

WITH Sheldon Schwartz

Born in Regina, **Sheldon Schwartz** worked for the Province of Saskatchewan during a career spanning 25 years, including as Assistant Deputy Minister of Finance, responsible for Saskatchewan's treasury and debt management functions and as the Chief Financial Officer and Vice President of Finance and Administration for Crown Investments Corporation, the Province's holding company for its commercial Crown corporations. He has a Masters degree in Economics from Carleton University, and holds the Chartered Financial Analyst (CFA) designation. A semi-retired consultant living in Victoria, British Columbia, Sheldon continues his lifelong interest in public policy in Saskatchewan. His recent article, "Saskatchewan's Crown Corporations – Time for a New Crown Review", appeared in The Saskatchewan Institute of Public Policy's *Winter 2008 Policy Dialogue*. He was interviewed following his Breakfast on the Frontier speech in Regina on June 21, 2008.

**Frontier Centre: You start your presentation by saying that the Crown Corporations are almost beyond political debate due to the Crown Corporation Public Ownership Act. Can you explain how that Act stymies debate on the Crowns?**

**Sheldon Schwartz:** It sets a high political threshold for any government contemplating privatizing a Crown. As I read it, any privatization needs specific legislation to authorize it. Before you can pass that kind of bill, you have to submit the terms of the privatization to additional detailed scrutiny, the results of which have to be disclosed in a public report. And even if there is still a willing buyer and a willing seller at the end of that process, you can't bring the legislation into force until 90 days after a provincial election is called.

**FC: So it's very difficult for any government to contemplate actually privatizing a Crown and yet you make the case that there still should be debate around continued public ownership of them.**

**SS:** Sure. I think that good public policy withstands scrutiny. The Crowns were created as a very pragmatic means to a public policy end, i.e. to address a perceived private market failure where the private sector either wasn't providing a service or wasn't providing at what was considered a socially acceptable cost. The Crowns were established to provide certain basic economic infrastructure to support the development of an advanced economy in a region of vast geographic distances, relatively low population density and a harsh climate. Given the reasons for establishing them, I think it's a good idea to have a look at whether they've fulfilled those mandates and, if so, what is the continued public policy purpose for government ownership. And if they haven't fulfilled their mandates, why not?

And on another stream of thought, the Crowns represent considerable assets, both in terms of their presence in the provincial economy and their sheer magnitude. The book value of the assets in the commercial Crown sector under the purview of Crown Investments Corporation, which is the province of Saskatchewan's holding company for its commercial Crowns, totaled about \$9.6 billion at the end of 2007. The four largest Crowns: SaskPower; SaskTel; SaskEnergy; and, SGI Canada, account for a little over 4/5<sup>th</sup> of that total. So, as would any prudent investor looking at assets that are held in trust for them, I think it would be reasonable to ask as to their current market value, both in absolute terms; and, looking back at the 1996 Crown

Review valuations, whether they are maintaining or enhancing their market value relative to private sector peers in similar kinds of activities. The Crowns having being established as means to a public policy end, what are the current public policy activities that the Crowns conduct? How much do these public policy activities cost per year, defining a public policy activity as something that a private sector corporation wouldn't do without a subsidy?

So, just as you would with stocks in a portfolio, I think you should periodically ask yourself, how are they doing? How are they doing relative to their counterparts? And, why do I own them? I think that's a healthy thing for any prudent shareholder of any company, private or public, to have a look at. I think that they're questions that any board or officers of a corporation, public or private, should be able to answer.

**FC: So the Terms of Reference for any kind of review, and there hasn't been one of these reviews since 1996, would be to go in with the perspective of a shareholder of any company and possibly also acknowledge some of the other public policy objectives for owning a Crown. What do you imagine might be some other public policy objectives that people would measure aside from the pure financial investment in return?**

**SS:** The commercial Crowns were created to address particular public policy problems. The needs and circumstances that led to their establishment differ by industry and by Crown corporation. But in general, I think that you need to examine their situation and outlook, whether they've addressed the original public policy purpose for which they were established, identify what are the public policy activities they continue to carry out and their annual cost, and, has the investment maintained or enhanced its market value.

**FC: You note that since the last independent review of Crown Corporations in 1996 there have been a number of economic and technological changes and that they have possibly changed the environment in which these Crowns are operating. What sort of changes do you have in mind there?**

**SS:** Well there's been more than a decade, more than half a generation of changes in their commercial, regulatory, technological, strategic and competitive environments. For example, the telecommunications industry has seen a great deal of such change since 1996. SaskTel wasn't federally regulated in 1996. If the environment today is one where

SaskTel is offering similar products in competition with private carriers and is now federally regulated, what's wrong with reviewing its current situation and outlook and asking in that context what is the public policy purpose of continued government ownership?

**FC: With such a politically charged issue in Saskatchewan, it's difficult to imagine that any review could be truly independent. What criteria might help to ensure that the review is as independent and credible as possible?**

**SS:** I think the criteria should be that the review should be independent of government, objective, transparent and rigorous, with full public input and debate, and be conducted by somebody with no economic or political stake in its outcome, with the credibility to write a report that wouldn't be considered partisan.

**FC: From the point of view of the public policy goals of the Crowns, do the different services that they offer in different markets, for example a telecoms company versus a gas company, do those differences make some more or less suitable for general public policy goals?**

**SS:** In terms of their current suitability, I think that's something best asked and answered by the public of Saskatchewan through a Crown review.

**FC: You mention a thought experiment where the government hypothetically doesn't own the Crowns and faces the decision to buy them at their market value. Can you explain how that works?**

**SS:** It's another framework to look at something that has often been a very politically charged and emotionally charged issue, perhaps a different mode of thinking about the issue. In economics, but not in politics, the decision to own or to not sell a marketable asset is the same as the decision to buy it at its current market value. So as a thought experiment, if SaskPower, SaskEnergy and SaskTel were privately owned and independently regulated, would the public of Saskatchewan support a government policy to borrow billions of dollars to nationalize them? If SGI Canada was privately owned, similarly, would the public of Saskatchewan support a government policy to borrow millions of dollars to nationalize it?