

Locking Up the Pork Barrel Reasoned economic development takes a back seat to politics at ACOA

by Brian Lee Crowley and Bruce Winchester

Incoming prime minister Paul Martin has let it be known that part of the legacy he wishes to leave behind is a new deal for Atlantic Canada, one that abandons the failed policies of the past in favour of promoting genuine economic prosperity and growth in the region. In considering how to pursue this laudable goal, the prime minister will have to decide what to do with the government's lead agency on Atlantic Canada, the Atlantic Canada Opportunities Agency (ACOA). In this edition of *ACOA Watch*, we review new evidence of how politics has infected decision making at ACOA, driving many policy commentators to look for ways to base federal initiatives on the region's genuine economic strengths, rather than on the political needs of the governing party, whatever its partisan stripe.

Last week, Jack Mintz and Michael Smart of the C.D. Howe Institute (www.cdhowe.org) released a study, *Brooking No Favorites*,¹ critical of ACOA. The study notes that many decisions about where the agency will spend the hundreds of millions of dollars it controls appear to be politically motivated. This might not come as a surprise to Atlantic Canadians — over the years, allegations of favouritism have been standard fare on the front pages of our morning newspapers. But to date such allegations have been based chiefly on anecdote and guesswork. For the first time, Mintz and Smart analyse and document

in detail the politicization of ACOA spending.

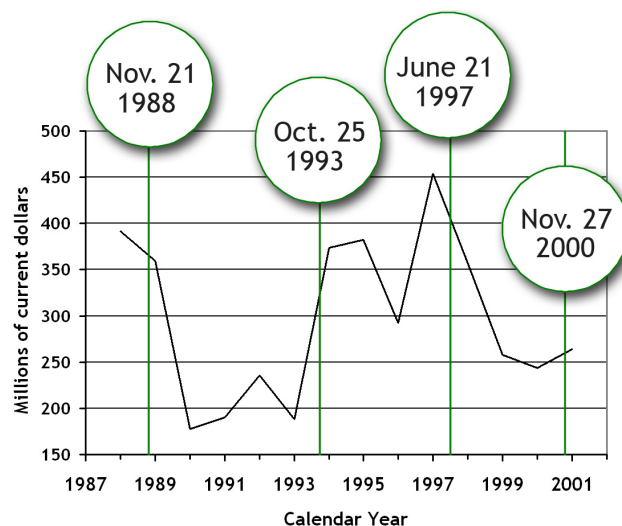
The politicization of ACOA spending takes two chief forms: the timing of that spending and its distribution across federal ridings throughout Atlantic Canada. Let's review the evidence on both counts.

The Timing of ACOA spending

ACOA's own grants and contribution database reveals noticeable peaks in overall spending in fiscal years 1988/89, 1994/95, 1996/97, and 1999/2000, which just happen to coincide with the four federal elections held since the agency was created in 1987 (see Figure 1).

Figure 1: Total transfers (grants and contributions), committed by ACOA

Balloons represent election dates.



Source: Mintz and Smart, p. 8.

On its creation, ACOA was intended to be the “local face”, so to speak, of the federal government in Atlantic Canada. The ability of such an agency to pour money into the region during the lead-up to an election or help smooth the introduction of a potentially unpopular policy decision thus could be advantageous for the governing party in Ottawa. In particular, it could be a boon for MPs who were elected by a slim majority or in response to a previous government mishandling of key regional issues.

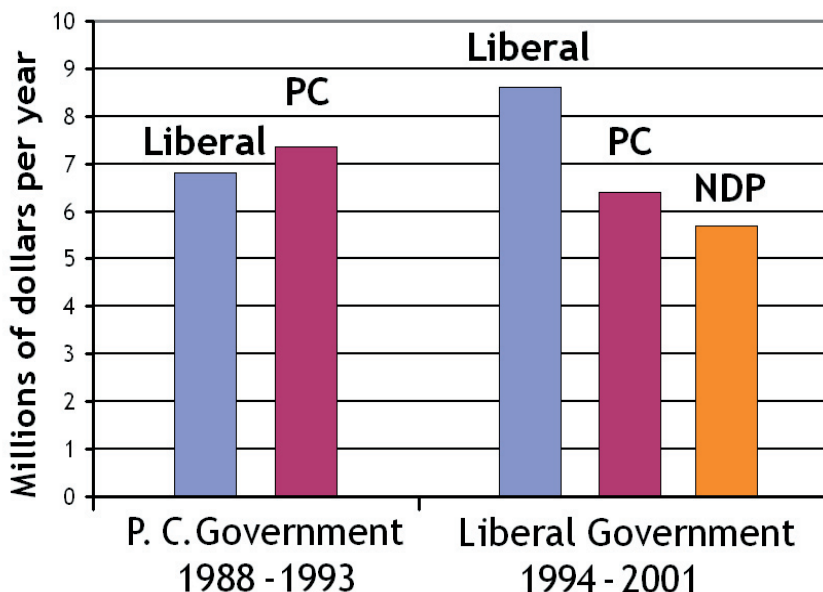
Big spending in the first year of ACOA’s existence reflected early efforts to get the agency off the ground; however, it also coincided with what was widely expected to be a hard-fought federal election in 1988 over the Canada-US free trade deal. ACOA spending then bottomed out in 1990, reflecting to some extent Ottawa’s tight financial constraints in the early years of that decade. Spending rose again in 1992, the last fiscal year of the Brian Mulroney/Kim Campbell government.

Increased spending in the second and third fiscal years of the Chrétien government’s first term coincided with the reality that the Liberals had increased the number of seats they held in Atlantic Canada. But it also came at a time when there were concerns about the political fallout from a plan to overhaul unemployment insurance in ways that would have a major negative impact on workers in the region.

ACOA Spending by Federal Riding

Looking at big picture spending levels is a blunt analytical instrument. Thus, to arrive at more precise conclusions, the C.D. Howe study also looks at trends in ACOA spending on a riding-by-riding basis.

Figure 2: Average ACOA Spending per Riding by Party Incumbent



Source: Mintz and Smart, p. 8.

Mintz and Smart found that, although slightly more money flowed into ridings held by Progressive Conservatives between 1988 and 1993 (when that party was in power) than into ridings held by other parties, the difference was not statistically significant, making it difficult to conclude that ACOA spending played an overtly partisan

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political role during the Mulroney/Campbell years (see Figure 2). Indeed, one could argue that creating the agency and spending a large amount in the lead-up to the 1988 free trade election may have been part of a PC strategy to show an interventionist side while promoting growth-friendly reforms. ACOA spending increased in fiscal year 1992/93, but spending levels were dramatically lower between 1990 and 1993 than they were before or after those dates. A weaker correlation in favour of PC-held ridings prior to 1993 may simply reflect lower overall ACOA spending in the lead-up to the October 1993 federal election.

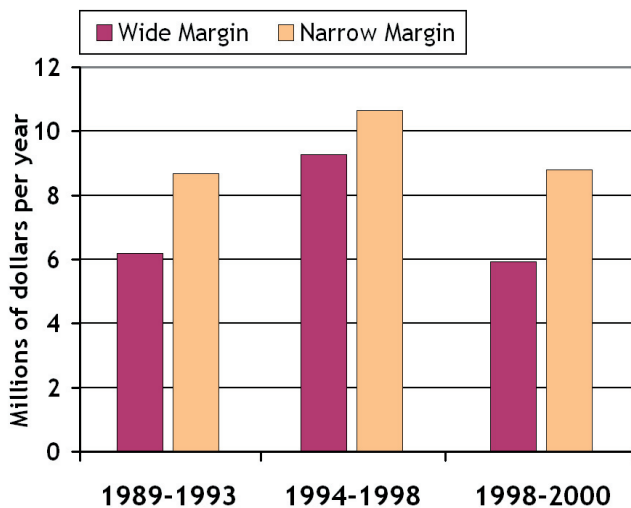
Since 1994, however, ACOA spending under the Chrétien government was, on average, 40 percent higher in Liberal-held ridings than in opposition ridings. The *National Post* recently reported that ACOA Minister Gerry Byrne had, in less than two years, funneled \$35 million into his Humber–St. Barbe–Baie Verte riding in Newfoundland and Labrador, prompting Auditor General Sheila Fraser to ask her staff to look into decision making at the agency. A PC-held riding, Gander–Grand Falls, got the least funding over the same period.

Even among Liberal ridings, however, the spending has been skewed. In contrast to Mr. Byrne’s constituency, ridings represented by government backbenchers have fared much less well. Bill Matthews, the Liberal member for Burin–St. George’s, has complained that the \$12 million his riding received is far less than the largesse doled out in Minister Byrne’s riding. Mr. Matthews was quoted as saying: “The fact that three times as much money has gone into Gerry’s riding...is just not right. I would like to have fair treatment for the people I represent”.²

Looking at overall spending and the amounts

channelled into government-held ridings is only one way to measure the politicization of ACOA spending. The C.D. Howe Institute study also examines apparent government strategy to direct funding in order to make gains in so-called swing ridings. Mintz and Smart find that the 25 percent of ridings with the lowest margin of victory in the last general election received a larger share of ACOA grants (see Figure 3). Although the differences are not as dramatic as the spending swings, they do show a clear tendency for ACOA spending to be concentrated in ridings where political fortunes may be narrowly won or lost.

Figure 3: ACOA Spending per Liberal Riding by Previous Margin of Victory



Note: Narrow Margin ridings are defined as the 25 percent of the Liberal ridings with the smallest margins of victory

Source: Mintz and Smart, p. 9.

Given these spending trends, it is difficult to deny that politics plays a determining role in the distribution of ACOA funds. Even if more research is clearly required, it is certainly hard to disagree with Mintz and Smart’s diplomatically phrased provisional conclusion that this kind of granting pattern means “the money is not being put to the best economic purpose”.³

What’s the Alternative?

Mintz and Smart’s analysis shows not only that ACOA has had a limited impact on economic development in Atlantic Canada, but that the program’s direct subsidies — so-called corporate welfare — have had a negative impact on the region’s economy. Most studies have found that, instead, broadly based tax cuts are “the tonic for an economic boom”.⁴ Although they stop short of endorsing such a cut to federal corporate taxes in Atlantic Canada, Mintz and Smart propose a broad-based investment tax credit for the region.

In making this recommendation, Mintz and Smart join a host of other policy commentators who have made the case for abandoning a grant-and-spending-based strategy for federal regional economic

policy. Instead, a consensus appears to be emerging in favour of a tax-based policy, though analysts differ on the details. Commentaries from Atlantic Institute for Market Studies authors, for instance, have called for changes to ACOA and for exchanging agency spending for federal or provincial reductions in the business sector’s tax burden.

One proposal, floated by former New Brunswick premier Frank McKenna and former PC leadership candidate (and now Liberal MP) Scott Brison, among others, is for a broad reduction in federal corporate income taxes in Atlantic Canada. Indeed, the general corporate tax rate could be reduced from its current 21 percent to 14 or 15 percent, while small business tax rates could come down from 12 percent to 5 or 6 percent, at a cost of \$250 million in federal corporate tax receipts — roughly equivalent to the value of annual grants and contributions from ACOA.

Whether by a straight federal and/or provincial tax rate reduction or a tax credit along the lines of the Mintz and Smart proposal, a move away from ACOA grants is clearly winning significant support in the policy community, including analysts in Atlantic Canada.

Incoming prime minister Paul Martin has spoken often about the need for community economic development. It is not a question of hoping for change — for Atlantic Canadians, the need for change is apparent. Mr. Martin must give serious consideration to winding down the ACOA pork barrel. Rather than creating a new vehicle for regional grants or community-based decisionmaking for grants, the best and most efficient way to promote growth in the region is to reduce the tax burden on productive companies and workers. The Mintz and Smart proposal is a welcome addition to the debate, and one that a new prime minister committed to a new deal for Atlantic Canada should consider carefully.

Footnotes

¹ Jack Mintz and Michael Smart, “Brooking No Favorites: A New Approach to Regional Development in Atlantic Canada,” *C.D. Howe Institute Commentary* 192 (Toronto: C.D. Howe Institute, December 2003).

² Robert Fife, “ACOA minister poured cash into his riding”, *National Post*, November 20, 2003.

³ Mintz and Smart, p. 10.

⁴ *Ibid*, p. 12.

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