

Hydro One debacle highlights crisis of Ontario Tory regime

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To the consternation of big business, Ontario's Tory government has abandoned plans to privatize Hydro One and instead given the electrical transmission utility's blue-chip corporate directors their walking papers.

The Bay Street financial houses had been looking to the Hydro One sale as a much-needed shot in the arm. At \$5 billion, it would have been far and away the largest initial public offering (IPO) in Canadian history.

Indicative of the sentiment on Bay Street is a recent editorial in the right-wing *National Post* that lambasted the new Ontario Premier and Tory leader, Ernie Eves, for not implementing the agenda of big business with the same resolve as his predecessor, Mike Harris: "If he [Eves] continues to alienate his core supporters, repudiate his own policies, insult the investment community and throw himself at the feet of his political opposition, Mr. Eves," declared the *Post*, "will become wholly unelectable." Meanwhile, Moody's Investors Service has warned it may lower Hydro One's crediting-rating.

The Tories had announced their intention to sell Hydro One last December. The IPO, which was to be completed by the end of this spring, would have been the next step in what has been a protracted campaign to dismantle the former Ontario Hydro. The Tories' 1998 Energy Competition Act laid the groundwork, splitting Ontario Hydro into five successor companies, introducing competition into Ontario's electricity market, and insulating the capitolally-structured generation and distribution companies—Ontario Power Generation and Hydro One—from the parent company's accumulated debt. On May 1st, 2002, the province's generation market was officially opened to competition.

But the Hydro One IPO began to unravel when the Canadian Union of Public Employees (CUPE) and the Communications, Energy and Paperworkers' Union (CEP) challenged its legality in the courts. On April 19th, Judge Gans of the Ontario Superior Court ruled that the IPO could not go ahead because the Tories' 1998 Energy Competition Act did not explicitly sanction the sale of Hydro One. Judge Gans expressed concern at the haste with which the privatization was being carried out and at the government's failure to consult the public or secure parliamentary approval before selling-off a major government asset.

The court ruling came just days after the Tories had selected Ernie Eves, Harris' former finance minister and deputy premier, to be his successor. Harris, who came to power in 1995 on the coat-tails of the treacherous New Democratic Party government of Bob Rae, had presided over a campaign of sweeping cuts to public and social services and lucrative tax concessions to business and the well-to-do under the slogan of a "Common Sense Revolution". The privatization

of Ontario Hydro was an important part of this campaign—not least because of the ideological value in dismantling what had been Canada's largest crown corporation.

When Harris announced his intention to step down as Premier he disingenuously cited personal reasons. In fact, he was forced from office by a series of interconnected crises. Public outrage had been galvanized by the e-coli tainted water disaster in Walkerton. There was mounting evidence Harris had ordered the police assault on a native protest that had resulted in the death of Dudley George. And there were mounting concerns that the Tories' aggressive tax-cutting was driving the government into a fiscal crisis and at a time when even sections of big business were beginning to express growing concern over the dilapidated state of public infrastructure.

Tensions in the ruling class over how to proceed were further exposed during the Tory leadership race. Eves' principal rival, the then Finance Minister Jim Flaherty, portrayed himself as the champion of a Common Sense Revolution Phase II, pledging to outlaw the teachers' strike, use police to drive the homeless from the streets, and institute further massive tax and public spending cuts. Eves, responding to public opinion polls showing the Tories more than 20 percent behind their Liberals rivals and fears within ruling class circles over mounting social polarization and a growing popular backlash against big business, by contrast, presented himself as a kinder gentler Tory, who is fiscally conservative, but socially progressive. Specifically, Eves pledged to open channels of communication with the Tories' opponents, including the trade union bureaucracy. This represented a marked shift from the stance of Harris, who sought to mobilize petty bourgeois opinion by victimizing the poor, baiting the unions and otherwise bullying his political opponents.

Had a court ruling like that made April 19th been issued during Harris' first term, he would, in all likelihood, have rushed through legislation allowing the sale of the utility, and been done with it. Initially, the Eves Tories took this approach, indicating that they would: 1) appeal the ruling, in order to avoid creating a legal precedent encouraging judicial oversight of government decisions; 2) pass new legislation explicitly allowing Hydro One's sale; and 3) create a smokescreen of public hearings to put a stamp of public approval upon their planned course of action.

But Eves soon recognized that this would jeopardize his carefully crafted attempt to distance himself from Harris. He could not come to power promising to be less confrontational and then completely ignore a court decision that had taken the government to task for failing to consult the public. Moreover, the mounting controversy had served to excite interest in the Hydro One sale. Soon the Tories were confronted

with a public that, in the light of Walkerton, the Enron affair and the energy prices spikes that followed the deregulation of the Alberta and California energy markets, was skeptical if not outright hostile to the privatization plan. As he sought victory in a by-election, necessary in order to regain a seat in the provincial parliament, Eves announced that other options were on the table, including the possibility of making Hydro One an income trust, in which the profits and management would be given over to private investors, while the assets remained in “public” ownership. In recent weeks, the Tories have also put forward the possibility of selling only a minority of the utility’s shares.

Then Eves further enraged big business by cynically adapting to a popular outcry over the salaries and benefits paid to top Hydro One top executives. Eves instructed the Hydro One board to reduce the compensation package of Hydro One CEO Eleanor Clitheroe after it was “discovered” that this public servant was pulling in \$2.2 million a year, plus a \$174,000 car allowance, with a \$6 million severance package, and a \$750,000 per year pension. The board balked, causing the Tories to prepare legislation firing the board—which was comprised of major Bay Street players handpicked by the Tories to oversee the privatization—and instructing a new board to curtail executive compensation.

The Tories’ expressions of outrage at their supposed sudden discovery of the absurd levels of compensation given the Hydro One executives is a demonstration of their newfound skills in the sphere of dramatic art. As an embittered corporate press has not neglected to point out, the levels of executive compensation were both widely known to those in government and consistent with the overall campaign to privatize the various segments of the former Ontario Hydro—in other words, consistent with the salaries given to other private sector CEOs. And Eves, as a former Canadian vice-chairman of Credit Suisse First Boston, is himself no stranger to seven figure salaries.

The corporate press has pilloried the Tories for the Hydro One debacle. Their immediate concern is the huge amount of stock brokering commissions that have evaporated—the \$5 billion IPO would have netted as much as \$300 million in brokering fees—and the dashed hopes of making a privatized Hydro One a major player on North American energy markets.

More fundamentally, the various anxious corporate voices are indicative of the crisis confronting Canadian capital and the predicament facing its political representatives. Canada is losing ground to its capitalist rivals, especially in three pivotal sectors of the Ontario economy—the auto industry, where new capital is flowing to Mexico; the high-tech industry, shaken up by the recent Nortel bust; and the finance industry, wherein the global importance of the Toronto Stock Exchange and the big Canadian banks is declining.

To bolster its competitive position, Canadian capital must intensify the assault against the working class, through deregulation and further cuts to public services and social programs. But how to impose this agenda under conditions where the “free market” nostrums that underpinned the Tory Common Sense Revolution have fallen into increasing public disrepute and the Tories, fearful of an electoral rout, have lost their political nerve?

One approach, suggested by Eves himself, is to seek closer collaboration with the union bureaucracy. In keeping with his leadership campaign promise, Eves has restored ties with the leadership of the Ontario Federation of Labour and last month the Tory government sponsored a tri-partite conference involving

representatives of the province’s auto makers and the Canadian Auto Workers Union.

The unions that brought the Hydro One court challenge, CUPE and CEP, have hailed the ruling as a major victory. In fact, the ruling was merely the straw that broke the camel’s back. The real concern of the union bureaucrats is to not be left out of the ruling class’ machinations. In a piece published April 16th in the *Globe & Mail*, Judy Darcy, president of CUPE, and Brian Payne, president of CEP, write: “If ‘good government’ is to mean anything in this country, it must include a commitment by those in power to deal fairly and squarely. Promising one thing in public and in a legislature, and then turning around and doing the opposite without debate or a public airing of the issues undermines democratic institutions...” In translation, the above excerpt would read: “please cooperate with us—we can help establish the legitimacy of your government”.

The unions have based their opposition to the privatization campaign, on the claim that the former Ontario Hydro was a “people’s utility” and by accusing the government of creating the conditions for a “foreign takeover” of a Canadian company.

In fact, Ontario Hydro was established at the beginning of the twentieth century—on the initiative of a Tory government—in order to further the interests of big business by promoting the development of electrical capacity and opening the north to industry. An important section of industrial capital has long derived great advantage from the stability and low price provided by the public utility.

One sign of the hollowness of rhetoric about Ontario Hydro as a “people’s utility” is the relative ease with which Eves has himself adopted that stance—pledging that Hydro One will remain a public asset, no matter to whom its profits are diverted. That said, the privatization of Ontario Hydro is reactionary. Arranged behind closed doors for the benefit of a parasitic elite, it would be accompanied by an assault on the living and working standards of the province’s electrical workers, and by increases in the cost of electricity—a basic necessity of life—for the entire the population.

The ruling class crisis exposed in the Hydro One dispute is a harbinger of a major intensification of the class struggle in Ontario and across Canada. To prepare for these struggles, the working class must constitute itself as independent political force and arm itself with a socialist program.



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