Reasons to Derail the Gravy Train

Christopher Ragan

The Montreal Gazette, February 21, 2008

The provincial premiers have recently been demanding cash from the federal government for struggling manufacturing firms. Loudest have been the Ontario and Quebec premiers, whose provinces have the bulk of Canada's manufacturing firms, many of which have been harmed by the rapid ascent of the Canadian dollar over the past five years. The premiers point to over 230,000 jobs lost in Canadian manufacturing since 2003 and then look to Ottawa for a remedy. But Stephen Harper and his finance minister, Jim Flaherty, have shown remarkable restraint in the face of these demands. They have not only rejected the idea in principle that the feds ought to come to the rescue, but have rejected specific high-profile proposals, such as giving $30 million to Ford to help it re-open a plant in Windsor.

Why should the federal government resist writing such cheques? There are three main reasons. First, even if the government wanted to help, it is impossible to know which manufacturing firms are struggling because of the rise in the dollar and which are struggling because they made poor decisions regarding products, prices, or management techniques. If the government nonetheless makes cash available, the result of the inevitable lobbying process would be money being given to firms that are politically well connected, located in "strategic" ridings, or simply large enough to make a good headline. In Ontario, the car manufacturers would surely get more than their fair share of the money; and in Quebec, who doubts that the lucky few would be aerospace firms? But why should these firms get help when others don't, and why should a small number of big firms receive cash when far larger numbers of smaller firms are ignored only because they fall under the government's radar? There is no reason to think that money doled out on such political grounds would make any sense economically.

The second reason to avoid providing cash to struggling firms is that Canada already has a generous and well-functioning social safety net designed to help individuals in need. Some people might argue that we should expand this safety net to include firms, but this is wrong.

When a firm experiences hard times, it is the individuals involved and their families that we should care about, not the firms themselves that exist merely as legal entities on paper. But anyone who gets laid off in Canada is usually eligible for employment-insurance benefits which provide crucial assistance to workers waiting to be recalled or making the transition to other firms or industries. Nobody should be allowed to get away with the argument that a government refusing to assist struggling firms doesn't care about working Canadians.

The third reason for not throwing money at struggling manufacturing firms is the most important of them all. The government should not interfere with the necessary economic adjustment driven by the external forces that lie behind the soaring Canadian dollar. Since 2002, the average world price of the raw materials that Canada exports has increased by over 90 percent, and this has been an important driver of our national income and employment. Total employment has increased by over 1.2 million since 2002. But these gains don't come for free; some painful adjustment needs to occur, as capital and labour move away from the declining manufacturing sector and towards the expanding resource and service sectors.

Any economy facing these outside shocks needs to adjust. If the shocks are only temporary, there is little need for government to assist firms, and even less reason to think that it could do so sensibly. But even if the shocks are long-lasting or even permanent, the last thing we want is government policies standing in the way of the movement of capital and labour toward those regions and sectors where they are most in need. And don't think there's anything special about the past five years—the movement of workers out of manufacturing and into services since 2002 is just a minor blip in the same overall trend we have seen in Canada and every other developed country over the past half-century.

Rather than the federal government designing ways to assist struggling firms, it should instead devote its efforts to making sure the economy is flexible enough to adjust smoothly to changing economic trends. An important part of this approach would be providing funds to workers who need retraining as part of a transition from one sector to another. This objective appears to be a major part of the new $1 billion Community Development Trust, created last week by Parliament.

So congratulations are in order to the Harper government for resisting the siren song coming from Canada's manufacturing firms. The rejection of targeted financial assistance to specific firms is solidly based in good economic reasoning. Let's just hope the shifting political winds in Ottawa don't force Harper's ship of state onto the rocks.

*****

Christopher Ragan is an associate professor of economics at McGill University in Montreal. Christopher.ragan@mcgill.ca.