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Corporate welfare breaks the $200 billion mark:

An update on 13 years of business subsidies in Canada

Main Conclusions

- Between 1994 and 2007, the last year for which statistics are available, Canada's federal, provincial, and local governments spent $202.7 billion on subsidies to business
- In 2007 alone, Canada's federal, provincial, and local governments spent $19.4 billion on corporate welfare, almost double the 1995 figure of $10.4 billion
- The cost for corporate welfare to each taxpayer in 2007 was $1,244, 28% higher than the 1995 figure of $967
- Over 13 years, the total cost per tax filer who paid tax in every year amounted to $15,126 per person (in 2009 dollars)
- Between 1994 and 2007, provincial governments spent $110.3 billion on corporate welfare; the federal government spent $66.6 billion, and municipal governments spent $25.8 billion
- In 2007, Quebec disbursed the most public money to corporations: over $6 billion. Ontario followed at $2.1 billion, then Alberta at almost $1.2 billion, then British Columbia at just over $1 billion
- Between 2003 and 2009, the federal and Ontario governments authorized $16.5 billion to Canada's automakers—$15.3 billion in less than two months, between April 7 and June 1, 2009.
- If in 2009, 16 million Canadians pay income tax (the same number of people who paid income tax in 2007, the last year for which statistics are available), the cost of the recent, two-month, $15.3 billion automotive bailout will be over $950 for each such taxpayer.

An update on corporate welfare: A $203 billion tab over 13 years

In late 2007, when the Fraser Institute published my first study on corporate welfare, the tally between April 1, 1994 and March 31, 2004 amounted to $144 billion. Two years later, we have statistics up to March 31, 2007; the total now stands at $202.7 billion. Canadian governments distributed subsidies worth $202.7 billion to businesses (from federal, provincial, and municipal treasuries— i.e. taxpayers) between April 1, 1994 and March 31, 2007.

Scope of this update

Statistical collection lags actual government announcements by several years, to say nothing of after-the-fact bills that come due for business subsidies. This year's review of business subsidies covers the period from April 1, 1994 to March 31, 2007, or a total of 13 fiscal years. Statistics Canada, which provided the data, has no information more current than that.

It is natural for readers to question whether the January 2006 federal party change from Liberal to Conservative has also led to a change in business subsidies. Because the data only extend to March 2007, a full answer is not yet available. In the fiscal year ending March 31, 2007—the first full fiscal year in which the federal Conservatives held office—there appeared to be a minor reduction in federal subsidies to about $5.6 billion, down from just over $5.8 billion the previous year.

That said, corporate welfare bills at the federal level are certain to be significantly higher when Statistics Canada tabulates the data from 2008 and 2009. In November 2008, in the Speech from the Throne, the federal government committed itself to subsidizing business further when it first noted that the automotive and aerospace industries were "under increasing strain" and then pledged to "provide further support for these industries" (Canada 2008).

In December 2008, when the last edition of this Alert was published and as it detailed at the time, governments had already begun to accelerate subsidies to the automotive industry (among other sectors). During 2009, the government dramatically increased its subsidies to help save two automotive companies (General Motors and Chrysler) at the expense of sales for their competitors. As this update will show, throughout the year, federal and provincial governments announced all manner of "stimulus" spending; from these announcements readers will begin to understand how much more expensive business subsidies became over the past year. (For those who want an in-depth review of why corporate welfare is a failure, and why it will fail again in any new bailouts or subsidy agreements, see Milke 2007. The full report, complete with a literature review, explains and debunks almost every justification for subsidies and the ostensible benefits of corporate welfare.)

This year's report updates the summary totals for corporate welfare (in total and by level of government), the provincial breakdown on corporate welfare, and its cost per tax filer. The report also lists key corporate welfare announcements since last year's Alert, explains why subsidies continue, and summarizes five key arguments against corporate welfare. It also revisits the "substitution problem" in corporate welfare,

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Table 1: The cost of business subsidies in Canada, April 1, 1994 to March 31, 2007 (millions of $) (fiscal years ending March 31)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1995-2007
Federal subsidies to business														
Operating transfers	3,270	3,252	4,135	3,825	3,587	3,537	3,682	2,969	4,313	5,083	4,887	4,254	3,638	
Capital transfers	721	493	304	808	1,604	1,541	1,906	1,604	642	1,575	1,507	1,568	1,929	
Total federal subsidies to business	3,991	3,745	4,439	4,633	5,191	5,078	5,588	4,573	4,955	6,658	6,394	5,822	5,567	66,634
Provincial subsidies to business														
Operating transfers	4,264	4,242	4,025	5,069	5,171	6,043	10,289	8,836	11,651	9,809	10,498	10,187	10,418	
Capital transfers	419	225	398	302	1,495	1,502	494	585	653	640	770	1,503	829	
Total provincial subsidies to business	4,683	4,467	4,423	5,371	6,666	7,545	10,783	9,421	12,304	10,449	11,268	11,690	11,247	110,317
Local subsidies to business														
Operating transfers	1,212	1,216	1,201	1,006	1,095	1,078	1,159	1,566	1,677	1,770	1,879	2,027	2,091	
Capital transfers	488	473	610	737	769	540	395	364	360	418	565	584	518	
Total local subsidies to business	1,700	1,689	1,811	1,743	1,864	1,618	1,554	1,930	2,037	2,188	2,444	2,611	2,609	25,798
Total government transfers to business	10,374	9,901	10,673	11,747	13,721	14,241	17,925	15,924	19,296	19,295	20,106	20,123	19,423	
Total 1995-2007, all levels of government														202,749

Source: Statistics Canada 2008, CANSIM 384-0010.

Note that some, but not all, government business enterprises are included in above figures. Statistics Canada includes only those businesses which it considers independent of government, defined as those that receive less than 50 percent of their operating budget from government. Thus, transfers to VIA Rail, though substantial, are included in the above figures. Transfers to the Canadian Broadcasting Corporation (CBC), while also substantial, are not included as CBC receives more than 50 percent of its revenue from government and is not considered by Statistics Canada to be financially independent of government. If transfers to CBC were included, the above figures would be higher (Dan Finnerty, Statistics Canada, personal communication, November 9, 2008. Updated November 10, 2009).

Table 2: Business subsidies per tax filer who paid income tax, (fiscal years ending March 31)

Fiscal year	Tax filers (*taxable* returns millions of persons)	Business subsidies (millions of $)	Per tax filer (nominal $)	Per tax filer (2009 $)
1995	14.027	10,374	740	967
1996	14.173	9,901	699	900
1997	14.069	10,673	759	961
1998	14.578	11,747	806	1,014
1999	14.925	13,721	919	1,126
2000	15.412	14,241	924	1,103
2001	15.602	17,925	1,149	1,337
2002	15.516	15,924	1,026	1,166
2003	15.836	19,296	1,218	1,355
2004	16.173	19,295	1,193	1,303
2005	16.298	20,106	1,234	1,306
2006	15.722	20,123	1,280	1,344
2007	16.006	19,423	1,214	1,244

Sources: Canada Revenue Agency 2009, Milke 2008, and Milke 2007. Conversion to 2009 dollars courtesy of Bank of Canada Inflation Calculator. Business subsidies calculated according to government fiscal year-end April 1 to March 31; tax filers calculated according to calendar year-end, December 31. Because of the difference between fiscal and calendar years, some business subsidy costs in fiscal 2007, for example, would be expended in calendar 2006, i.e., between April 1 and Dec 31, 2006 in addition to between January 1 and March 31, 2007.

i.e., the fact that when governments "rescue" one company, they do so at a greater cost to that company's competitors. One of the great illusions about subsidies to business is that political generosity on behalf of taxpayers creates new economic activity, new jobs, and new tax revenue. That belief is mistaken. The empirical, peer-reviewed evidence shows otherwise. Real-world examples also demonstrate the folly of rescuing one company (in this case General Motors), only to harm others (such as Ford, Toyota, or other automotive manufacturers).

Updated summary of corporate welfare: $202.7 billion over 13 years

- Between 1994 and 2007, the last year for which statistics are available, Canada's federal, provincial, and local governments spent $202.7 billion on subsidies to business (see table 1).
- In 2007 alone, Canada's federal, provincial, and local governments spent $19.4 billion on corporate welfare, almost double the 1995 figure of $10.3 billion (see table 1).
- The total corporate welfare bill (federal, provincial, and municipal) has ranged from a low of $9.9 billion in 1996 to a high of over $20.2 billion in each of 2005 and 2006 (see table 1). In 2007, it was $19.4 billion.
- The cost for corporate welfare to each taxpayer in 2007 was $1,244, 28% higher than the 1995 figure of $967 (see table 2).
- Between 1995 and 2007, for someone who filed taxes every year, the total cost per filer who paid tax amounted to $15,126 per person (all figures adjusted for inflation to 2009 dollars) (see table 2).

Table 3: Provincial subsidy amounts, 2007 (millions of dollars) (fiscal years ending March 31)

Province	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	YT	NT	NU	All
Operating	69	48	72	180	5,694	1,705	193	273	1,169	991	16	4	4	10,418
Capital	2	11	0	0	323	440	0	19	0	34	0	0	0	829
Totals	71	59	72	180	6,017	2,145	193	292	1,169	1,025	16	4	4	11,247

Source: Statistics Canada 2006, CANSIM 384-0010.
Note that some, but not all, government business enterprises are included in above figures. Statistics Canada includes only those businesses which it considers independent of government, defined as those that receive less than 50 percent of their operating budget from government (Dan Finnerty, Statistics Canada, personal communication, November 9, 2008. Updated November 10, 2009).

Which governments give business the most public money?

Between 1994 and 2007, provincial governments have given more money to business than any other level of government. The breakdown is as follows:

- Between 1994 and 2007, provincial governments spent $110.3 billion on corporate welfare, while the federal government spent $66.6 billion and municipal governments spent $25.8 billion (see table 1).
- In 2007 alone, out of a total corporate welfare handout of $19.4 billion nationwide, provincial governments accounted for $11.2 billion of that, while the federal government spent almost $5.6 billion, and municipal governments $2.6 billion (see table 1).
- Among provincial governments in 2007, Quebec disbursed the most public money to corporations at just over $6 billion—over half of all provincial spending on corporate welfare. Ontario followed at $2.1 billion, then Alberta at almost $1.2 billion, and British Columbia at just over $1 billion (see table 3).

Corporate welfare for car companies 2003-2009: $16.5 billion to the automotive sectors; $15.3 billion disbursed in just 2 months

In my 2008 update on corporate welfare (Milke 2008), I noted how between October 2004 and September 2008, the federal and Ontario governments had promised or delivered $752 million to the automotive sector. Most of that money was in the form of grants, and the remainder in repayable contributions. (The latter are often the same as grants because many repayable loans are, in fact, never repaid.)

There is a delay from when subsidies to business are announced by governments, to when they are delivered, to when, much later, they are reported and show up in statistical data. This means that taxpayer money granted, loaned, or "invested" over the past year for an "equity" stake in an automotive manufacturer will not show up for several years in the 1994-2007 totals. To better understand the level of current subsidies, one can glean information from Access to Information requests (which also lag announcements), or go directly to the public announcements themselves, both sources of information of which are illustrated in table 4.

In updating the corporate welfare list for automotive companies with public announcements made in the past year (2009) and with several subsidies added for previous years courtesy of past Access to Information requests from the Canadian Taxpayers Federation, this year's updated list of automobile subsidies shows that between 2003 and 2009, the federal and Ontario governments committed $16.5 billion to the automotive sector—*$15.3 billion of which was announced in just the two-month period between April 7, 2009 and June 1, 2009.*

If, in 2009, 16 million Canadians pay income tax (the same number

Table 4: Federal and Ontario automotive subsidies, 2003–2009
Specific funding announcements

Date	Government	Recipient company	Amount (millions of CA$)	Type of assistance	Source	Link
Nov. 25, 2003	Ontario	General Motors	175.00	Repayable contribution	Canadian Taxpayers Federation 2008, Access to Information request	http://www.taxpayer.com/federal/no-auto-bail-outs
Oct. 29, 2004	Federal	Ford	100.00	Conditionally repayable contribution	Industry Canada, 2004	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02354e.html
Oct. 29, 2004	Ontario	Ford	100.00	Conditionally repayable contribution	Industry Canada, 2004	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02354e.html
March 2, 2005	Federal	General Motors	200.00	Grant	Industry Canada, 2005a	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02324e.html
June 30, 2005	Federal	Toyota	55.00	Repayable contribution	Industry Canada, 2005b	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02264e.html
June 30, 2005	Ontario	Toyota	70.00	Grant	Industry Canada, 2005b	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02264e.html
Nov. 21, 2005	Federal	Daimler Chrysler	46.00	Grant	Industry Canada, 2005c	http://www.ic.gc.ca/eic/site/ic1.nsf/eng/02216.html
Nov. 21, 2005	Ontario	Daimler Chrysler	76.80	Grant	Industry Canada, 2005c	http://www.ic.gc.ca/epic/site/ic1.nsf/en/02216e.html
March 30, 2006	Federal	Ford	4.20	Conditionally repayable contribution	Canadian Taxpayers Federation 2008, Access to Information request	http://www.taxpayer.com/federal/no-auto-bail-outs
Dec. 21, 2006	Federal	Valiant	6.10	Repayable Investment	Industry Canada, 2006	http://strategis.ic.gc.ca/epic/site/ito-oti.nsf/en/h_00509e.html
Feb. 16, 2007	Federal	Linamar	8.97	Repayable Investment	Industry Canada, 2007	http://strategis.ic.gc.ca/epic/site/ito-oti.nsf/en/h_00523e.html
February 26, 2008	Federal	N/A	250.00	Automotive Innovation Fund	Office of the Prime Minister, 2009	http://www.pm.gc.ca/includes/send_friend_eMail_print.asp?URL=/eng/media.asp&id=2600&langFlg=e
June 3, 2008	Federal	Various companies—54 projects	9.50	Grant	Industry Canada, 2008a	http://www.ic.gc.ca/eic/site/ic1.nsf/eng/04211.html

Table 4: Federal and Ontario automotive subsidies, 2003–2009
Specific funding announcements

Date	Gov-ernment	Recip-ient comp-any	Amount (mil-lions of CA$)	Type of assistance	Source	Link
Sept. 3, 2008	Federal	Ford	80.00	Repayable contribution	Industry Canada, 2008b	http://www.ic.gc.ca/epic/site/auto-auto.nsf/en/am02257e.html
April 7, 2009	Federal	EDC Accounts Receiv-able Insur-ance	700.00	Insurance for auto parts supplier insurance program	Office of the Prime Minister, 2009	http://www.pm.gc.ca/includes/send_friend_eMail_print.asp?URL=/eng/media.asp&id=2600&langFlg=e
April 16, 2009	Federal and Ontario	N/A	145.00	Grant for Automotive Partnership Canada	Office of the Prime Minister, 2009	http://www.pm.gc.ca/includes/send_friend_eMail_print.asp?URL=/eng/media.asp&id=2600&langFlg=e
April 30, 2009	Federal and Ontario	Chrysler	3,605.00	Loan	Office of the Prime Minister, 2009	http://www.pm.gc.ca/includes/send_friend_eMail_print.asp?URL=/eng/media.asp&id=2600&langFlg=e
May 4, 2009	Federal and Ontario	GMCL	500.00	Loan	Office of the Prime Minister, 2009	http://www.pm.gc.ca/includes/send_friend_eMail_print.asp?URL=/eng/media.asp&id=2600&langFlg=e
June 1, 2009*	Federal and Ontario	General Motors and GMCL	10,346.00	Loan/ ownership stake	Minister of Public Works and Government Services Canada. *Public Accounts of Canada*	http://www.tpsgc-pwgsc.gc.ca/recgen/pdf/49-eng.pdf
Money committed by federal and Ontario governments, 2003-2009,						16,477.57
(April 7, 2009 to June 1, 2009)						15,296.00

Sources: Industry Canada 2008; Canadian Taxpayers Federation 2008; Office of the Prime Minister 2009; Canada, Minister of Public Works and Government Services , *Public Accounts of Canada*, vol. 1: 2.33.
*June 1 Canadian dollar estimate of General Motors loan provided by Douglas Nevison, Department of Finance, November 26 personal communication.

of people who paid income tax in 2007, the last year for which statistics are available), the cost of the recent, two-month, $15.3 billion automotive bail out will be over $950 for each such taxpayer.

What is corporate welfare? An overview

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

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

Why do business subsidies continue? A public choice answer

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

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

In short, and as is obvious in the current economic environment, business subsidies continue because of the political rationale—political players want votes—and not because of the economic rationale, as there is none that provides a positive social benefit.

Five key problems with corporate welfare

Corporate welfare is empirically unsupportable and is problematic for a significant number of reasons. Here are five key problems with business subsidies.[2]

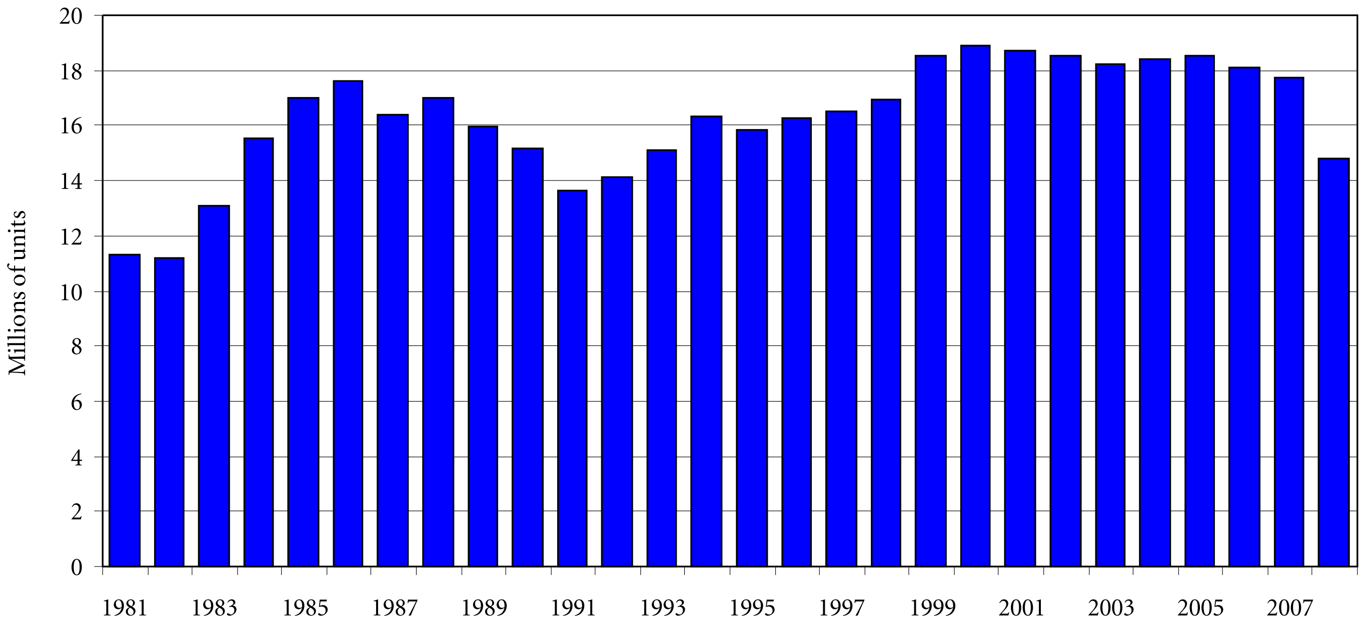
1) Corporate welfare discriminates against other businesses and other industries: Consider GM and Chrysler versus Ford, Toyota, etc.

Business subsidies create an uneven playing field between business and industries that do not receive taxpayer support, and those that do. Subsidized businesses receive an artificial, politically-created advantage. This imbalance could be called the "The Substitution Effect: How Helping General Motors and Chrysler Hurts Ford and Toyota." Over the past year, this particular reason why business subsidies are poor policy has been demonstrated in the US and Canada with the bailouts of two automotive companies. Their rescue has come at the expense not only of taxpayers in both countries—reason enough to have avoided the bailouts—but also of their competitors.

To expand on this particular point, consider two specific examples where the substitution effect works in practice: in vehicle sales and in plant closures.

Consider, first, the total light vehicle market sales in the United States and Canada from 1981 to the end of 2008 (see figure 1). During the 1980s, more vehicles were sold in 1986 than any other year in the decade (17.6 million light automobiles). In the 1990s, the peak year for sales was 1999 (18.5 million automobiles). In the new millennium, the year 2000 had the most sales (18.9 million units). The second and third highest years were 2001 (18.7 million units) and 2005 (18.5 million units). Since 2005,

Figure 1: Light Vehicle Market in the United States and Canada



Source: Desrosiers and Associates (undated). Total Light Vehicle Market in the United States and Canada, 1981-2008.

sales have declined. In 2006, 18.1 million automobiles were sold; in 2007 17.7 million vehicles. In 2008 there were 14.8 million units sold (Desrosiers, undated), and just 12 million forecast to be sold in each of 2009 and 2010 (Desrosiers and Associates, Personal e-mail correspondence, February 19, 2009).

Next, consider total employment in Canada in the motor vehicle manufacturing and parts manufacturing sector: 154,443 in 2001; 135,583 in 2007; 127,255 in 2008; and 100,628 in March 2009 (Desrosiers 2009).

The two sets of statistics are, obviously, interrelated. As annual sales of vehicles in Canada and the United States plummeted, job losses were inevitable, a fact that is reflected in statistics from both 2007 into 2008, and 2008 into early 2009. In the shrinking market of 2009, where sales were sure to decline by a few millions from the previous year, and could potentially decline by perhaps as much as seven million automobiles from the market peak in 2000, it was never a question of *if* automobile companies would be forced to lay off employees; it was only a question of *which* companies would have to reduce their workforce.

Had governments in Canada and the United States not intervened, automotive companies would have laid off employees and restructured themselves, taking into account shrinking market demand and the popularity (or lack thereof) of their vehicles with consumers. Thus, while an automotive company may be kept alive with public subsidies, the vehicles it produces are flooding an already shrinking market, making it even more difficult for otherwise relatively healthy competitors to survive.

Only so many vehicles were going to be sold in North American in 2009—an estimated 12 to 13 million according to automotive analyst Dennis Desrosiers (Desrosiers and Associates, Personal e-mail correspondence, February 19, 2009) and only so many employees of various companies were necessary to produce that number of cars and light trucks. Indeed, the US "cash-for-clunkers" program may have artificially boosted short-term demand (likely at the cost of future sales which were instead purchased earlier). But whatever the final sales tally for 2009 turns out to be, the propping up of certain automotive companies meant there were more competitors in the marketplace than would have otherwise existed for the demand, real or artificially boosted, that existed in 2009.

Thus, when governments picked "winners," they also made losers—out of the shareholders and employees of Ford, Toyota, Honda, Hyundai, Volkswagen, and others who also manufacture and sell cars and trucks in North America. The illusion of corporate welfare directed to the automotive industry in 2009 was the illusion that jobs were "saved": they were not. Instead of employees being cut from General Motors or Chrysler plants, they were simply laid off elsewhere (or the jobs were not created at other automotive companies that would have increased production to meet market demand in the absence of GM or Chrysler in the marketplace).

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

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

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

Countries that offer subsidies jeopardize the overall growth of worldwide free trade. Such policies are risky for trade dependent countries such as Canada, and where the annual trade balance is tilted in Canada's favour. Canada is highly dependent on a rules-based trading system. It is to Canada's advantage to promote fewer subsidies at home and abroad so as to avoid making Canadian firms and jobs targets of protectionist-minded governments and anti-trade coalitions elsewhere.

4) Corporate welfare undermines confidence in democratic institutions

Firms that obtain subsidies risk being perceived by the public as recipients of government largesse solely because of close associations with a particular politician or political party.

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

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

Conclusion

In general, and to summarize past research, government subsidies to business are an empirically indefensible practice. Such corporate welfare hampers overall growth, transfers money from some businesses to their competitors through the tax system, acts as a dampening effect on free trade, is an unfair trade practice vis-à-vis poorer countries which cannot fund such subsidies to the same degree, and introduces the power of government into the marketplace in a manner that hampers some businesses and their employees and shareholders to the benefits of others.

The use of corporate welfare by governments involuntarily enlists taxpayers in competition between corporations in a variety of jurisdictions. That harms the useful neutral role of government and instead turns public institutions into advocates for specific businesses or sectors to the detriment of others and to the negation of superior uses for such capital. The data consistently show that competition is superior and preferable to corporatism.

Notes

1 An arguable exception to this is where one business or sector is given preferential treatment on its own tax burden vis-à-vis other businesses who must pay regular tax rates. The Statistics Canada and Industry Canada data used in this study concerns direct government payments to individual businesses.

2 See Milke 2007 for a more detailed discussion of the problems with corporate welfare, along with examples.

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