

## CHAPTER 3

# How the Chrétien-Martin Budgets Cut Corporate Welfare in the Mid-1990s

*By Mark Milke\**

As noted in several of the other essays in this collection, the Chrétien government introduced reductions in the nominal amount of federal spending in the 1995 and 1996 budgets. A key component of those reductions were cuts to subsidies to businesses.

One of the key reasons the fiscal crisis was averted in Canada in the mid-1990s was that Canadians had the impression—correctly—that businesses were sharing in the reductions in federal government spending.

Crises focus the mind—and priorities. In the 1995 and 1996 federal budgets, one overdue reduction was to the amount of tax revenue funnelled to what is best described as “crony capitalism.” The practice can also be described colloquially as “corporate welfare,” and academically as “targeting” (i.e., subsidies are “targeted” to a particular business or sector), or as industrial policy, or “investment.” Whichever term is preferred, it is a multi-billion-dollar practice that this author has previously chronicled (see Milke 2007, 2008, 2009, 2012, 2013, and 2014).

### Corporate welfare defined and an overview

Briefly defined, a government subsidy to business occurs when governments transfer tax dollars to business for reasons other than the receipt of goods or services. *De facto* subsidies can also occur where a preferential tax reduction, deduction, credit, or exemption is directed at one business

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\* Endnotes, references, and the author biography can be found at the end of this document.

or sector; such preferential tax treatment mimics direct subsidies even when no cheques are issued.

Research on business subsidies does not support claims that corporate welfare increases economic growth or job creation, two of the most often-heard contentions.<sup>1</sup> At best, a generous interpretation of the literature suggests that subsidies *may*, in very specific locations, produce *some* effect on local economic behaviour. But this impact is typically offset by losses elsewhere in the economy from having tax rates that are greater than would be the case without the business subsidies (see World Trade Organization 2006; OECD, 2015). A fair reading of the research suggests that subsidies to business are not the best means by which to encourage economic and employment growth.

## **The 1995 and 1996 budgets: Re-thinking the role of government**

With that noted, Canada's 1995 and 1996 federal budgets significantly cut back the practice of crony capitalism. The savings to be achieved by cutting corporate welfare were deliberate and were part of an early and well-defined strategy to re-think the role of government. The 1995 and 1996 budgets were derived in part from a *Program Review* initiated in the fall of 1994 by Prime Minister Jean Chrétien and characterized as “fundamentally different from those tried in the past.” Federal cabinet ministers were asked to review their own portfolios and provide their views on the federal government's future roles and responsibilities.

### *The 1995 budget*

The 1995 budget was clear that business subsidies would be reduced in line with the stated priority to “deliver a new vision of the federal government's role in the economy that includes substantial reductions in business subsidies” and that reductions in subsidies to business were part of the overall plan to reduce spending by \$7 for every \$1 in new taxes imposed on Canadians. The initial aim in *Budget 1995* was to reduce federal program spending by \$29 billion between 1994/95 and 1996/97; reducing grants and contributions to business were part of that sought-after cost-savings (Canada, 1995: 31, 32).

As part of that reduction, the federal government aimed to reduce what it characterized as “major business subsidies” by more than 60 percent over three years, or nearly \$2.3 billion, with reductions ranging from just under one third in sectors such as agriculture, to over 97 percent in

**Table 1: Major Business Subsidies  
(Grants and Contributions), *Budget 1995***

	<b>1994-95</b>	<b>1997-98</b>	<b>Percent</b>
	<b>(millions of dollars)</b>		<b>reduction</b>
Agriculture	1,322	893	32.5
Transportation	696	19	97.3
Regional development	700	234	66.6
Industry, innovation and market development	525	264	49.7
Energy and resource sectors	410	8	98.0
Cultural industries	104	68	34.6
<b>Total grants and contributions</b>	<b>3,757</b>	<b>1,486</b>	<b>60.4</b>

Note: Numbers may not add up due to rounding.

Source: Canada, Department of Finance 1995: 42.

transportation, and 98 percent of grants and contributions then flowing to the energy sector (Canada, 1995: 42) (see table 1).

### *The 1996 budget*

This message continued in 1996, with the federal government noting that the previous two budgets and the 1996 one all aimed to define “a more appropriate role for the federal government in the modern economy and federation” (Canada, 1996: 7). As part of its self-titled section “Getting Government Right”, *Budget 1996* referred to the reductions in business subsidies already cut and noted that “This budget announces further reductions in business subsidies, continuing privatization and commercialization in cases where a federal role is neither required nor efficient...” (Canada, 1996: 16).

*Budget 1996* trumpeted the “dramatic decline in business subsidies” along with privatization, commercialization measures, and a redefinition of core responsibilities across all departments as explanations for why federal government spending was down and the fiscal situation was improving. *Budget 1996* was clear that the government was going to focus on high-priority areas and business subsidies did not qualify as such (Canada, 1996: 36). Thus, the federal government signalled its intent to “further

clarify the core program responsibilities of the federal government in the economy – through further reductions in business subsidies, privatization and commercialization...” (Canada, 1996: 35).

As per the 1995 goal of reducing major corporate welfare expenditures, and now with a three-year estimate in view, of the expenditures that fell into the major grants and contributions category, the mildest reduction was to occur to regional development. The sharpest cuts occurring and planned were in the energy/resource and transportation sectors with reductions already underway (of just under 93 percent) and planned (of over 99 percent) (Canada, 1996: 40). The goal was still a reduction in grants and contributions by 60 percent or more, or nearly \$2.3 billion in annual savings by year four, with planned cuts to corporate welfare dropping from over \$3.7 billion in 1994/95 to under \$1.5 billion by 1998/98 (see table 2).

### Specific examples from *Budget 1995* and *Budget 1996*

The cuts to corporate welfare grants for transportation and energy were possible due to a focus on ending the transportation grants that subsidized freight shipments in Atlantic Canada, the Prairies, and also on Via Rail (Canada, 1995: 42-45). The reductions included the end of subsidies that dated back to 1897 for shipping grain, which were worth an annual \$560 million in 1995 (Canada, 1995: 42). The energy sector saw reductions in

**Table 2: Major Grants and Contributions to Businesses, Budget 1996**

	1994-95 (millions of dollars)	1998-99	Percent reduction
Agriculture	1,231	648	47.4
Transportation	778	7	99.1
Regional development	512	380	25.8
Industry, innovation and market development	546	313	42.7
Energy and resource sectors	515	37	92.8
Cultural industries	167	97	41.9
<b>Total grants and contributions</b>	<b>3,749</b>	<b>1,481</b>	<b>60.5</b>

Note: Numbers may not add up due to rounding.

Source: Canada, Department of Finance, 1996: 40.

grants to energy companies but also in grants to Atomic Energy of Canada Limited (Canada, 1996: 45).

In addition, and on a parallel track, the government was determined no longer to own commercially viable entities, and thus partially or fully privatized some companies, including all of the government's remaining shares in Canadian National Railways, a substantial portion of the government's shares in Petro-Canada, and all its shares in National Sea Products Limited, a Nova Scotia-based fish and seafood products company. The federal government also transferred some government-run agencies to the private sector. For example, it transferred Transport Canada's Air Navigation System to Nav Canada, a new private sector corporation controlled by the airport sector's stakeholders that was to operate as a non-profit (Canada, 1996: 42).

## **A clear understanding and a clear focus**

The dramatic reductions in corporate welfare were possible partly because the federal government clearly grasped that both market interference and corporate welfare were often failures and did not deliver the often-promised results. *Budget 1995* quoted a 1994 OECD study to this effect, noting that "Subsidies tend to operate in exactly the opposite way from what is needed: they slow rather than stimulate adjustment; they discourage rather than encourage innovation; and they tend to become permanent" (Canada, 1995: 42).

Critically, the 1995 and 1996 budgets did not end all federal corporate welfare. The federal government continued to subsidize some businesses, including small businesses; it also continued regional development programs; and it focused more, at least initially, on subsidizing businesses through loans and loan guarantees. Over time, the federal government would again more heavily fund corporate welfare through regional development agencies, federal departments, and via loans, loan guarantees, and "contributions" (grants by another name)—and the grants would again be substantial (Milke, 2014). Nevertheless, as part of the initial mid-1990s attempt to dramatically reduce federal spending, a drastic reduction in business subsidies was a key part of bringing Canada's federal finances into balance.



### **CHAPTER 3: How the Chrétien-Martin Budgets Cut Corporate Welfare in the Mid-1990s**

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1. A full review of the literature on business subsidies is available in a past report (Milke, 2007: 27-36).

### **CHAPTER 4: Budget 1995 and Welfare Reform**

**by Ronald Kneebone and Jake Fuss**

1. For more details on these and other policy changes affecting eligibility, see Kneebone and White (2009) and Berg and Gabel (2015).

2. These percentages varied slightly by province. The outlier is Quebec where the cash payment fell from 74 percent of the total benefit in 1997 to just over 42 percent in 2018. Data on social assistance benefits are from Maytree (Tweddle and Aldridge, 2019).

### **CHAPTER 5: Effective, Flexible, and Affordable: Towards a New System of Federal-Provincial Transfers in Budget 1995**

**by Trevor Tombe**

1. The federal government shared the provincial cost of unemployment relief and old age pensions until those became federal programs. This calculation includes support for the blind and youth training.

Note: Displays total federal (cash) transfers to provincial governments as a share of national GDP. The shaded region marks the period from 1942 to 1946 when the Wartime Tax Agreement was in effect. Post-war transfers here include conditional grants.

2. Note: Displays the fraction of health and social transfers that would need to be reallocated to achieve equal per-capita allocations across provinces (known as a Schultz Index).

### **CHAPTER 6: Chrétien's Fiscal Anchor: A Key to His Government's Success**

**by David Henderson**

1. Notes: (i) Actual Revenues come from the Public Accounts rather than Fiscal Reference Tables because of accounting changes made in 2003; (ii) Budgeted numbers in 2002 come from the 2002 Economic and Fiscal Update since there was no budget tabled that year.

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*Canada. Hidden Agendas* was short-listed for the Donner Prize for the best book in public policy, 2003/04.



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