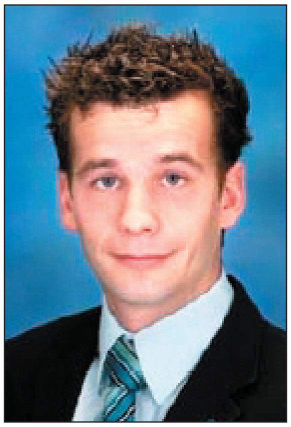
FRONTIER CENTRE FOR PUBLIC POLICY
FCPP POLICY SERIES NO. 97 • NOVEMBER 2010
POLICY SERIES

Having It Three Ways

The Competing Interests of the Customer, Investor and Employee in Saskatchewan's Crown Corporations

By David Seymour



About the Author

David Seymour directs the Centre's Saskatchewan office. He holds degrees in Electrical Engineering and Philosophy from the University of Auckland, where he also taught Economics. After working as an engineer in New Zealand he is applying his passion for sound policy analysis to policy issues on the Prairies. In his first two years working for the Frontier Centre, David has carried out extensive media work, presenting policy analysis through local and national television, newspapers, and radio. His policy columns have been published in newspapers in every province as well as the *Globe and Mail* and the *National Post.* David has produced policy research papers on telecommunications privatization, education, environmental policy, fiscal policy, poverty, and taxi deregulation. However his major project with the Frontier Centre is the annual Local Government Performance Index (LGPI). The inaugural LGPI was released in November 2007 and comes at a time when municipal accounting standards in Canada must improve if the municipal government sector is to reach its potential as an economic growth engine for Canada.

FRONTIER CENTRE FOR PUBLIC POLICY www.fcpp.org

MB: 203-2727 Portage Avenue, Winnipeg, Manitoba Canada R3J 0R2 Tel: 204-957-1567

SK: 2353 McIntyre Street, Regina, Saskatchewan Canada S4P 2S3 Tel: 306-352-2915

AB: Ste. 1280–300, 5th Avenue SW Calgary, Alberta Canada T2P 3C4 Tel: 403-995-9916

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Date of First Issue: November 2010.

ISSN 1491-78

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Introduction

While many jurisdictions have experimented with government-owned businesses throughout their history, few have the kind of enduring attachment to public enterprise that Saskatchewan does. Crown corporations are government controlled and government owned by definition, and so the ultimate public policy issue that surrounds them is whether government ownership should continue.

This paper does not call for continued government ownership, or for privatization. Instead, it examines common claims made about the Crowns as they stand, using the model of what we will call the Crown corporation three-way compromise. The three-way compromise acknowledges that like all businesses, Crown corporations are the meeting point for people playing three distinct roles: the customer, the investor and the employee.

These three roles conflict with one another in any business, including Crown corporations. Investors would like to increase their returns at the expense of a poorer deal for either the customers or the employees. Customers would like the employees to work harder for less or the investors to provide more capital for lower returns (or both), so that they might get better services at lower prices. Employees, for their part, would like to improve their remuneration and conditions at the expense of the other two.

As will be argued, unless the overall productivity of the corporation in question is better than the productivity in equivalent corporations elsewhere, the Crown model cannot be claimed to deliver better than average returns to all three parties simultaneously.

This is particularly important when considering that the three parties are the same people, the people of Saskatchewan.

While the three *roles* of investor, customer and employee may be distinct, the Crown corporation model means that each individual in Saskatchewan fulfills one, two and sometimes all three of these roles. As taxpayers, they own the capital investment with which Crown corporations operate. As customers, they consume the various products and services that Crowns provide. As employees, some 11,703 people work to provide those products and services through the 11 Crown corporations directly controlled by the Crown Investments Corporation.[1]

No matter how obvious the three-way compromise may be, acknowledging it should be of more than passing interest. If it is true that the roles are inevitably in conflict, Saskatchewan politicians have been able to juggle pressure from all three in recent years without acknowledging that a conflict exists. Whether or not one supports continued public ownership of Crown corporations, it makes sense to have a consistent view of which people in which roles benefit the most and by how much from their involvement in Crown corporations. What is not consistent is to focus on different benefits at different times and pretend it is possible to have one's cake and eat it, too.

Having it all three ways

The Crown Investments Corporation acknowledges these three roles on its web site. It says it is guided by the principles of providing services that are "[u]niversal, or available to everyone; reliable; of high quality; and offered at a reasonable cost." At the same time, Crowns must "provide a good return on investment to their shareholders, the people of Saskatchewan."[2] The web site's section on "Contributing to the Economy" is headed by a table of the number of people employed by different Crowns.

The provincial NDP caucus also acknowledges this three-way compromise with the statement:

> Crowns help young people build their careers right here; over 11,000 people are currently employed in Saskatchewan's Crown sector.
>
> Crowns help strengthen Saskatchewan businesses by providing reasonable and predictable utility rates...
>
> And what's more, Crowns return hundreds of millions of dollars every year to their owners—the people of Saskatchewan—by helping to pay for the healthcare, education, social programs, and infrastructure which make our province great.[3]

For their part, the Saskatchewan Party claims in its 2007 election manifesto that they will "ensure Crown Corporations continue to provide Saskatchewan people with the highest quality utilities at the lowest cost, while directing Crown dividends towards priorities like health care, highways and education. A Saskatchewan Party government will also strengthen Crown investment in our communities..."[4] The document goes on to list a large number of public enterprise investments that failed, including SPUDCO, with the implication that under its management the Crowns will invest more successfully and pay dividends without the kind of misadventures the Saskatchewan Party associates with its political opponents. In other words, its superior management would allow the Crowns to benefit citizens simultaneously as customers and as investors.

In the above cases, two or three of the roles are acknowledged uneasily within a single passage; at other times, the benefits for only one role were acknowledged, with the others apparently disappearing.

From 2003 to 2007, the provincial government chose to emphasize benefits to customers with the Lowest-cost Utility Bundle. The policy promised that for the average usage of gas, electricity, auto insurance and landline phone rental, the bundle of services supplied by Crown corporations would be cheaper than equivalent services in other provinces.

The provincial government took the promise seriously. In 2004, it had a price comparison externally audited by accounting firm Meyers Norris Penny, and the government gave a $137 credit rebate to each household's SaskTel account when it was discovered that Manitoba's bundle of utilities was actually cheaper. "With this rebate, our bundle will now cost less than Manitoba's for the full year," said the minister responsible at the time.[5] In this world, a basket of goods that was more expensive than Manitoba's could be made cheaper with the stroke of a pen and a wire transfer to the province's residential telephone accounts. It appeared that the Crowns in Saskatchewan were able to deliver a better deal for core utilities than could public or private equivalents in any other province, but the need to apply funds that would otherwise have been available to the Crowns or the General Revenue Fund showed that it really was not any inherent advantage of the Crowns that made such a deal available but rather a public policy decision on the part of the government to direct an effective subsidy to utility prices at the expense of either lower taxes or expenditure in other areas.

Several years later, in 2010, the provincial government was criticized for taking severe (100 per cent of profit) dividends out of the Crowns[6] in order to make up for a shortfall in the General Revenue Fund. In symmetry to the 2004 Lowest-cost Utility Bundle decision, this availability of revenue did not reflect any inherent advantage to the Crowns but rather a public policy decision to use funds that might have been available for reinvestment in the Crowns to avoid either increases in taxes or cuts in other spending areas.

Perhaps most interesting was the response of the minister in charge of this policy to questions in the Legislative Assembly. The minister responsible stated:

> "The money that is available through the Crown corporations is also available when it comes to the needs for education, for highways, for healthcare. And when there is money available and there is a need in the General Revenue Fund, then the people would expect to spend the money—their money—to make sure that our province continues along the economic recovery that the rest of the world is looking forward to.[7]

Yet under further questioning as to whether the policy of withdrawing money from the Crowns is a sustainable policy, the minister also stated:

> "Mr. Speaker, when there is money spent on our Crowns, the debt to equity ratio increases. We're proud of the fact that our Crowns have more value now because we're actually investing money in them, and the people of the province can count on them."[8]

In other words, the minister simultaneously argued that the Crowns could serve as a source of revenue for general government operations and that the government could strengthen the Crowns by investing in them. Consistent with her party's election manifesto, the minister argued that this was possible through wiser investment,

> "And, Mr. Speaker, the previous government had the opportunity to make sure they maintained their Crowns, but instead they decided to take the money and invest it outside of our province. They decided to invest money in Channel Lake. They decided to invest money in Guyana. They decided to invest money in Retx and tapped into..."[9]

Whatever may be true of the current and previous governments' comparative competence at directing Crown investments, there should be no hiding from the fact that, other things being equal, governments face a trade-off between future Crown performance and dividends, and current Crown dividends.

To the extent that the provincial government takes more money out of the Crowns than an investor interested only in the long-term value of the company would (e.g., for reasons unrelated to the affairs of the Crowns such as the state of the provincial budget), it forces the Crowns to either invest less in providing services or borrow more from private capital markets. To the extent that the provincial government gives the Crowns easier access to capital than would a long run profit maximizing investor, it has fewer funds available for other public policy purposes.

As Sheldon Schwartz stated in an earlier Frontier Centre *Backgrounder,* "To take 100 per cent of the 2010 profits of commercial Crown corporations other than SaskPower as a dividend is neither a commercial dividend policy nor a sustainable one."[10]

Elsewhere, some argue that the Crowns by virtue of their public ownership are able to provide employment of a type and quality that would not otherwise exist in the province. One example is the Save Our Saskatchewan Crowns campaign, ostensibly a grassroots campaign in partnership with several union locals. The campaign states:

> …thousands of people and families in Saskatchewan prosper due to the employment and benefits that are provided to them because of Crown Corporations... Many of our Crown Corporations are cited annually as some of best employers throughout the country in a variety of categories. In order to continue to reap the benefits provided by our Crown Corporations, it is completely vital to keep these organizations completely publicly owned entities.[11]

If employees are benefiting from better pay and conditions than they might otherwise, then it could only be that the public ownership model somehow makes them more productive, or forces investors and/or employees to take poorer service and/or lower returns from their respective involvements. No explanation is given as to why public ownership makes employees more productive, so it can only be assumed that they benefit at the expense of investors, customers or both.

In all of these cases, the fact that investors, employees and customers have competing interests in each Crown corporation is either uneasily acknowledged with side-by-side mentions of the different interests or ignored completely. The next section turns to some of the theory behind corporations.

> ***To the extent that the provincial government gives the Crowns easier access to capital than would a long run profit maximizing investor, it has fewer funds available for other public policy purposes.***

Theory

In his famous beginner economics textbook, Harvard economist Gregory Mankiw lists 10 "principles of economics" including "Trade can make everyone better off."[12] Mankiw's point is that not only trade between nations, but also trade in the more general sense where people exchange goods and services in any settingcan lead to mutual benefits. These settings include families and corporations. For example, if I have two sweaters and you have two pairs of jeans, there is an obvious exchange that can make both of us better off—nobody has to lose.

From this comes the possibility that Saskatchewan's Crowns do not require a compromise. Perhaps the formation and operation of the Crowns constitute a trade amongst investors, customers and employees that really does make everyone involved better off. Better off in this case would mean a better return than people might expect from the involvement in alternative companies, the obvious alternative to Crown corporations being private companies.

It is not hard to find an example of a corporation that delivers a better deal to people in all three roles than they would normally expect elsewhere. The Internet giant Google is perhaps the best recent example.

- It was ranked best employer in the United States twice as well as the fourth best twice in the past four years.[13]
- Its stock price has rewarded investors handsomely, moving from $100 (US) in 2004, to $464 (US) at the time of writing (with a peak of $693 (US) in 2008 before the financial crisis), giving an annualized return of approximately 29 per cent over six years, including the financial crisis.
- It engages hundreds of millions of people on a daily basis. Almost none of the users pay a direct financial cost for the various services, suggesting that the benefit to customers is very large indeed. Meanwhile, Google has offered a separate and extremely valuable service to advertisers by selling advertisement space.

If the Crowns turned out to be Google-like companies, then we could rest assured that the three-way compromise is actually a three-way win for people in the customer, investor and employee roles. The difficulty is that very few companies are like Google. Only 10 years ago, Lycos, AltaVista, Infoseek, Excite, and Yahoo were all vying to become what Google has actually become. Today, many of those companies' investors, employees, and customers either have forgotten them or are trying to forget them.

Even companies that are like Google rarely maintain above average performance for more than a few decades. The Fortune 500 statistics show how transient the success of even large corporations is. These statistics rank U.S. corporations by revenues and stretch back to 1955. There have been 1,348 companies in the top 500 revenue earners since 1990.[14] Only four have remained in the top 10 every year over the same period. Clearly, over the long term,being in business is a risky business for investors, employees and customers. The rise and fall of these companies' revenues suggest that they are not consistently providing above average outcomes for investors, customers and employees in the long term and on average, but only fleetingly.

The reasons for these changes vary, but they include changing economic conditions, technological innovations and management styles, the success of which varies over time. For example, General Motors' decline has been blamed on greater international competition and poor management. Meanwhile, traditional media companies have suffered at the hands of a disruptive technology, the Internet. In the case of companies that operate natural monopolies that are tied to their location, for example, SaskPower and SaskEnergy, factors such as these have lesser influence. However, companies involved in transport and telecommunications, such as Saskatchewan Transportation Company (STC), and SaskTel, are more exposed to such changes.

Given the transience of success in other companies, it seems unlikely that the Crowns have been above average performers over the long term. It therefore seems unlikely that they have been able to consistently deliver the three-way win to customers, investors and employees, where each gets above average returns out of the Crown model. Over time, one or more parties are likely to have gotten a worse deal than they could have elsewhere.

There is an argument to be made that by filling all three roles, the upside and downside risk faced in each role will accrue to largely the same people, and so the risks cancel each other out. To see the benefit of this argument, it is worth considering the alternative scenario—private ownership—where the people of the province might, for example, carry the downside risk of higher prices or poorer services as customers, while the upside risk is gained by investors or even employees fulfilling their roles from outside the province.

No doubt, many would argue that this keeping of all three risks within the province is the main advantage of the Crown model. However, this risk containment strategy has two possible disadvantages.

The first disadvantageis that not everybody has the same level of involvement in the Crowns. People make greater or lesser use of the services, so they are customers to different extents. Some people contribute more in taxes or have a greater reliance on those taxes being used in ways other than Crown corporation investments, so they are more heavily influenced by the investor role. Of course, while the Crowns are a major employer, 12,000 people represent only about two per cent of the total Saskatchewan workforce.

The cross-subsidies within the Crowns as different people contribute and benefit to different extents need not necessarily be seen as a disadvantage. These cross-subsidies are consistent with what Karl Marx is famous for having written: "From each according to his ability, to each according to his needs!" However, under public ownership, competing interests do not disappear. They have to be reconciled through political processes. These processes give rise to the second possible disadvantage.

In the words of a previous Frontier Centre *Backgrounder,* "More Constraints = Less Value." In this paper, Sheldon Schwartz argued, "The aphorism 'It's good to keep one's options open' conveys the intuitive concept that there is a value in having flexibility and choice." If this is true, then it follows that not having flexibility and choice reduces value.[15]

As examples, Schwartz argued that public ownership means that Crown corporations face some of the following political constraints:

• The need to remunerate top Crown corporation managers in some proportion to their equivalents in the civil service (who have the same ultimate employer, the government) even if private competitors elsewhere are offering more;

- The unavailability of stock options as an instrument to align management incentives with the interests of the company;
- Disproportionately severe political feedback when Crown corporations have large profits (seen as gouging) or losses (seen as wasting public money).

Schwartz concludes:

> To the extent that such constraints result in not pursuing otherwise attractive investment opportunities and thus conflict with shareholder value maximization, a commercial Crown corporation should be expected to be worth less over time than an otherwise identical publicly traded corporation that is not subject to such constraints.[16]

The Saskatchewan First policy is a specific example of a government constraint on a Crown corporation in action. In line with their 2007 election manifesto, the incoming Saskatchewan Party government was eager to cut Crown corporation investments that they saw as wasteful. The policy required Crown corporations to divest themselves of operations outside of Saskatchewan. Whatever the overall success rate for Crown Investments outside the province might have been, this must have been a destabilizing change of direction for the Crowns. Take the following words from the 2007 SaskTel annual report:

> Our customer base here in Saskatchewan is now available to competitors from around the world offering them information, communication and entertainment services by applying economies of scale that outstrip anything we can achieve within the province.[17]

Two years later the report read: "Our need for growth will continue and we are committed to the Saskatchewan First Policy to ensure that we focus on growing our business within the province."[18]

The Saskatchewan First policy, however well intentioned, has been an interruption in the ability of Crown corporations to plan long-term growth and development. What was a strategy in 2006 was abandoned by 2008. Of course, supporters of the Saskatchewan First policy may argue that earlier policies were wayward and needed to be corrected, but whatever may be true of that argument, it reinforces the point that government direction reduces the ability of Crowns to plan future activities.

According to the theory that trade can make everyone better off, it is at least possible that Saskatchewan residents can simultaneously win as investors, as employees and as customers of Crown corporations. However, the great strength of Crowns—that the upside, and downside risks for each role are held by the same people and therefore cancel each other out—also requires that they are committed to the same companies in each role over the long term. Given the transience of successful companies generally and, in particular, the political constraints on value creation that public ownership puts on the Crowns, it seems a break-even scenario is the best that can be hoped for by Saskatchewan people across the whole of their three roles.

The next section turns to an empirical question: Which of the three roles, if any, is best served by the Crown model?

Can we know?

While the approach of the previous sections was theoretical, another way to understand the three-way compromise is to observe the practical results that people in their three roles get from the Crowns. These comparisons are cautious and more of a thought experiment than a definitive judgment because there are a number of variables that one cannot control, including:

- The Crowns in Saskatchewan serve different markets in terms of demographics and geography. For example, Saskatchewan's population is more spread out geographically than are the populations of the two neighbouring provinces. This makes fair comparisons more difficult than they would be if the provinces had identical profiles.
- Shares in the Crowns are not traded on any real market like those of publicly traded companies. It is difficult to know the true value of the companies from the investors' point of view.
- While it may be possible to get rough data on the level of remuneration gained by Crown employees and compare it with the remuneration expected in similar companies, it is not possible to control for other factors, including working conditions and the level of productivity of workers in Crown corporations. The most valid comparison would be to track the remuneration of specific workers moving in and out of Crown corporations, but such data are not available.

Altogether, it is not possible to understand perfectly the real impact of public ownership on the outcomes gained by people in each of the three roles. Nevertheless, the following three subsections will use the best information available in an attempt to quantify the different benefits of the Crown model. More detailed data and analysis can be found in the two appendices.

> ***Altogether, it is not possible** to understand perfectly the real impact of public ownership...*

The investor's view

What returns have Saskatchewan residents gained on their investments in Crown corporations? Are the Crowns a golden goose that supplement taxes in providing government services? Or are they a drain on the public purse which, other things being equal, necessitate higher taxes and or lower spending? In particular, how does the return on investment compare to what might be gained if taxpayers were able to divest their "share" in the Crown companies and invest it freely?

By standard company valuation,[19] it is impossible to know the value of the people's equity in Crown corporations. In order for them to know, the Crowns would have to become publicly traded entities, which by definition they are not. Further, any attempt to approximate the value would likely be seen politically as a preparation for privatization. Given the political controversy surrounding the privatization of Crowns in Saskatchewan, such a measurement is unlikely.

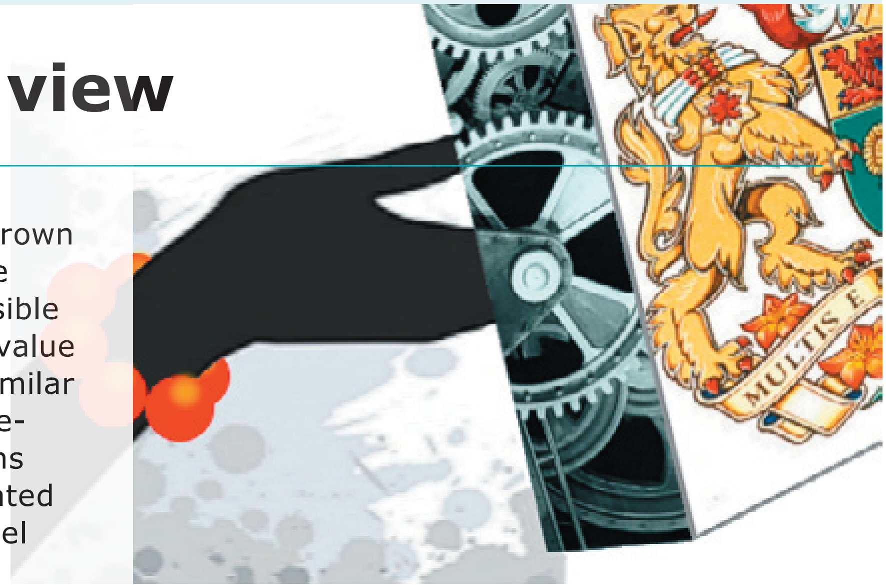
In the absence of a market valuation of the Crowns, the only measure of the people's return on their investment comes from the Crown Investments Corporation's performance measurements. For 2009, the CIC reported that its performance goal to "[p]rovide an appropriate return to the people ofSaskatchewan," was achieved "above target," largely due to a one-time $640-million windfall from the sale of SaskFerco.[20] While an "appropriate" return is meaningless to an investor wishing for maximum returns, the CIC also reports consolidated returns on equity of 7.9 per cent, 22.2 per cent, 17.8 per cent, 12.6 per cent, and 9.2 per cent over the previous five years.

These figures, however, are a poor answer to the question of how the Saskatchewan people's opportunity cost as a shareholder has been rewarded as a return on investment.

- Because the Crown corporations are an agency of government and governments cannot tax each other, Crowns are exempt from taxes. This is an additional and unaccounted for subsidy from the taxpayer to the Crowns.
- Because of their ability to tax, governments can generally borrow at lower rates than private organizations can. This distortion often obscures the risk that governments place on taxpayers when they take on risky investments.

Altogether, it is not entirely clear what sort of return on investment the people of Saskatchewan are getting from Crown corporations, as it is not an equivalent style of investment. What can be said is that the investor role is the least politically visible of the three roles. Real investment returns from the crowns are difficult to calculate for anybody and not widely understood by the public. Utility and insurance rates and employment opportunities are much more visible. If there is a role in which Saskatchewan's people are doing worse from the Crown model than they would otherwise, then it is probably in the role of the investor.

The customer's view



The value derived by customers of Crown corporations varies depending on the Crown concerned. As far as it is possible to tell from the evidence below, the value received by customers is probably similar to that of comparable companies elsewhere. In any case, the "deal" Crowns offer customers is externally moderated by competition, the rates review panel or both.

This section reviews some of the evidence presented in previous Frontier Centre comparisons as well as other sources. The first is of SaskTel's offerings and those of the once nearly identical Manitoba Telephone System (MTS), which operated as a Crown corporation up until 1996, and as a private company since then. The second is a comparison of Saskatchewan Government Insurance's (SGI) offering of vehicle insurance with those of other public and private vehicle insurance companies in Canada.

Detailed descriptions of these comparisons are available in Appendix A: Customer Comparisons. In brief, they conclude:

- A decade after Manitoba Telecom Services (MTS) was privatised there was no noticeable change in the standard of services offered as compared to SaskTel, which remained in public ownership. The two firms serve nearly identical markets and started off as near identical Crown corporations at the time of the MTS privatisation. This comparison suggests that publicly owned SaskTel offers its customers services that are no worse or better than a private alternative.
- An analysis of auto insurance rates shows that while there are large differences amongst different insurance companies, the public ownership model seems insignificant alongside other factors including economics and demographics in the market served, and the size of payouts and range of additional services that accompany the service. Altogether it is not clear that the customer is any better off for having a publicly owned vehicle insurance company.
- Electricity prices are also influenced more strongly by factors such as the availability of different power sources and equalization (Manitoba and Quebec benefit from having access to hydro-electricity, and benefit further from the fact that this natural resource is not subject to equalization claw backs). The one possible valid comparison for Saskatchewan is to Alberta, which has privately owned generators and lower prices.

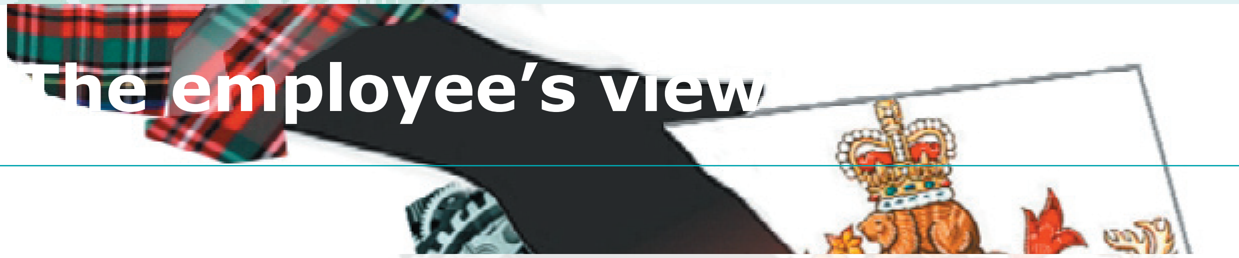
An examination of the deal customers get from the remaining Crown corporations under the control of the Crown Investments Corporation would make this section complete, but time does not permit such an extensive undertaking. In any case, for some Crowns, such a comparison would be meaningless. The Saskatchewan Transportation Company runs at a perennial loss in order to provide services that would not be commercially viable elsewhere, so there are no useful comparators. The casino business provides a service that is difficult to quantify, namely the enjoyment of risking money in games of chance.

What can be said from these brief overviews of the services provided by SaskTel, SGI, and SaskPower is that the Crowns appear to provide competitive, but certainly not superior, services for the people they serve. These services are affected by the type of service being provided (SGI) and other geographical and practical constraints (SaskTel and SaskPower) as much as by whether or not they are publicly owned.

In the customer role, the people of the province neither win nor lose from public ownership of the Crowns.

“*What can be said… of the services provided by SaskTel, SGI, and SaskPower is that the Crowns appear to provide competitive, but certainly not superior, services for the people they serve.*”

The employee's view



In 2007, (the last year for which comprehensive data are available), the Crown Investments Corporation reported that Crown corporations managed by the CIC employed 11,703 people or around two per cent of the workforce within the province. The key question in this section is whether the Crown model delivers better remuneration and provides better conditions than might be expected if the Crowns were private companies.

The only way to answer this question would be to have identical workers working in identical companies with only the ownership model being different. Of course, this is impossible to do, and data for the nearest substitute, tracking the same individuals moving in and out of Crown employment and measuring their remunerations and conditions, are not available.

There are, however, several pieces of evidence worth considering: One is the level of unionization in Crown corporations compared with the rest of the economy, and the other is what happened to employment numbers and output levels after the 1996 privatization of the Manitoba Telephone System.

The unionization rate is relevant because unions effectively work as a cartel on labour. Like all cartels, their aim is to keep members from competing against each other (solidarity) and to raise wages above what they would be in a perfectly competitive environment. As Statistics Canada reported in 2002, there is a "union wage premium" where unionized workers are paid approximately 14 per cent more than non-unionized workers are. Once differences in qualifications, gender, age, and other factors are allowed for (unionized workers tend to be older, more qualified and more likely to be men), unionized workers are still paid 7.7 per cent more than non-unionized workers are.[21]

Data from the North American Industry Classification System show that the Utility sector, which in Saskatchewan is dominated by Crowns, is much more highly unionized than the general workforce and that Saskatchewan utilities are more highly unionized than most others, particularly private utilities in Alberta. This is a weak finding because no actual data for union density in the Crowns is available, however a circumstantial case can be made that union density is higher in the Crowns, and this allows Crown employees to extract higher returns than other partners in Crown corporations.

Data from SaskTel and post-privatization MTS show that MTS was able to continue its productivity with fewer workers compared to SaskTel. Considering the finding referenced earlier that the services produced by the two companies are very similar in their price and quantity, it would seem that the staff at SaskTel are less productive under the Crown corporation model than are MTS'semployees in the private model.

While far from conclusive, there is some evidence that of the three conflicting roles that Saskatchewan residents play, with respect to Crown corporations, it is the employee role that benefits at the expense of the other two roles.

Conclusion

Saskatchewan's relationship with its Crowns is long and intimate. As in all long, intimate relationships, honesty is important. At times, various actors have been less than honest about the relationship, and the public has perhaps been too prepared to accept claims that the Crowns can be all things to all people.

The people of Saskatchewan play three roles in Crown corporations. All of these roles are acknowledged when the benefits to one or another role is emphasized. When the price of services is emphasized, as in the Lowest-cost Utility Bundle, the impact on investors and employees should be questioned.

When the provincial government takes dividends out of a Crown to cover a shortfall in the General Revenue Fund, as they did earlier this year, the immediate question should be what impact will this have on the customer, and employee roles, and indeed on the future value of the taxpayers' investment, given that unstable capital flows affect the long-run viability of the company?

The Crown model should not be validated by spotty comparisons that only view them from one role at a time. Taxpayers deserve a more comprehensive view from government, but as the empirical section of this report showed, it's currently impossible to make firm conclusions from the information available.

While it is nearly impossible to realize the hypothetical comparisons between the Crown model and the results people might expect from privately owned companies, it would appear from available evidence that the Crowns offer a competitive deal to customers, an uncertain but likely poor deal to investors, and a slightly better deal for employees than do private alternatives.

Whatever the long-term future of Saskatchewan's Crown corporations may be, it should involve greater acknowledgment from policy makers and policy commentators of the fact that Crown corporation investors, customers and employees are largely the same people.

Appendix A: Customer comparisons

The 2007 Frontier *Policy Series* "Telecommunications Privatization, Services, and Provincial Well-being" made a comprehensive comparison of the services and prices offered by SaskTel and MTS in that year, as well as the trends in the volume of services provided over the prior 10-year period.

The author came to the following conclusions:

> The findings are that there is a slight advantage to SaskTel in subscriber numbers. However, these numbers correlate extremely well during the period of privatization, suggesting that the difference is caused by pre-privatization factors rather than by privatization itself.
>
> Neither company appears to have a decisive advantage in reaching the people of its province. Availability of mobility and high speed Internet services is remarkably similar in both provinces.
>
> Comparisons of service charges show that there is no clear advantage to customers of either MTS or SaskTel. Differences between most price offers are obscured by differences in the choices of combinations of services by individual customers. Comparing service charges does not show any decisive advantage to either company's ownership model.[22]

The two telecommunications companies were nearly identical when MTS was privatized. The following decade provided the best real-world experiment imaginable for testing the returns of the Crown corporation model for the people of Saskatchewan as customers. The most sensible conclusion is that there is no discernable difference in the services provided by these two similar companies that are attributable to their different ownership models. Given SaskTel faces competition from the private sector in almost every service area (for example, Rogers in cell phones, Access Communication in cable and Internet service), this result should be unsurprising.

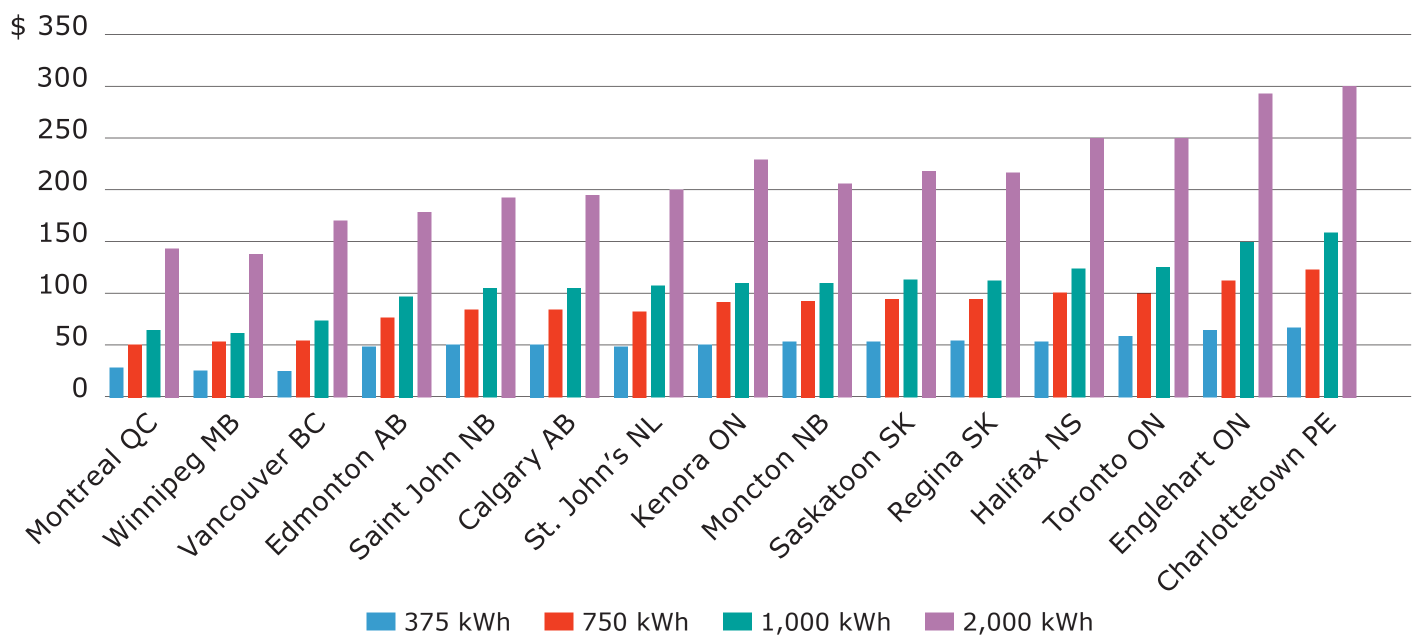
In another Frontier comparison that year, "Monopoly Insurance: Unfair at Any Price," Mark Milke tested the claim that monopoly government vehicle insurance providers offer better insurance than does private competition in provinces such as Ontario and Alberta. This comparison included an examination of the claim that Saskatchewan Government Insurance offered the best rates in Canada at an average of $738 per vehicle per year in 2005.

Milke found that SGI did indeed offer very competitive rates that year, second only to Quebec, at $716, and significantly cheaper than privately insured Ontarians ($1,319) and Albertans ($1,022), as well as publicly insured British Columbians ($1,153) and Manitobans ($920).

However, these face value rates hide a number of differences that we would expect to exist regardless of the ownership model. In other words, cheaper premiums do not necessarily mean the Crown model is delivering a better deal.

1. The actual insurance product being offered is different, Milke argued, in "the 'design' of the product offered, especially the degree to which a province allows consumers to sue. In addition, more comprehensive coverage (lower deductibles, rental cars in the event of an accident, long-distance towing and windshield coverage), higher compensation for injuries and more types of injuries covered and other forms of coverage will also increase the cost of insurance."[23]
2. The provinces with higher insurance premiums also tended to have higher incomes and, by association, likely had more expensive vehicle fleets that cost more to service or replace in the event of accidents.
3. The provinces had different accident rates. The populations being insured were different and had different propensities to have accidents. For example, Alberta's economic success has drawn a higher than normal proportion of young men, who are more likely to have accidents.
4. The payouts on claims are different. Ultimately, consumers "get the insurance they pay for." Ontario had the highest average payout at $15,959 in 2005. Albertans received an average payout of $9,028, while low-premium Quebec paid out only $2,528 on claims. SGI paid out $5,453 on the average claim.
5. The prices in Saskatchewan are set (through the Saskatchewan Rates Review Panel), which means that the premiums offered are not necessarily a reflection of market.

Fig. 1: Monthly Electricity Bill by City[24]



Given these differences, it is difficult to say whether the deal offered by SGI as a Crown corporation represents better value than customers might expect from private alternatives. The premiums sound impressive; however, the payouts are comparatively meager, and differences in the environment, demographics and economics of the provinces mean that these comparisons cannot be definitive.

One area where there is less possible variation in the quality of the service offered is electricity. A kilowatt-hour is the same everywhere in the world. According to data provided by Manitoba Hydro, electricity in Saskatoon and Regina is somewhat, but not greatly, more expensive than electricity in other major centres.

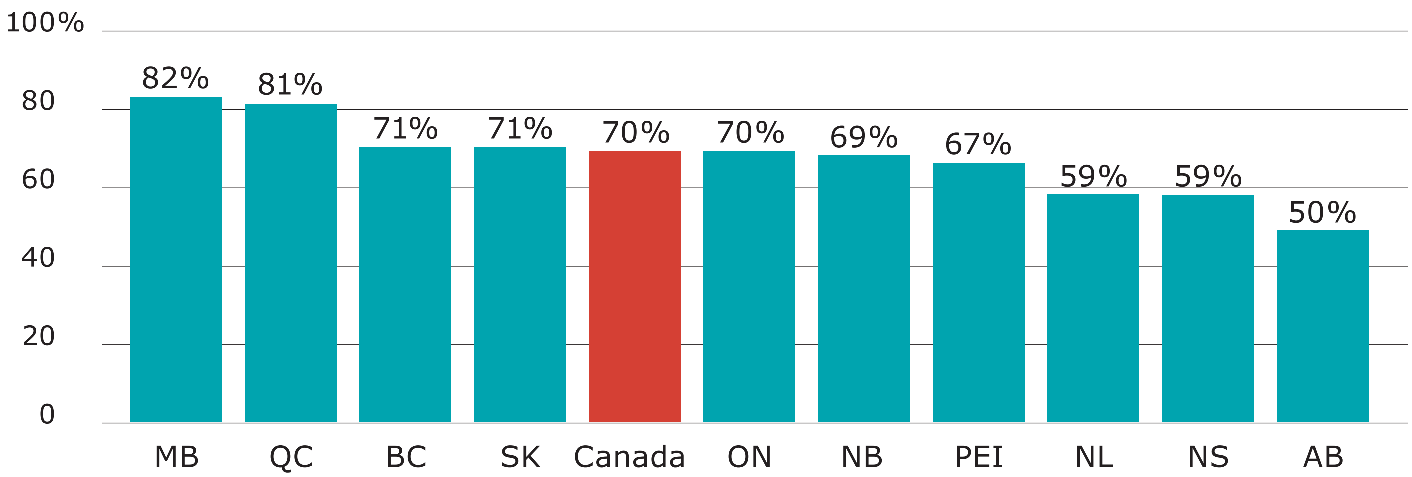
The chart is sorted by the monthly price for 750 kilowatt-hours of electricity (a reasonable assumption of what the average household uses),[25] from Montreal at $53.07 per month to Charlottetown at $126.95. Saskatoon and Regina place in the middle at $94.00. As with the other comparisons, there are clearly variables that influence prices that are more relevant than the ownership models. The three cheapest cities all have access to extensive hydroelectric power. Winnipeg, in particular, benefits from a loophole in the Equalization program wherein it does not suffer equalization clawbacks for offering customers extremely cheap electricity, which Saskatchewan and Alberta, on the other hand, do suffer because of the use of fossil fuels.

The most telling comparison is probably with the relatively private system of Alberta (mostly private generation with public distribution), which features a similar mixture of generation types. Consumers in Calgary and Edmonton pay $83.23 and $77.47 respectively for the same amount of electricity. Even in this comparison, there are probably variables that affect the outcomes more than whether the providers are public or private. For example, 90.1 per cent of the Alberta population lives in cities with more than 5,000 people, compared with 55 per cent of the Saskatchewan population; this should affect distribution costs.[26]

In summary, it would seem that in these three areas, the deal Saskatchewan people get from the Crowns is as good but no better than what is on offer from private alternatives in other provinces.

Appendix B: The employee's view

Fig. 2: Union Density in Utilities by Province[27]



The union density, or the percentage of unionized workers in an organization, could be taken as an indication of the premium that workers gain from employment in that organization.

Figure 2 shows the proportion of workers who are unionized in the utilities industry according to the North American Industry Classification System (NAICS).[28] It is worth noting that the union density for the entire Canadian economy is around 30 per cent, or just less than one worker in three. The utilities statistics are the best available to indicate the level of unionization in some Crowns. The NAICS category for utilities includes all electricity generation and distribution, and water and gas distribution, but not telecommunications. In Saskatchewan, this area is almost entirely dominated by the Crowns, with the exception of some urban utilities such as Saskatoon Light and Power.

From this very limited data,[29] a modest speculation can be made that Crowns in the NAICS utility classification have a higher union density than other firms do and that Crown workers probably command a pay premium in line with what unionized workers usually attract.

The section evaluating the customers' perspective of the Crowns compared the performance of SaskTel with that of MTS. The advantage of this comparison is that prior to the 1996 privatization of MTS, SaskTel and MTS were nearly identical companies. To this day, they continue to serve nearly identical markets, with the exception of MTS's 2004 out-of-province investment in Allstream.

Fig. 3: Employee Numbers at MTS and SaskTel 1996-2005[30]

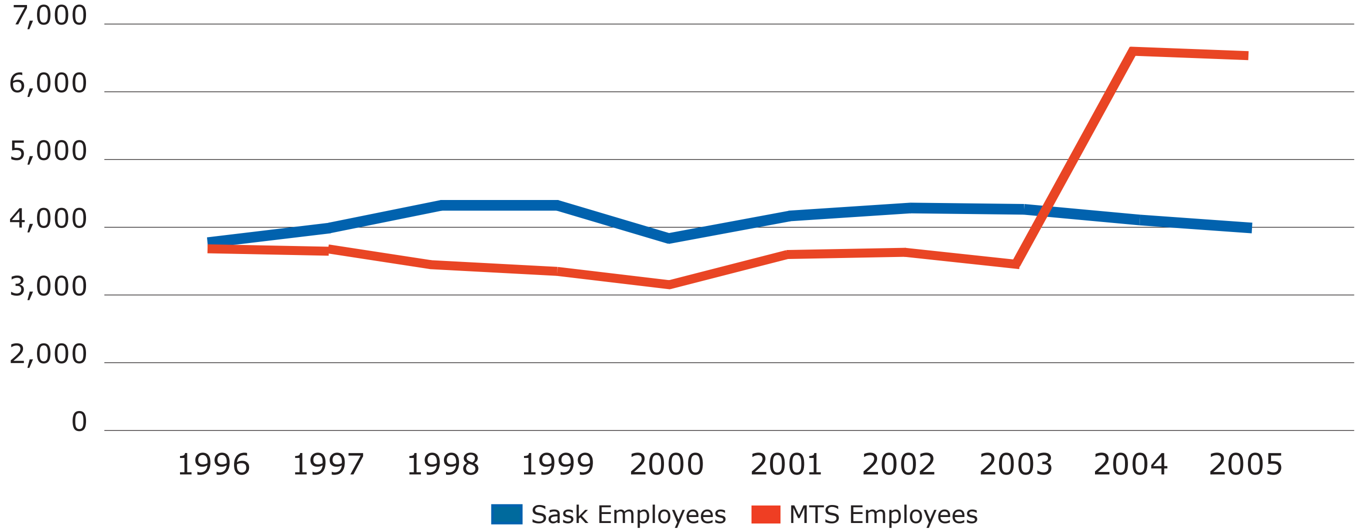


Fig. 4: Average Renumeration per Employee[31]

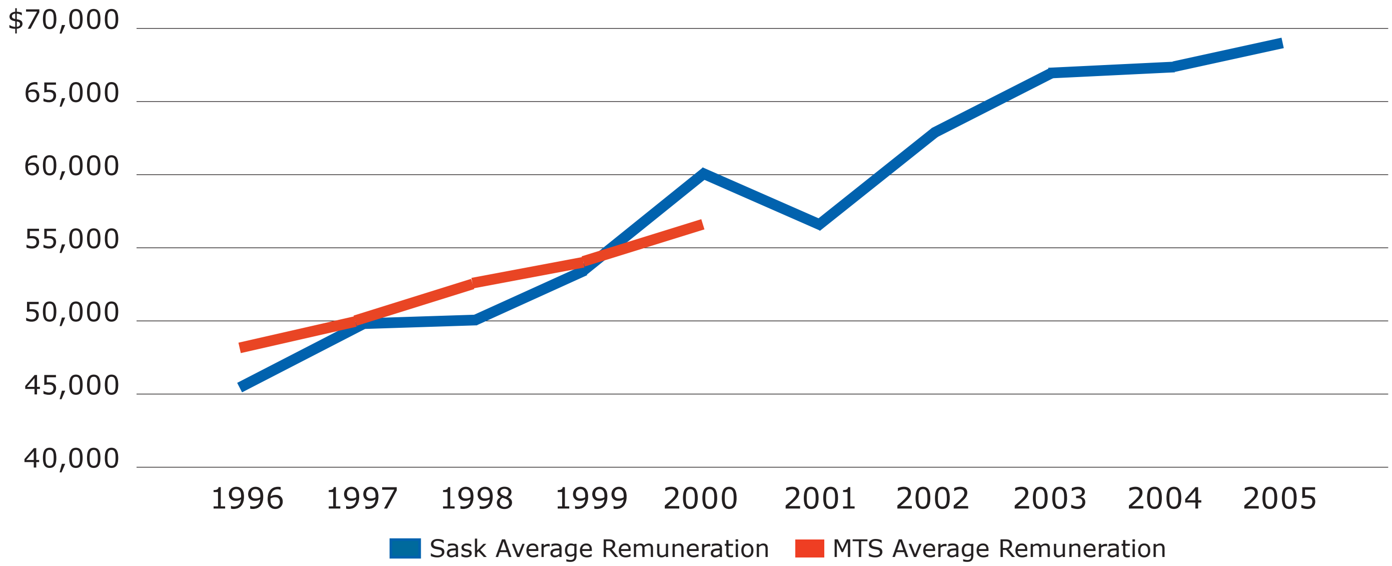


Figure 3 shows the reported numbers of employees for both firms. After the 1996 privatization, the two companies had nearly identical employee numbers. A large gap grew for the next three years, as SaskTel hired more staff and MTS reduced its payroll, until SaskTel also reduced its numbers in 1999. From that point, both figures stabilized and MTS operated with 10 to 15 per cent less staff than SaskTel did. From 2004 onwards, the staff at Allstream, a large, out-of-province company that MTS acquired that year, was added to the count and the two companies were no longer comparable. Figure 4 shows the average remuneration per employee for the two companies. Although data are not available for MTS after the year 2000, remuneration for the staff of the two companies has been similar, if more variable for SaskTel, over the period.

Endnotes

1. Figures for the year 2007, according to the Crown Investments Corporation web site. Previously available at http://www.cicorp.sk.ca/publicenterprise/contributing.html (Last accessed August 19, 2010)
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18. SaskTel Annual Report (2008), p. 28. Available online at http://sasktel.com/about-us/company-information/financial-reports/attachments/08-annual-report.pdf.

19. For publicly traded companies, the value or market capitalization of the company (the aggregate value of all shares in that company) is equivalent to the net present value of future income. In other words, for the perceived level of risk in the investment, how much income over time would the company's owners expect to gain? Investors who believe that shares in the company are selling for less than the net present value of income per share will want to buy shares in the company; those who think the company is overvalued by the same measure will be willing to sell. The result of this buying and selling is that the market capitalization of a company should equal a "wisdom of crowds" estimate made by all potential investors of the company's future income.
20. Crown Investments Corporation (2009), Annual Report, p. 22. Available online at http://www.cicorp.sk.ca/publications/cic_corporate/2009/annual_report. (Last accessed August 31, 2010)
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27. Data from Government of Newfoundland and Labrador, chart by author. Data available online at http://www.hrle.gov.nl.ca/lra/statistics/pdf/NAICS-22.pdf
28. NAICS 22 – Utilities include Hydroelectric Power Generation, Fossil Fuel Electric Power Generation, Nuclear Electric Power Generation, Other Electric Power Generation, Electric Bulk Power Transmission and Control, Electric Power Distribution, Natural Gas Distribution, Water Supply and Irrigation Systems, Sewage Treatment Facilities, Steam and Air-Conditioning Supply.
29. Figures for the level of unionization in the individual companies could not be found for the unions or the Crowns. No government agency publishes these numbers.
30. Calculations by the author from aggregate remuneration and employee numbers, both taken from the respective annual reports.
31. Figures taken from the respective annual reports.

Further Reading

June 2010

Saskatchewan's Commercial Crown Corporation Dividend Policy

Sheldon Schwartz

http://www.fcpp.org/publication.php/3309

September 2009

Ending Saskatchewan's Prohibition-Era Approach to Liquor Stores

David Snow

http://www.fcpp.org/publication.php/2956

June 2009

More Government Constraints=Less Value

Sheldon Schwartz

http://www.fcpp.org/publication.php/2799

April 2009

Knee-capping the Competition

Michael D. Donison

http://www.fcpp.org/publication.php/2694

For more see www.fcpp.org