and investment promotion in bioresearch and in the development of policies for Metis and Non-Status Indian people of Canada.

FRONTIER CENTRE FOR PUBLIC POLICY

MB: 203-2727 Portage Avenue,
Winnipeg, Manitoba Canada R3J 0R2
Tel: 204-957-1567
Email: manitoba@fcpp.org

SK: 2353 McIntyre Street,
Regina, Saskatchewan Canada S4P 2S3
Tel: 306-352-2915
Email: saskatchewan@fcpp.org

AB: Ste. 603, 734-7th Avenue SW,
Calgary, Alberta Canada T2P 3P8
Tel: 587-930-2289
Email: alberta@fcpp.org

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Executive Summary

In 2011, the Organization for Economic Cooperation and Development (OECD) conducted a study of 27 member countries to assess the size of the national government-run enterprise sector. The study examined the number, employment and economic value of enterprises. Canada placed in the middle among the examined countries with 33 GBEs, 105,296 employees and a US$21.6-billion in market value. OECD's data however completely omitted to include government–run businesses at the provincial and municipal levels. In fact, the size of the government business sector in Canada is much larger than expected and some of these businesses may be suitable candidates for divestment.

This paper is a precursor to a series of case-studies on Crown corporations and divestment in Canada. The main objective is to provide the reader the necessary information to allow improved understanding of the two subjects. Terminology and theory are discussed. The paper elaborates on reasons that lead governments to establish Crown corporations as well as what makes them withdraw from business activities. This is followed by an overview of methods used for privatization.

The paper continues by presenting additional information on the size of the provincial government-run business and compares it with the federal data. The point is made that there are still sizable parts of the government that could benefit from disposition.

In order to complete the picture, data on past Canadian privatizations is provided. The paper reviews the discussion about the effects past depositions had on former government businesses as well as how it impacted social welfare. A large majority of researchers agree that privatizations are positive both for the businesses and the society at large. Finally, suggestions are made where future divestment efforts could take place.

Introduction

Governments have historically been using various tools to achieve their goals in the economy. Laws and regulations, money supply, interest rates, taxes, trade tariffs, anti-trust policies, price controls, government spending, and for example the creation of Crown corporations are just some, among many such tools. Some are generally accepted as necessary for the proper functioning of the markets. Some are more controversial and, in fact, are designed to suppress or eliminate the market forces for political and social reasons. As such, Crown corporations are the ultimate government tool for achieving goals in the economy. As this paper will show, Crowns are created to help overcome perceived market gaps. Simply said, governments create Crowns where they think private sector would be otherwise unable or unwilling to deliver specific services for a "reasonable price."

In free market economies, governments sometimes overregulate and in order to achieve the proper balance legislation must be changed. Similarly, governments often tend to stay directly engaged in business longer than the markets require. A philosopher of ancient China Lao Tzu once said: "Govern a great nation as you cook a small fish. Do not overdo it." This is also the main theme of this paper. The focus is thus on the divestment of government-run businesses. It is argued that it has proven itself as an effective tool in revitalizing numerous businesses, encouraging economic growth and helping governments withdraw from business sectors where the assistance of the state is no longer needed or is even detrimental.

This paper is first in the series of papers on government divestment in Canada. One of the objectives is to provide the reader the necessary overview of subjects related to the study of Crown corporations and divestment. First, terminology and theory are reviewed. Subsequently, an overview of the past divestment programs in Canada is presented. This is followed by a summary of the discourse and data on the state of the government business at the present time. Finally, the paper examines the research on the results of the past divestment efforts in Canada and suggests candidates for future government dispositions. The overall goal is to supply the reader with information useful for further study of divestment, which will be discussed in more detail in the case studies that will follow.

Crown Corporations – Terminology

A commonly-used term for a government-run business in Canada is a "Crown corporation." Yet, the official terminology is not uniform and other terms are used as well. For instance Statistics Canada opts for the designation Government Business Enterprise (GBE). Also, the provinces have developed a terminology of their own. In Ontario, the name for a government-run business entity is the Operational Enterprise agency or "Agency" for short. In Manitoba and the Newfoundland and Labrador, various government-run businesses identify themselves both as "Crown agency" or "Crown corporation" and "Government Enterprise." Alberta knows government-run businesses as "Crown-controlled organizations" and Saskatchewan as simply "Crown corporations."[1] Elsewhere in the world, we see labels such as State-Owned Enterprises (SOEs), Commercial Public Enterprises, Government-Owned Enterprises, Publicly Owned Corporation, and many others. While the diverse terms may cause a bit of confusion, the real challenge arises from attempts to define what a government-run business is and what it is not.

What is a government business?

Drawing a distinction between commercial and non-commercial government entities tends to be arbitrary. An early attempt by FitzGerald defined "commercial state sponsored bodies" as entities which have significant sources of revenue other than grants-in-aid from the state or from local authorities. Furthermore, these government entities operate in a commercial atmosphere where commercial criteria can be used to judge their effectiveness. More recently, Sweeney defines government-run businesses as those that earn more than half of their income or sales revenue from sale of goods and services.[2]

Statistics Canada (SC) also uses a 50 per cent cut-off mark for entities to qualify as government business enterprises. According to SC's definition, GBEs are public enterprises that have more than 50 per cent of their revenue coming from market activities in a given year.[3] The characteristics devised by Statistics Canada to further determine whether an entity is a GBE are as follows:

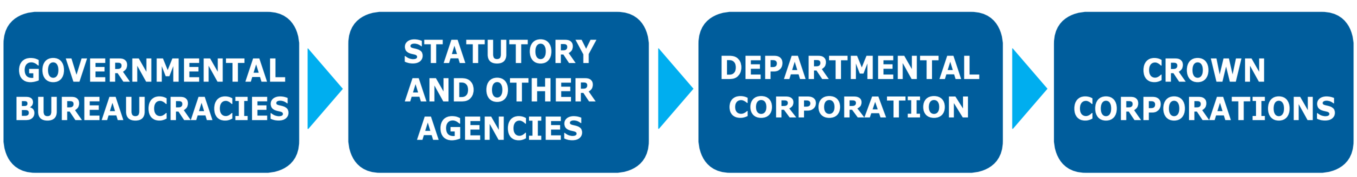
> "Most market producers are profit-oriented organizations. They are institutional units that provide goods and/or services in the open market at prices that are economically significant. The majority of these organizations are financially self-sufficient and generally do not rely on public funds to support their operations. Since they usually compete with other providers of similar goods and services, the public has free choice in their market selection. All institutional units that are government controlled market producers are classified as public non-financial or financial corporations in either the non-financial corporations sector or the financial corporations sector. The following indicators are used in this determination process:
>
> • The entity has the financial and operational authority to carry on a business.

- The entity competes in the marketplace.
- The public has free choice to acquire or reject the good or service.
- The entity charges prices that are economically significant.
- The entity gets its primary income from market activity.
- The entity can borrow autonomously.
- The entity remits profits and/or dividends to a government.
- The entity's employees do not negotiate collective agreements with a government."[4]

In the 2013 study of Canada's government-owned enterprises, Crisan and McKenzie criticize the arbitrary 50 per cent cut-off mark as leading to underrepresentation of the government involvement in the economy. They also argue that the definition of "market activities" is subjective. There may well be sizable parts of government enterprises left unidentified as their business activities do not reach 50 per cent of the overall income. They explain that a proper identification of these entities may reveal new candidates for potential future divesture.[5] They however did not come up with a specific definition of their own and rather assessed candidates on case-by-case basis. Once again this confirms the arbitrary nature of the definitions.

TABLE 1

Organizational Form of Government Intervention in the Economy



Why do governments engage in business activities?

Governments and the civil service do not typically engage in direct business activities. MacCarthaigh argues that "the state has no business in business".[6] Therefore, the decision to create a state-owned enterprise that functions at arm's length to its owner—the state—is a political one. He explains that markets may not produce results that accord with the objective of a society and thus the principal function of state-owned enterprises is to generate a pattern of production and distribution more in accordance with those objectives as determined by politicians.[7]

In other words, SOEs are usually created to fill a perceived need that a government felt was not sufficiently met by the private sector.[8] According to a 2013 OECD report on SOEs, state ownership can also sometimes be argued for in cases where the private capital base is deemed insufficient or where SOEs can be a more reliable way of generating government revenue. Finally, the report notes that state ownership is a form of market intervention used in pursuit of industrial policy.[9]

When governments intervene in the economy, they generally do it for a number of reasons. Iacobucci and Trebilcock classify these reasons into three main groups: Efficiency Rationales, Ethical Rationales and Political Rationales.

The Efficiency Rationales justify government interventions as a result of a natural monopoly, externalities, public goods and information asymmetries. A natural monopoly arises where economies of scale are such that average costs fall with each additional unit produced. Such industries tend to result in one single producer. Railways, electricity transmission or water and natural gas supply are just some of the examples.[10]

Next are positive and negative externalities that are either under-produced or over-produced in a free market economy. Positive externalities may cause that private investors have no incentives to engage in industries which produce goods or services benefiting others without having to pay for it. The so called "free-rider" problem can discourage private markets from providing goods, even if they are in demand. An often cited example is street lighting or research and innovation.[11] On the opposite side stand negative externalities such as air or water pollution, cost of which are not fully absorbed by its producer.[12]

Public goods follow as the third example of Efficiency Rationales. By definition, a public good is one that is both non-rivalrous and non-excludable. People cannot be excluded from enjoying such consumption. Once again a "free-rider" problem arises and as a result the private sector tends to under-produce it. Examples are national security provided by armed forces, police and fire protection.

Finally, Iacobucci and Trebilcock list information asymmetries. This rationale explains state involvement in the economy as a result of government attempts to reduce the perceived lack of information about goods and services by consumers. Therefore, governments choose to intervene by certifying products and services and test them for safety and effectiveness. One such example is pharmaceutical products.

As for Ethical Rationales, Iacobucci and Trebilcock differentiate among Distributive Justice, Communitarianism, Corrective Justice and Paternalism. Distributive Justice argues that while a market may deliver an effective outcome, this outcome may result in a substantially unequal distribution of wealth.[13] States get involved to support equality, regional development and other economic and social goals. Examples include postal services, public transit and water supply.[14]

Communitarianism, on the other hand, argues that members of society have social responsibilities and duties to enhance the good of society based on the idea of communal ethics. The regulation of the programming content in broadcasting by the Canadian Radio-television and Telecommunications Commission (CRTC) is an example of government regulation for communitarian reasons.[15]

Corrective justice is nothing less than government intervention in markets through civil justice system in order to protect property ownership and to correct occurrences of negligence or nuisance.[16]

Finally, paternalism provides a rationale for governments to choose to place limitations on the autonomy of individuals in society to reduce potentially self-destructive consequences of their otherwise voluntary choices. Among these are often minors or mentally disabled.[17] The provincially-run liquor distribution is an example of government involvement in the economy for paternalistic reasons.

Iacobucci and Trebilcock's third group of rationales for government involvement in markets is of a political nature. So called Political Rationales are explained by the outcomes as argued by Public Choice Theory and Path Dependency Theory. They can also be a consequence of Governmental Revenue Considerations. Public Choice Theory asserts that politicians, like private actors, are assumed to be self-interested. They need to maintain support of their electorate and this requires both organizational and financial resources. Private interest groups use this desire of government actors to promote their own agenda. The most effective groups are likely to be those that have large stakes, significant resources, and strong organizations. Therefore, concentrated groups with narrowly defined interests are often favoured over larger public interest. As a result, the government's involvement in the economy in response to narrowly defined interests may in fact aggravate the market failures or fairness concerns discussed earlier.[18]

Path Dependency Theory states that once a government is involved in a market or industry, there is forceful tendency to maintain the same course. Many factors such as high start-up cost, increasing returns, adaptive expectations, learning effects, and network effects increase stakes in preserving the status quo. However, path-dependence is not all-powerful, changes in thinking, changes in economic conditions, and especially events like fiscal crises may transform policies despite path-dependence.[19]

Finally, Iacobucci and Trebilcock explain that a major factor influencing governments' decision whether to divest Crown corporations is the tax treatment of the privatized entity also known as Government Revenue Considerations. A large majority of provincial Crown corporations in Canada are exempt from most taxes. In post-privatization era, former provincial Crown corporations will have to pay both federal and provincial corporate income taxes, in effect compelling provincial governments to share revenue with another level of government. This can deter some provincial governments from proceeding with privatization.[20]

In addition to the above discussed rationales, the 2010 report on the roles of state-owned enterprise by Fortás in Ireland included Capital Market Failure as a reason for governments to get involved in the economy. The report explains that this rationale leads governments to establish SOEs where private sector investors are unable or unwilling to finance projects that may have high return in the long run but carry high risks in the short-term.[21] To resolve this shortage, the state may create financial institutions of its own that are designed to provide financial services where needed. Among Canadian examples we can find the Business Development Bank of Canada, Export Development Canada and Farm Credit Canada.[22]

The definition of privatization

In simple terms, both government business enterprises and privatization are instruments of economic policy. However, unlike GBEs, privatization refers to a transfer of activities or functions from the state to the private sector.[23] The literature offers a number of broad and narrow definitions of privatization, which suggests the existence of many practical approaches to state divestment.

In broad terms, Shehadi defines privatization as "the abolition of barriers to private sector provision of services or the infrastructure necessary for their delivery." This broad definition is particularly applicable to privatizations at the sector level (e.g. telecommunication, electricity, railways). He explains that such privatizations are more complex than privatizations of a single enterprise and require a restructuring of the whole sector. The sale of a business is often accompanied by giving the private sector the right to use a public domain (e.g. radio spectrum, land, right of way, etc.). It also involves a need to define the "public service" dimension (e.g. coverage) and licensing the private sector to deliver such service.[24]

Another example of a broad definition comes from Martin who suggests that privatization is "a change in the role, responsibilities, priorities and authority of the state" rather than a change in ownership alone. Donahue goes even further and argues that privatization can signify something as broad as cuts in the welfare state which are replaced with self-help and volunteerism.[25]

On the other hand, privatization in narrow terms is generally described as the whole or partial sale of a state-owned company to a private investor. From a strictly economic perspective, Kent's definition argues that "privatization refers to the transfer of functions previously performed exclusively by government at zero or below full-cost prices to the private sector at prices that clear the market and reflect the full cost of production.[26] Although one may disagree with Kent whether all GBEs sell goods and services only for zero or below full-cost prices, his contribution helps define the comprehensive nature of privatization.

Finally, a definition devised by Boardman and Vining for their review and assessment of privatization in Canada is presented. They define privatization as "the transfer of a corporate-like entity from government ownership and control to the private sector. It involves the transfer of an on-going business (or service), not just the sale of assets. Following privatization, the primary goal typically becomes profit maximization.[27]

Methods of privatization

Understanding privatization in either narrow or broad terms results in an array of methods governments use to divest GBEs. Methods range from an outright sale (narrow definition) to various forms of Public-Private Partnerships (broad definition). The two most commonly used methods stem from the narrow understanding of divestiture. One is Direct Sale Privatization (DSP)—an outright sale of a government entity to an existing private entity. The other is Share-Issue Privatization (SIP) – conducted through issue of shares which are either given away to the public or sold to them through public markets.[28] DPS and SIP are according to some categorizations examples of "Complete or Full Privatizations," resulting in a complete government disengagement from a business and assets. Among Complete Privatizations we can also find so called "Voucher Privatizations" which were frequently used during the post-socialistic economic transition in Central and Eastern Europe.[29]

In Canada, Direct Sale Privatizations were mostly used to divest entities that were relatively small and operated in niche markets (e.g. Federal Crown Corporations: de Havilland Aircraft Canada, Canadian Arsenals, CN Route, Canadair, Teleglobe Canada and Theratronics International; Provincial Crown Corporations: Prince Albert Pulp, SOQUIP Alberta, Manitoba Forestry Resources and Vencap Equities Alberta). Boardman and Vining argue that the continued survival of these GBEs as stand-alone private entities would have been difficult. Therefore, it seemed beneficial to combine them with larger private-sector firms that operated in a similar or related industry. Synergistic benefits and as a result potentially higher sale price may have played a role in choosing the DSP method.[30]

On the other hand, Share-Issue Privatizations, were predominantly used to dispose of GBEs that were large enough to survive on their own after the privatization and operated in a somewhat competitive environment, at least from a global market perspective. Among the major federal SIP divestitures were: Air Canada, Petro-Canada, Co-enerco, and CNR; the provincial SIPs were: Alberta Energy, British Columbia Resources Investment Corporation (BCRIC), Saskatchewan Oil and Gas Corporation (SaskOil), Potash Corp, Alberta Government Telephones (currently Telus); jointly-owned by federal and provincial governments: Fishery Products International (FPI) and Cameco.[31]

Less frequent but not unusual method of government divestment is so called Internal Privatization. It is also known as "employee or management buy-out." Since

GBEs sold using this method are generally priced extremely low, there is minimal revenue created for the government in the short term. Governments hope to revive a particular business by selling it to those who know it the best, which are managers and employees. These buyers however often lack the resources to invest, which are badly needed in many GBEs.[32]

Some other less apparent forms of divestiture are: contracting-out, privatizations of operations, franchising, vouchers, quasi-governmental entities, third-party financing, deregulation, price competitions, and use of volunteers. These forms of government disinvestment fall under the category of "Partial Privatizations." In such cases, the state maintains a significant interest and/or ownership of assets. Although these forms of divestiture may be perceived as less significant, in fact they can be the first indicators of changing government attitudes.

First, contracting-out of services is a method of divestiture that has been included in the government pallet for quite some time. Contracting-out means that the state enters into an agreement with a private vendor to provide a service. In this case, the state pays the contractor to provide the service.[33] Governments finance these services through tax collection or user fees. Traditionally, this arrangement is used for collection and disposal of waste.[34] In New Brunswick, private firms were contracted-out to build and manage the provincial prisons. Elsewhere, we can find hospital food or school bus services contracted-out to private companies.[35]

Next, the privatization of operations is the turning over of managerial and operational responsibilities of publicly owned entities to private firms, particularly suitable for sports and concert venues. For example baseball stadiums in New York City are managed by baseball teams that use them during the season to be managed by the city's Department of Parks during the off season.[36]

When franchising, the government gives monopoly privileges to a private vendor to provide a service in a specific geographical area.[37] The private service providers generate revenue by collecting user fees. Utilities such as electricity, gas, and water in some cases fall under this category.[38]

Vouchers should not be confused with voucher privatizations also called mass privatizations that were implemented in Central and Eastern Europe in 1990s. Vouchers are used by a government to allow eligible clients to purchase services available in the open market from private providers. As with contracting-out, governments cover the costs for the services.[39]

Quasi-governmental entities are subjects that possess both private and governmental legal attributes. Kosar gives an example of the American National Red Cross (ANRC) that was chartered by Congress, some of its board members are appointed by the President, and it has statutorily-prescribed duties; yet, it is a private corporation.[40]

Third-party financing replaces the government direct financing of a project or service with private sector. It is particularly suitable for infrastructure projects. In exchange for a long-term contract and consistent revenue stream, the private sector is involved in financing, building, and maintenance of otherwise government projects.

From a broad point of view, deregulation is another method of divestiture. In this case, a government removes regulations from the service previously monopolized and thus allowing private provision of the service and competition.

Particularly in the US, federal agencies have held price competitions, the purpose of which is to encourage creativity of the private sector to produce desired technologies. One the most known agencies holding price competitions is Defense Advanced Research Project Agency (DARPA).[41]

Finally, volunteerism is frequently seen in literature as an example of government divestiture. In some areas, the state relies on volunteers to deliver public service, ANRC being once again a good example.

According to Ferlie, Lynn and Pollitt, business management of public utilities, contracting-out, franchising, vouchers, competitive tendering and various forms of public-private joint ventures are simply forms of Public-Private Partnerships (PPPs).[42] Once again, these methods of divestiture are primarily acceptable to those who perceive privatization from its broader end. Broadman and Vining maintain an opposing view and argue that PPPs in fact represent a step away from private ownership. They explain that private firms only finance, design, construct, maintain and operate public assets and that the ownership is in the end reverted to the public. Therefore, PPPs cannot be viewed as a form of divestiture according to them.[43] This paper assumes a broad stand by stating that private sector involvement in previously solely government enterprise is a step in the right direction.

Why do governments decide to privatize?

The earlier sections of this paper answered the question why governments establish state-run businesses as well as we reviewed the methods governments use to reduce or end their involvement in business activities. Finally, we examine what motivates governments to proceed with privatization. Based on the knowledge about the origins of GBEs, the assumption should be that governments privatize state-run businesses when the market failures that led to their establishment cease to exist or the market has matured enough so that private companies can provide the services without the aid of government. The reality is however more complex.

Governments that choose to dispose GBEs have probably done so due to a number of reasons that were at play at the same time. Some of these reasons may have not had anything to do with a market failure vanishing. In fact, some argue that a dominant government-run corporation can deter competitive market entry and thus effectively blocking innovative solutions to a market gap.[44] In such cases, governments face a mammoth task. If they do not want to just replace a government monopoly for a private sector one, they have to first introduce competition, deregulate the industry and finally find a buyer for the GBE in question. In other words, governments sometimes opt for privatization to create conditions that will help overcome persisting market gaps that a powerful GBE was originally intended to fill.[45]

In a free market economy, government business enterprises are created to primarily follow a political objective. Profit generating is of secondary importance at least in the beginning. On the other hand, in the private sector, profit maximizing is the number one goal. Therefore, supporters of government involvement in the economy argue that GBEs are better suited to provide certain services as they are able to sacrifice profits for a social good. For example in the telecommunications industry, it could mean providing phone coverage to remote populated areas which are argued to be otherwise left out by private providers. A contradiction arises when financial results of these GBEs are reviewed and it turns out that their profits exceed the profits generated by comparable companies in the same industry. Morck in 1989 compared hundreds of Canadian state-owned and private companies with US firms in the same industry and found out that the profit rates of state-run companies greatly exceeded those of their US counterparts, while Canadian private firms did not report such achievements.[46] There can be many reasons for such results, including competent corporate management. However, according to Bergevin and Poschmann, regardless of the reasons for high profits in a GBE, such situations lead to an existential challenge for the concerned government-run business. They explain that more profitable the corporation, other things being equal, less convincing is the argument that private enterprise would fail to provide the same goods or services.[47] For some governments, successful GBEs become revenue-generating tools, which they use to improve fiscal situations of their jurisdiction. For others, an "over-performing" GBE can be a candidate for divestment.

The business sectors, about which governments strongly feel that they belong into their realm, are primarily natural monopolies. Yet, a successful divestment of Canadian National Railways (CNR) proves that natural monopolies can function as private entities as well. The questions is why the federal government decided to privatize a company that operates in an environment where limited competition is possible due to the fact that railroad tracks can hardly be duplicated. In reality, the privatization of CNR was motivated, as many privatizations around the world, to an extent by the property rights theory.[48] This theory and the arguments that stem from it dominate the literature that studies why governments engage in privatization. Filipovic explains that the process of privatization can be an effective way to bring about fundamental structural change by formalizing and establishing property rights, which directly create individual incentives. In other words, private ownership is believed to be superior to public ownership as private owners are more invested in the success of the business. It is their own property that private owners risk to loose after all. Along with creating strong incentives that induce productivity, privatization may improve efficiency, provide fiscal relief, encourage wider ownership, increase the availability of credit for the private sector and as a consequence increase investment.[49]

TABLE 2

Reasons for Privatization

- **Cost Reduction** – private companies often deliver the same service at lower price.
- **Risk Transfer** – private companies take on risk associated with the service in exchange for monetary sum.
- **Source of Revenue** – from sale or lease of public assets. Taxes, fees, licenses, etc can represent a sizable income for a government.
- **Quality of Service** – private companies may be able to provide the same service for similar cost.
- **Expertise** – contractor may be able to provide expertise not available to the government in-house.
- **Timeliness** – a government may not have the resources to finish a project in time so that it engages private sector.
- **Flexibility** – private companies are more flexible when it comes to staffing and seasonal needs.

Source: http://cgfa.ilga.gov/Upload/2006Gov_Privatization_Rprt.pdf

Well defined property rights through divestment result in so called Ownership Effect. Iacobucci and Trebilcock argue that public ownership of a firm is usually less efficient than privately owned firms because it is more difficult to align the interests of management with those of the owners (the public). Also, citizens are far less able to monitor managerial performance of GBEs due to lack of information on the efficiency and quality of production. In the private sector, shareholders have the ability to monitor actions of managers and then incentivize their better performance through the use of commonly available and measurable indicators of firm performance as profitability, market share, and stock prices. In addition, the market itself punishes poor managerial performance of privately owned firms, namely by the threat of hostile takeover or bankruptcy.[50] On the other hand, a state is unlikely to allow a large GBE to face bankruptcy so that financial distress is less important for them.[51] Lamman and Veldhuis also assert that in the case of GBEs, governments typically allocate capital to areas that maximize their chances for re-election instead of allocating capital where it yields the highest economic return. This leads to a misallocation of scarce resources.[52]

The efficiency improvements that follow government disposition of GBEs are attributed to the effects of competitive markets. Shehadi explains that the implementation of performance-based pay schemes, wage structure improvements, increased employment flexibility and investment increases have all contributed to increasing productivity after privatization.[53] Competition enhances internal efficiency as firms seek to capture a larger market share or at least avoid any market share loss. According to Iacobucci and Trebilcock, competitive markets provide strong incentives to minimize costs and also develop specialized skills, expertise, and technologies. Competition also ensures that a large portion of the cost savings is passed on to consumers.[54] In addition, privatizations that have implemented employee stock ownership plans reported productivity improvements among the company's workforce. Finally, divestment of GBEs is argued to be strongly associated with improved product quality at more competitive prices.[55]

Fiscal relief is another reason why governments divest GBEs. Privatization revenues help fiscal adjustment by slowing down the rate of growth of public debt. Reduced debt to GDP ratio frequently results in lower interest rates, as public financing needs are reduced. Furthermore, Shehadi confronts a common misconception that privatizations cause only a one-time increase in revenues. Post-privatization, governments collect new taxes as the GBEs, once divested, become subject to corporate taxes. If monopolies are broken up and competition appears, the tax base is further expanded to include newcomers into the industry. As for infrastructure sectors, governments start collecting reoccurring fees from privatized companies that need to use public domain for their operations such as license fees, radio spectrum fees, right-of-way fees, etc. Finally, he argues that by eliminating infrastructure bottlenecks in the medium term and attracting new investment that would not otherwise be made, rivatization becomes a catalyst for the expansion of economic activity and the consequent rise in tax revenues.[56]

An essential aspect of government dispossession of GBEs in general is that it gives ownership/property rights to a larger percentage of population. Filipovic sees it as a crucial motivating factor for individuals to work on and invest in their property since they are directly compensated for their efforts. As a result, privatization is credited for causing an increase in investment for yet another reason.[57] It is also argued to encourage the issuance of new financial instruments to raise capital as well as forced governments to reform and modernize capital markets.[58] Governments seeking new impulses for economic growth welcomed the resulting increase of foreign direct investment (FDI). According to the World Bank, FDI leads to spillover effect and brings new technology, better managerial skills and access to international production networks, all of which are powerful ingredients of economic revival.[59]

Potential concerns with privatization

Governments have traditionally been concerned with the impact of divestment on employment. Unions argue that post-privatization increased profits come at the expense of lower wages. Laid off workers may not find jobs that pay as well, there might be prolonged periods of higher unemployment, and some may incur transaction costs in finding a new job.[60] According to Boardman and Vining's research, the drop in employment in the five years preceding privatization and during the three years post-privatization was significant among Canada's companies. However, after approximately a five-year period of restructuration, hiring began again among many former GBEs.[61] Shehadi explains that the impact of privatization depended largely on company's initial labour conditions, which in many GBEs are: overstaffing, higher wages than comparable jobs in the private sector, generous non-wage benefits and rigid labour contracts.[62] Although privatizations lead to layoffs, the restructuring of GBEs can be perceived as a positive transformation towards a healthy company that is driven by market forces rather than political objectives. In addition, privatization can bring employment opportunities through a company's expansion such as happened in Telus formerly known as Alberta Government Telephones.

Privatization has been a sensitive topic for governments. Although the benefit of private ownership is often undisputable, many governments surrender to powerful well-organized lobbies such as unions and shelve any intention to execute a privatization. Privatization has evidently both supporters and opponents. The rhetoric of opponents attempts to argue that privatization, in fact, leads to opposite results to those argued by the supporters. Higgins points out that opponents of privatization argue that cost saving, the primary reason for disposing GBEs, is never a guarantee. Foes of privatization, as he calls them, also claim that service quality suffers because private providers focus their attention on profit margins rather than on providing a valuable service.[63] Bureaucracies also fear the loss of oversight of privatized companies.[64] Bergevin and Poschmann counter by arguing that these reasons are not enough to sustain the GBEs existential case because they represent only one of many possible instruments for providing public services. Direct spending, regulation and taxation may achieve the same goals.[65]

One of the real negative consequences that impact privatizations is the hollowing out of corporate skills. This potential issue arises especially if an entity is sold to a foreign-owned firm. It can result in a loss of highly paid jobs of senior management when a headquarters is moved to a different city or country. Hollowing out does not affect only the top managers but the entire professional infrastructure that surrounds it such as consultants, lawyers and accountants. In some areas, a transfer of a headquarters can destroy a cluster of professional services of critical mass.[66]

Finally, McLaren makes his point in defense of government involvement in the economy. He notices that efficiency is central to the privatization debate and argues that even parliamentary democracy, in which we function, is not efficient, yet it was never intended to be. In this context, he claims that there is more to efficiency in a democratic system than merely doing things as inexpensively as possible. Others elaborate further and state that while the commercial efficiency of state may sometimes be inferior to that of private sector firms, their institutional characteristics may make them superior to the private sector in the delivery of services to citizens.[67]

Privatizations in the world and Canada and the current status of the GBE sector in Canada

In order to have something to privatize, governments must be first actively involved in business. Government-run businesses have been known throughout the history including ancient China and Greece. On the other hand, in the Roman Republic, virtually all economic requirements of the state were fulfilled by private companies or individuals. Over the time, there have been periods both when governments were more active in the economy and periods when private sector was the preferred option. Relevant to our present time, the most recent trend that pushed governments into more active role originated during the Great Depression of 1930s and continued during the World War II, post-war reconstruction and decolonization. In the West, governments assumed ownership of telecommunications, postal services, electric and gas utilities, and most forms of non-road transportation (especially airlines and railroads). Governments were also convinced that a state should control strategic manufacturing industries such as steel and defense. State-owned banks were frequently given monopolistic or protected position. In post-colonial countries and Latin America, state ownership of various industries was perceived as means of economic growth through heavy investment in physical facilities.[68] In socialistic countries, the unprecedented involvement of the government in the economy was driven primarily by ideological reasons.

Over the course of time, governments have begun to realize that public corporations serve no unique purpose to society.[69] The official beginning of new privatization programs is attributed to Margaret Thatcher's governments in 1970's and 80's in the United Kingdom. But in fact, the first large-scale "denationalization" appeared already two decades earlier in Germany under Chancellor Adenauer.[70]

TABLE 3

The Goals of Privatization in Germany (1960s) and the UK (late 1970s)

1) Raise revenue for the state.
2) Promote economic efficiency.
3) Reduce government interference in the economy.
4) Promote wider share ownership.
5) Provide the opportunity to introduce competition.
6) Subject SOEs to market discipline.

Source: http://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/1929649.pdf.

Nonetheless, it was the United Kingdom's efforts to denationalize that were then duplicated in the United States, Canada and the rest of the world.[71] The end of 1970's also marked the beginning of economic liberalization in the People's Republic of China. In 1990's, privatization engulfed post-socialistic countries of Central and Eastern Europe as well as the countries of Latin America.

In Canada, a number of privatizations were carried out between 1985 and 1995 (see Tables 4 and 5). The methods chosen included both DSPs and SIPs. The total revenue proceeds for the federal government accounted for about $12-billion. The majority of the revenue resulted from the sale of Petro-Canada (over $5.5-billion) and CNR (over $2-billion). Both Petro-Canada and CNR dispositions were executed as SIPs. Share-Issue Privatizations accounted for $9.5-billion of all proceeds. On the other hand, DSPs represented only $2.5-billion. Provincial privatizations have generated almost $10-billion. $6.6-billion came from SIPs and over $3-billion from DSPs. This first period of privatization was commended for its overall success, details of which will be discussed in the next chapter. Recently, new efforts are being made to assess the current status of government-run enterprise in order to identify new candidates for disposition.

In 2011, OECD conducted a study of 27 member countries to assess the size of the national government-run enterprise sector. The study examined the number, employment and economic value of enterprises. Canada placed in the middle among the examined countries with 33 GBEs, 105,296 employees and a US$21.6-billion in market value.[72] However, Crisan and McKenzie stress that these numbers include only federal SEOs and it is solely based on Statistics Canada data. They extend the list by including additional federal, provincial and municipal corporations. Their in-depth analysis of Canadian GBEs provides an excellent source of information about the size and nature of the public sector and is discussed in more detail below.

TABLE 4

Major Canadian Federal Privatizations

Date	Company	Sector	Former Owner	Buyer and Privatization process	Proceeds ($M)
1985	Northern Transportation Company Ltd.	Marine shipping	CC	Inuvialuit/Nunasi Consortium (negotiated sale)	53
1985	Canada Development Corp.	Conglomerate	ME	Two public offerings in 1985 and 1987	361
1986	de Havilland Aircraft Canada Ltd.	Airplane manufacturer	CC	Boeing (negotiated Sale)	99
1986	Pêcheries Canada Inc.	Fishery	CC	La Coopérative Agro-Alimentaire Purdel (negotiated sale)	5
1986	Canadian Arsenals Ltd.	Munitions manufactuer	CC	The SNC group	92
1986	Nanisivik Mines	Zinc-lead mining	ME (18%)	Mineral Resources International Ltd. (qualified auction)	6
1986	CN Route (CN subsidiary)	Truck transportation	CC	Transport Route Canada Inc. (negotiated sale)	29
1986	Canadair Ltd.	Air transportation	CC	Bombardier Inc.	143
1987	Northern Canada Power Commission (Yukon)	Electric utility	CC	Yukon Power Corp. (negotiated sale)	76

Continued next page

Date	Company	Sector	Former Owner	Buyer and Privatization process	Proceeds ($M)
1987	Teleglobe Canada	Telecommunications	CC	Memotec Data Inc. (qualified auction)	612
1987	Fishery Products Int. Ltd.	Fish harvesting and processing	Joint1	Public offering	104
1987	Varity Corporation	Farm equipment	ME	Public sale of shares and private placement	40
1988	CN Hotels (CN Subsidiary)	Hotel industry	CC	Canadian Pacific Railway Ltd. (negotiated sale)	265
1988	Air Canada	Transportation	CC	Two public offerings in 1988 and 1989	708
1988	Northwest Tel Inc. (CN Subsidiary)	Telecommunications	CC	BCE Inc. (qualified auction)	200
1988	Terra Nova Telecom. Inc. (CN Subsidiary)	Telecommunications	CC	Newfoundland Telephone Company (negotiated sale)	170
1988	CNCP Telecom	Telecommunications	ME (50%)	Canadian Pacific Ltd. (negotiated sale)	235
1991	Petro-Canada	Oil and gas	CC	Four public offerings in 1991, 1992, 1995 and 2004	5,693
1991	Nordion International Inc.	Health sciences	CC	MDS Health Group Ltd. (qualified auction)	165
1991	Cameco	Uranium mining	Joint2	Five public offerings of the 51% federal share in 1991, 1992, 1993, 1994, 1995	444
1992	Telesat Canada	Satellite communications	ME (53%)	Alouette Telecommunications Inc. (qualified auction).	155
1992	CN Short line in Nova Scotia	Rail shipping	CC	RailTex Inc.	20
1992	Co-enerco Resources Ltd.	Oil and gas	CC	Two public offerings in 1992, 1993	75
1995	CN Exploration (CN Subsidiary)	Oil and gas	CC	Smart on Resources Ltd.	97
1995	CNR (Canadian National Railway)	Rail shipping	CC	Public offering	2,079
1996	Canarctic Shipping Comp.	Maratime shipping	ME	Fednav Ltd. (qualified auction)	0.3
1997	Canada Communication Group	Printing, warehouse, dist.	CC	St. Joseph Corporation	7
1997	National Sea Products Ltd.	Fish harvesting and processing	ME	Scotia Investments Ltd. (minority stake)	6
1998	Theratronics International Ltd.	Health sciences	CC	MDS Inc.	15
2011	AECL's Commercial Division	Nuclear Power	CC	SNC-Lavalin Group Inc. (qualified auction)	15
Total					**$ 11,968**

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/boardman-vining-privatization.pdf.

TABLE 5 Major Canadian Provincial Privatizations

Date	Company	Sector	Former Owner	Buyer and Privatization process	Proceeds ($M)
1975	Alberta Energy Company	Oil and gas	Alberta CC	Two (or more) public offerings in 1974 and 1994	75
1979	British Columbia Resources Investment Corporation (BCRIC)	Holding company	B.C. CC	Share Distribution to British Columbians	0
1986	Prince Albert Pulp Company	Pulp	Sask. CC	Weyerhauser	300
1986	Saskatchewan Oil and Gas Corp.	Oil and gas	Sask. CC	Public offerings in 1986, 1987, 1989, 1990, 1997	402
1987	Fishery Products International (FPI)	Fish harvesting and processing	Joint1	Public offering	62
1987	Donohue Inc.	Forest products	Quebec ME	Quebecor Media and Robert Maxwell	320

Continued next page

Date	Company	Sector	Former Owner	Buyer and Privatization process	Proceeds ($M)
1987	SOQUIP Alberta	Oil and gas	Quebec CC	Sceptre Resources Ltd.	195
1988	BC Hydro's mainland natural gas division	Natural gas distribution	B.C. CC	Inland Natural Gas	741
1988	Saskatchewan Power Corporation's (SaskPower) oil and gas business	Oil and gas	Sask. CC	Saskatchewan Oil and Gas (Saskoil)	325
1989	Potash Corporation of Saskatchewan	Potash mining	Sask. CC	Two public offerings in 1989 and 1991	1,237
1989	Manitoba Forestry Resources Ltd.	Forest products	Man. CC	Repap Enterprises Inc.	132
1990	Alberta Government Telephones (Telus)	Telecommunications	Alberta CC	Two public offerings in 1990 and 1991	1,766
1991	Cameco	Uranium mining	Joint2	Four public offerings of the 49% provincial share in 1991, 1994, 1996 and 2002	1,081
1992	Novatel's systems business	Telecom	Alberta CC	Northern Telecom Ltd. (Nortel)	38
1992	Novatel's cellular telephone Manufacturing	Mobile Telecom	Alberta CC	Telexel Holding Ltd.	3
1992	Nova Scotia Power Corp	Electricity generation	N.S. CC	One public offering	816
1992	Suncor	Oil and Gas	ME	Public offering	299
1993	Alberta Liquor Control Board Stores	Retail (liquor)	Alberta CC	Owner-Licensees	51
1993	Syncrude Canada	Oil and Gas	ME	Murphy oil (5%)	502
1995	Vencap Equities Alberta	Financial Services	ME	Onex	174
1997	Manitoba Telephone Systems	Telecommunications	Man. CC	Public offering	860
2002	Ontario Power -4 Hydroelectric Stations	Electricity generation	ON. CC	Brascan Ltd.	340
2002	Skeena Cellulose	Pulp and lumber	ME	NWBC Timber and Pulp Ltd.	6
Total					**$ 9,726**

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/boardman-vining-privatization.pdf.

Key: CC=Crown Corporation, ME = Mixed Enterprise (with % of federal Government ownership).

1 Jointly-owned by the federal government (62.6%) and the New Foundland Government (37.4%).

2 Jointly-owned by the federal government (38%) and the Saskatchewan Government (62%).

Crisan and McKenzie use the Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada 2010 to produce a list of 48 federal crown corporations, 47 respectively as one of the Crowns has been inactive since 2008. From the further examination they also exclude Bank of Canada, the Canada Pension Plan Investment Board, and the Public Sector Pension Investment Board, which according to them clearly serve a unique purpose and thus they are not suitable candidates for potential divestment.

In 2010, the 44 federal GBEs held $386.2-billion in assets, $353.6-billion in liabilities and equity of $32.1-billion (See Tables 6 and 7). Overall they yielded a net loss of $1.7-billion before parliamentary and other government funding. All sorts of government funding for these GBEs amounted $7.1-billion. The 44 GBEs employed

89,810 individuals. Surprisingly, this number is lower than the number presented by OECD for fewer GBEs. Furthermore, only 16 of the 44 government-run corporations generated a positive net income before government funding. Financial GBEs were those earning the most with Export Development Canada at the top earning $1.531-billion. Other high-income earners were Canada Development Investment Corporation ($816-million), Canada Post ($357-million), and Farm Credit Canada ($282-million) (see table 8 for those earning the least). In terms of employment, Canada Post is leading the way with 60,126 employees, which represented 67 per cent of total federal GBE employment, followed by CBC (7,171 employees), Atomic Energy (4,957 employees) and Via Rail (3,053 employees).[73]

TABLE 6

Federal Crown Corporation (in $Millions)

	Number of Units	Assets	Liabilities	Equity/deficit	Revenue from operations	Expenses from operations	Net income from operations
Total *	44	386,176.30	353,591.50	32,079.70	28,512.80	30,251.30	-1738.5
Total**	47	636,434.80	429,820.00	206,109.70	53,879.00	30,970.20	22908.8

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/government-owned-enterprises-final.pdf.

* Excluding BC, CPPIB and PSPIB; ** Including BC, CPPIB and PSPIB.

TABLE 7

Federal Crown Corporation (in $M) Continued

	Public Funding	Income Taxes	Net Income After Taxes	Employment (Units)	Dividends	GDP Contributions	GDP Contibutions %	Assets per capita ($)
Total *	7,062.40	778	4,568.00	89,810.00	126.90	11,751.00	0.70%	11316
Total**	7,062.40	778	29,215.40	90,376.00	126.90	36,804.00	2.30%	18649

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/government-owned-enterprises-final.pdf.

* Excluding BC, CPPIB and PSPIB; ** Including BC, CPPIB and PSPIB.

TABLE 8

GBEs with net losses

Canadian Broadcasting Corporation (CBC)	$ 1.223 Billion
Atomic Energy of Canada Limited (AECL)	$ 780 Million
Canada Mortgage and Housing Corporation (CMHC)	$ 733 Million
Canadian Transportation Security Authority (CTSA)	$ 574 Million

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/government-owned-enterprises-final.pdf.

As for provincial GBEs, Crisan and McKenzie identify 181 government-run businesses. (See Appendix A for a list of the official provincial GBEs in Canada).Provincial GBEs hold $554.5-billion in assets (43.6 per cent more than federal enterprises), $361.0-billion in liabilities with net assets (equity) of $191.9-billion which is significantly more than the federal government's $32-billion. The 181 provincial GBEs generated $18.6-billion of net income before public funding. Due to difficulties with data collection, Crisan and McKenzie provide only partial employment numbers of 104,000, which however exceed the federal GBE employment. According to their estimations, provincial GBE sector represents 2.7 per cent of Canadian GDP compared to 0.7 for the federal sector. (See Tables 9 and 10).[74]

TABLE 9

Provincial Crown Corporations, All Industries (in $Millions)

Province	GDP* (2010)	Population* (2010; Units)	Assets	Liabilities	Net Assets	Revenue	Expenses	Net Income
NL	28,192	511,281	4,593	3,181	1,412	1,199	1,198	1
PE	5,010	143,395	931	858	73	243	276	(33)
NS	36,352	944,810	5,049	5,524	(475)	1,799	1,612	187
NB	29,448	752,838	14,737	14,311	426	2,976	2,902	74
QC	319,348	7,905,679	295,490	120,454	175,036	29,522	21,021	8,501
ON	612,494	13,227,791	92,314	100,989	(8,675)	31,525	27029	4,496
MB	54,257	1,234,535	21,422	17,671	3,752	4,920	3,959	961
SK	63,557	1,044,028	12,937	7,292	3,998	6,131	5,761	370
AB	263,537	3,720,928	41,923	38,573	3,350	27,971	25,481	2,490
BC	203,147	4,529,674	65,112	52,112	13,000	17,019	15,500	1,519
Total	**1,615,342**	**34,014,959**	**554,508**	**360,966**	**191,895**	**123,306**	**104,739**	**18567**

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/government-owned-enterprises-final.pdf.

TABLE 10

Provincial Crown Corporations, All Industries (in $M) Continued

Province	Public Funding	Comprehensive Income	Employment** (Units)	GDP Contributions	GDP Contibutions %	Assets per capita ($)
NL	224	225	3,589	581	2.10%	8,983
PE	86	53	-	203	4.10%	6,490
NS	165	353	436	431	1.20%	5,344
NB	342	416	-	843	2.90%	19,576

Continued next page

Province	Public Funding	Comprehensive Income	Employment** (Units)	GDP Contributions	GDP Contibutions %	Assets per capita ($)
QC	2,898	11,399	41,386	16,709	5.20%	37,377
ON	665	5,162	39,670	11,712	1.90%	6,979
MB	183	1,145	-	1,787	3.30%	17,352
SK	409	778	12,882	2,551	4.00%	12,391
AB	224	2,713	6,645	3,752	1.40%	11,267
BC	1,193	2,736	-	5,088	2.50%	14,375
Total	**6,388**	**24,980**	**104,608**	**43,658**	**2.70%**	**16,302**

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/government-owned-enterprises-final.pdf.
* From CANSIM. ** Full-time equivalent.

Individual provinces also differ significantly. Quebec's combined gross assets amount for $295.5-billion—53.3 per cent of the total provincial gross assets, more than three times larger than in Ontario, which comes second with $92.3-billion (16.6 per cent of the total). Third and fourth are British Columbia and Alberta with gross assets of $65.1- and $41.9-billion, respectively. Combined, these four provinces hold 89.2 per cent of all provincial assets in GBEs. If we compare provinces based on the GBE assets per capita value, Quebec still leads with more than $37,000, followed by New Brunswick with $19,600, Manitoba with $17,300 and British Columbia with $14,400. In terms of revenue, Ontario's GBEs ($31.5-billion—25.6% of the total) surpass Quebec's ($29.5-billion—23.9 per cent), followed by Alberta ($27.9-billion—22.7 per cent) and British Columbia ($17.0-billion—13.8 per cent).[75]

Crisan and McKenzie did not collect data on municipal GBEs due to the immensity of the task. Instead they suggest focusing on Canada's largest cities.

The results of past privatizations in Canada

Government divestment programs have attracted many researchers that examined the privatization results as well as the effects they have had on social welfare. A large majority of rapidly growing literature is decidedly in favour of privatization. Although individual studies differ in methodology, the majority of them agree that divested companies increase profits, efficiency, productivity, capital investment spending and overall social welfare. In the Canadian case, literature is particularly positive.

Studies published by Boardman and his colleagues deliver a large amount of data in terms of Canadian privatization experience. In 2002, they evaluated the performance a number of major Canadian GBEs privatized between 1985 and 1996. It showed that the divested companies increased profitability, efficiency and dividend payments while reducing debt ratios and employment. Shareholders particularly benefited from 123 per cent valuation of the portfolio of privatized firms, which was 70 per cent higher than what they would have received by purchasing the market index TSX. This report was instrumental in confirming the results of Boardman's report from 1992. This earlier report demonstrated on a large sample of 500 largest private, mixed and state-owned companies that private enterprises performed considerably better than mixed and state-owned companies in terms of profitability and efficiency.[76]

Finally, the 2013 report from Boardman and Vinning delivers an analysis of pre- and post-privatization performance of GBEs in Canada in terms of positive or negative social benefits to the society at large. In the next paragraphs, we will present these results. The research examined several factors. Among these were changes in Consumer Surplus. In particular, they examined any changes in consumer prices as a result of divestment. Next was Producer Surplus, tracking any changes in economic profits, rents after tax. This included changes in profits of suppliers and competing companies. Government Surplus examined government revenue minus expenditures in relation to privatization including corporate taxes, individual capital gain taxes and reduced subsidies. Finally, Employee Surplus measured any changes in wages and employment in general.[77]

Boardman and Vinning's research utilized data such as sales, assets and investment (CAPEX—Capital Expenditures) as indirect measures of a company's growth and as consequence as measures of social welfare. They show that sales decreased on average during the five years prior to privatization as well as the first year post-privatization. Since then sales increased on average every year during the following 17 years post-privatization. The 17th year the sales averaged over $7-billion per year (in 1983 dollars). As for assets, their value steadily increased and by the 17th year they averaged $13-billion ($2-billion prior privatization), which represented an average increase of almost 12 per cent a year. Similarly to the growth of assets, capital expenditures increased by almost 12 per cent a year (11.9 per cent). There were however large differences among individual companies. While Potash Corp and

TABLE 11

Effect of Privatization - Alberta Liquor Stores

"A study by Douglas West in 2003 described the effects of Alberta's decision to privatize retail liquor stores. The number of liquor stores greatly increased, which also led to more communities being served by liquor stores. This implies lower transaction costs and more convenience for consumers. Price trends differed among product classes, but on average, retail liquor prices fell by 2.9 per cent for 90 of the 105 products in the sample. This difference in prices can largely be attributed to the falling wholesale prices. Product selection from the warehouse increased overall, although averages for Calgary and Edmonton were lower than before the privatization. Revenues increased for the government after privatization and the province abandoned its revenue neutrality policy. Wages for liquor store employees dropped significantly but employment itself increased as the number of stores increased. The quantity of liquor products sold has modestly increased since the privatization."

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/privatization-crown-corp.pdf.

Suncor recorded the highest increase in expenditures, Emera and FPI's CAPEX declined.[78]

Second, Boardman and Vinning look at employment. They argue that employment in GBEs might have been higher than the profit-maximizing levels for social and political reasons prior to privatization. In Canada the decrease in employment was significant both five years prior and five years post-privatization when companies restructured. The average employment of 16,000 prior privatization was reduced to 7,000 people the fifth year after privatization. Since then, the employment has gradually increased reaching the average of 12,000 people the 17th year after disposition.[79]

Other examined indicators of a company's performance were sales per employee, accounting profits (net income), profitability, and dividends. As discussed earlier, Broadman and Vinning showed that sales started to grow once again after the decline 5 years prior and 1 year post-privatization. Unlike sales, employment continued to decline until year five after privatization. As a consequence, average sales per employee were increasing during this period. After the five years post-privatization, both sales and employment were increasing. By the 17th year, sales per employee averaged $873,000, which is 340 per cent higher than during the 3 years prior privatization (an average increase of 9.1 per cent a year). Importantly, sales per employee increased at all the disposed companies. The highest increased were reported by Petro-Canada (from $403,000 to $3-million), the lowest by Telus, Emera, Air Canada and MTS (annual increases in the range of 2.65 per cent to 3.65 per cent).[80]

In terms of net income, the average increase for all companies reached over $600-million a year in the 17th year. Among the most noteworthy increases was for example CNR. CNR went from an average loss of $223-million per year 3 years prior privatization to a 14 year post-privatization average profit of $718-million per year. Petro-Canada and Suncor increased their average net income by $500-million a year. On the other hand, Air Canada lost an average of $412-million per year since privatization. Profitability has also increased in comparison to pre-privatization. Measured by ROS (Return on Sales) and ROA (Return on Assets), CNR has reported 20 per cent profit margins for the past five years and Potash Corp has averaged 12 per cent since privatization. Also, Cameco, MTS, and Emera have generated high post-privatization ROS. Air Canada has increased losses post privatization from -6.6 per cent to -8.2 per cent. Telus has also seen a decline in ROS. Although, this comes as no surprise to Broadman and Vinning because Telus carried out several acquisitions and operates in a highly regulated and competitive industry. Interestingly, profitability increased on average the first few years after privatization but not afterwards (remained on average more or less constant after initial increases). As a result dividends increased as well. Prior privatization they accounted on average for $17-million. By the 17th year post-privatization, dividends averaged $138-million a year, which represented an average increase of 8.2 per cent per annum.

Finally, Boardman and Vinning look at taxes, government surplus and debt-to-assets ratio. While pre-privatization corporate taxes amounted for $17-million on average per year, during the 3 years after disposition they reached in average $47-million per year. After that period, they increased significantly and averaged over $300-million in the 17th year post privatization. Debt-to-Assets ratio decreased after privatization on average by 11 per cent from 56 to 45 per cent. Later it rose again to 51 per cent and has been at the level since. Air Canada significantly contributes to the ratio as its debt-to-Assets ratio is as high as 160 per cent but presently declining.[81]

Broadman and Vinning assessed the performance of companies that were privatized via a SIP method and where data was available. With DSPs the access to post-privatization data was impossible as these GBEs were absorbed by the purchasing company. However, according to their research most of the purchasing companies are still operating profitably except for Transport Route Canada Inc. and Nortel. Overall, the authors are not hesitant to assert that privatization of GBEs, which operate in competitive markets, leads to social welfare improvement. They argue that the evidence is strong and convincing for SIPs and according to them this kind of privatization is a no-brainer.[82]

Potential future privatizations

The privatizations of the past three decades provide a compelling story of success. The economic health of many privatized companies has dramatically improved and in numerous cases has led to their growth, innovation and new international business opportunities. In terms of Canada, Iacobucci and Trebilcock comment that, in their view, that there are still many sectors where privatization would be appropriate. They argue the rationale that once may have existed for public ownership is no longer valid or there never was a good one. They admit that certain political goals can be realized through GBEs. By the same token, they explain that the same goals can often be achieved under a privatized regime through some alternative means of government intervention (e.g. tax, subsidies, direct spending, etc.)[83]

Not surprisingly, Boardman and Vinning see the success of past privatizations and the larger than expected size of the public sector in Canada as solid reasons for continuation of the government divestment. Some examples of GBEs suggested by them for complete or partial privatization include companies in electric power transmission and distribution (e.g. BC Hydro), insurance companies (e.g. Insurance Companies of BC, Manitoba Public Insurance, and Saskatchewan Government Insurance), financial services (e.g. ATB Financial), liquor retail outlets and distribution (e.g. Liquor Control Board of Ontario, BC Liquor Stores, Saskatchewan Liquor and Gaming), lottery corporations (e.g. Manitoba Lotteries Corporation, BC Liquor Corporation) and ferry corporations (e.g. BC Ferries). They also find essential to mention that some GBEs consist of more than one business. Therefore potential for divestment must be based on each business not the whole corporation. In fact, it may make sense to privatize only some parts of a corporation while the rest stays publicly owned.[84]

Although, there are a number of companies suitable for privatization a few Crowns get

TABLE 12

Federal Crown Corporations Suitable for Divestment

- **Business Development Bank of Canada**
- Canada Deposit Insurance Corporation
- Canada Development Investment Corporation
- Canada Mortgage and Housing Corporation
- Canada Post Corporation
- Canadian Broadcasting Corporation
- Cape Breton Development Corp.
- Export Development Canada
- Federal Bridge Corp. Ltd.
- National Arts Centre Corp.
- Old Port of Montreal Corp.
- Parc Downsview Park Inc.
- Public Sector Pension Investment Board
- VIA Rail Canada Inc.

Source: http://www.policyschool.ucalgary.ca/sites/default/files/research/boardman-vining-privatization.pdf.

more attention than others as potential candidates. One of the most debated is Canada Post. A wave of new interest in the topic of divesting Canada Post reappeared shortly after the government of United Kingdom sold through stock markets its 60% stake in its equivalent Royal Mail in October 2013.[85] Some even argue that Canada missed the boat when the federal government quietly decided to shelve the plans for divestment in 2006. Former Canada Post's CEO Michael Warren warned that the company is facing a risk of becoming irrelevant.[86] However the calls to go ahead with Canada Post's divestment have been around for some time. Adie criticized the poor performance of the GBE already in 1990 and suggested to follow examples from other countries that had privatized postal services. In 2007, Iacobucci and colleagues revisited the issue and argued that privatization would improve efficiency and service quality. They explained that so called Universal Service Obligation that countries agreed upon, does not clearly require uniform prices of mail delivery for all parts of a country. Also, they raise objections that mail is treated differently from other goods and service, price of which increases with the distance they need to be transported for. Finally, they argue that even if the uniform price was deemed essential, it does not justify government monopoly. Other jurisdictions use targeted subsidies for specific postal routes to ensure the same level of service and rates.[87]

Lamman and Veldhuis see the need for privatization among other things as the result of under-investment among government-owned corporation. Their own research showed that three Saskatchewan GBEs SaskEnergy, SaskTel and SaskPower underinvested in 17 of 20 possible comparisons with private companies in the same industry. For example SaskEnergy had an average capital expenditure per worker between 2003 and 2007 at $83,376. On the other hand, Union Gas (servicing Ontario, Quebec and the United States) spent $113,858 per worker, Terasen Gas from BC spent $138,103 per worker and Enbridge in Ontario spent $198,160 per worker. On average the GBE's capital expenditures reached only 58.6 per cent of those in the private sector.[88]

Apart from Canada Post, the divestment debate frequently mentions three government-run financial corporations. The discourse is not as much concerned with immediate privatization as it criticizes the ever expanding mandate they are given and the effect this has on private providers in the same industry. Farm Credit Canada (FCC), Export Development Canada (EDC) and the Business Development Bank of Canada (BDC) were created in an attempt to respond to credit needs of farmers, exporters/foreign buyers of Canadian exports and small and medium enterprises (SMEs) respectively. Although the financial Crowns may have served its political purpose when created, some argue that their role and status should be reviewed more fundamentally as they seem to have diverted from what they were intended for. Originally designed as lenders of last resort, they were to fulfill a complementary role to the private sector financial institutions.

In particular, Bergevin and Poschmann point out that the above financial GBEs are not exposed to corporate income tax, which means that they have capital available at comparatively lower cost. This cost advantage gives them an edge over competition in selling financial products and services. This is in effect leading to crowding out of the market with financial services as the financial GBEs are taking market share away from disadvantaged private sector providers. This trend poses according to them a risk to the overall economy and they suggest circumscribe, in some cases even roll back, mandates of the financial Crowns. They argue that the private sector of today stands ready to serve many of the perceived market gaps.[89] Others argue that the presence of financial GBEs in fact weakens the market incentives for the private sector to develop suitable services for SMEs. Iacobucci and Trebilcock assert that the federal government would benefit from a partial privatization where only extremely risky operations would stay government run. The main benefit would be from increased taxed revenue. Finally, they conclude that privatization would reduce criticism of Canada's trading partners who see some of the EDC's activities as equal to government export subsidies, which are banned under World Trade Organization.

Conclusion

The evidence shows that privatizations in a large majority of cases lead to improvements in the company's economic health and contributes to an improved entrepreneurial environment. Literature demonstrates that the overall effect on social welfare is positive as well. It is however essential that privatizations are executed properly and post-privatization scenarios are reviewed early in the process. It would be contra-productive to replace a government-run monopoly with a private one. Research demonstrates that if a GBE does not operate in a competitive market, the privatization should be preceded with deregulation and competition should be allowed in the particular sector first. Although, there were privatizations that did not lead to a profitable company, such as Air Canada, some argue that the losses may have been even higher if the company was not divested. Importantly, the data shows that the government business sector is significantly larger than expected as previous research did not include provincial and countless municipal GBEs. At all levels of government, we can find GBEs in industries that are no longer perceived as needing help from the state. Among these are companies in telecommunication, insurance, liquor distribution, etc. The following studies in our series will examine prime candidates for divestment case-by-case. There are many examples of successful privatizations worldwide that we can learn from, postal services being just one of them.

Appendix

Canadian Crown Corporations by Province
(and Related Central Agencies and Partnerships)

British Columbia

BC Housing
BC Hydro and Power Authority
BC Rail
BC Transit
British Columbia Lottery Corporation
Community Living BC
Industry Training Authority
Insurance Corporation of British Columbia (ICBC)
Legal Services Society

Central Agencies

BC Public Service Agency
Board Resourcing and Development Office
Crown Agencies Resource Office
Intergovernmental Relations Secretariat
Office of the Premier
Public Affairs Bureau

Source: http://www.gov.bc.ca/ministries/

Saskatchewan

Saskatchewan Telecommunications (SaskTel)
Saskatchewan Power (SaskPower)
Saskatchewan Energy (SaskEnergy)
Saskatchewan Water (SaskWater)
Saskatchewan Government Insurance (SGI)
Saskatchewan Transportation Company (STC)
Information Services Corporation (ISC)
Saskatchewan Gaming Corporation (SaskGaming)
Saskatchewan Opportunities Corporation (SOCO)

Source: http://www.cicorp.sk.ca/crown_corporations/soco

Ontario

Hyrdo One
Independent Electricity System Operator
Liquor Control Board of Ontario
Metrolinx/GO Transit
Municipal Property Assessment Corporation
Ontario Agricorp
Ontario Clean Water Agency
Ontario Lottery and Gaming Corporation *...Cont'd.*

Alberta

Alberta Gaming & Liquor
Workers Compensation Board
Agricultural Financial Services Corp.
ATB Financial
Alberta Investment Management Corp.
Alberta Research Council
Alberta Heritage Medical Foundation
Travel Alberta
Pensions Administrator
Alberta Foundation for the Arts

Source: http://albertaventure.com/2010/09/crown-corporations-2010/?year=2010

Alberta Opportunity Company
Alberta Social Housing Corporation

Source: http://www.finance.alberta.ca/business/ahstf/glossary.html#p

Manitoba

Centre culturel franco-manitobain
Communities Economic Development Fund (CEDF)
Manitoba Agricultural Services Corporation
Manitoba Arts Council
Manitoba Centennial Centre Corporation
Manitoba Boxing Commission
Manitoba Film and Music
Manitoba Housing and Renewal Corporation (MHRC)
Manitoba Hydro
Manitoba Liquor Control Commission
Manitoba Lotteries Corporation
Manitoba Public Insurance
Travel Manitoba

Provincial Partnerships

Canada-Manitoba Economic Partnership Agreement
Canada-Manitoba Infrastructure Program
Building Communities Initiative
Manitoba Agri-Health Research Network
Manitoba Floodway Authority
Sport Manitoba

Source: http://www.gov.mb.ca/government/crowncorps.html

...Ontario Cont'd.

Ontario Northland Transportation Commission
Ontario Place
Ontario Power Generation
Ontario Science Centre
Science North
Télé-Française d'Ontario
TVOntario
Workplace Safety & Insurance Board

Source: Wikipedia*
*Verified on Official Government Sites

Nova Scotia

Art Gallery of Nova Scotia
Halifax-Dartmouth Bridge Commission
InNOVAcorp
Nova Scotia Business Incorporated
Nova Scotia Crop and Livestock Insurance Commission
Nova Scotia Farm Loan Board
Nova Scotia Film Development Corporation
Nova Scotia Fisheries and Aquaculture Loan Board
Nova Scotia Gaming Corporation
Nova Scotia Government Fund Limited
Nova Scotia Harness Racing Incorporated
Nova Scotia Housing Development Corporation
Nova Scotia Liquor Corporation
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Finance Corporation
Rockingham Terminal Incorporated
Sydney Environmental Resources Ltd/Sydney Steel Corp.
Trade Centre Limited
Waterfront Development Corporation Limited

Source: http://www.gov.ns.ca/treasuryboard/PDFs/CrownCorpsBusinessPlans/CrownCorpsBusPlan2006-2007.pdf

Newfoundland

Newfoundland and Labrador Hydro
Nalcor Energy
Newfoundland and Labrador Liquor Corporation
Research & Development Corporation

Source: Wikipedia*
*Verified on Official Government Sites

Quebec

Caisse de dépôt et placement du Québec
Grande Bibliothèque du Québec
Hydro-Québec
Société de transport de Montréal
Société de l'assurance automobile du Québec
Société des alcools du Québec
Société des casinos du Québec
Société des traversiers du Québec
Télé-Québec

Source: Wikipedia*
*Verified on Official Government Sites

New Brunswick

New Brunswick Power
New Brunswick Liquor Corporation
New Brunswick Forest Products Commission
New Brunswick Municipal Finance Corporation
Regional Development Corporation
New Brunswick Coal Limited
NB Agriexport Inc.
Algonquin Properties Limited
Provincial Holdings Ltd.
Service New Brunswick
Workplace Health Safety and Compensation Commission
Atlantic Health Sciences Corporation
Atlantic Lottery Corporation
Lotteries Commission of New Brunswick
New Brunswick Investment Management Corporation
Kings Landing Corporation
New Brunswick Credit Union Deposit Corporation
Atlantic Lottery Corporation
New Brunswick Highway Corporation

Source: http://www.gnb.ca/legis/business/committees/reports/55-2/050505CrownCorp.pdf

Prince Edward Island

Island Waste Management Corporation
Innovation PEI
Employment Development Agency
PEI Housing Corporation
PEI Energy Corporation
PEI Crown Building Corporation
PEI Grain Elevators Corporation
Enterprise P.E.I.
Workers Compensation Board
PEI Museum & Heritage Foundation

Source: http://www.gov.pe.ca/photos/sites/cca/file/PARO/RIM%20Docs/SEC501.pdf

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Further Reading

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