ACOA: THE LOST DECADE

A Ten-Year Quantitative Analysis

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INTRODUCTION

This document provides a quantitative analysis of ten years of funding activities by the Atlantic Canada Opportunities Agency, hereafter referred to as ACOA. Using information obtained through *Access to Information*, the Canadian Taxpayers Federation (CTF) analyzed 22,867 separate funding disbursements to 11,297 different government departments or agencies (federal, provincial and municipal), businesses, associations, labour organizations and individuals.

PURPOSE OF ACOA

Created in 1987, ACOA – according to its web site – has a "broad mandate for economic development in Atlantic Canada to increase the number of jobs and earned income of Atlantic Canadians.

To fulfill its mandate, ACOA pursues two distinct goals:

1) to ensure that a wide variety of business development tools and resources serve the diverse needs of the region's emerging and existing entrepreneurs; and

2) to ensure that all economic development programs and activities in Atlantic Canada are coordinated and designed to improve the climate for business growth generally."

ACOA's six main areas of focus are:

- Entrepreneurship Development;
- Trade;
- Innovation and Technology;
- Tourism;
- Business Management Practices; and
- Access to Capital and Information.

ACOA IN THE LARGER CONTEXT

ACOA falls under the broad ministerial umbrella of Industry Canada, which runs 13 distinct agencies. The regional cousins for ACOA include ***Canada Economic Development for Quebec Regions (CED), Western Economic Diversification Canada (WD),*** the ***Federal Economic Development Initiative in Northern Ontario (FEDNOR)*** and the ***Business Development Bank of Canada (BDC)*** which operates nationally. These other agencies will be examined in detail in separate reports from June 2000 to January 2001.

Canadian history is replete with examples of regional economic subsidization from the time of Sir John A. MacDonald's National Policy to the present. While an argument could be made for the historical significance of regional development schemes in the late 19th century, such schemes and economical distorting approaches clearly have no place in the 21st century global integrated marketplace.

The Honourable Frank McKenna, former Premier of New Brunswick, echoed this sentiment during his address to the Atlantic Vision Conference of Atlantic Canada Premiers on October 9, 1997 in Moncton. A selection of his remarks follows:

> Atlantic Canada is at a fork in the road. We may continue down the traditional path of reliance on the Government of Canada which has created such a devastating legacy of dependency or, alternatively, we can embark on a new road towards self-sufficiency.
>
> To me it is now manifest that the old ways do not work. All Atlantic Canadians know how dependent we have become on the support of others. … We also know that grants and make-work programs have created distortions in the natural economy – distortions that require redress. … we need to stop simply giving grants or subsidies to businesses to come here or to businesses already in the region. We need to find a better tool. We need to find a tool that will be long-term and durable, that will be sustainable.
>
> Looking at experience from all over the world, I can tell you that those jurisdictions which establish low and predictable corporate tax regimes end up resulting in much better growth, and long-term growth, and a much better environment for business to prosper.

THE CTF'S VIEW

It should come as no surprise to anyone that the CTF would echo Mr. McKenna's view that lower business taxation and a competitive regulatory framework are two of the keys to fostering economic growth and raising the real incomes of citizens.

Similar to the CTF's two-volume analysis of 16 years of Industry Canada funding ***(Corporate Welfare: Volumes One and Two***, released April 1998 and June 1998), this study is fundamentally quantitative in nature. Analyses of each fiscal year and the consequent funding breakdowns are provided in the tabs and pages that follow along with some non-quantitative groupings of funding recipients.

MAIN FINDINGS

Ten years of data – obtained through *Access to Information* – from fiscal year 1989-1990 to 1998-1999 were analyzed. 22,867 contributions to 11,297 separate entities for a total $2.577 billion was disbursed during the period from April 1, 1989 to March 31, 1999. From this data, the CTF determined that:

- 4.2% (475) of all funding recipients (11,297) accounted for $1.498 billion, or 58% of all funds disbursed;

- Transfers to other federal and provincial institutions (some which are not subject to *Access to Information* or *Freedom of Information*) accounted for over $277 million or 11% of all funds disbursed;

- Over 72% of all funds disbursed – some $1.85 billion – was in the form of non-repayable grants and contributions;

- Despite ACOA's activity, bankruptcies (raw and per thousand) in Atlantic Canada continue to rise;

- The Who's Who of Atlantic Corporate Canada received grants, contributions or loans including companies such as ***Irving Pulp and Paper Ltd.***, ***McCain Foods Ltd.***, ***Hershey Canada*** and ***Salter Street Films***;

- National corporate giants including ***Bombardier***, the ***Royal Bank***, ***Canada Steamship Lines***, ***Canadian Pacific Hotels***, the ***DMR Group***, ***Domtar***, ***Honeywell***, ***IBM Canada***, ***Laidlaw Transit***, ***Pratt & Whitney***, and ***Westinghouse*** all received contributions (another form of grants);

- Big labour including the ***CAW*** and other provincial labour federations and teachers associations received grants and/or contributions;

- ACOA loaned out $591 million dollars in the last 10 years but has written-off loans worth an equivalent 34% of the amount lent during the same period. And ACOA has almost written of 50% of the loan values in the past two fiscal years alone;

- Over $5 million has been used to fund Chambers of Commerce and other business organizations, over $20 million has been spent on golf courses, snowmobile clubs and other recreational activities; and

- ACOA approved over $20.2 million in loans even though the agency, according to its own records, has no idea what the funds were to be used for!

GLOSSARY OF TERMS

In the data that follows, a variety of ACOA-specific acronyms and abbreviations are employed. Where appropriate, we have attempted to provide a definition for the acronym employed or explanation of short forms used.

ACOA Programs

AAP	ACOA Action Program
FAP	Fisheries Alternatives Program
COOP	Cooperation Program
INFRA	Canada Infrastructure Works Program
BDP	Business Development Program

Funding Type

CONT	Contribution, direct cost to government, no repayment required.
GRANT	Grant, direct cost to government, no repayment required.
IBD	Interest Contribution Buydown, direct cost as government pays loan interest.
LOAN	Loan, self-evident.
LOAN INS	Loan insurance, self-evident.
PROV REP	Provisionally repayable contributions represent loans with repayment schedules derived from royalty and/or sales agreements. ***There is absolutely no guarantee that conditionally repayable contributions will be repaid to the government.***. Indeed, government experience over the past 25 years shows that the majority of these royalty/sales schedules are overly optimistic, thus leading cynics to correctly assert that these are simply grants or contributions by another name.

THE ACADEMIC EVIDENCE

A variety of papers addressing the efficacy and efficiency of regional subsidization from empirical and economic theory perspectives have been written over the years looking at Canadian interventionist policy in general and the Atlantic Canada experience in particular.

For an introduction to the varying schools of thought, a starting point is a compact yet seminal work from the Atlantic Institute of Market Studies (AIMS) entitled ***Looking the Gift Horse in the Mouth***. This work looks at macro- and micro-economic measures to assess the impact of regional subsidies in Atlantic Canada. Excerpts from the book's introduction and conclusion follow:

> The idea that regional subsidies suppressed economic activity in Atlantic Canada may be unconventional political wisdom, but it is remarkably consistent with both Keynesian and neo-classical economic theory, the facts of the region's economic development and the international experience with foreign aid.
>
> Regional subsidies also introduce a number of micro-economic distortions into the economy and politicize it. They make it more profitable for many businesses to pursue government contracts and subsidies than to strive to create marketable products. Government also has an incentive to support declining industries with a ready-made constituency and political contracts over emerging sectors externally produced goods.
>
> Atlantic Canada's experience with regional subsidies is consistent with the international experience with foreign aid. This aid, even when earmarked for investment, goes almost exclusively to consumption with no resulting economic benefit.
>
> Hopefully, what this study has done is firm up the analytical basis for what many in the region intuitively now understand – that the economic policy of large gift money for the region has been a failure.

THE CASE AGAINST BUSINESS SUBSIDIES

While ACOA has a broad mandate, its core purpose is to dole out business subsidies. Several previous studies have catalogued the main arguments against corporate welfare which are listed below:

1) Market decisions should be made by the market, NOT by politicians and bureaucrats.

The function of the private capital market is to direct investment to projects, industries or firms that offer the best and most secure rate of return. To try and replace or mimic this judgment through government intervention is fundamentally flawed and unnecessary. The difference between a good investment and a bad investment for a private investor can be the difference between a life of luxury and permanent unemployment: no comparable discipline exists for bureaucrats.

2) Corporate Welfare is NOT driven by market imperatives.

Market driven investments are driven by investors who weigh reward against risk. Politically driven investments are driven by political imperatives and the number one factor in these decisions is usually a preoccupation with "how many jobs are created" regardless of profitability or sustainability.

3) Selecting winners and losers is NOT a task to which government officials are well suited.

The best investment decisions are made in an environment characterized by a "glut" of experience and in a "vacuum" of politics. Corporate welfare decisions are often made by individuals with no experience in private investing and set in a politically charged environment. Ensuring that taxpayer financed projects meet geographic, industrial equity and political saleable criteria can become an end in itself. Governments have an abysmal record of picking winners but losers have a stellar record of picking governments.

4) Corporate welfare is inherently unfair.

Business subsidies create an uneven playing field. Credit and capital can be diverted from successful firms to less successful, politically connected firms. In addition, firms that do not receive government assistance indirectly subsidize their government-supported competitors through their corporate income taxes.

5) Corporate welfare undermines confidence in our democratic institutions.

While portrayed as benign industrial policy, there is a growing perception that government assistance to industry is little more than reciprocal payola for financial support at election time. Current funding analyses of HRDC and EDC have only served to reinforce this perception.

6) Corporate welfare runs contrary to free enterprise.

Business owners and entrepreneurs can become so enamoured and adept at securing government financing that they lose sight of their core competencies, those being the creation of wealth and maximization of product/service value. In essence, they can become better lobbyists than businesspeople. It turns our entrepreneurs into grantrepreneurs.

7) Corporate welfare creates a culture of dependency.

Business owners become so reliant on government assistance that they actually build the expectations of such assistance into financial plans for various ventures and this expectancy has the perverse of effect of slowing the growth of other non-institutional sources of financing including venture capital funds and a critical mass of angel investors.

8) Corporate welfare leads to higher taxes.

Someone must pay the bill for years of corporate welfare, inevitably it is both personal and business taxpayers.

THE JOBS-CREATED DEBATE

From our quantitative analysis, it is clear that government departments and major companies are the main beneficiaries of ACOA funding. In response, ACOA will surely trot out its organizational presence (some 64 core and affiliated offices) in Atlantic Canada, number of clients served and so-called "jobs created." Indeed, government officials always resort to the number of jobs allegedly created in their defense of government subsidy programs.

Yet two main questions must be asked in response to these claims:

1) How many jobs could have been created if the money or funds used were left to the market to more efficiently allocate?

2) How many times are the jobs created double and triple counted? Such a practice is common in other programs funded by Industry Canada and such playing with figures is very tempting especially when multiple government departments or agencies are involved.

WHY DOES ACOA EXIST AT ALL?

Studies, partly financed by the Government Canada, consistently paint our country as one of the best places on the planet to do business. Indeed, an annual joint study by KPMG Management Consultants and the Department of Foreign Affairs and International Trade (DFAIT) notes that Canada is already is one of the prime locations for business investment due to high productivity, low labour costs, good infrastructure links and low telecommunications charges.

This annual study also notes that Canada provides the most generous R& D tax credit regime amongst our industrial partners. And this study also pointed out that Atlantic Canada (on a variety of measures) provides the greatest advantage for business setup and development compared to other Canadian regions. The question then becomes, why does ACOA exist at all given the natural advantages already enjoyed by the region.

CONCLUSION

The analysis and charts that follow point to ten years of waste and questionable funding activities. ACOA itself notes that over 60% of job creation in Atlantic Canada is through small business, yet our analysis points to big business and a myriad of interelated government departments and agencies receiving the lion's share of funding. Mr. Mckenna was right, lower corporate taxes and a competitive regulatory environment is the quickest and surest route to follow to ensure economic prosperity. The existence of regional development programs hinders this prosperity rather than promoting it.

Atlantic Canada Opportunities Agency Assistance by Type -- 10 Years

(Total Disbursements)

Year	Contributions	Grants	Interest Cont Buydown (IBD)	Loans	Loan Insurance	Provisionally Repayable Contribution	Repayable	Total Expenditures
89-90	$183,541,825	$4,634,721	$24,343,354	$390,000	$34,553,020	$392,465	$13,213,978	$261,069,363
90-91	135,315,939	6,373,109	11,012,510	-	20,182,475	3,589,167	18,073,571	194,546,771
91-92	160,831,476	5,126,024	9,982,518	9,213,089	5,600,381	8,528,230	19,871,592	219,153,311
92-93	155,810,525	5,001,924	5,210,914	8,011,274	4,045,128	20,234,584	18,362,591	216,676,940
93-94	162,703,432	4,864,791	995,791	4,636,250	3,340,000	9,552,031	12,454,392	198,546,687
94-95	333,749,941	5,259,514	675,148	6,641,768	999,950	18,298,186	16,288,800	381,913,308
95-96	194,136,731	2,004,349	497,030	5,354,582	474,130	4,079,590	42,659,847	249,206,260
96-97	193,305,894	321,380	-	625,500	-	15,152,235	84,645,834	294,050,843
97-98	157,389,100	341,239	-	1,000,000	-	25,510,722	106,795,456	291,036,517
98-99	151,692,268	1,586,439	-	-	-	5,350,514	112,393,522	271,022,743
Total	1,828,477,134	35,513,490	52,717,265	35,872,463	69,195,084	110,687,724	444,759,582	2,577,222,743
Aver	$182,847,713	3,551,349	5,271,727	3,587,246	6,919,508	11,068,772	44,475,958	257,722,274
%	70.95%	1.38%	2.05%	1.39%	2.68%	4.29%	17.26%	

Assistance Type Descriptions

1) Contributions and Grants represent one-time disbursements from ACOA, no repayment required. 2) IBD refers to an Interest Contribution Buydown. 3) Loans are self evident. 4) Loan insurance is self evident. 5) Provisionally Repayable Contributions represent repayable loans only if certain conditions kick in – usually sales targe levelsl 6) Repayable is similar to a straight loan.

ACOA Writeoffs expressed as a Percent of Annual Lending Activity

Year	#	Amount	Total ACOA $ Disbursed	Loans	Provisionally Repayable Contribution	Repayable	Total Loaned Amount	#	Amount	%
89-90	30	$5,747,389	$261,069,364	$390,000	392,465	13,213,978	13,996,443	0	0	0.00%
90-91	59	11,185,418	194,546,772	0	3,589,167	18,073,571	21,662,738	42	13,381,663	61.8%
91-92	43	10,018,608	219,153,311	9,213,089	8,528,230	19,871,592	37,612,911	55	13,163,703	35%
92-93	34	8,613,220	216,676,940	8,011,274	20,234,584	18,362,591	46,608,449	79	50,111,179	107.5 %
93-94	45	5,348,555	198,546,687	4,636,250	9,552,031	12,454,392	26,642,673	0	0	0%
94-95	201	22,982,256	381,913,308	6,641,768	18,298,186	16,288,800	41,228,754	36	398,592	0.97%
95-96	386	34,529,493	249,206,260	5,354,582	4,079,590	42,659,847	52,094,019	0	0	0%
96-97	152	31,439,387	294,050,843	625,500	15,152,235	84,645,834	100,423,569	70	6,015,259	5.99%
97-98	189	6,951,559	291,036,517	1,000,000	25,510,722	106,795,456	133,306,178	252	65,941,194	49.5%
98-99	61	18,109,663	271,022,743	0	5,350,514	112,393,522	117,744,036	126	56,104,343	47.7%
	1,200	$154,925,548					$591,319,770	660	$205,115,933	34.7%

*** Industry Canada Sources: 1) Public Accounts of Canada (1989-1998) 2) Derivation from ACOA Access to Information results.**

Comparative Regional Development Spending 1991-1998

In millions of dollars

	IC	FORD-Q	WED	TPC	ACOA Budget	ACOA Grants	ACOA Cont.	Total	ACOA - ATIP	ATIP Revised
1989-90*	$2,560	N.A.	$98.2	N.A.	$234.9	$7.2	$191.4	$198.6	$261.1	$227.6
1990-91*	$2,659	N.A.	$188.7	N.A.	$279.6	$9.7	$219.2	$228.9	$194.5	$176.6
1991-92*	$2,668	$175.9	$185.8	N.A.	$293.5	$9.0	$231.0	$240.0	$244.8	$208.0
1992-93*	$2,635	$171.0	$196.9	N.A.	$278.4	$5.2	$219.0	$224.2	$234.7	$204.0
1993-94*	$2,717	$184.6	$173.5	N.A.	$285.6	$5.3	$225.8	$231.1	$232.7	$192.2
1994-95*	$2,940	$267.4	$224.2	N.A.	$362.8	$4.9	$295.0	$299.9	$105.6	$447.4
1995-96	$3,317	$376.2	$362.9	N.A.	$383.4	$1.4	$322.4	$323.8	$378.3	$391.7
1996-97	$3,765	$385.3	$303.2	$124.2	$311.8	$0.4	$263.3	$263.7	$355.5	$354.2
1997-98	$4,523	$360.9	$334.7	$198.1	$325.9	$0.7	$276.5	$277.2	$393.7	$394.8
1998-99	$4,030	$328.6	$267.3	$268.0	$360.7	$1.0	$307.2	$308.3	$343.0	$343.8

IC -- Industry Canada FORD-Q -- Federal Office for Regional Development - Quebec TPC -- Technology Partnerships Canada ACOA Budget -- Atlantic Canada Opportunities Budget as reorted in the Public Accounts ACOA Grants -- Grants as reported in Public Accounts ACOA Contributions -- As reported in the Public Accounts ACOA - ATIP -- Grants and Contributions as provided by ACOA through Access to Information and Privacy *Prior to 1995-96, ACOA, WED and Federal Office of Regional Development – Quebec Source: Public Accounts, 1992-1999. Technology Partnerships Canada, Annual report 1996-1997. Access to Information nd Privacy, ACOA.