

WITH Markus Buchart, former leader, the Green Party of Manitoba



MARKUS BUCHART has a B.A. (Hons.) from the University of Manitoba and an M.A. from McGill University, both in economics. He worked for six years as a Manitoba government economist, primarily in the finance department in tax policy and federal-provincial fiscal relations, and later in the environment department. He subsequently earned an LL.B. from the University of Manitoba and currently practices law, mostly civil litigation, at the Winnipeg firm of Tupper & Adams. Mr. Buchart was the leader of the Green Party of Manitoba from 1999 to 2005. He sometimes describes himself as "a recovering economist and politician." This interview followed a speech, "Dissipated Energy," delivered at a Frontier Centre breakfast on September 6, 2006.

**Frontier Centre: To what degree do you think the Province of Manitoba is under-pricing the domestic sale of electricity? It's called "power at cost," but isn't it actually "power below cost"? Manitoba Hydro says it costs about four cents a kilowatt hour to produce, but they sell it locally for about three.**

**Markus Buchart:** Yes, they admit that. At a Public Utility Board meeting in 2002, Hydro admitted that from the '60s onwards, when they had all this northern capacity for generating electricity, they had no place to sell it at the time and no way of exporting it. So they made a conscious policy of encouraging people, in the words of GE, to "live better electrically." The effect of that over the decades since is that we have been drawn into a lifestyle based on cheap power. They admit they're not recovering their marginal cost on tail rates, meaning they are not breaking even on the last units of power that people consume. They're subsidizing it, and they say they want to change that, but nothing has happened yet to move in that direction.

**FC: That artificially low price has encouraged a high level of consumption of electricity. To what degree are we profligate with electricity?**

**MB:** Industrially you can say, "We have cheap power, come bring your factory here." But all you end up attracting is industries that want to waste electricity, so it's kind of a losing game to play. On the residential side, it's the same thing. If you subsidize electricity, householders think, "Great, we not paying a lot for power." But look at all the money spent on building the power dams. Manitoba Hydro's debt is about \$6.8 billion, and that's guaranteed by the citizens of Manitoba, not by the government but by the citizens de facto. So they don't really have cheap power if you think about it in those terms. What they do have is a lot of debt and a lot of over-subsidized power.

**FC: Your party's former federal leader, Jim Harris says that many of the companies to which you referred exist only to harvest the subsidy. Do you agree with that?**

**MB:** I completely agree. I remember when Jim Harris came to speak for the Frontier Centre, and he made that pitch. It's true you encourage waste. And it turns out that countries that have high power prices become efficient in the use of

power. But they become efficient in other ways, too. Take, for example, Japan or Germany, or some of the western European economies. They have high-cost energy, but they get used to that cost environment and they end up becoming more competitive generally, not just in terms of their power consumption. In a way, we're attracting the dinosaurs and non-competitive industries to come here, and that's just a losing game.

**FC: You like to compare two commodities, electricity and chocolate.**

**MB:** I cross-examined an economist, Bill Harper, at the Public Utility Board hearings. I thought, "How can we explain the whole notion of diminishing marginal utility to non-economists?" I asked him questions like this: "From the economist's point of view, let's talk about utility. Is it true that most economic theory is based on utility on the demand side?" Harper answered, "Yes." "Is utility defined as pleasure or satisfaction or happiness or, in the case of my law practice, absence of pain?" I responded. After he stopped laughing, he said, "Yes." Then I asked, "So utility is good, lack of utility is bad?" "Yes," he said.

"Let's talk about a commodity," I followed. "Let's use chocolate as an example. Is it fair to characterize utility as this: the first piece of chocolate you eat is heavenly, the next piece of chocolate is very good, but not as good as the first piece, the third piece of chocolate is still good but not as good as the first two pieces and onwards? Do you eventually get to a point where there's no utility from that next piece of chocolate?" Mr. Harper said, "That's correct."

"From an economist's point of view, does electricity exhibit the same qualities of utility?" I then asked. He answered, "Yes, it does." "Therefore," I said, "the first units of consumption are the ones people derive the most pleasure from, and the last units of consumption are the ones they derive the least pleasure from." He agreed. "So then in the current structure of pricing electricity," I concluded, "where we price the first units of consumption high and the last units low, it subsidizes gluttony. It subsidizes the wasting of the last units where you derive the least pleasure; those are the ones that cost the least." He agreed that that was a correct characterization.

**FC: Your solution for that was to suggest an inverted price structure. Instead of being charged more for the first units of consumption and less for subsequent units, you should charge less for the first units and more for those excess units where your needs are almost completely met.**

**MB:** Correct. My clients, two environmental groups, knew this was being done in certain American jurisdictions. The one example we knew well was the city of Seattle, but other places in New England and the province of Québec prices their power that way. Our proposal was that Manitoba ought to be doing that to stop subsidizing waste and essentially charge less for those first units of consumption.

**FC: But it's also true that Québec is even more wasteful of electricity. Isn't its per-capita consumption even higher than Manitoba's?**

**MB:** That's true. It all depends on what rates you set. You could have an inverted rate structure – or a progressive rate structure, as I prefer to call it – but if each rate is undercharged, then the whole system is undercharging. So you could still have a wasteful system with an inverted rate structure. If they want to recover all the costs of generation and distribution systems, they would have to set each of the rates within the inverted rate structure high enough. Just because it's inverted or progressive doesn't necessarily mean it's actually capturing all costs. So you need objective pricing, but within that framework an inverted rate structure is still preferable.

**FC: Besides encouraging wasteful use, doesn't cheap power also create a fiscal problem for Manitoba? We wouldn't be so dependent on federal transfers if we priced the resource closer to market value. Can we say that equalization is a federal transfer which allows us to get away with a "power at cost" ideology?**

**MB:** In my civil service days, I was involved in official discussions of federal-provincial relations. The system works like this. Then there were 38 tax bases, 38 different types of sources of revenue available to a provincial government. The system tries to equalize the potential for revenue with the tax effort. In this case, the tax effort – the effort to derive value from the Manitoba's power dams – is not up to its capacity. They are giving away the power. They're not turning it into a financial benefit. At some point, the federal government might just say to us, "You're just giving it away and you're responsible under our equalization system to try a little harder to get the true value out of your resource."

**FC: Frontier has calculated that there is a billion dollars in under-pricing happening every year in Manitoba. Do you have a problem with cutting taxes and raising power prices?**

**MB:** There's an old saying that there's only one taxpayer. You could expand that and say there is only one citizen, who's paying taxes and also paying the costs of necessities. Whether you call it a tax or don't call it a tax, it's still a

charge that a citizen ends up paying. If you were to reduce the tax and flow the money into Manitoba Hydro, in a broad sense that would be revenue neutral to the citizen, to that one taxpayer. But then you could also capture the significant advantages in conservation and power efficiency higher prices would make available.

**FC: In Manitoba's tax structure, we have payroll, business and income taxes. Would you be willing to cut any of them to make us more competitive?**

**MB:** I've always thought that the payroll tax was unwise; it's really a tax on employment. The Green Party has a slogan "Tax Bads, Not Goods." The Green Party would like to shift taxation onto consumption of "bad" commodities, get it off income and certainly get it off wages, which is what a payroll tax taxes. Still, the economist in me says you need a general tax base, a general source of revenue. The government has certain needs that are constant. If you wanted to shift everything onto smoking, for example, then what if everyone stopped smoking? You need a tax base that you can count on, that won't just vanish. The problem with *only* taxing "bads" is that, if you tax certain things out of existence, you will have no revenue. I don't subscribe to the pure, simple version of the Green plan. I think you have to be a bit more realistic.

**FC: Would any of these pricing problems even be a consideration if Manitoba Hydro weren't a Crown corporation?**

**MB:** You wouldn't really want 12 competing power companies having 12 sets of power lines running down your street. I can see some argument for the public distribution of electricity.

**FC: In the British model, the grid structure was retained as a regulated utility, but they opened up the generation market, so there were competing private generators bidding to put power onto a public grid. That makes prices less an object of political whimsy.**

**MB:** If you were starting from scratch, I think the system would have evolved better had it been done that way. But we didn't; we have all this baggage. It was made a public monopoly. How do we get back to the benefits of a decentralized system of power generation from the current system? At this point, that would be a hard thing to do. I suspect that the public would lose out on it if you were to privatize, so I don't support privatization of the system. But, that said, certainly its monopoly on the powers on sale in the *Hydro Act* has to go. Essentially that means that anyone who wants to produce power and put into the grid has to do on Hydro's terms.

**FC: Those terms seem to have been liberal, though. They've been quite open to alternative power generation and to accepting it into their model.**

**MB:** In recent years, Hydro has been more open to that, and I think that's largely due to public pressure. Public

relations have improved, but I think the reality for other producers probably hasn't as much.

**FC: What's your view of using electricity profits to subsidize natural gas?**

**MB:** I wouldn't want to see natural gas subsidized. Electricity ought to be priced on a cost-recovery basis, and so should natural gas. People should pay the cost of power. They can adjust their consumption, better insulate their houses, and adjust their lifestyles in order to consume less. They'll find that they won't be any poorer for it, they'll be richer.

**FC: Hydro-electricity is clean and renewable. If we are somewhat profligate with the resource, don't those qualities mollify the environmental impacts of the wasteful activity?**

**MB:** Just because it's better than coal and nuclear doesn't necessarily mean that it's good. Hydro and the Manitoba government always pipe that it's clean energy. Well, that's not entirely true. There were huge amounts of land flooded, particularly in the South Indian Lake diversion. That's releasing greenhouse gases like carbon dioxide and methane into the atmosphere. And mercury gets released into the water. Fish can't migrate because dams are in the way. Hydro dams still enact a cost to the environment. But I take your point that it's cleaner relative to other sources.

That said, conservation of energy allows us to avoid building more dams than we need. Decreasing local consumption frees up excess power that we could export to fill high demand in the United States. The Americans then wouldn't generate as much power with coal. Manitoba would relieve some environmental problems down in the States and make a handsome profit and a return on our investment in these dams. At some point they may want to build another dam, they may need one. But our position is that there isn't a need now.

**FC: You mentioned with irony the campaigns of a few generations ago about "better living through electricity," and now we have a reverse sort of public flogging with "Power Smart," the campaign to encourage people to reduce consumption. All the while they keep a price structure in place that encourages over-consumption. Don't you find that ironic as well?**

**MB:** When you have a government monopoly, it's going to engage in public relations. Let's call it what it is, propaganda. They're able to spin what they're doing, when the reality is completely different. At a hearing I once cross-examined the fellow in charge of Hydro's demand-side management, where they try to get peak usage periods down. He admitted that, to his knowledge, saving power was not one of the goals of the corporation. I could see other brass from Manitoba Hydro cringing when he said it. He was probably speaking the truth as he understood it.

**FC: The Conservative and Liberal Parties would seem to be more likely than the NDP to price our Hydro**

**resource at what it's really worth. But there's still an instinctive fear among them and all politicians of touching this obvious issue. Why is it so difficult for them?**

**MB:** New Democrats learned a lesson during the Pawley years. The rates charged by the Manitoba Public Insurance Corporation shot up, with a 10 or 14% increase in one year, as I recall. There was a revolt. The NDP learned from that the political case for having public corporations give away their product cheaply. That's one of the reasons why certain businesses should not be monopolized by the government, because it creates political pressure to keep rates down. The government sometimes won't be able to resist that pressure, even though it makes no economic sense.

**FC: So when they act as both the owner and the regulator they have a conflict of interest?**

**MB:** That's exactly right. One example the so-called "no fault" system we have with auto. Under the old tort system in place until 1993, people who were seriously injured in car accidents could recover their losses. A Progressive Conservative government decided to pit the interests of the small number of people that get seriously banged up in car accidents against payers of general premiums. They, too, learned from the NDP's experience in the '80s and decided to keep rates down. One of the ways to do that was to make sure that accident victims don't get paid the full value of their injuries.

On principle they decided to keep the rates low, and effectively placed that burden on the backs of the seriously injured. They can change those rates in a cabinet meeting. They don't have to go to the Legislative Assembly, and "no fault" means there's no court hearing available for anyone to challenge that. So the government is in a conflict of interest. It can't be both the referee and serve on one of the teams at the same time. This is the problem when it gets too involved in ownership of the economy.

**FC: Former Premier Ed Schreyer is unhappy with the environmental assessment and approval process. He says it takes too long and it's too complex to allow for the economic development that Manitoba needs. What do you think?**

**MB:** Shortly after the last provincial election, Gerald Flood of the *Free Press* wrote an article and quoted the Premier as saying that environmentalists always win. The sentiment was that this process is expensive and that environmentalists always win. That is the feeling amongst technocrats and bureaucrats like the Premier and former Premier who wanted just to be able to steamroll and just do things. They want to do things without the hassle of proof. In general, I think that the system of public consultation on development in this province is quite inadequate and shabby. The public deserves better consultations, not fewer, as these two politicians have proposed.

**FC: The New Democratic Party has always fancied itself as the right party for environmentalists. What does the Green Party offer that's better?**

**MB:** The NDP really got quite a free ride. They were the Party of default for environmentalists since the '70s, and undeservedly so. In most respects, the NDP has been even slightly worse than the Progressive Conservatives in provincial office. I think the Progressive Conservatives tried a bit harder than the NDP did, who took their support from environmentalists for granted. When I campaigned door to door, I would name things that Conservatives had blamed for, and then ask people to name one the NDP had undone since taking office. Nobody ever could, because they haven't undone anything. In fact, they've made things worse.

**FC: The federal Green Party has elected Elizabeth May as its new leader, a person considered far to the left of Jim Harris, the former leader. Can the party expect their electoral support to expand with that choice? Doesn't the party need to head the other way, to the centre, if it hopes for success?**

**MB:** Another fellow, David Chernushenko from Ottawa, ran an impressive campaign. As a leadership candidate, he was more in the tradition of Jim Harris leader or even myself. Internally, we refer to ourselves as more "blue-green" than "red-green." "Red-greens" are often called watermelons, green on the outside and red on the inside. But I think there's not that big of a difference between Elizabeth May and David Chernushenko. The tone of her pronouncements comes across more like a New Democrat, so I think it takes the party's potential for growth in a different direction. I was disappointed when David lost because I think Jim Harris did such a good job of making Green Party policy seem so reasonable without threatening people. Jim and David both had a talent for not browbeating people but convincing them with reasonable arguments. I think Elizabeth May will have to change the tone of her statements.

**FC: The Manitoba Green Party is still a work in progress. How would you recommend that that Party move things forward in Manitoba to be both smart and green or "blue-green," as you put it?**

**MB:** I find that difficult to comment on because I'm involved in it myself. When Holly Nelson became leader, she talked about the need to broaden and expand the base of the Green Party. The party gets great support from young people but you also need support from all sectors – middle-aged, working, professional people and senior citizens. She's on the right track with that. I think they need to work on it.

**FC: It's pretty clear that, when the people of Winnipeg have to choose between the dangers and the annoyance of mosquitoes and the risk of spraying**

**malathion, they are going to choose the latter. Do you think they are wrong?**

**MB:** Yes. The only study ever done on the effectiveness of fogging was the 1983 Clean Environment Commission study. It concluded that ground or aerial fogging in Winnipeg on average conferred 30% relief for two or three days. A rural area like Pine Falls had only one day of 30% relief. In a hundred-day mosquito season, you would have to fog every three days. If you fogged every three days, it would cost a fortune, and I submit that spraying that much neurotoxin into the environment would be highly harmful to people's health and to eco-system. On top of that, at best you achieve a 30% reduction in mosquitoes. It's clear that fogging is a placebo. It makes people feel genuinely better but it doesn't actually work and it's expensive.

But to me the greatest argument is that it is a neurotoxin. The chemical malathion is related to agent orange, a defoliant in the Vietnam war. The effects of putting this into our environment year after year are really bad. Most other urban areas in the country and in North America, places that have bad mosquito problems, do not fog with malathion. New York tried it briefly when West Nile hit in 2001-02 and discovered it didn't work. We are the dinosaurs by continuing to fog.

**FC: Why do adherents of the idea that humans are driving climate change claim a scientific consensus on that subject when no such consensus exists? Isn't that a symptom of true believing rather than a rational response to the issue?**

**MB:** I don't know. Everything I read, including United Nations' reports, says that. A UN climate change panel of the United Nations says that the scientific consensus is that there's manmade climate change.

**FC: But that panel, the IPCC, still uses Mann's hockey stick graph on recent temperature trends on its website. But the hockey stick has been completely refuted. No one else has been able to replicate it from the data.**

**MB:** Lately it seems from my reading that what is driving climate change has a new twist. A new theory, the "global dimming" theory, posits that the release of particulate pollution into the atmosphere is blocking out the sun's rays, which means that global warming would have an even greater effect were it not for that. So if we solve the problem of global warming with greenhouse gas reductions, then we'll actually decrease global dimming and thereby in turn increase heating. You could say all this is an article of faith, but I guess you could really say that about all scientific belief. Who, beyond atomic theory, has ever seen an atom or a subatomic particle? You don't ever see those things, but the theory is a good theory. The scientific consensus on manmade global warming is a type of faith, but I believe it.

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