



Canada's new Conservative government faces restive provinces

BY JEFFREY SIMPSON

In order to understand Canadian federalism, it helps to remember who usually runs the country's federal government — the Liberal Party.

Canada's Liberals are the western world's most successful political party, having been in power for about 75 of the last 105 years.

Once a generation or so, Canadians get fed up with the Liberals and give the Conservatives a crack at governing. So it was that on January 23, 2006, Canadians elected a minority Conservative government after about 12 years of Liberal rule. How long this Conservative government will last is anybody's guess. When there is no majority after an election, the party with the largest number of members of parliament forms a minority government. How long a minority government lasts depends on when the opposition parties decide to pass a vote of non-confidence. Minority governments in Canada usually hang around for 18-24 months before being defeated.

Conservatives are more often in opposition than government. Out of power, they develop certain attitudes towards Canadian federalism, based on the old adage that the enemy of my enemy is my friend.

They witness provincial premiers attacking the federal government, demanding more power and money and greater respect for provincial prerogatives. Federal Conservatives begin to believe that if they replaced the Liberals, harmony would prevail with the provincial premiers, Canadian federalism would run better, and the voters would be more satisfied.

The fact that all of these assumptions have been repeatedly demolished by reality does not stop Conservatives from believing in them. The world of opposition is a place of illusions and stunted historical memory.

Not surprisingly, the January election brought to power a Conservative government under Prime Minister Stephen Harper, imprisoned in the party's old belief that greater national harmony will flow from giving the premiers what they insistently demand in Canada: more money and power.

Since his election, his government has presented a budget in early May that will reduce the Goods and Service Tax, Canada's Value Added Tax known as the GST, from seven to six percent. That, with other tax breaks is expected to cut income taxes by \$20 billion over the next two years.

A prime minister from the West

That Harper comes from Alberta is of consequence. Alberta in particular, and western Canada in general, has often felt neglected by Ottawa. Alberta provincial governments usually wrestle with Ottawa, rejecting what it calls "incursions" into

provincial jurisdiction.

Some of this Alberta prickliness towards Ottawa influences how Harper sees Canadian federalism. He thinks, not without reason, that the federal government has intruded into provincial areas through the use of its unbridled spending power. He aims to curb that spending, although just how remains unclear.



Canadian Prime Minister Stephen Harper (r.) with Quebec Premier Jean Charest.

Harper has pledged to rectify the "fiscal disequilibrium" in Canada. This unappetizing phrase has come to mean, in lay language, that the provinces have too few revenues to discharge their increasingly costly constitutional responsibilities, especially for health and education. Put more simply: Ottawa has too much money for its tasks, the provinces too little for theirs.

There's nothing new about this provincial complaint. Large provinces, notably Quebec, have been pounding this drum for decades. The existence of a "fiscal disequilibrium" is now accepted as gospel throughout Quebec and has gained adherents in other provinces and, apparently, in the new federal government.

Said the Harper campaign document: "A Conservative government will work with the provinces in order to achieve a long-term agreement which would address the issue of fiscal imbalance in a permanent fashion."

Harper has said that only in the Conservatives' second budget, next year, will the government begin the process of re-allocating federal surpluses and begin dismantling the fiscal imbalance. How this might be done and what might constitute a "long-term agreement" remain unknown. There are various possibilities, all strewn with traps.

In Canadian federalism, if you change one formula, that change inevitably affects others. Every province wants more, or at the very least is unwilling to take less. Therefore when the Conservative platform, as part of this rebalancing of the federation, pledged to rework to every province's advantage the national equalization scheme whereby money gets transferred to less affluent provinces, the promise left even the experts perplexed as to how this could be done without leaving at least some provinces worse off.

Soon after taking office, Harper began to shuffle verbally away from his bold promise to fix the "fiscal disequilibrium," and for good reason. The whole "fiscal disequilibrium" argument was underpinned by large — but overestimated — federal surpluses that caused envy in many provincial capitals.

From campaign promise to political reality

Then it dawned on the Conservatives, as a more experienced group of politicians would have understood, that the fiendish complexities of fiscal federalism cannot easily or quickly be overhauled. And a few voices in the Conservative Party, helped to this understanding by the federal civil service, began to realize that giving the provinces more power and money never left provinces grateful, did not slake their thirst for more, and seldom made the party in power in Ottawa more popular.

Nonetheless, the party promise stands. It must be implemented in some form. The Conservatives have usually been in opposition because of their weakness in Quebec. They won 10 seats there in the January election. Their objective is to win 20 to 30 more in the next vote, thereby becoming a majority government and replacing the Liberals as the natural governing party of Canada.

A Quebec provincial election looms in 2007. The federalist Liberal government in the provincial capital, Quebec City, has been trailing the separatist Parti Québécois. A Parti Québécois victory would likely mean yet another attempt to break up Canada. So a Liberal victory in Quebec is manifestly in the interests of Canada. That's another reason for Harper to accept the existence of the "fiscal disequilibrium" and by solving it give the federalists in Quebec a trophy to hold aloft during the next provincial election.

Since Quebec insists that a "fiscal disequilibrium" exists, and since gaining ground in Quebec is the Conservatives' number one political objective, something must be done. Enrich equalization for recipient provinces such as Quebec? Hand tax points over to all provinces? Increase the almost \$48-billion Ottawa already transfers to provinces? Give the provinces two or three points from Canada's Value Added Tax, the national Goods and Services Tax?

All these options (and others) will be canvassed. But there won't be that much of a surplus in the next two fiscal years, especially now that Harper is indeed reducing the Goods and Services Tax by one point, at a cost of about \$5-billion.

The best solution – and bad politics

There is a much better way of solving the "fiscal disequilibrium" than Harper's approach, but it requires a different definition of the term.

Rather than accepting that Ottawa has too much money and the provinces too little, another definition would accept that Ottawa has too much but that Canadian taxpayers have too little. Therefore, according to this definition, the Conservative government should cut taxes significantly, then say to the provinces: "Help yourselves to the tax room we have just vacated — if you dare. You, after all, have about the same taxing powers as the federal government does." But, of course, many provinces would not dare, especially Quebec, which has already imposed among the country's highest taxes on its citizens. It is easier for Premiers to demand money from Ottawa than to tax their own citizens directly.

Lower federal and higher provincial taxes would make sense, however, in a federation increasingly in a fiscal mess. Harper is right in one observation: Ottawa has used its spending power excessively in many areas of provincial jurisdiction. The previous Liberal government under Prime Minister Paul Martin was egregiously interventionist, barging into day care, urban transit, municipal infrastructure, health-care with an open chequebook.

Canadian Election Results

MPs elected on Jan. 23, 2006:

Conservatives	125
Liberals	102
Bloc Québécois	51
New Democrats	29
Independents	1
Total:	308

Canada elects all MPs by single-member electoral districts. The Green Party, which received 4.5 per cent of the vote nationally in 2006, elected no members of parliament.

Harper would like to clarify federal and provincial roles in the federation, without having spelled out how, by withdrawing Ottawa from aspects of its chequebook federalism and focusing federal efforts on area of uncontested federal authority such as defence and foreign affairs.

Even in foreign affairs, Harper nodded towards Quebec's demands, in May, when he announced that Quebec will play a formal role as a kind of associate member within the United Nations Educational, Scientific and Cultural Organization (UNESCO), just as it has since the creation of *la Francophonie*. Of course, it's only a matter of time before Quebec demands similar status within other international organizations. Harper is so anxious to make gains in Quebec that political expediency has banished considerations of coherence in Canadian foreign policy and analyses of future consequences.

Harper has only a minority government. Anything that requires parliamentary approval, such as major budgetary changes that would transfer money from Ottawa to the provinces, must gain support from some other parties. In the first year of his mandate, no party wants to precipitate an election; after that, all bets are off.

Room to manoeuvre outside parliament

There are, however, many issues in Canadian federal-provincial relations that do not require parliamentary approval, such as the UNESCO deal. Harper will use this non-parliamentary federal authority to try to improve relations with the provinces. But better relations with the premiers may prove difficult.

He will discover that Ontario now feels itself hard done by within Canada, claiming that \$23 billion is siphoned from the province to assist other regions while the provincial government has a deficit and its health, education and municipal systems are struggling.

He will find the four Atlantic provinces — Nova Scotia, Newfoundland and Labrador, New Brunswick, and Prince Edward Island — clamouring for more money to boost their economic prospects. In the West, he will find Saskatchewan wanting changes to the equalization formula that are felt unfair. He will find Alberta, with energy resources swelling provincial coffers, just wanting Ottawa to mind its own business. And he will discover that whatever concessions he makes to Quebec will be pocketed by the provincial government, with no thanks or credit except to itself for having extracted the money and power from Ottawa.

Harper will, in other words, become wiser about the ways of Canadian federation. He will learn that, as prime minister, managing the world's most decentralized federation is a lot harder than he might have thought as leader of the opposition. (6)