

## Young Tories discover Waffle

William Watson, Financial Post

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There may be a Tory justification for blocking the sale of Potash Corp. to an Australian company, as the federal government has decided to do. Tories are unabashed paternalists and, when pushed, can justify almost anything. There may be a Conservative justification for blocking the sale. The Premier and province of Saskatchewan are important in Conservative politics and political fortunes, and, with the Premier going Danny Williams about the takeover, blocking it may have been politically expedient.

But there is no conservative case for blocking the sale, despite the best efforts of Adam Daifallah and Dov Zigler to invent one ( "Harper was right to block the buyout," in Saturday's National Post).

Leave aside the contortions required to justify blocking the sale of a mining company that is already 51% held by foreign shareholders to Australian interests. (All of a sudden we like Americans better than Aussies?) What is their argument?

Shareholder rights and other free-market theory are fine for economics seminars, but (to paraphrase Lenin, I suppose) have "little bearing on financial reality." Potash Corp. currently retains most of its substantial earnings for reinvestment in Saskatchewan. Australian owners might well invest the earnings elsewhere. They might also decline to buy up small Saskatchewan exploration companies, as Potash Corp. apparently does. Finally, losing a firm such as Potash Corp. continues the "hollowing out" of Canada's corporate sector--though that argument would be stronger if the firm were not run out of Chicago, which is in Illinois, not Saskatchewan.

This is essentially the same argument made by Mel Watkins' and Jim Laxer's "Waffle" wing of the NDP in the early 1970s, which was rejected by even that era's NDP mainstream, though of course its unfortunate patrimony does not necessarily make it wrong. What makes it wrong are its merits.

Shareholder rights may not be as important a genre of human rights as freedom of speech or religion -- though conservatives should regard that proposition as at least debatable -- but in any analysis of "financial reality" they are hardly trifling or incidental. It's not just "free market theory" but simple common sense that if you expropriate or forcibly devalue people's shares, as the federal government has just done, your country's companies may have trouble selling new shares in future. Not debilitating trouble. Most will still be able

to raise capital. But they may pay a slightly higher price than they would have. That cost has to be weighed against any perceived benefits of keeping out the Australians.

As a private corporation, Potash Corp. presumably invests in Saskatchewan and buys up small Saskatchewan companies because doing so brings a good profit. If that is true, why would we assume its new Australian owners would not see these opportunities as well and continue the investments? And if they didn't, why wouldn't other firms come into the province to exploit these attractive opportunities?

If it is not true, and Potash Corp. reinvests shareholders' money in Saskatchewan activities that don't pay a good return, why does it do that? To be good corporate citizens? To provide foreign aid (the firm is foreign-controlled, remember) to the workers and small entrepreneurs of Saskatchewan? To keep on good terms with the government (as foreign firms must do in China, Libya and other places where shareholder rights also bow to financial reality)?

If Potash Corp. is in fact a kind of undeclared NGO, should its shareholders not be allowed to sell it to people who might refocus it on a commercially viable basis? Too often in this country we forget that corporations' main obligation is not to do social work or even economic development -- we have armies now of real-life social workers and economic development officers to pursue those goals--but to seek profit.

That bears repeating: Corporations exist mainly to make money. If recent generations of Canadians have grown uncomfortable with this idea, it is only because they have forgotten a lesson that should be bred in conservative bones, namely, that the pursuit of private interest usually produces public benefit. Corporations pursuing profit make sure that capital, a scarce resource, is not wasted but goes to the undertakings that offer the greatest difference between value and cost.

Profit is not everything. If some activities are undervalued in the marketplace, governments, including Saskatchewan's, are free to regulate the marketplace or undertake their own production of health care, education and so on. But market-failure theory hardly ever recommends supporting businesses that don't regard business as their first priority. If that is the kind of business Potash Corp. is, then we should be grateful to have it hollowed out of us. And if we object to hollowing out, we will have to recognize that other countries won't like having their economies hollowed out by Canadian companies, which for the last few years have invested more elsewhere than foreigners have invested here, thus reversing the historical pattern that gave birth to the Waffle.

At the end of their piece, Daifallah and Zigler get down to political reality: letting Potash Corp. go would have been "political cyanide." Fine. That's an understandable argument. The government was faced with a difficult choice between giving in to vested interests and public opinion in Saskatchewan or taking a hit in order to continue educating Canadians about why free markets are best. As so often, principle lost out to politics. But let's not compound the error by pretending conservatism had anything to do with it.