

Erin Weir

This week's provincial throne speech indicated that Queen's Park has "initiated a review of its business enterprises."

The Ontario government is reportedly considering combining these enterprises into a "super corporation" and selling a minority stake to private investors. This proposal is politically clever, but would be a financial blunder for the province.



The super corporation would apparently include Ontario Lottery and Gaming, the Liquor Control Board of Ontario, Hydro One and Ontario Power Generation. The main objections to privatizing these Crown corporations are that they provide a steady stream of revenue and control socially important assets.

The governing Liberals have tried to avoid these objections by musing about selling only a minority stake. The province would retain control of the assets and a majority of the revenue that they generate.

#### Ads by Google

##### 3 Stocks Set to Explode

Get my 3 stock picks I believe could move up 200% this week!  
www.pennyinvest.com

An important concern is that such partial privatization could be a slippery slope toward a more complete sell-off. Even if one believes that the Liberal government would never sell more than half of the super corporation's shares, establishing this entity and issuing shares would make it easy for a possible future Conservative government to finish the job.

In at least temporarily avoiding the worst pitfalls of privatization, the Liberals would also miss the supposed upside. Privatization is usually intended to replace public-sector management with allegedly superior private-sector management free from political constraints. Selling a minority stake would not change management.

The super corporation would mainly just convert a portion of future revenues from Crown corporations into upfront cash. Essentially, the government is considering a reverse mortgage: it would get a large dollop of one-time money and retain control of the house, but lose some ownership.

The throne speech pledged that the government "will use the proceeds to better support Ontarians' highest priorities." Obviously, all provincial funds should be used to support Ontarians' priorities. The real question is whether the proceeds of selling shares in government enterprises would exceed the proceeds of keeping all the revenues from these enterprises.

The *Star* has reported a value between \$50 billion and \$60 billion for the super corporation. Selling one-third of the shares based on a \$50 billion valuation would raise \$16.7 billion (minus hefty Bay Street fees). With long-term provincial bonds paying just under 5 per cent interest, reducing current borrowing by the full \$16.7 billion would lower future debt-servicing costs by \$800 million per year.

On the other hand, Ontario's Crown corporations are expected to generate profits of \$4.3 billion this fiscal year. Giving up one-third would reduce provincial revenues by more than \$1.4 billion. If the super corporation were subject to provincial corporate tax, the scheduled 10 per cent rate would recoup \$140 million. Still, annual provincial revenues would be \$1.3 billion lower.

- Advertisement -

ally

So call and ask about our High Interest Savings Account.

#### Popular

#### Stories

- [Howell: Hurt Locker triumphs over Avatar at Oscars](#)
- [Travers: Expect PM to spark an election](#)
- [Howell: Great films Oscar snubbed](#)
- [Ellie: Couple's sex standoff has reached an impasse](#)

#### Ads by Google

##### 3 Stocks Set to Explode

Get my 3 stock picks I believe could move up 200% this week!  
www.pennyinvest.com

##### Microsoft Big Easy 4.0

Earn up to thousands in partner subsidy dollars. Find out more.  
Microsoft.com/BigEasyOffer

##### Federal Grants - Ontario

Get federal + Ontario grants: \$10,000 for energy renovations  
www.HomePerformance.com

##### The Debt Bomb is Real

The U.S. dollar is a ticking time bomb and we have the countdown  
MoneyMorning.com/Debt\_Bomb

The government would lose more than \$3 of revenue for every \$2 saved on debt servicing. In total, Ontario taxpayers would come out half a billion dollars poorer every year.

Just to break even, the provincial government would need to value its super corporation at more than \$70 billion. But private investors would not accept such a valuation.

Those who want a steady return of nearly 5 per cent can simply buy long-term provincial bonds. Prospective investors in government enterprises would clearly expect more. If investors could not increase profits by taking over management, the only way to achieve a higher return would be to buy shares based on a lower initial valuation.

Furthermore, the stock market generally discounts conglomerates relative to pure plays. Many investors might be interested in sectors like liquor retailing or electricity transmission. Far fewer would be interested in an unwieldy hodgepodge of different enterprises concentrated in a single province.

The government would reportedly limit the number of super-corporation shares held by any single investor and by all foreign investors. Such restrictions may serve legitimate public-policy goals, but would further reduce the field of potential buyers and hence the likely sale price.

Under the Constitution, one level of government cannot tax another. Provincial Crown corporations pay no federal corporate tax. If the super corporation were subject to federal tax, its profits would be less than those of existing provincial enterprises.

To justify the risks of even partial privatization, the government should be expected to demonstrate significant rewards. In fact, the province would lose more than it would gain by selling shares in a super corporation. The people of Ontario would be better served by maintaining public ownership of our Crown corporations.

*Erin Weir is an economist with the United Steelworkers union.*

**Top Comments**

[Comment on this story »](#)

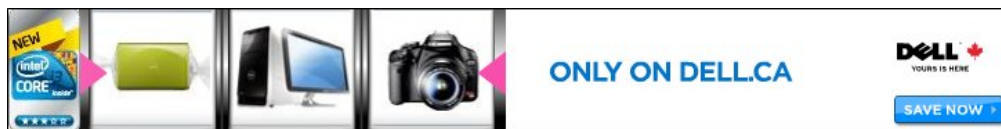
**privatization is a bad deal for ontarians:** HST is a bad deal for ontarians. "Smart" meters are a bad deal for ontarians. e-health..... [gonzo](#)

**Deceptive Dalton:** Dalton McGuinty is doing what he has done since being elected. He is attempting to deceive Ontarians..... [camper09](#)

**Super Corporation worst choice:** Look at all the failed CEO's the government has hired over the years. The only saving grace is that..... [hjk50](#)

**Union Economist:** Wow what a shocker! A union economist opposing privatization. What he/she is really saying is that..... [Alletor](#)

[Email](#) | [Print](#) | [Republish](#) | [Add to Favourites](#) | [Report an error](#) | [Share](#) [Share](#)



**Other Star Sites**

WHEELS.CA



**Special Report:**  
Electric cars

HEALTHZONE.CA



**Fitness Guide**

YOURHOME.CA



**Home Renovation Tax Credit Guide**

PARENTCENTRAL.CA



**March Break Guide**

TORONTO.COM



**March Break Guide**

**thestar.com**

[Corrections](#)  
[Contact Webmaster](#)  
[FAQ](#)  
[Site Map](#)

**Toronto Star**

[About](#)  
[Subscribe](#)  
[Subscriber Self Service](#)  
[Contact Us](#)  
[News Releases](#)  
[Star Internships](#)  
[Careers @ the Star](#)

**Advertise with us**

[Media Kit](#)  
[Online Advertising](#)  
[Print Advertising](#)  
[Special Sections](#)

**Initiatives**

[Santa Claus Fund](#)  
[Fresh Air Fund](#)  
[Speakers Bureau](#)  
[Classroom Connection](#)  
[Community Giving](#)

**Stay up to date**

[RSS Feeds](#)  
[Twitter Updates](#)  
[News Alerts](#)  
[Newsletters](#)  
[Mobile Devices](#)

[wheels.ca](#) | [toronto.com](#) | [pages of the past](#) | [Stock photos](#) | [New in Homes](#) | [Car Insurance Quotes](#) | [Leasebusters.com](#) | [Save.ca](#) | [ShopTV](#) | [starsavers.ca](#) |



© Copyright Toronto Star 1996-2010 | [Terms & Conditions](#) | [Privacy Policy](#)