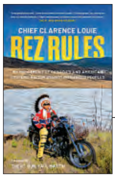


7-WORD BOOK REVIEW

Rez Rules: My indictment of Canada's and America's Systemic Racism Against Indigenous Peoples by Chief Clarence Louie

Business-savvy Osoyoos chief's blueprint for economic reconciliation

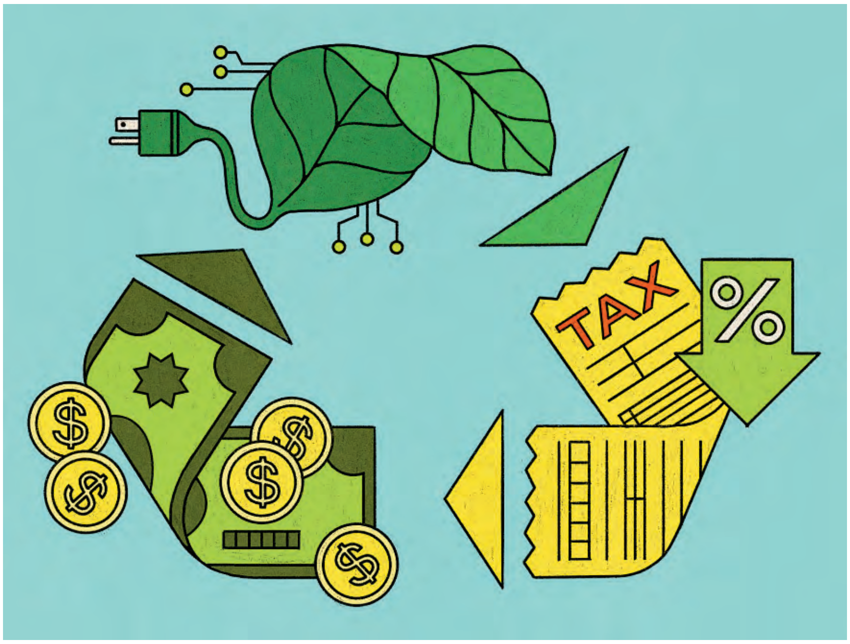


ILLUSTRATION NADA HAYEK

BIG IDEA

Money for nothing?

The feds are betting on tax credits, subsidies and other infusions of public cash to grow the clean energy economy. Some fear it'll be a washout

Earlier this spring, on the steppes of southwestern Ontario, federal and provincial pols gathered to announce that Volkswagen would soon begin constructing a mammoth electric vehicle battery plant there. More to the point, it was a declaration that the venture would be powered by an equally mammoth subsidy from the federal government—$13 billion in production-linked funds—in the name of turbo-charging Canada's transition to a clean energy economy.

This big federal bet is merely one part of a huge new infusion of public funds, including tax credits for clean electricity investments, grants from the Strategic Innovation Fund (SIF) and the Net Zero Accelerator (NZA) initiative, more capital from something called the Canada Growth Fund, and financing from the Canada Infrastructure Bank.

In an earlier era, such scale-tipping subsidies and tax breaks might have attracted the opprobrium of free-market economists, not to mention trade officials in the U.S. and at the World Trade Organization. Their concern? That when governments lumber into the realm of private-sector investment, policymakers should always consider the opportunity costs and market distortions. "Those resources," cautions Steven Globerman, an economist and senior fellow at the Fraser Institute, "could be used in other places in the economy."

Yet, the tidy formulations of 20th-century economics no longer map neatly onto a three-dimensional geopolitical chess board populated by destiny-altering 21st-century forces such as climate change, Russia's war against Ukraine and Chinese expansionism. "We're in a new world now," says Alexandra Mallett, an associate professor at Carleton University's School of Public Policy who studies renewable energy technology.

The question is, does the Liberal government's headlong sprint into the clean energy economy represent something new, or is it merely a revamp of old-school interventionist measures that were known, back in the day, as "industrial policy?" And, if the latter, are we setting ourselves up for a reprise of the exploding-cigar outcome of those efforts, like the time the feds poured hundreds of millions into Bombardier, only to see the company offshore its production?

There's no doubt the numbers are large: The feds have endowed the NZA with up to $8 billion and the SIF with another $18 billion. New clean energy tax credits will refund 15% to 40% of the capital invested in clean electricity, clean hydrogen, clean manufacturing, and carbon capture and storage. All in, these subsidies are worth more than $70 billion.

The feds make no bones about the fact that these funds are a response to the enormous gravitational pull of President Joe Biden's Inflation Reduction Act, which includes US$369 billion for clean security and climate change investments.

On a per capita basis, observes John Lester, a former Department of Finance tax policy official who's now an executive fellow at the University of Calgary's School of Public Policy, "we're probably doing more than the Americans." He adds that these outlays represent "a huge increase" over previous levels of federal largesse, among them marquee programs such as the Scientific Research and Experimental Development (SR&ED) tax credit, which doles out about $3 billion a year to some 20,000 firms in an effort to spur R&D.

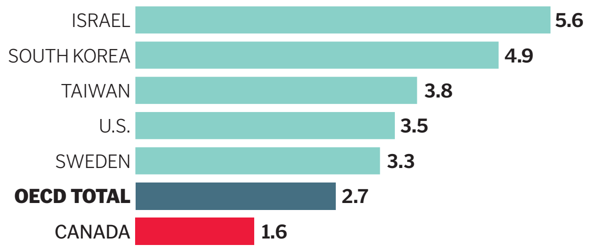
Globerman notes that Canada's poor and sliding performance when it comes to R&D and innovation shows that industrial subsidies don't really deliver the goods. "What the government has been doing hasn't worked," he says. "The recent budget is doubling down on the old history of the government picking sectors and companies to receive these subsidies and essentially making the bets that, I believe, private investors and venture capitalists should be making." (Other analysis, such as a 2016 study by the U.S. National Bureau of Economic Research on R&D tax credits in the U.K., has found them to be effective at spurring innovation.)

Other pundits argue that Ottawa’s 21st-century rendition of industrial policy is more intentional when it comes to meeting the moment. “To the government’s credit, they’re taking a more comprehensive approach to sustainability, energy transition and decarbonization,” says Mallett. “They’ve identified the strategic sectors [clean electricity and energy], and this all sends businesses signals.”

The drift away from the conventions of free trade and liberal economics, which is very much in evidence south of the border, is actually part of a bigger story about the ways in which different regions and political cultures practise capitalism.

Brendan Sweeney, managing director of the Trillium Network for Advanced Manufacturing at Western University, says the neoliberal version of capitalism, which aims to reduce government influence in the economy, existed primarily in English-speaking countries. Much more pragmatic or state-supported permutations exist in places like Germany, South Korea and Mexico. Not to mention China, where state-owned enterprises with deep pockets bid against privately owned firms on international assets like mines. “Capitalism is different everywhere you go,” he says. “But we’re all competing with each other for market share, for investment and, increasingly, for talent.”

GROSS DOMESTIC SPENDING ON R&D (latest available)
% of GDP (top five, plus Canada)



SOURCE OECD

Traditional industrial policies in other regions are built around favoured sectors (e.g., Germany’s advanced manufacturing), generous subsidies and protectionism, which have been historically highly successful in countries like Taiwan, Japan and South Korea. Greig Mordue, associate professor in the W. Booth School of Engineering Practice and Technology at McMaster University, adds that a previous era of made-in-Canada industrial policies, which came with both carrots and sticks, also succeeded in seeding the ground for the development of the auto parts industry and ensured the continued viability of Canada’s auto sector.

He recalls how former Liberal cabinet minister Ed Lumley, who held a regional economic development portfolio in Pierre Trudeau’s government, lured large assembly plants to Ontario using tax credits to reward investment, trade agreements and the threat of restricted access to Canadian markets for foreign firms to discourage hedging. “There would be no industry in Canada and, frankly, in a lot of places around the world, if it wasn’t for industrial policy,” he says, “But since Lumley’s tenure, the world has changed substantively.”

Fast forward through countless free trade agreements, the 2008 credit crisis, the emergence of China’s “belt and road” initiative and Donald Trump’s love of tariff wars, and we all find ourselves in a world where the word “subsidy” no longer has the sting it once did.

Lester, for his part, feels there’s a policy case to be made for using subsidies to drive electrification, investment in clean generation and even as a means of attracting job-creating investment, provided the government also pulls back costly but underperforming tax credit programs, like the SR&ED.

Mordue, however, questions whether the government will be able to squeeze the maximum benefit from the $13-billion Volkswagen subsidy, given that all we’re getting is a piece of the supply chain, plus the jobs and local economic development multipliers, but none of the high-value-added functions, like R&D, design, engineering, and all the other spinoffs that automotive head offices and research hubs generate on their home turf.

Mallett finds herself thinking about whether the government’s appetite for the blockbuster deal—not just VW, but also last year’s $5-billion Stellantis-LG Energy joint venture, or a $220-million investment announced earlier in the spring by the Canada Infrastructure Bank in EV charging stations—will obscure the need for driving investment into smaller-scale (i.e. less newsworthy) clean energy and clean electricity startups. Ottawa’s rich new programs are “a very convenient way for the government to think big and to think about jobs and so on,” she says. “But if we don’t allow for alternative forms of innovation to be a part of the process, then it really is a missed opportunity.”

Sweeney, however, says the federal Liberals are simply practising economic realpolitik—as is done in so many other places these days—when they place very big bets on Volkswagen and whatever else that follows. “If you want to be part of this global economic order, you have to figure out how to compete with what’s happening outside the border,” he says. “If we want this, we have to be emphatic in our policy response. Neoliberalism is done.” **/John Lorinc**

Big Idea is produced with the support of our advisory panel

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