



# THE HARPER RECORD

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# Privatization Under Harper

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*Weakening public services and expanding corporate powers*

Toby Sanger and Corina Crawley

THE HARPER GOVERNMENT has never made privatization one of its explicit political priorities, but that's because they haven't had to. It's been an implicit part of many of their other priorities and actions.

This direction should come as no surprise. A number of the more powerful members of Harper's team were key members of Mike Harris's Conservative government in Ontario.

The Harris government, which included now federal Finance Minister Jim Flaherty, Environment Minister John Baird, Health Minister Tony Clement, and the Prime Minister's new Chief of Staff, Guy Giorno, was more blatant about its privatization agenda. When he was vying for the leadership of the Ontario Conservatives, Flaherty promised, "If it's in the Yellow Pages, government shouldn't be doing it, and my government won't."<sup>1</sup> Guy Giorno has also been a strong proponent of public-private partnerships (P-3s), while Harper himself ran the National Citizens Coalition, which was a major advocate for privatization and against public health care.<sup>2</sup>

Harper and others in his camp have become considerably more savvy about what they say, but the hostility toward public services still appears ingrained. The Harper government's push to privatize and neuter public services has been both more subtle and politically careful, but also perhaps more pervasive in other ways.

## Forms of privatization

There are many different ways of achieving privatization and restrictions on public services and common goods. These include:

- outright privatization and sale of public assets;
- contracting-out delivery of public services;
- deregulation, “self-regulation,” commercialization and cutbacks;
- “public-private partnerships,” including private financing;
- tax cuts/incentives or individual payments replacing public services;
- legislation and policies to expand corporate powers and restrict the public sphere;
- restricting public discussion, consultations, and dialogue, and making decisions behind closed doors; and
- cutting funding to organizations for advocacy work.

## An unstated but fundamental priority

Harper’s government has engaged in all of these without explicitly articulating a privatization agenda. For example, four out of his government’s five initial priorities have led to increased privatization and restrictions on public services.

### 1. “Choice in child care”

The Harper government’s very first substantive action in power was to cancel the early learning and child care funding agreements that had just been signed with the provinces. These agreements were long-overdue first steps to develop a pan-Canadian child care system, inspired by the Québec program that provides affordable and high-quality child care to all families.

This was replaced with direct payments to families of \$100 (taxable) per child per month and a promise to create new child care spaces

through tax incentives. This meant a significant loss of funding for provincial child care programs. While parents may have appreciated the extra money, not a single new child care space was created. (See Ballantyne elsewhere in this volume.)

### 2. *Accountability — for some*

The Conservative party worked hard to make the previous Liberal government's "Adscam" sponsorship kickback scandal into the dominant issue of the 2006 election. Accountability was prominent in the Conservative election platform, and the Harper election victory owes more to this issue than any other factor.<sup>3</sup>

Passage of a sprawling *Federal Accountability Act* was the Harper government's first legislative priority. But in a perverse twist unreported in the media, this legislation actually created major accountability loopholes for government contracts with the private sector, which were at the base of the sponsorship scandal, while creating overly onerous bureaucratic rules for funding to public and non-profit organizations.<sup>4</sup>

The long-term impact will likely be increased contracting-out and privatization, a more cumbersome public service, and reduced overall accountability as federal funds are redirected from public and non-profit organizations to less accountable and secretive private contracts sheltered by commercial confidentiality rules.

### 3. *Cutting taxes*

Tax cuts, including the cut in the GST, in business taxes, and the wide array of other tax loopholes have been a top and ongoing priority for the Harper government. They have used tax cuts measures with zeal and as a substitute for public programs, in the absence of any evidence that they are effective — and even when they have been shown to be highly ineffective and costly. The tax cuts have been so costly and ineffective that they have forced the federal government to face a deficit for the first time in over a decade.

Harper's government has made it clear that further spending cuts are planned, which will very likely lead to further privatization and restrictions on public services.

#### 4. *Fiscal relations and health care wait times*

A fourth priority of the Harper government was to negotiate with the provinces to address the fiscal balance and to bring in wait-time guarantees for health care. As part of their negotiations on the fiscal balance, they have repeatedly stated their intention to limit the use of the federal spending power in their election platform, in budgets, and in their Throne speeches. This would make it very difficult to introduce new national programs in areas of social policy such as child care.<sup>5</sup>

The health care wait times guarantee, together with the controversial Chaouilli decision, is being used as a tool to expand private health care in Canada and weaken the public health care system. Harper's government has also provided tacit federal support for health care privatization through its failure to monitor and administer the *Canada Health Act*. This, together with other measures and inadequate funding for health care infrastructure, has allowed commercialization of health care to proceed and private clinics to proliferate, consistent with the Conservatives' election platform support for private health care delivery.<sup>6</sup>

These examples illustrate some of the different ways that privatization can be achieved and how it has been a fundamental element in the Harper government's approach, even when it hasn't been stated as an explicit priority.

The Harper government has also increasingly pushed its privatization agenda in more traditional ways.

#### **The sale of public assets**

Asset sales are the most complete form of privatization, and occur when governments sell public programs, infrastructure and land or buildings to the private sector. In mid-2007, the Conservative government sold nine key federal office properties to the Vancouver-based Larco Investments Ltd.<sup>7</sup> A court injunction stopped two of the buildings from being sold because of lack of consultation with the local First Nation. The government will lease back the buildings for the next quarter-century, with an option to further extend the lease.

The Public Service Alliance of Canada calls the sale a "sweet deal" for the private sector and has estimated that the properties were under-

valued by \$600 million.<sup>8</sup> Further sweetening the deal, public funds will pay for interior upgrades and maintenance in the privately-owned buildings.<sup>9</sup> The Harper government gained a windfall \$1.4 billion from the sale, but has saddled future governments with payments of many billions more for the next 25 years.

The properties are the first of 40 tagged “For Sale” by the Conservatives, including the National Library and Public Archives, the Lester B. Pearson Foreign Affairs building, the massive Tunney’s Pasture complex, the historic Wellington building, and 20 others in the Ottawa area, many with heritage and ceremonial significance.

Rumours persist that the federal government is preparing to privatize the *Canada Mortgage and Housing Corporation* (CMHC) and the *Atomic Energy of Canada Ltd.* (AECL).<sup>10</sup> There have also been rumours that the Harper government wants to privatize federal prisons. Rob Sampson, the cabinet minister who spearheaded failed private prisons under the Mike Harris government, was appointed to review the operations of the federal prison system.<sup>11</sup>

The Canadian Taxpayers Federation and private insurance companies have strongly urged the Harper government to privatize the CMHC, even though the agency provides the federal government with about \$1 billion a year in revenue and is one of the factors credited with helping Canada to avoid the severe housing booms and busts that the U.S. and Australia have experienced. The CMHC also provides a lot of support for affordable housing, efficient and environmentally-friendly construction, and other services/programs that would be endangered with privatization.

### **Contracting-out**

Contracting-out of work by the federal government has increased by about 50% in real dollars since 2000–01, and now amounts to about \$10 billion a year, up from \$5.8 billion. While the pay for contracted-out workers is often less than public servants, the cost to government is generally higher because private contracting companies can charge twice what they pay their workers. It is estimated that reversing a third

of the work currently contracted-out could save the government about half a billion dollars or more per year.<sup>12</sup>

The Conservative government has increased contracting-out and privatization of services at national parks and is now looking to contract out departmental information technology and computer support services. This could become a massive and lucrative contract for the private sector.

### **Deregulation, self-regulation, commercialization and cutbacks**

The Harper government has an extensive deregulation agenda that it is implementing in various ways. A number of these are discussed in other chapters of this book. One area of particular public concern is their approach toward science, research, and federal health and inspection responsibilities.

Despite accumulating more than \$10 billion a year in annual surpluses and the pressing need for more research and development in Canada, the Harper government has laid off federal scientists and forced departments and agencies to slash their budgets.<sup>13</sup> Harper eliminated the federal government's national science advisor and has recently appointed his former boss, Preston Manning, to advise the government on science issues. The former Reform party leader has written a number of articles about how religious faith can bear on science, articles which have recently been taken off his website.<sup>14</sup> This approach to science has earned the Canadian government scathing criticism from one of the most respected science publications in the world.<sup>15</sup>

The Harper government is also moving to transfer a number of federal laboratories to universities and/or the private sector, and to eliminate direct federal inspection of food and labelling by delegating this role to the private sector through "self-regulation" (aka: deregulation).<sup>16</sup>

These changes could affect 25,000 federal science and technology workers, and endanger public safety. When a civil servant revealed the government's plans to transfer the duties of the Canadian Food Inspection Agency (CFIA) to his union, he was promptly fired.<sup>17</sup> The Harper government is also pushing to leave the regulation of airline safety to the airline industry. These proposals and the lack of ef-

fective protection for whistleblowers have even led to criticism by the Conservative's former star candidate, Allan Cutler, who exposed the sponsorship scandal.<sup>18</sup>

Public scientists play a crucial role in developing standards and policies that protect Canadians, improve their quality of life, and properly manage natural resources.<sup>19</sup> Privatization and elimination of federal science, research, and inspection services are particularly targeted because they are also connected to the Harper government's deregulation agenda.

Not surprisingly, the Harper government has developed a hostile and intimidating relationship with civil servants that still hasn't improved after almost three years. The combination of an overbearingly bureaucratic Accountability Act and distrusting political masters has destroyed morale and stifled innovation, creativity, and leadership in the federal public service, according to a report by a group of highly prominent Canadians.<sup>20</sup>

The tight control over discussion within government, clamping down on whistleblowing and leaks, lack of public consultation, cutting grants for advocacy organizations, and increasing privatization of research and policy have all contributed to a chilling effect that has severely curtailed public discourse in Canada.

### **Legislation and policies to expand corporate powers and shrink the public sphere**

While his minority government status hasn't allowed him to follow through in some areas yet, Harper has also clearly stated his intention to enact legislation that would permanently expand private property rights and reduce the scope for public services and for the common domain. These include:

#### *Property rights*

The Conservative 2006 election platform includes a commitment to enshrine property rights in the Canadian Constitution. This would also include enacting legislation to ensure compensation for impacts on private property as a result of any federal government initiative, policy,



process, regulation, or legislation. Property rights can be interpreted to cover expectation of profit and thereby form a barrier to expansion of public services or actions to protect the public interest, and could adversely affect municipal zoning rules, native land claims, spousal rights to property, and environmental measures.<sup>21</sup>

#### *Trade agreements*

Harper's government has said it will aggressively move to expand bilateral and regional trade deals. It has also pushed provinces to include provisions in internal trade agreements that would allow private corporations to sue governments for actions that would affect their profits and investments. These measures further expand private corporate rights and put a chill on the introduction of regulations and programs in support of the public interest.

#### *Private property on Aboriginal reserves*

The Conservative platform also says they would support the development of individual and transferable private property ownership on Aboriginal reserves. This has been strongly promoted by former key Harper advisor Tom Flanagan and by the Fraser Institute and the Canadian Taxpayers Federation. This could lead to the sell-off of land on Aboriginal reserves to outside interests, leaving nothing for future generations.

#### *Copyright laws*

The Harper government ignited a storm of protest with its proposed changes to copyright laws. These have been condemned by arts groups, information technology workers, and entrepreneurs, and described as the most repressive in the world, beyond "draconian," catering to the interests of U.S. mass media corporations.

### **Pushing P-3s**

Not content with privatizing, selling assets, contracting-out, and expanding private property and corporate powers within its own legislative domain, the Harper government is also, somewhat hypocritically, using the federal government's spending powers to push other levels

of government to privatize their public services through public-private partnerships (P3s).

In the 2007 federal budget, a number of existing federal infrastructure funds were amalgamated into a single Building Canada Fund, and it was announced that recipients would have to demonstrate that they had thoroughly considered the (P-3) option for large projects.<sup>22</sup>

P-3s are very much the Harper government's preferred option.<sup>23</sup> A new P-3 Fund of \$1.25 billion has been set up to subsidize these projects across all sectors, and a federal office to promote P-3s has also been established. While senior federal officials have stated that their rules do not "preclude" publicly financed projects, the message is clear.

The Harper government is leaving few stones unturned in its efforts to promote P-3s. Shortly after it came to power, the plug was pulled on the construction of a new National Portrait Gallery in Ottawa, even though about \$10 million had already been spent on renovation of a heritage building for that purpose across from the Parliament Buildings. The government subsequently announced that it would only proceed with the gallery, which will house some of the Canadian public's most treasured works of art, as P-3 financed and owned and operated by a private corporation.

Bids have been requested from private sector developers in nine predetermined cities, although leaks suggest that it is destined to go to Calgary, home of the Prime Minister's riding.<sup>24</sup> The bids are being considered by a committee whose membership is being kept a secret.<sup>25</sup> The renowned former director of the National Gallery of Canada, Shirley Thomson, has said the government's plan for a P-3 gallery is "a national embarrassment that makes us look like peasants on the international scene. It's a public cultural asset highlighting a rich public national history, and it should be a public building because it's the responsibility of the state to safeguard our history and culture."<sup>26</sup>

### **Public-private partnerships: Costly, secret, unaccountable**

Under a public-private partnership, a government, public institution or authority contracts with a private corporation to fund, build, operate, and sometimes own a facility that would have normally been in the

public domain. The contracts are usually multi-decade agreements, with some as long as 99 years, as seen with Ontario's Highway 407.

Large private corporations, and especially investment banks, have pushed hard for governments to provide more P-3s because they provide high rates of profit over a long period, with very little risk for the private sector. Most large P-3s are structured as separate limited corporations, so, if the project doesn't turn out as profitable as desired, the private backers can walk away, leaving governments to pick up the pieces and the debts.

A growing body of Canadian and international evidence highlights the high costs, low quality, lack of transparency, and loss of public control associated with P-3s.<sup>27</sup>

Creative and opaque accounting by P-3 agencies generally hide the true ongoing costs of these projects, while commercial confidentiality rules make it very difficult for the public to get further information.<sup>28</sup> The Ontario Health Coalition and a number of unions fought for almost four years before winning a court order forcing the disclosure of financial information related to the Brampton P-3 hospital. These documents showed that the P-3 hospital cost the Ontario government at least \$300 million more than it would have if it had been publicly financed.<sup>29</sup>

### **Saint John waterworks:**

#### **The will of the people vs federal pressure on P3s**

The City of Saint John in New Brunswick is being forced to choose between the will of its people and the Harper government in its quest to upgrade its water treatment system.

Stephen Harper's New Brunswick lieutenant, MP Greg Thompson, said the city of Saint John must "fully consider" a P-3 when it applies for the federal share of infrastructure funds to upgrade its water treatment system. In a media interview about Saint John's water needs, Thompson understated the extent of privatization in many P-3s, calling them "future funding arrangements" and an "alternative" way of financing infrastructure.

Thompson made his remarks on the heels of a city council decision not to study privatizing the modernization of Saint John's water system.

The debate over public operation of the city's water system took centre stage in the May, 2008 municipal elections. The winning mayoral candidate, Ivan Court, publicly opposed P-3s and other privatization. In early June, city council voted against exploring a P-3.<sup>30</sup>

The requirement to “fully consider” a P-3 may stand in the way of sound public investment for their community. A P-3 involves such a significant investment of financial, staff, and other resources, at the expense of a properly-prepared public sector alternative, that it may lead many cities and towns down a one-way road to privatization.

### **Federal support for infrastructure dwindling**

The ongoing underfunding of long-term infrastructure needs, particularly for the municipal sector with its very limited means of raising revenues, heightens the pressure to adopt this form of privatization. Federal and provincial transfers to municipalities have only recently recovered to what they were a decade ago in nominal dollars, and are still 40% lower than what they were in 1995, in real dollars per person.<sup>31</sup>

Conservative cabinet ministers have described their Building Canada infrastructure plan as “historic” and “providing more funding over a longer period of time, from 2007 to 2014, than any previous federal infrastructure initiative.”

These rhetorical claims are only technically true because the Harper government consolidated the funding for four different existing infrastructure funding programs into one new repackaged program and added up its funding over more years.

In fact, the only increase in funding for infrastructure provided in the 2007 federal budget above previously committed annual amounts was an extra \$25 million per year for each province and territory, which was included as part of its fiscal balance deal, and the P-3 Fund, which will go to subsidize private sector projects. Excluding these amounts, funding in some future years actually declines compared to previous commitments.

After 2009–10, when the gas tax funding reaches its maximum, federal funding for infrastructure will only increase by an average of 1.1% a year, below the rate of inflation. Actual dollars provided will even de-

cline in 2013–14. As a share of Canada’s economy, federal funding for infrastructure will decline from 0.324% in 2009–10 down to an estimated 0.285% by 2013–14, a decline in commitment of 12%.<sup>32</sup>

This underfunding leaves provinces and municipalities tightening their belts and turning to the private sector for expensive and inflexible financing.

### **The future of privatization and public services under Harper**

The Harper government’s approach to privatization has been much more savvy, but also perhaps more pervasive than the more blatant forms of privatization that many Conservative governments have practised in the past.

In many ways, he has adopted the same tactics as George W. Bush and other conservative Republicans in the United States. This approach to eroding the power of government is described by Thomas Frank, author of *The Wrecking Crew: How Conservatives Rule*:

Rather than cutting down the big government they claim to hate, conservatives have simply sold it off, deregulating some industries, defunding others, but always turning public policy into a private-sector bidding war.

“The best public servant is the worst one,” [stated the president of the U.S. Chamber of Commerce in 1928]. And what he meant by that was, you know, you don’t want good people in government. You don’t want talented folks in government, because then government will work, it will be effective. And if government is effective, then people will start to expect it to solve their problems, you know, and who knows what comes after that, you know?<sup>33</sup>

In the less than three years since the Harper minority government was elected, we have seen the sale of public assets, privatization of public services, restriction in the scope of the public interest, expansion of private and corporate powers, and the stifling of public debate.

Despite this seemingly endless list of privatization initiatives, we have yet to see major concern expressed by the public. This has been

possible because this government has been strategic, choosing actions that will continue to sweeten the privatization-pot without causing direct harm to the public.

The Conservatives have also been lucky, benefiting from a strong growth in federal revenues and the Canadian economy as a result of the resource and commodities boom. This has allowed Harper's government to fast-track numerous expensive tax cuts without requiring major cuts to public spending.

But the fortunate economic circumstances are likely to come to an end soon. The federal government's revenues already started to tumble early in the 2008–09 fiscal year as a result of its tax cuts and the slowing economy. If, as expected, the economy worsens and federal revenues decline further, they could easily push the federal government into an ongoing deficit situation. Harper's government has made it clear how it will respond: cut public spending.<sup>34</sup>

If a majority government provides Harper with the opportunity to proceed with his more controversial and drastic privatization plans, he might actually welcome an economic slowdown. The deep tax cuts his government has put in place will have an impact by "starving the beast" and giving his government a ready excuse to more drastically cut government spending, hastening privatization and even further sweetening the pot for the corporate private sector.<sup>35</sup>