

Weekly Commentary

WHERE DO WE GO FROM HERE?

May 13, 2002

RECONSIDERING THE CROWNS - PART 2 **The Economic Impact of Saskatchewan's Crown Corporations**

Crown corporations developed in Saskatchewan as the government's core policy for economic development. It was a clear public sector response to intervene in the economy and invest public monies to provide public services and create employment. The theory also provided for the profits from the Crown Corporations to be returned to the people of Saskatchewan through dividends to the government to contribute to the cost of public services and reduce taxes.

Over the years, Crown corporations in Saskatchewan became major actors in large parts of the provincial economy. They have grown to become far more than simple public service delivery vehicles. By the year 2000 the Crowns had expenditures of about \$3.0 billion or about one-tenth of the provincial economy.

A high level of Crown involvement in the provincial economy has offered the province both benefits and costs. The benefits are usually measured in terms of the employment benefits from Crown ventures and the dividends paid from the Crown Investments Corporation to the Government (\$200 million in 2001).

However, the existence of a large and often dominating Crown corporation sector in the economy has had longer term effects on entrepreneurship and investment in the province. It was not by chance, that the privatisation of the Potash Corporation of Saskatchewan led to the company's expansion to become the world's largest fertilizer corporation. While this may well have been possible during its former status as a Crown Corporation, it could never access the capital to make the acquisitions and necessary investments. Only the private market was able to supply the capital for investment. Following privatisation, the Potash Corporation of Saskatchewan Inc. was able to obtain a listing on the Toronto and New York Stock exchanges and raise the necessary capital financing to allow the company to grow.

The involvement of large amounts of government investment financing in Saskatchewan has materially changed capital markets in the province. Low cost public sector financing forms a deterrent to private placements and increasingly business turns to the government to finance the next generation of business.

In doing so, successive governments and financing through Crowns has introduced queuing into Saskatchewan capital markets. That is, there are now economic incentives to get in line to obtain expansion and development capital from the government, rather than developing private sector capital markets. The result is a self-fulfilling prophecy of longer queues and demands for government financing in the absence of a developed private capital market in the province.

Crown corporations also introduce forms of subsidized competition into the provincial economy. Thus, for many years, the Saskatchewan Research Council would offer subsidized engineering services in direct competition with the private sector. More recently, the Information Services Corporation of Saskatchewan is building public sector competition for an already small provincial information

services economy. The international divisions of Crown Corporations regularly compete with the small provincial private sector.

The longer term costs of this form of subsidized provincial competition are seen in a weakened private sector in the province with fewer entrepreneurs, who leave the province to invest elsewhere. Effectively, the Crown and government involvement has "crowded out" the development of a strong and growing private sector in Saskatchewan.

*- Excerpted from "This Year Country", by Dr. Graham Parsons.
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