

Three Bad Ideas Trudeau Should Avoid

Three horrible notions of government intervention have been floating around in Canada recently, and they should be vaporized before they settle in the nostrils of the federal government, historically susceptible as federal Liberals have sometimes been to nasty outbreaks of that contagion. First is the demand that the manufacture and sale to Saudi Arabia of armoured personnel carriers for \$15 billion by a subsidiary of American armaments giant General Dynamics in London, Ont., be stopped because of the turpitude of the Saudi regime. This is a vintage case of self-defeating, incandescent Canadian sanctimony. Of course the Saudi regime is offensive, as undemocratic, completely disrespectful of the status of women and of human rights generally, and productive of much Muslim extremism by its policy of supporting Wahhabi cultural and religious proselytization in much of the world.

The nature of the Saudi regime has been the subject of previous columns here; that state is a joint venture between the formerly nomadic House of Saud, relatively unregenerate since the Arab Middle Ages, and the leadership of the extreme Wahhabi Muslim sect. The Saudis take the oil income from reserves discovered by the British, French and Americans, and donate some of it to the Wahhabi activities throughout the Islamic world, which has incited a great deal of religious extremism and violence, and the Wahhabis urge fealty to the Saudi royal family in return. Of course the system is an outrage: medievalism wedded to Islamic militancy, exploiting what amounts to the slave labour of imported workers (who have no chance to become Saudi citizens, for whatever that is worth) and an unholy alliance greased by blackmail and Dane geld.

But the \$15-billion deal is a good one economically for

Canada; if we did not allow it to be filled in Canada, General Dynamics would move the subsidiary elsewhere, the Saudis would fill this order elsewhere and nothing would be changed except a heavy blow to southwestern Ontario, (3,000 jobs are directly involved). Even if such a move would have some impact on the stability of the Saudi government, which it would not in fact, the whole idea of cancelling this contract does not pass the litmus test in such matters. That is: would the succeeding regime be an improvement? Of course it would not – it would be a Wahhabi-supported theocracy close to the Caliphate sought by the Islamic State of Iraq & the Levant (ISIL), and put the greatest oil reserves and revenues in the world in the hands of the most extreme Islamists in the world. In any move toward regime change, which is generally not the legitimate concern of foreign governments anyway, and certainly in this case is no business of Canada's, those who would effect the change should ask if they are confident the replacement would be an improvement. This has been the profound fallacy that afflicted foreign opposition (by former U.S. president Jimmy Carter) to the Shah of Iran, giving us the semi-nuclear ayatollahs, and that has made such an unspeakable disaster of the Iraqi and Syrian imbroglios. In the polls that show a majority of Canadians would like to stop the arms sale to Saudi Arabia, the question was not put properly. Not two per cent of Canadians would vote to impoverish thousands of Canadians in an ineffectual effort to destabilize a regime that if it did collapse would be replaced by one that would be far more offensive to Canadians and a mortal threat to the Middle East.

For all its failings, Saudi Arabia has helped impose some restraint on Iran and on Russia, which must have contributed something to the trivial concessions Iran made to reach a nuclear agreement with the six powers it negotiated with, and to Russian restraint in its efforts to reassert its influence in Ukraine and the Baltic states. Saudi Arabia has been denounced for its heavy-handed intervention in Yemen, but without it, that country would have been taken over by

Iranian-sponsored extremists. Saudi Arabia is also professing to be ready to provide the long-awaited Arab boots on the ground to salvage the disastrous Obama-led coalition in Syria, that has been pounded by ISIL and by Iran and Russia as they support Syrian President Bashar al-Assad's despotism. I consider the official simpering in Ottawa about the declining oil price as the cause of all economic problems to be cowardly and misleading, and governments should have adjusted their tax rates to ensure that gasoline and home heating fuel prices declined by 70 per cent, as has the cost of crude oil, but whatever direction we might wish oil prices to follow, we will not further our objectives through gratuitous provocations of the world's premier petroleum exporter.

The second of these hare-brained misconceptions of the role of government is the idea touted last weekend by the *Globe and Mail* that those who buy residential real estate and then flip it for a profit without occupying it themselves, sometimes even before the first sale is closed, are doing something unethical that should be illegal. If the claim were merely made that this sort of transaction adds no value and is just the velocity of money and inflation rather than the product of work, it would be correct to discount it as a contributor to economic growth. To use an old example, if every adult in the country composed a poem and sold it every day to someone else, and bought one from someone else, always for \$100 per poem, (however undistinguished the poems), so everyone paid and received \$100 per day every day, Canada would increase its GDP and per capita income by 150 per cent, and would have the wealthiest population and the third-largest economy in the world, but no one would be one cent wealthier. These multi-layer housing sales are like that, though there are capital gains and if the ultimate buyer is foreign, they attract capital to Canada. Capital gains from speculative housing sales are subject to tax, unlike the sales of principal family residences. If this practice of quick-flipping properties is really a problem, vendors of houses should require that

resales within a certain period at a higher price split the gain between the successive owners. Or people selling their homes could auction them, making it a competitive process, rather than selling them to an offeror without testing the market. Any sort of intrusion by government in this type of transaction will just strangle the real estate sales industry and will not yield an additional cent to anyone deserving of it. This is a pseudo-moralistic tempest in a teapot.

The third government intervention that has been asked to raise its furry head in the national interest is the completely unacceptable idea of direct government aid (i.e., effective takeovers) in the daily newspaper industry. This is largely the result of the severe problems of Postmedia, the company that owns the National Post. As everyone knows, newspapers are a distressed industry, and readers of Toronto newspapers were recently treated to an acerbic exchange between the chairmen of Postmedia and of Torstar, which included the fact that Torstar's stock price has declined by 80 per cent in the last seven years and Postmedia's has declined by almost 99 per cent in the last six years (on the rare occasions when it trades at all). Postmedia last year gave shareholders only three weeks to choose between an 85 per cent dilution or multiplying their shareholding by six by buying and exercising share rights. For the only time in my lengthy financial experience, a company with thinly traded stock multiplied the number of its shares outstanding by seven and yet effectively ceased to trade, although the inference was incited during the whirlwind rights offer period that shareholders who exercised their rights would do so at around twice free cash flow per share, normally a bargain price. In fact, losses have hemorrhaged since and RBC Dominion Securities last month rated the stock as worthless after the annual meeting and release of the first quarter of the current fiscal year.

It is impossible to see how the company can go on paying the

back-breaking interest on its corporate debt, that should have been refinanced years ago, especially as it failed to hedge against currency fluctuations and is being soaked usuriously on a large debt issue denominated in U.S. dollars. Postmedia has under-performed its beleaguered industry and has relied implausibly on industry conditions to explain its poor performance. But what is needed is not government intervention to provide sinecures for journalists to maintain a healthy investigative opposition, as some self-interested parties in that craft have called for, in supposed emulation of the narrow and partisan press of Sweden, and as if there were the slightest parallel with public broadcasting. What is needed is to convert Postmedia's unsustainable long-term debt to equity, if necessary by the judicial process that enacts such changes, and installation of management that invests in product quality sufficiently to afford cover price increases and to reinvigorate advertising sales. Anyone who buys a broadsheet newspaper in Canada is a desirable target for any advertiser and a traditional cost-per-thousand argument could be constructed. The same new management should get serious about a national, constantly updated, Internet newspaper, custom designed for the preferences of individual subscribers. Transforming Postmedia into a paper CBC riveted on the back of the taxpayers would be a national catastrophe.

This country will not realize its potential until it has developed a mature judgment of when public sector-private sector collaboration can work effectively – as it did from Jean Talon through John A. Macdonald's Canadian Pacific, Wilfrid Laurier and Clifford Sifton's immigration policies, to C.D. Howe's Trans-Canada Pipelines – and when it is a horrible idea. Too little a recourse to the public treasury can be a mistake; too frequent and reflexive an imposition of government's fiat in the marketplace is a disaster. A country sophisticated in self-government knows the difference; surely Canada does by now.

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