

Possible federal initiative without the price tag

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The combination of uncertain economic (therefore revenue) growth in the years ahead, the promise of a balanced budget by mid decade, and the built-in escalators in transfers to provinces means that the federal government will have little fiscal room available for major new initiatives throughout its entire mandate. However, one major initiative is available that would not carry a hefty price tag.

Since the beginning of “modern” government in the post-war period as defined by a greater role for the state, Canada has seen the introduction of new groundbreaking initiatives approximately once every 10 years - initiatives that in their own ways redefined the country.

To wit:

- The introduction of the fiscal equalization program in 1957;
- The introduction of CPP and Medicare in the late 1960s;

- The circa-1980 repatriation of the Constitution and adoption of the Charter of Rights and Freedoms;
- The circa-1990 Canada-US free trade agreement, followed by NAFTA, and the introduction of the GST; and
- The 1998 return to budget surpluses after almost a quarter-century of deficits and rising public debt.

It has now been 13 years since that 1998 return to budget surplus and the argument can be made that the country is overdue for another groundbreaking initiative. Most although not all of these historical initiatives were undertaken by majority governments.

We now have a majority government for the first time in seven years, but as noted earlier, one that faces severe fiscal constraints. So if the country is overdue for another historical initiative, and there isn't a lot of money to throw at it, what might that initiative be?

To answer that question, I return to the 2006 budget of the then newly-elected Harper government, more specifically to the discussion paper tabled with that budget entitled Restoring Fiscal Balance.

That paper put forward a strong case that federal government efforts should be directed toward establishing permanent, stable, and sustainable fiscal arrangements based first on a clear delineation of federal and provincial responsibilities, and then ensuring that each level of government had the fiscal resources necessary to fund those responsibilities without relying on transfers from other governments.

And it went further by subtly yet strongly implying that in seeking federal help in developing these new fiscal arrangements, provinces in return should be prepared to do their part to strengthen the economic union, thus promoting greater economic efficiency and productivity.

In short, the federal commitment to address one imbalance (ensuring sustainable provincial finances) would be contingent upon the provinces committing to address another 'imbalance' (strengthening the economic union). The traditional one-way street with provinces always demanding more of the federal government would be supplanted by a two-way street whereby the provinces would in return be called upon to do their part in strengthening the economic union.

What lent that discussion paper credibility at the time was that leading up to and during the election campaign that resulted in the Conservative minority, Harper had expressed some very strong views about the need to strengthen the economic union, to disentangle federal and provincial responsibilities, and to ensure that each level of government had the fiscal resources necessary to carry out those responsibilities – views shortly thereafter

reflected in that discussion paper accompanying his government's first budget.

The paper was a bold discussion from a newly-elected government of how the federation could be better managed, fiscally and economically, for the betterment of the country as a whole. The problem with moving that discussion forward toward any semblance of implementation was that only a federal government in a majority position could provide the persistence and leadership to do so. For the next five years, however, the Harper government was in a minority position and the discussion paper and the ideas it contained were relegated to gathering dust on the shelf.

Mr. Harper now has his majority government, and it will be interesting to see if he chooses to revisit those ideas. The time to do so may now be ripe for other reasons. Pursuing such an initiative would be in line with his campaign focus on strengthening the economy and the need for strong economic leadership; ensuring provinces have the necessary fiscal resources to carry out their responsibilities could be central to the upcoming negotiations over the post-2014 health care, social and equalization transfers; although the devil would be in the details, elements of such an initiative could be well received in Québec where the Conservatives will be aiming to make gains in the next election; and such an initiative could even garner support from the opposition NDP whose policies toward federal-provincial relations have traditionally contained a decentralist bent.

Moreover, if Harper does choose to return to this theme, that return could be helped or hindered by the Supreme Court's opinion on the national securities regulation (NSR) reference expected later this year.

What is important here is that securities regulation, important as it is for many observers, will only be the sideshow; the main event will be

what the Court will have to say on the federal trade and commerce power since its opinion on the former will have to be framed in the context of the latter.

If the court determines the federal government has a strong position (paramountcy or even exclusivity) in regulating trade and commerce within the country, then Harper's case for a stronger economic union would be bolstered and his opportunity to proceed along the lines of the 2006 discussion paper would be enhanced. On the other hand, if the court determines that the federal government has more limited powers in regulating trade and commerce, his ability to pursue that agenda will be somewhat more limited, especially in requiring provinces to do their part in strengthening the economic union.

So here we have an initiative without a high price tag that if proceeded with, could be equal in historical importance to those listed at the beginning of this note. Whether the Harper government will choose to proceed, however, remains to be seen; and if it does, what the Supreme Court has to say about the federal trade and commerce power will be a determining factor in how that new initiative would be framed.



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