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Burning the furniture to create a smoke screen

We didn't sell the LCBO to build our 24 colleges and 22 universities.

By Warren (Smokey) Thomas, Special to The Windsor Star May 6, 2010



So, Dalton McGuinty continues to muse about selling off Ontario's Crown jewels.

Last year, the LCBO, Ontario Lottery and Gaming, Hydro One and Ontario Power Generation raked in \$4.1 billion in pure profit. This money helps pay for health care, education, environmental protection, children's aid, and the whole range of public services we need.

Ontarians depend on that money. Our tax dollars buy good things, to be sure, but it's good for all of us if government has other sources of income. When corporate tax revenues plunged last year, the profits from our Crown jewels stayed steady. Those profits helped keep Ontario running.

Given all this, Mr. McGuinty's case in favour of privatization must be very compelling, indeed. So what exactly is his argument?

It's certainly not a fiscal argument. The Crown's profits are high; interest rates on provincial debt are reasonable. Steelworkers economist Erin Weir calculates that selling assets will cost us \$3 in lost profits for every \$2 saved on interest charges -- even if interest rates rise as expected.

Privatization will cost Ontarians this year, next year, and forever. As fiscal policy, it makes no sense.

The economic case for privatization is weak as well. In last month's budget speech, Finance Minister Dwight Duncan said he was "examining whether there is unrealized value in our government businesses that could be unleashed to provide new jobs and opportunities for Ontario families."

What is he talking about?

It seems unlikely that once-staid Ontario wants to become a drinking-and-gambling superpower, buying up liquor stores and lotteries in New York or Ohio. Still, if that's what McGuinty really wants, he can get it without selling the LCBO or OLG.

Hydro One needs to remain public, for the same basic economic reason that our roads are public (except Highway 407, of course).

The electricity generation market is already wide open, so selling off OPG won't create a single new job that isn't already being created.

The premier knows the case for privatization is flimsy. That's why he's trying to change the subject. He would rather we thought about all the good things he can buy with several billion dollars.

It's a cute move, but it has nothing to do with the underlying issue. Capital spending on infrastructure is good and necessary. But it is a normal cost that governments incur. It is traditionally budgeted as a normal cost paid for out of normal revenues, and so it should be.

We didn't sell the LCBO to build our 24 colleges and 22 universities. Why would we do it now?

Earlier this month, McGuinty told reporters that, when it comes to asset sales, he's not interested in "burning the furniture to stay warm."

So why burn the furniture at all?

As the recession ends, tax revenues will recover; indeed, the new budget says revenues will go up by

\$5 billion this year. The question is, can our tax system still raise enough money to pay for the services Ontarians demand? If so, the current budget deficit will pay itself off within a few years. But if taxes have been cut too far, we will have a structural deficit -- one that won't go away.

Make no mistake: Despite the HST, the 2010-11 budget cuts taxes. The tax changes it includes will cut revenues by \$8.4 billion over three years. After that, even more tax breaks for business are scheduled.

McGuinty's tax measures increase deficits and add long-term debt. With an election less than 18 months away, this is a political problem for the premier. He knows he needs to tame the deficit or risk the ballot-box wrath of fiscally-conservative "Blue Liberals."

The premier clearly hopes that the cash he gets from burning the furniture will provide the smoke screen he needs to hide the ill effects of his tax measures, at least until Election Day.

Clever politics? We'll see. Good policy? Absolutely not.

The LCBO, OLG, Hydro One and OPG serve Ontarians well and provide more than \$10 million a day, 365 days of the year, to buy the things we need. Any party that would hock our Crown jewels for short-term political gain is a party that doesn't deserve our votes.

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