




Canada: The State of the Federation 1989

Edited by
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PREFACE

CONTRIBUTORS

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INTRODUCTION

The previous volume in this series, *Canada: The State of the Federation, 1987-88*, departed from the format of earlier volumes to concentrate upon the major issues preoccupying Canadian political debate at that time: the

THE 1998 FEDERAL GENERAL ELECTION

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portrayal by the opposition parties of the trade agreement as threatening these programs. It may also be explained in part by the active support and advocacy of the business interests in central Canada who, by contrast with their position

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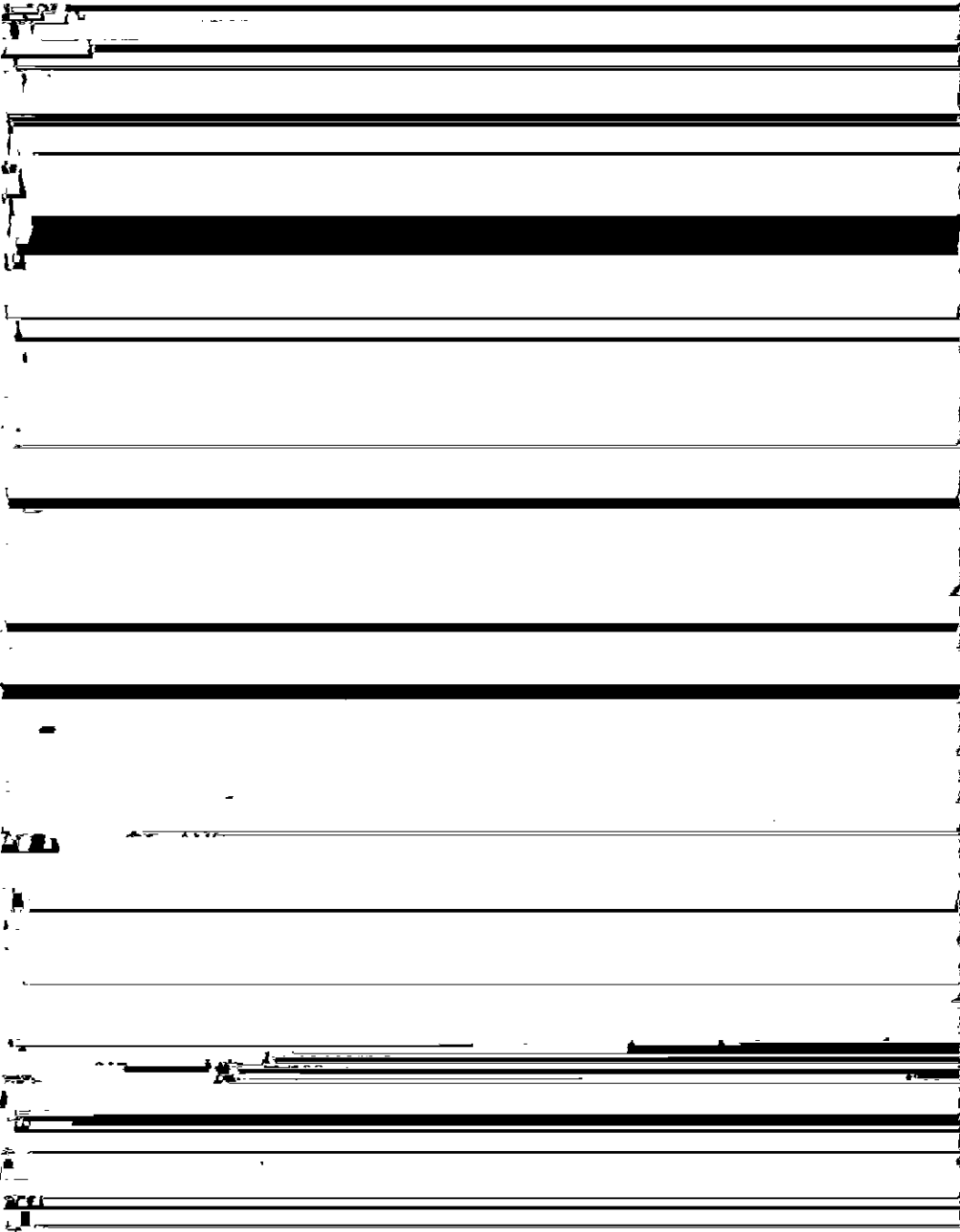
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FOCUS ON THE PROVINCES

Interesting developments of relevance to the evolution of Canadian federalism

Consequently, during 1988 the salience of the minority languages issue was heightened and tensions were aroused. Particularly significant

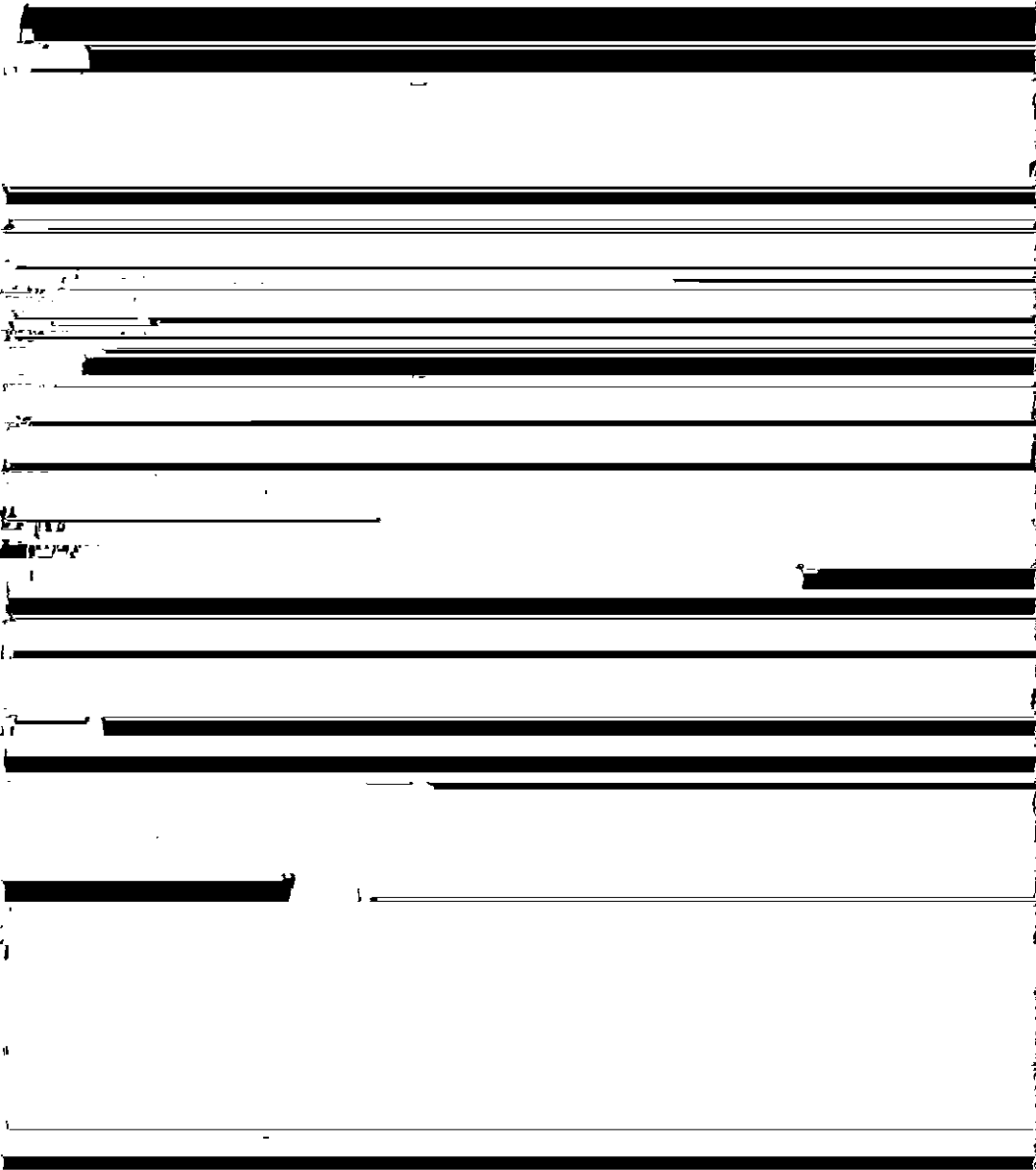
... ..



The Accord was the product of a First Ministers' meeting at Meach Lake on

April 11, 1995. The Accord was signed by the ten provincial

leadership, the development of national standards in social policies, a national approach to protecting the rights of national and provincial linguistic minori



the concerns of territorially based interests which find their focus in such issues

would not at the same time minimize the risk of a ...

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use whatever tools it has at hand to ensure its distinctiveness. Meech Lake has
come to represent this selection. P. O. ...

conscious and extraordinary effort. Over the years, sometimes at the last

minute, our leaders have found solutions to their political problems

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INTRODUCTION

Quebec government ought to invoke Section 33 of the *Constitution Act, 1982*—

...with the following information: [REDACTED]

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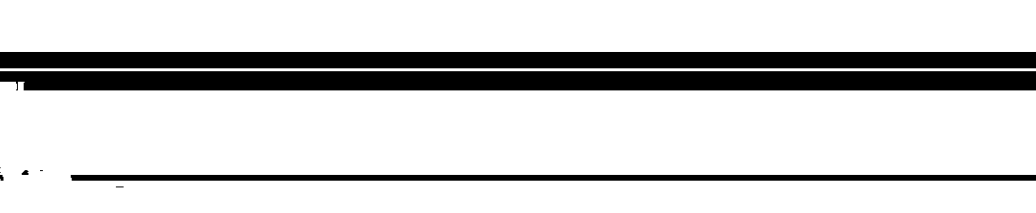
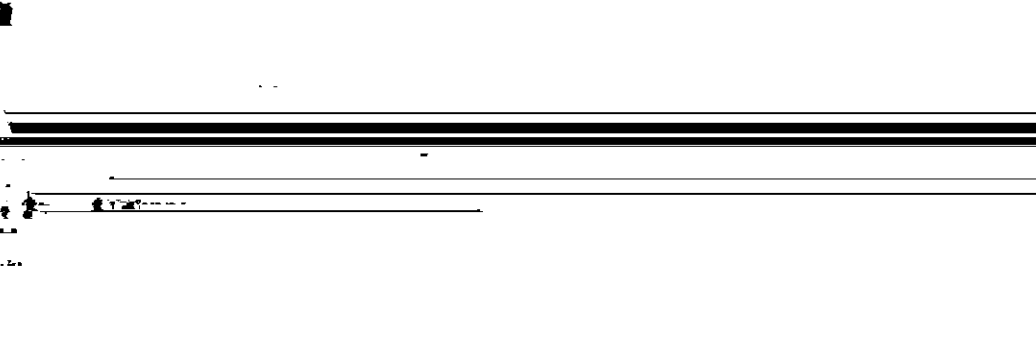
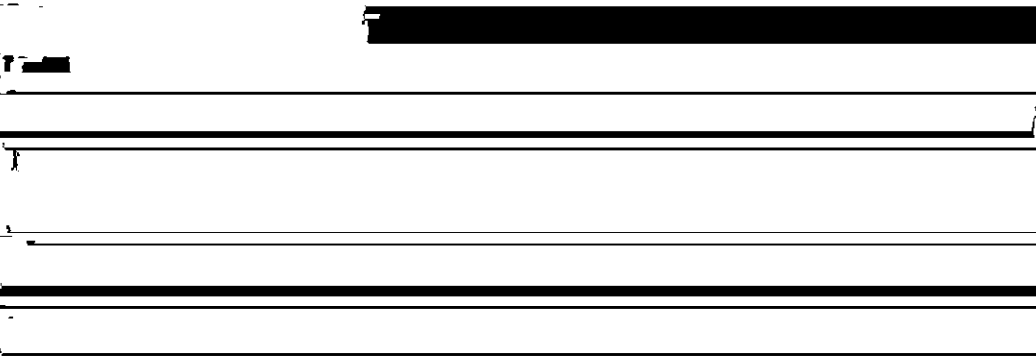
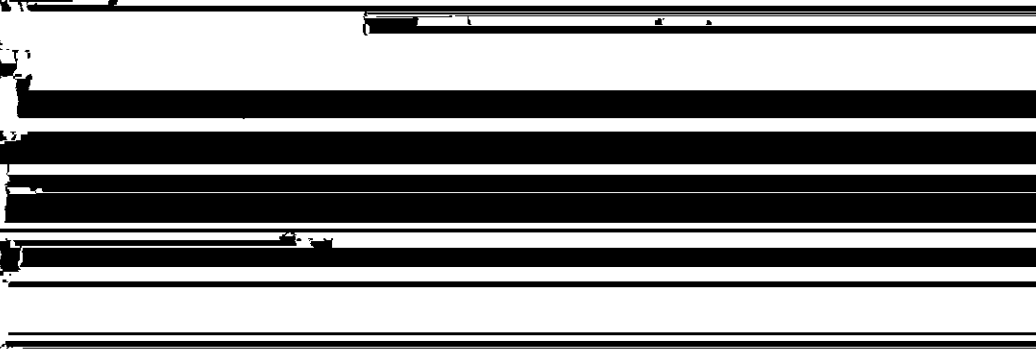
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For their part, those federal Liberals who had voted for the Accord complained that Bourassa was not showing

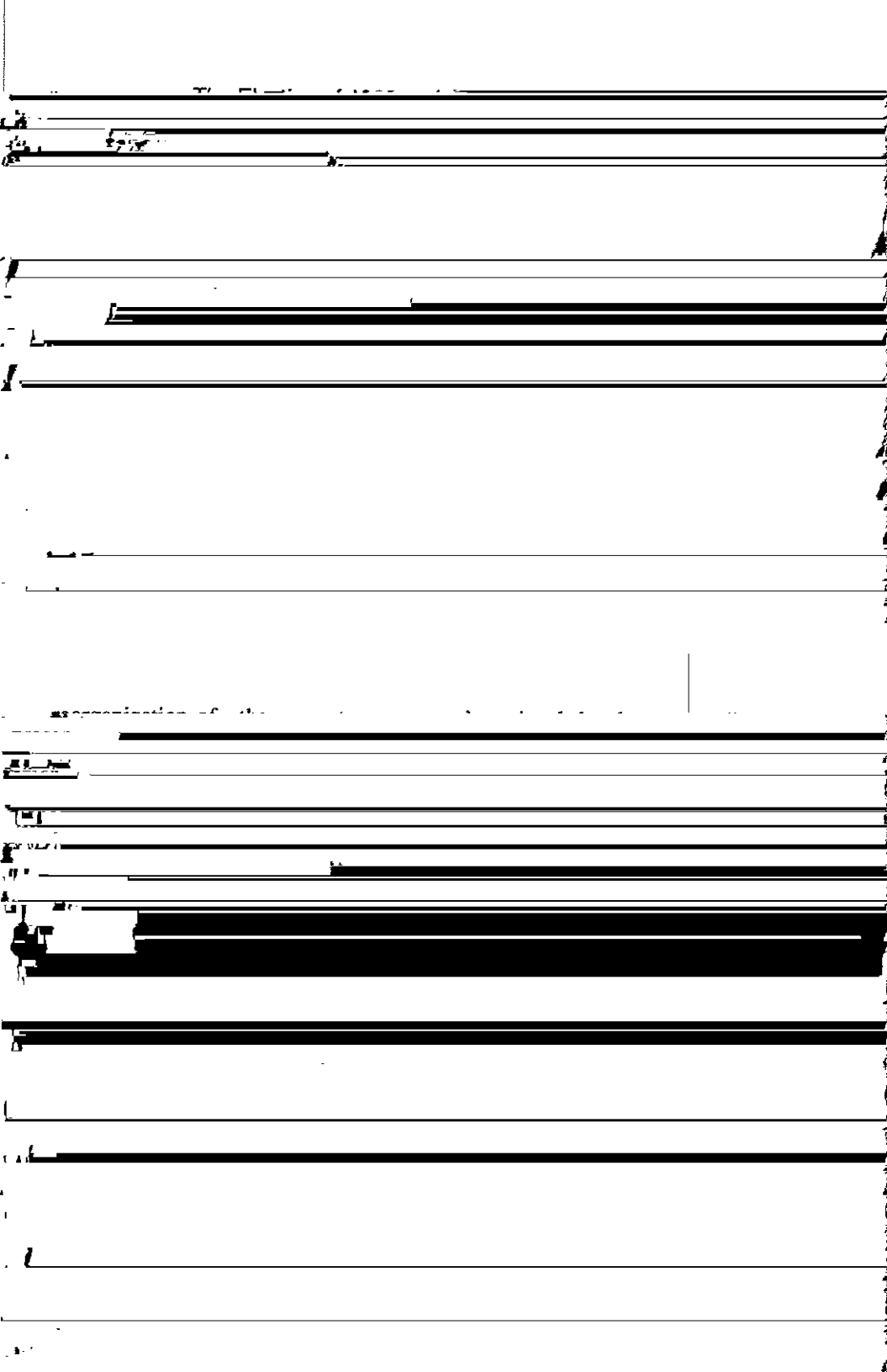


ment, there was little provincial challenge to the status quo ante in environmental matters during the election campaign.

REGIONAL DEVELOPMENT

Given the high profile that regional development has between elections, its economic impact was all

For the Conservatives, the announcement of such major commitments before the election had two main advantages: first, having formally committed them-



There were clearly some advantages to the proposal. First, there were obvious cost advantages to having both levels of tax collected at the national level; this would avoid the costly duplication of having to maintain tax collection agencies at both levels of government. Further, Ontario and Quebec have

Wilson speaks for the government and he has already expressed the

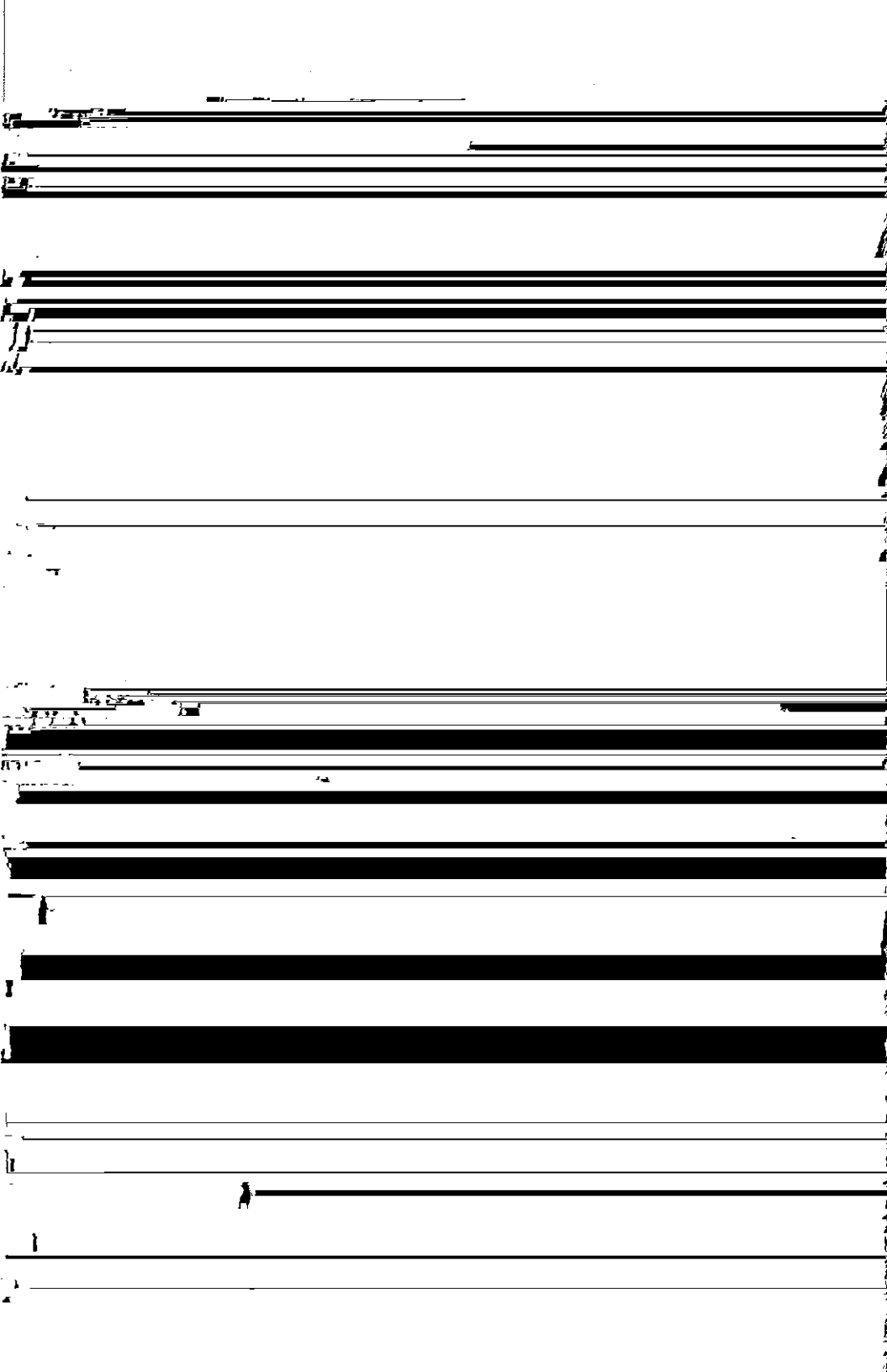
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Opposition to this view came in two forms, each passionately opposed to the

a decentralizing effect upon the country and foster its breakup; the other, that



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1 170
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m Party

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party's 5 per cent of the popular vote may have cost the Conservative Party four seats.⁴⁴

Ontario

As in the West, support for the federal Tories fell, but not as far as some

society provision to the Quebec government and the frankly nationalistic tone of federal politicians campaigning in Quebec.

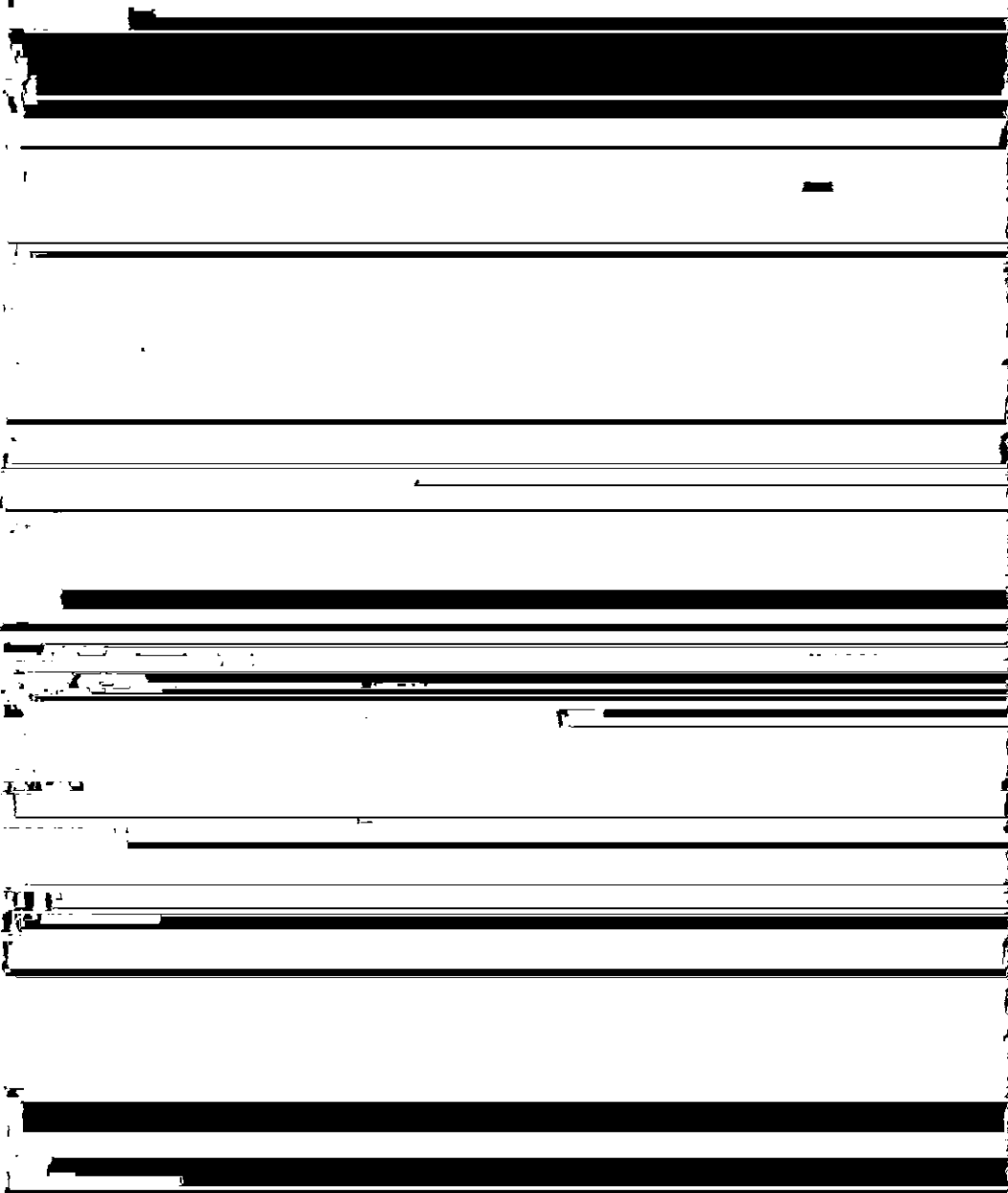
As in the Atlantic provinces, the New Democratic Party failed to win any

result was particularly disappointing to NDP strate-

relations; manage the economy; encourage regional economic development;
handle federal-provincial relations; create jobs and manage the environment

Tax Reform

How the government will proceed with its tax reform plans, and whether the provincial governments will cooperate remains unclear. It is not clear if



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9. On a campaign swing through Quebec, for example, Broadbent, when asked if the Quebec government should invoke the notwithstanding clause, asserted "It's not up to me. Quebec has the right to use the clause if it wants to." *Montreal Gazette*, 15 October 1988, C1.
10. *Montreal Gazette*, 9 November 1988, B4.
11. *Edmonton Journal*, 27 September 1988, A1.
12. In one of the more colorful responses Quebec Liberal MP Jean-Claude Malepart called Getty a "stumbling dinosaur wallowing in an intellectual swamp" *Edmonton Journal*, 29 September 1988, A1.
13. *Financial Post*, 21 October 1988, p.14.
14. See, for example, "Getty is just telling the truth about bilingualism," *Winnipeg Free Press*, 3 October 1988.
15. *Reading Leader Post*, 9 September 1988, "B.C. ..."

24 THE UNIVERSITY OF CHICAGO PRESS

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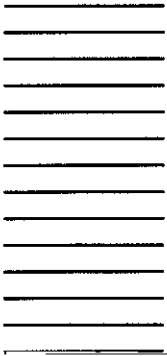
43. Vote tallies for Alberta were as follows: P.C. 601,648; NDP 201,879; Reform Party 178, 224; Liberal Party 158,492.
44. Reform Party candidates in the B.C. ridings of Victoria, Saanich-Gulf Islands, Okanagan-Similkameen and Kootenay West polled more votes than the margin between the NDP winner and the Conservative loser, *Globe and Mail*, 25 October 1988, A6: "Jostled from the right."
45. This analysis was made by Prof. William Irvine, Queen's University, at a post-election seminar entitled "The Election Results: Polls, Parties and Campaigns" at Queen's University, 23 November 1988.
46. On 21 November 1988 the popular vote breakdown in Manitoba was as follows: P.C. 37 per cent; Liberal Party 37 per cent; NDP 21 per cent. In

55. Ibid.

56. *Globe and Mail*, 24 November 1988, A4.

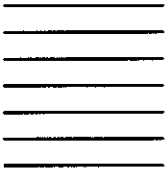
57. *Winnipeg Free Press*, 24 November 1988, p.2.

58. *The Canadian Press*, 15 May 1989, A02.



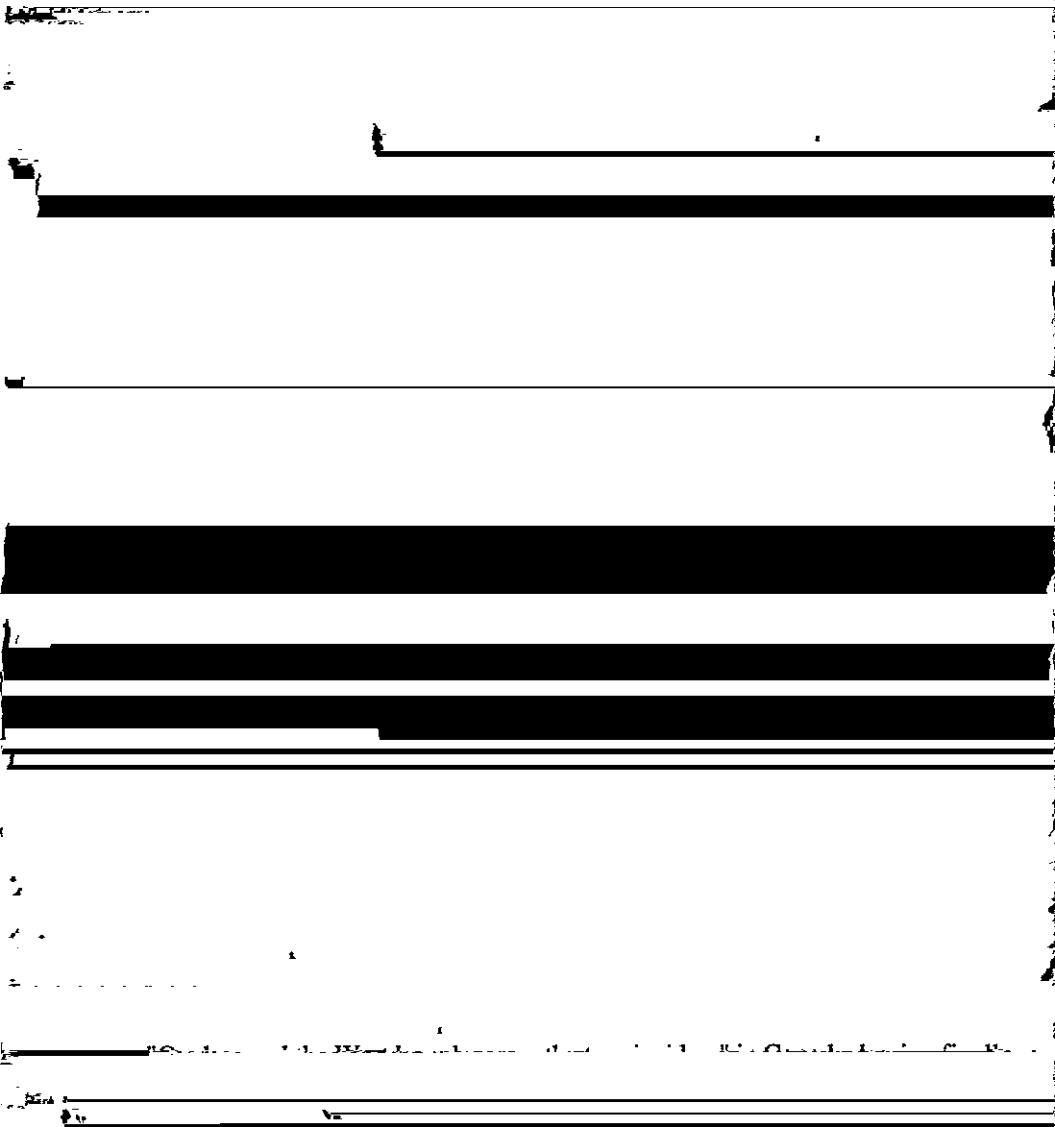
II

Focus on the Provinces



ONTARIO ISOLATED?

THE UNIVERSITY OF TORONTO PRESS, 1980. Pp. 211. \$14.95.



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election of September 1987 and although the government retained a high level

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The booming conditions in Ontario, and in the Toronto area in particular,

that had been arrived at over the four post-war decades by provincial Conservative governments with mainly Liberal federal governments based on a

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Ontario's isolation and, as he admits, in part because the economist in him suggests that the province is not driven by altruism!

...with the hydroponics of the Great Lakes "west half" that some other regions

collaborate with each other and the various sectors of the economy to take advantage of the opportunities and protect against some of the downsides of free trade. Mr. Peterson disappointed some of his supporters but eased the concerns of others when he said, after the passage of the trade agreement:

A second council chaired by the Premier began work during 1990. It

...citizens from all parts of Ontario and many other parts of the province. The

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- still more concerned with social issues than the market-oriented governments in Ottawa and Quebec but moving towards more of an economic agenda;

demands of a more market-oriented economic order in a free market

economic regions, of global economic pressures that will put great strains on the continued viability of key sectors of the Ontario economy such as the

automotive industry, and of a requirement for rapid public and private adaptation to a more knowledge-based economy and an aging population.

Ontario's role vis-à-vis the other parts of the country will also face new

This in the past has not been the overriding perspective of C. B. Osgood, J. C. H. Spence, and J. R. Hayes.

- do not hesitate to think and propose in national terms, on the premise that Ontarians have little sense of Ontario loyalty but want to see the

Notes

1. *Toronto Star*, 14 January 1989.
2. The 1988 Roberts Lecture, York University, Toronto, 26 April 1988.
3. *Ibid.*, p. 54.
4. See for example, *Confederation and the Ontario Question*, p. 100.

15. Ibid.

16. *Toronto Globe and Mail*, 2 February 1989.

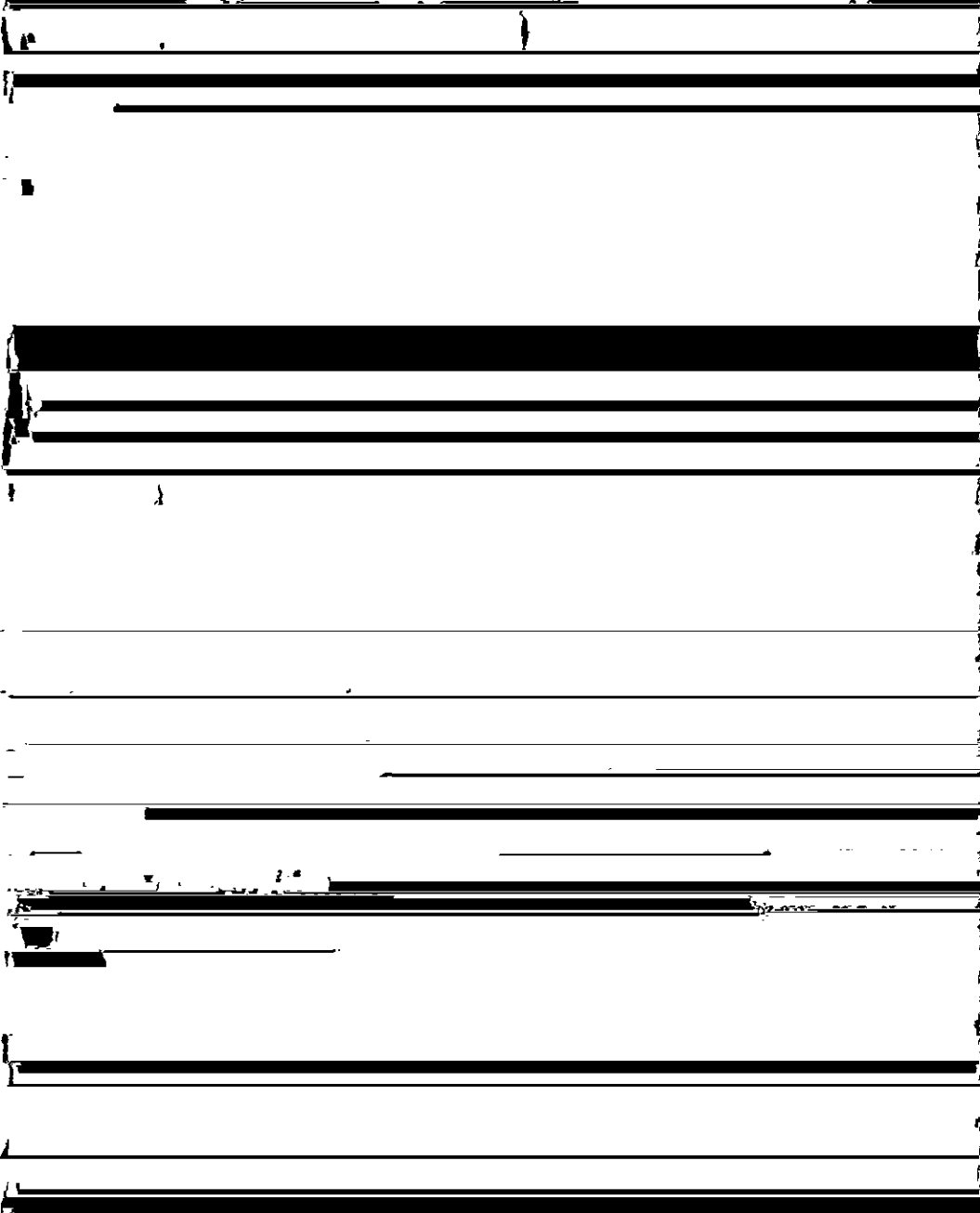
Two years into its second term, the New Democratic Party administration led by Premier Howard Pawley was defeated in the Legislature when a disgruntled government backbencher voted against the budget. In the ensuing provincial election, a minority Progressive Conservative government led by Premier Gary Filmon took office, even though the party secured fewer seats than it started with. Many saw the real winner in the election as Sharon Carstairs, the energetic leader of the Liberal Party, which staged a remarkable political comeback. After two decades of political decline, the Liberals elected 20 MLAs and became the official opposition.

Among other impacts, this realignment of political forces within the province made the Meech Lake Accord the dominant issue of provincial politics during

decline in 1988 when the major capital projects neared completion and the

deregulation and the Canada Health Act. Whereas the Lyon government had

passed a Bill to amend the Act in their opposition to the National Energy

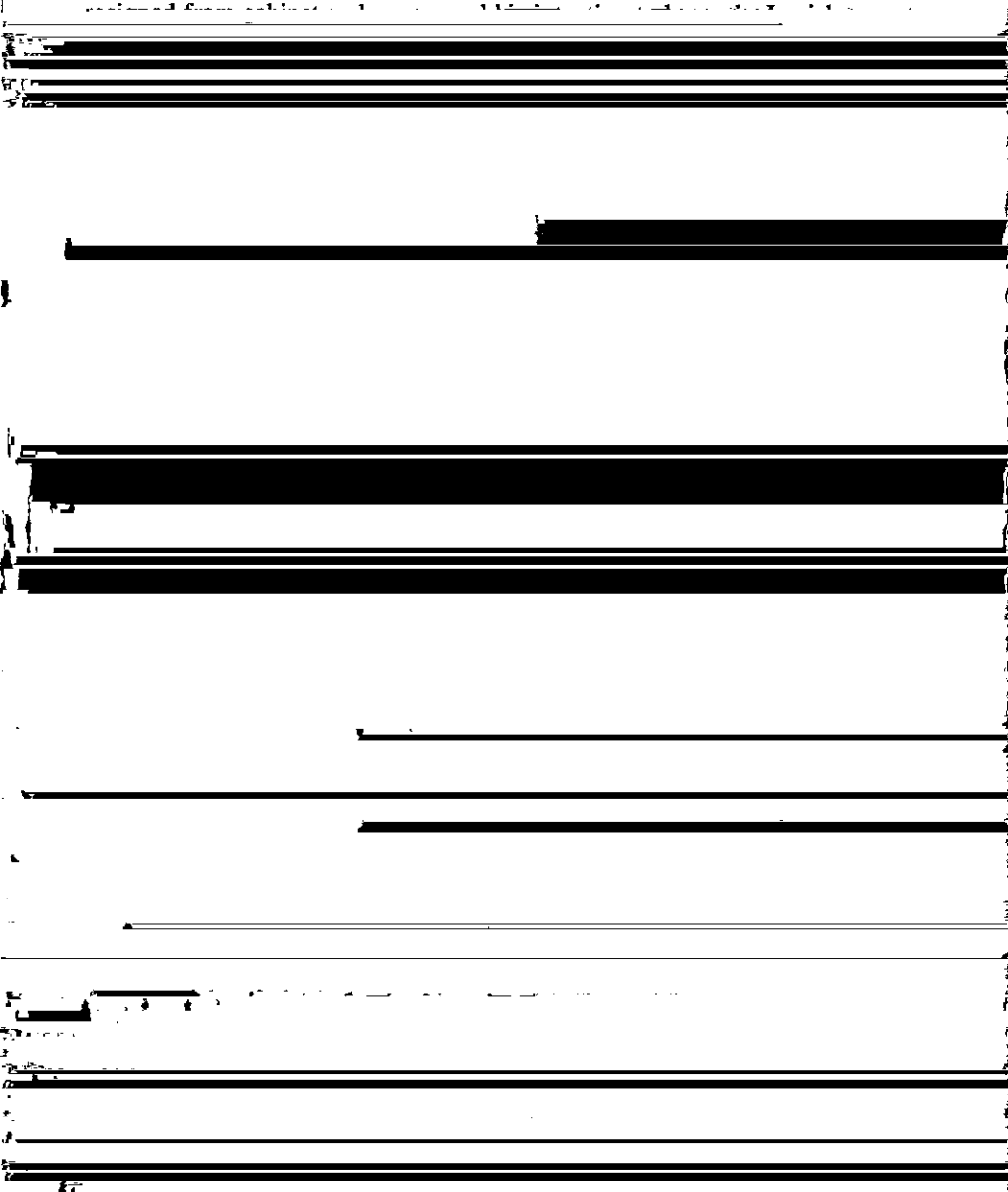


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the leaders present agreed to promote the Accord back in their own provinces, Mr. Pawley's commitment in this regard was more qualified than the others.

Back home the NDP government was situated precariously. In the 1986 provincial election, it had won 30 seats compared to 26 for the Progressive Conservatives and one for the Liberals. In the fall of 1987 a long serving MLA



The Pawley government resigned and an election was scheduled for 26 April 1988. Mr. Pawley also resigned as leader and was replaced by Gary Doer. The NDP started the election campaign well back, with perhaps only two or three seats being considered safe. Mr. Filmon's Conservatives held a comfortable lead and their campaign seemed to be premised on the avoidance of any blunders. The wild card was the Liberals, whose building momentum could scarcely be captured by the opinion polls. Turnout on election day was 76 per cent, the highest for several years.

the Accord was building. In June, the Winnipeg Chamber of Commerce had written to all MLAs urging them to reject the Accord.¹⁶ Resentment over the

inclusion of property rights in the Charter, protection of women's rights and

in Quebec's constitution of the 1920 constitution²⁶ Included in the ten per

hearings, to 11 men sitting around the poker table deciding the country's future, to all night sessions, to the exclusion of advisers, to the lack of clear information about all the implications of the Accord, and to the insistence that amendments would be acceptable only if "egregious errors" could be found. For many Manitobans, the Meech Lake process symbolized the worst excesses of secrecy and lack of public consultation.

committee hearings have been held? A second question is whether they will attempt to use the approach of companion amendments described earlier, which could be used to tie Manitoba's assent to the Accord to actions in other jurisdictions. It should be noted that there is all-party agreement that passage

social spending. The government began slowly by marketing the need for restraint in an attempt to reduce expectations.²⁷ During the recession of the

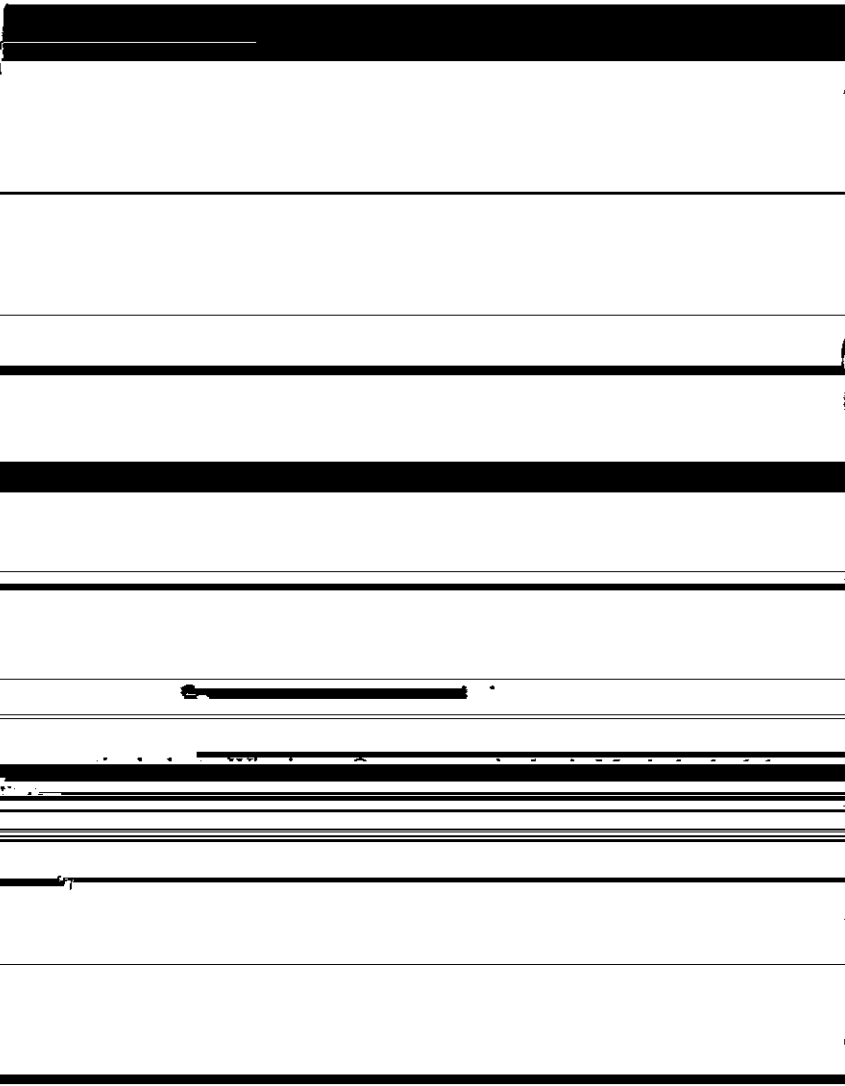
early 1980s the government pointed to public spending especially the jobs

amount than in the February budget. There were no increases in personal, corporate and sales taxes. Outside consultants were brought in to review the overall financial situation of the province. Forecasted spending was about \$4.5 billion, slightly higher than the NDP estimate. Borrowing was down 16 per cent from the level of the previous year. The deficit for 1988-89 was projected to be

the decade from 1970-80 to 1980-90, federal transfers as a percentage of

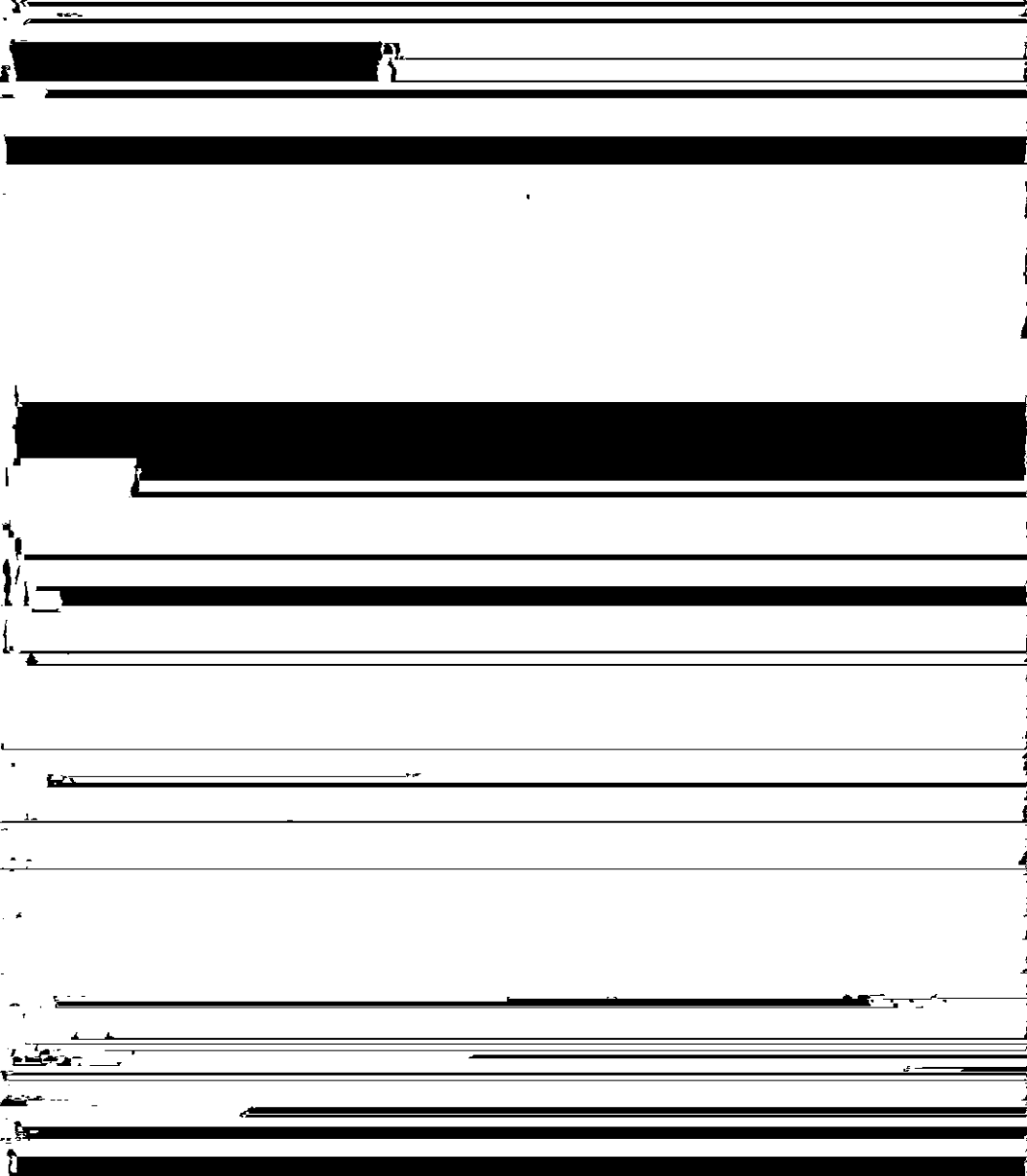
leaders travelling to Ottawa to protest. The group was told by the federal

government. It was heralded at the time as representing "a new kind of federal-provincial cooperation, based on shared understanding of Manitoba's economy." There were very close working relations between Mr. Lloyd Axworthy, regional minister for Manitoba in the federal cabinet, and the Pawley administration. Their collaboration produced a steady flow of federal benefits



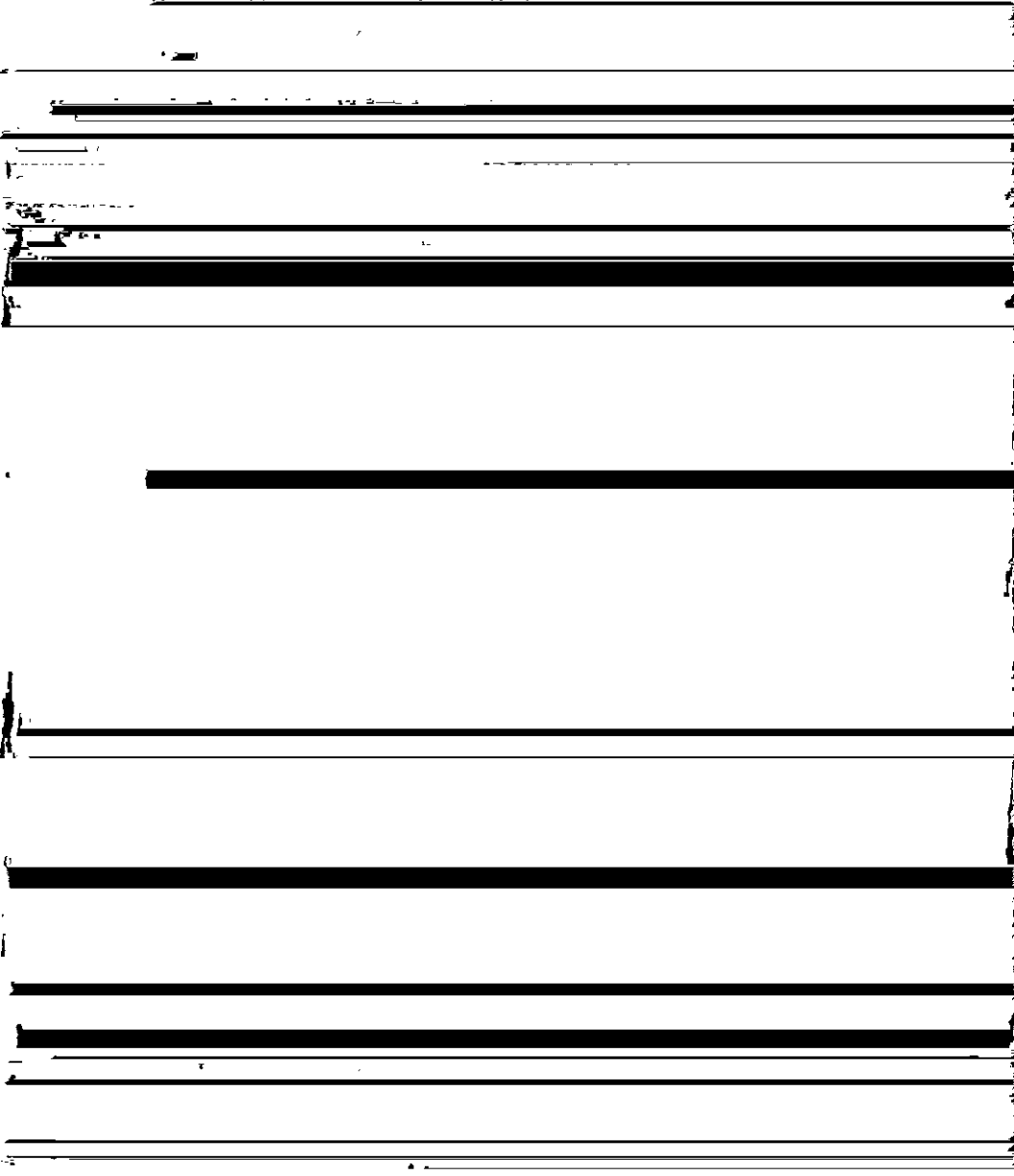
of funds had been jointly agreed to. Manitoba's Finance Minister told the press that he was prepared to review the program, but the province opposed any

deal in October 1971. The Minister of Ontario's complaint suggested



detailed procedure manual, we need to have systems to ensure that all proposals are judged the same way.³⁸

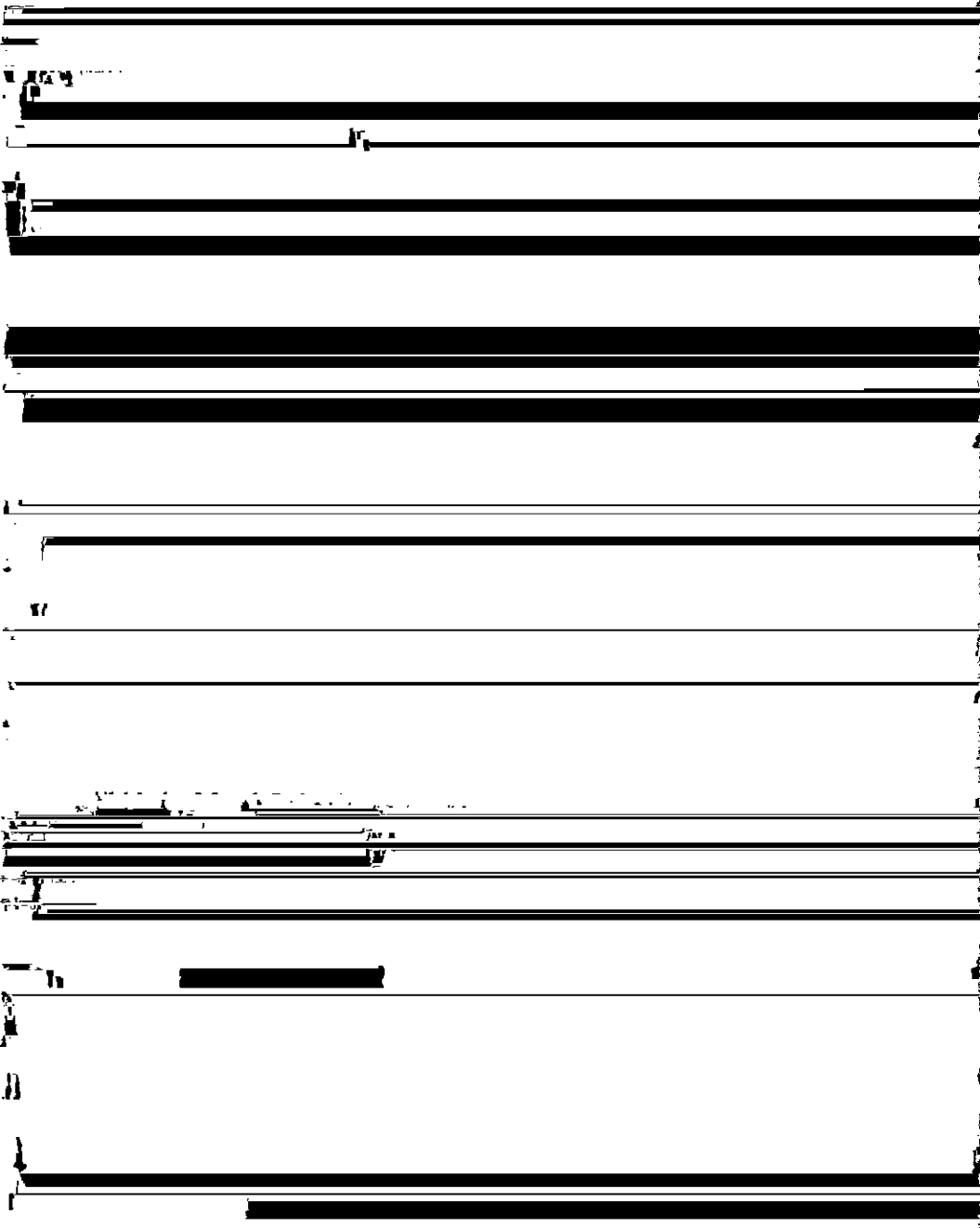
Given the discretion granted to officials of the WDF, it is perhaps not surprising that there were charges that Manitoba was not getting its "fair share" of project funding. Because the WDF spending is based on the flow of applications, the



Given the further fact that the Conservatives have apparently fallen behind the

be located when the next redistribution is completed. The Liberals and the NDP will fight over the remaining 60 per cent of the vote.

For the immediate future, the biggest issue facing the province



2 R. I. Robertson, "Developing the West's Manufacturing Base," *ibid.*, p. 100.

18. The Liberal Caucus of the Manitoba Legislature, *Discussion Paper on the*

39. Interview with an anonymous official in the Western Diversification Office in Winnipeg, 9 June 1989.

40. Le Pa de la Man le 10 juin 1989 10 juin

41. Frances Russell, "Improbable coalition sets up shop in Manitoba" *The Winnipeg Free Press* 20 May 1989



III

Focus on the Issues

Federal-Provincial Fiscal Relations in the Wake of Deficit Reduction

Robin Boadway

*Le dernier budget Wilson, en s'attendant à la réduction du déficit national, aura peut-être
marqué du même coup un tournant majeur dans les relations fiscales fédérales provinciales.*

INTRODUCTION

federal government budget options are presented. Finally, some of the important constitutional and economic policy changes with implications for federal-provincial fiscal relations are discussed. Subsequent sections consider current policy issues and options in light of these stylized facts and their implications for federal-provincial fiscal relations.

THE INSTITUTIONAL AND POLICY SETTING

Although it will be well known to most readers, it is useful to begin with a summary of the main components of the system of federal-provincial fiscal arrangements. The system can be characterized by the following four features

degree of tax harmonization has been achieved in the sense that common bases have been adhered to by the federal and most provincial governments for both the individual and the corporation income taxes. The system undoubtedly owes its existence to the Wartime Tax Rentals Agreements when the federal government ~~was the sole proponent of the income tax fields and imposed a common~~





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Tax harmonization in Canada is much further advanced in the income tax

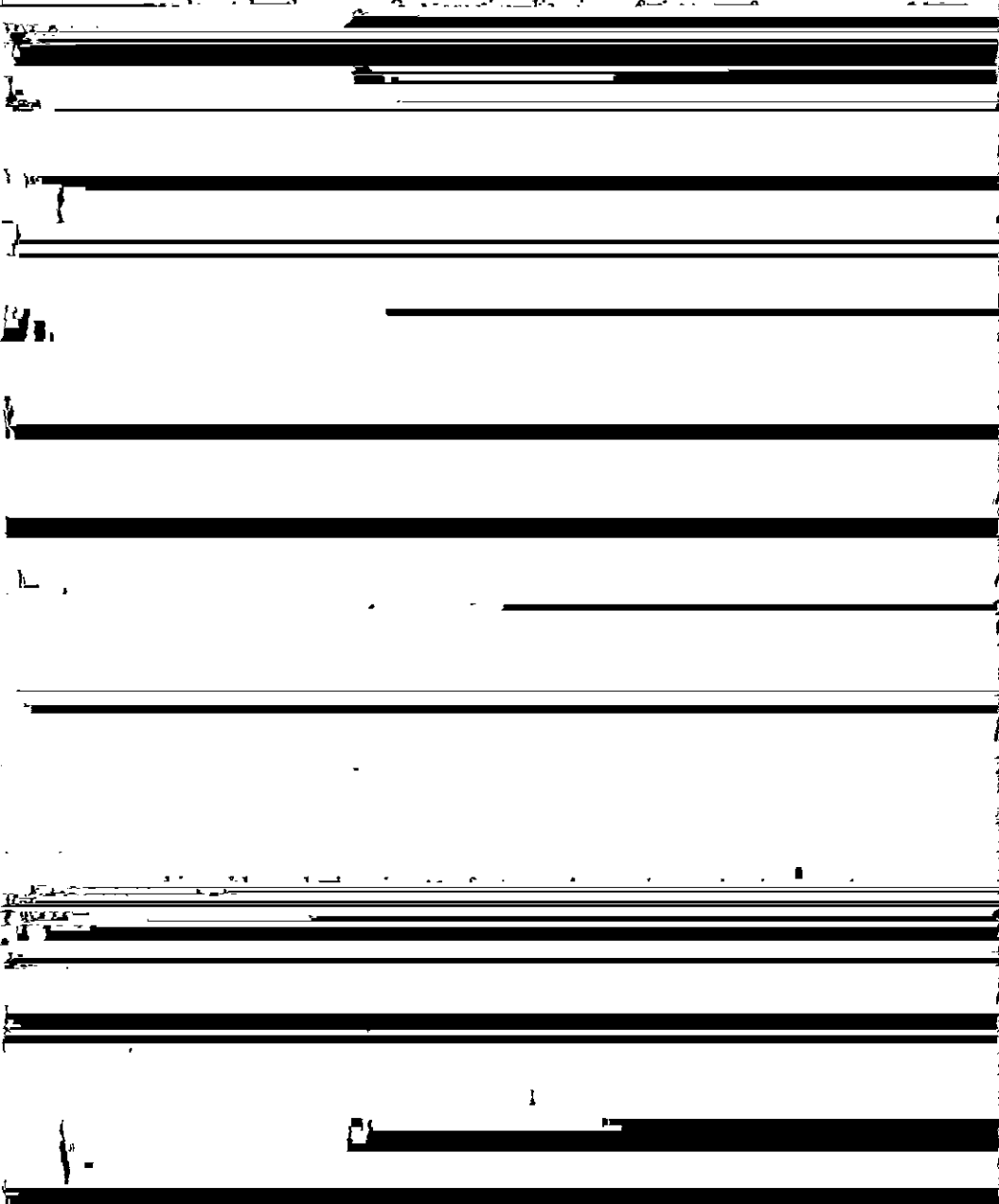
interest costs are much higher as a proportion of federal revenue in 1988-89

responsibilities. Of particular note is the fact that the federal government has

Section 26(2) Immigration Act 1971

in the past. Debt service charges (i.e., interest payments to holders of the debt) are larger than the deficit itself. In other words, tax revenues are more than enough to cover all non-interest expenditures of the government, including spending on goods and services as well as transfers to individuals and governments. Thus, it could be argued that from a long-run structural point of view,

expectation that tax increases would tend to come more at the expense of the better off and transfer reductions at the expense of the worse off. However, that



transfers. As discussed in the following section, given the underlying expendi-

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transfers. Of course, the two are interdependent.

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amount of agreement has been reached concerning the case for equalization and

3 The Equity Obligations of the Federal Government

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for the use of the spending power in areas of health, education and welfare. The Meech Lake Accord provisions pale by comparison. As with Section 36(2) it is not altogether clear that this interpretation was foreseen when the amendments were being implemented. However, that danger always exists when constitu-

harmonization which avoids many complexities of tax administration and

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In recent years the Tax Collection Agreements have come under consid-

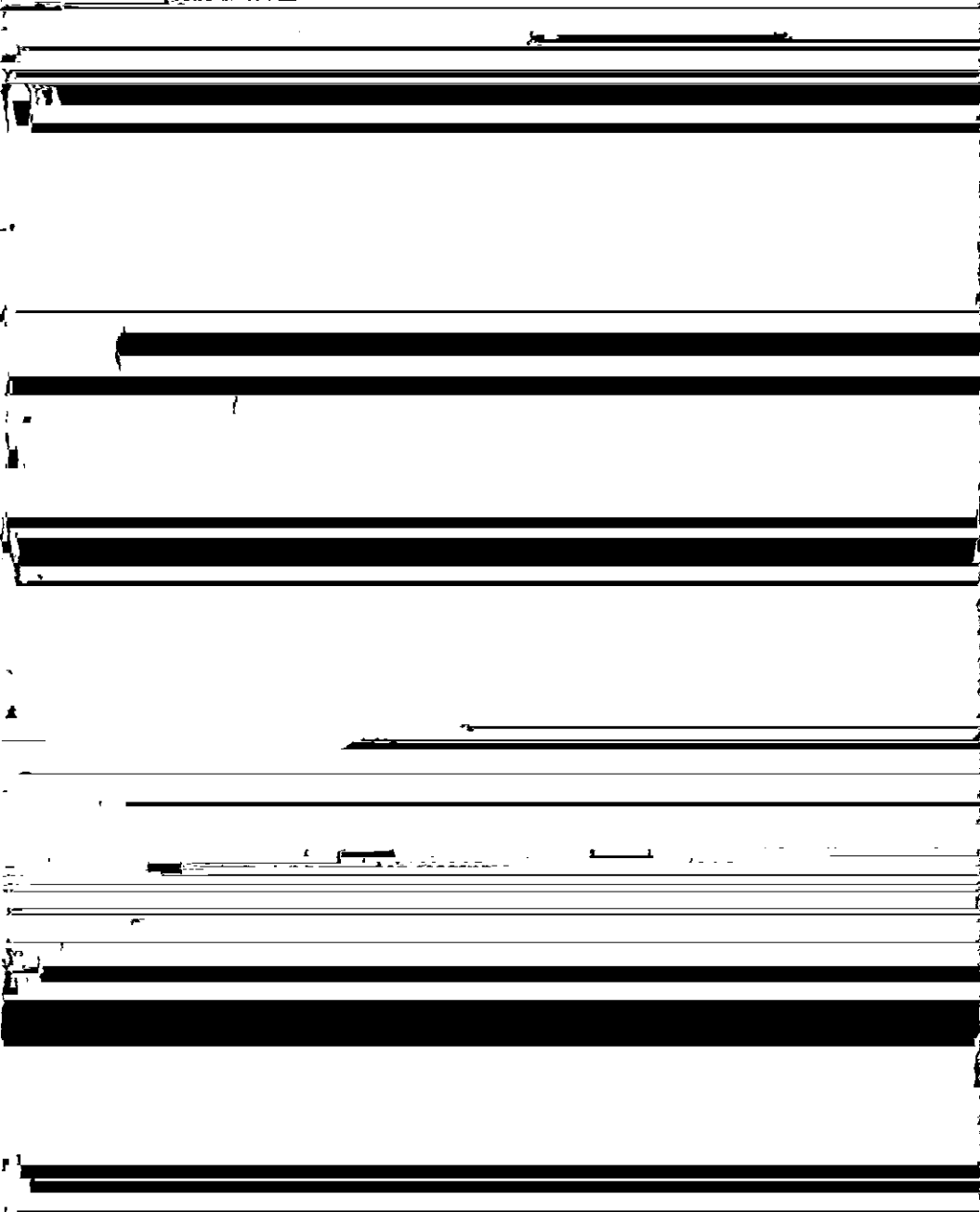
departures from tax harmonization. Flat taxes are taxes levied on individuals using a single rate rather than a progressive rate structure. In the case of

— principal flat tax, the bases used are not income in the case of Saskatchewan

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control the base in any case, it is not as important that federal tax room exceed provincial tax room.

Details of the analysis are contained in the Appendix to the paper.



8. The admissibility of the tax credits is determined by officials in the Department of Finance. Admissibility criteria have not been

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INTRODUCTION

— 1 —

D'un côté, le Canada anglais se demande s'il sera jamais possible de satis-

Le Québec depuis 30 ans. Ce qui est important...

que les communautés francophones de l'extérieur du Québec peuvent et veulent

vivre leur francophonie de la même façon et avec la même intensité que les

sociales communautaires qui font partie de cette toile de fond qui est l'espace francophone hors Québec.

Si les propos qui précèdent portent à croire que l'avenir est assuré, ce n'est

[REDACTED]

[REDACTED]

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Sanadate la... ..

11. Loi constitutionnelle de 1867, 30 & 31 Vict, c. 3 (R.-U.) [S.R.C. 1970], Appendice II, no. 5. (mod. par la *Loi de 1982 sur le Canada*, 1982, c. 11 (R.-U.), annexe de la *Loi constitutionnelle de 1982*, no. 1), art. 133.
12. Supra, note 2. Le Conseil de la langue française au Québec et certains groupes tel le Mouvement Québec français ont exprimé un avis contraire

34. Id., chapitre II, article 1.

