Canada: The State of the Federation 2012

Regions, Resources, and Resiliency

Edited by
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PREFACE

The Institute of Intergovernmental Relations has a tradition of entering into partnerships for many of its projects. In this instance, we worked with a group of senior scholars at the University of Toronto. The theme for this book emerged in early 21 ¢ ž ṗ r M] H ioo

Photo by Stephen Simeon

RICHARD SIMEON (1943ð2013)

Most readers of a book on the state of the federation will know, sadly, that Richard Simeon passed away on October 11, 2013. Richard was one of Canadaõs most distinguished political scientists, and his fellow students of federalism are proud that his well-deserved reputation came about largely because of his work on federalism in Canada and abroad.

The editors of this book, Loleen Berdahl, Carolyn Hughes Tuohy, and I, have dedicated this book to Richard.

Richard Simeon was recruited to Queenõs University in 1968 by Professor John Meisel to teach political science. He was already famous for his Yale University PhD dissertation on federal-provincial diplomacy, a phrase he coined. He became the director of the Institute of Intergovernmental Relations in 1976. He wrote recently that Ron Watts had given him the best job of his life.[1] As director for seven years, he guided the Institute to play an inÿuential role during one of the most difþcult periods for Canadian national unity. Working with his existing network and creating new ones, he was tireless in seeking to promote an understanding both of the tensions and of the potential avenues for the future of the country.

From 1985 to 1991, Richard was the director of the School of Public Administration (now known as the School of Policy Studies). This appointment reÿected another one of his deep interests, the making of public policy. A central question for him was, òHow does federalism matter for equality, for social justice, for addressing contemporary challenges in a timely and effective fashion?ó[2] This of course remains more than ever a crucial question.

In 1991, Richard left Queenõs and went to the University of Toronto, but he continued to be a friend and an advisor to the Institute. His role in the design of the 2012 State of the Federation conference is outlined in the preface to this book.

Throughout his academic career, Richard Simeon remained a public intellectual in the best meaning of that term. He made important contributions to public policy

[1] òReÿections on a Federalist Life,ó in *The Global Promise of Federalism*, eds. Grace Skogstad, David Cameron, Martin Papillon, and Keith Banting (Toronto: University of Toronto Press, 2013), 279.

[2] Ibid., 284.

and federalism by advising governments in Canada and abroad in a wide range of

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I

Introduction

challenge to Canadian national unity, or do they simply reÿect the countryõs long history of regionalism?

- To what extent do Canadaõs natural resource industries beneþt the Canadian

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strategy. To ascertain the extent to which Canada may be able to capitalize on the experience of other federations in this policy þeld, the conclusion situates these implications in a comparative international context.

JURISDICTIONAL BOUNDARY EFFECTS

Space is a way of making sense of the world. Geographical assumptions naturalize the political segmentation of space. The study of intergovernmental relations is particularly afÿicted by such assumptions. On the one hand, the hegemonic preponderance of historical institutionalism across the þeld of intergovernmental relations necessarily causes scholars to gravitate toward the study of institutions, to the detriment of more sociological and ecological perspectives that transcend the institutional explanations. On the other hand, the þeld of intergovernmental relations is replete with methodological nationalism. By default, its units of analysis are sovereign federal, decentralized and sometimes devolved states, and their semi-autonomous constituent units.

Borders have traditionally been understood òas constituting the physical and highly visible lines of separation between political, social and economic spaceó (Newman 2006, 144). But their actual signiþcance is found in the bordering process that produces them and the institutions that manage them. These institutions òenable legitimation, signiþcation and domination, [and] create a system or order through which control can be exercisedó (Newman 2006, 149). They politicize space and bring it under control. Since the people are, ultimately, sovereign, federalism is sustained by the various governmentsõ accountability to the voters. In a diverse society, however, forging a consensus among votersõ expectations is difþcult. Canadaõs

(1954) in *The Economics of Location* reasoned that, according to neoclassic economics, the borders created by these processes are costly because they are barriers

exacerbates challenges for government to regulate the ÿows through that infrastructure. In whose interests is government to regulate: consumers or producers? consuming or producing regions? How competing interests are reconciled is at least

Figure 1: Integrated North American Transmission Grid

Note: Lines shown are Ó345kV interconnections between Canada and the United States; <345kV lines are not depicted.
Source: Reproduced with permission. Map copyright Canadian Electricity Association (2015, 26).

Figure 2: Electricity Generation in Canada by Province and Type of Fuel

Note: *Point Lepreau nuclear generating station resumed power production on November 23, 2012; nuclear is expected to be a major

What Canada does need, by contrast, is a national energy export strategy. Energy exports have become a rising revenue generator for provincial and federal governments and a signiþcant source of employment. In a þscally constrained environment where the opportunity to hike taxes is limited, energy has become a major focal point for government to increase revenue. In 2010, for instance, Canadian exports

The asymmetry in policy approaches and substate strateties to which the constitutional division of powers in Canada with respect to energy gives rise, the way it has (and has not) been used by provincial and federal governments, and the way energy usage has changed in recent decades militate against a grand, horizontal and vertical intergovernmental bargain on energy policy and strategy. Trying to force one is bound to falter. Provincial and federal governments are thus left to forge their own energy frameworks through targeted incentives, often in the form of subsidies. As the German federation recently learned from sinking EUR 100 billion in subsidies to encourage a national strategy on renewable energy to materialize, the use of economic incentives can prove exorbitantly expensive while generating little actual return. Nonetheless, with critical infrastructure largely in private hands, and absent an intergovernmental consensus, the fallacy of composition is unlikely to be overcome, absent a national strategy.

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TERMS-OF-TRADE CHANGES, THE DUTCH DISEASE, AND CANADIAN PROVINCIAL DISPARITY

Serge Coulombe

INTRODUCTION

In an economy opened to international trade, improvements in living standards are determined in the long run by productivity gains and terms-of-trade changes. To illustrate this, suppose the economy produces only cakes that are sold in international markets for other goods. The economy will get richer when productivity gains generate an increase in the number of manufactured cakes. Improvements in terms of trade also make the economy richer when cakes are sold for higher prices relative to other goods in international markets.

The primary purpose of this chapter is to show that the favourable evolution of terms of trade during the resource boom of 2002 to 2008 has largely shaped Canadian provincial disparity in 2012. This disparity results from the uneven spread of valuable natural resources across the territory and from provincial ownership of resources. In the second part of the chapter, I will argue that the resource boom might not have been beneþcial to all Canadian provinces due to a òDutch disease.ó

The relative importance of productivity gains and terms-of-trade changes depends on the degrees of openness and diversiþcation of an economy. In a large and diversiþed economy such as the United States, exports do not account for a substantial portion of GDP (only 14 percent in 2011[1]), and the export base is well diversiþed. We should not be surprised that American economists are not very interested in measuring and analyzing the contribution of terms-of-trade changes

[1] Data source for export to GDP is the World Bank, http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS.

Terms-of-trade gains might result from a favourable industrial structure when an economy, because of historical accidents or well-thought industrial policy, has acquired a know-how in producing goods and services with raising relative prices. Kohli (2004) has argued that it might be the case of Switzerland, which saw its terms of trade improve by 34 percent between 1980 and 1996. Generally speaking, however, if productivity gains result from working hard and being smarter, terms-of-trade gains result from luck (Coulombe 2011). To a large extent, natural resources are a matter of luck: the endowment is determined by geography, the ownership by law and political competition, and the commodity prices by international markets.

Luck is also very important in the case of Canadian provinces since thanks to historical events (see Plourde 2010), ownership and most of the resource revenues (including for offshore oil extraction) were granted to provinces. Anderson (2012) analyzes the division of power between local, provincial, and federal governments regarding the ownership, management, and resource revenues for petroleum in 12 federations (Argentina, Australia, Brazil, Canada, India, Malaysia, Mexico, Nigeria, Pakistan, Russia, United States, and Venezuela). He shows that for onshore resources, Canada is the only federation in which provinces not only own and manage the resource but also receive revenues from its exploitation. For offshore resources, even if the resource ownership and management are both within federal jurisdiction by the constitution, Canada is the only federation where the resource revenues have been ceded entirely to the provinces.

In the following section, I will show that terms-of-trade changes that occurred during the resource boom of 2002ð2008 are the key driver of the actual provincial disparity in Canada.

LUCK MATTERS, NOT PRODUCTIVITY

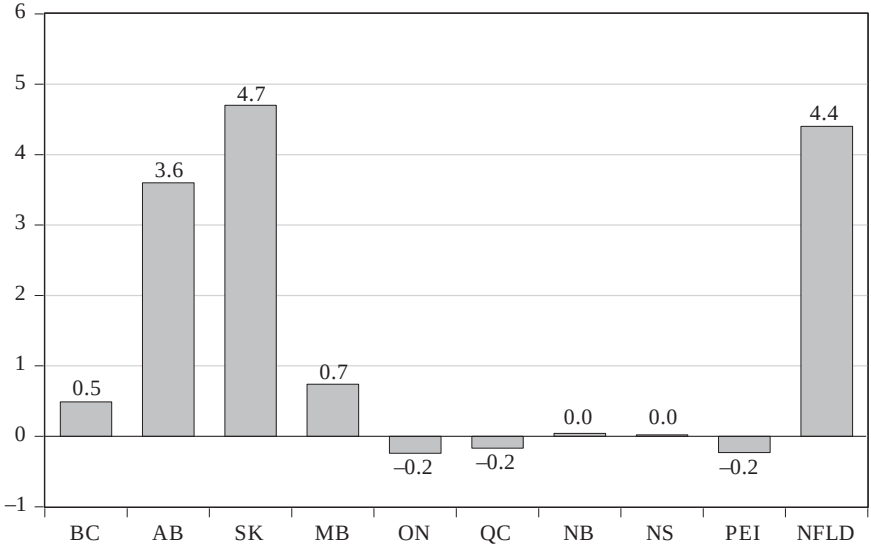
Before looking at numbers, I brieÿy highlight the methodology used to derive the provincial and national terms-of-trade effect. The data on productivity (used for Figure 4) and terms of trade (Figures 1 and 3) were taken from Coulombe (2011). The data on labour productivity are straightforward and are measured by provincial real GDP divided by the number of hours worked.

I derived my own data on terms of trade following a simple methodology that I have developed in my studies on Canadian provincial convergence that go back to Coulombe and Lee (1995). The methodology is based on the concept that terms of trade are included in the measure of nominal GDP but are excluded from the measure of real GDP. This is why real GDP growth (and productivity growth) is a very incomplete measure of improvement in living standards for regional economies

To measure the changes in terms of trade, I þrst deÿate nominal GDP (Canada and the ten provinces) using a national consumer price index (CPI).[2] With this, I get a concept analogous to national income. Terms-of-trade changes are measured as the difference between the growth of the CPI-deÿated nominal GDP and the growth of real GDP. With this methodology, it is important to point out that I capture the effect of terms-of-trade changes for a Canadian province resulting from both its international and interprovincial trade. This simple methodology provides results that are generally very similar to measures obtained by more sophisticated approaches such as those employed by Kohli (2004) and Diewert and Yu (2012).

During the resource boom period between 2001 and the fall of 2008, improvements in terms of trade accounted for 30 percent of the progress of living standards in Canada. The key point that comes out of Figure 1, which depicts the provincial distribution of the windfall, is that this good fortune was not equally spread. A positive (negative) number in this þgure indicates that terms of trade improved (deteriorated) on average during the 2002ð2008 period.

Figure 1: Contribution of Terms-of-Trade Changes to Provincial Income Growth, Annual Percent Average 2002–2008



Source: Terms-of-trade data are from Coulombe (2011).

2

Saskatchewan, Newfoundland, and Alberta, three provinces that account for only 15 percent of the Canadian population, were the winners of the resource-boom lottery. In Saskatchewan, with an annual improvement in living standards generated by a terms-of-trade gain of 4.7 percent, the resource boom accounted for a 33 percent increase in national income in just six years. This is close to the 34 percent improvement in living standards that Switzerland achieved over a 16-year period as mentioned by Kohli (2004). Newfoundland and Alberta also beneþted from a substantial bonanza. By contrast, the effect of terms-of-trade changes is almost null, or slightly negative, in Central Canada and the Maritimes. The terms-of-trade effect is positive in British Columbia and Manitoba but on a much smaller scale than in the three booming provinces.

I am using the þscal capacity before equalization as the indicator of a provinceõs living standard. The numb Pprovinceõs ʞ b Pm ɔ D ʌ ʁ Ƽ r v
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revenues. In 2011ð2012, equalization was able to bring the þscal capacity of the receiving provinces (Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island) up to 95 percent of the province average. It is important to mention that equalization does not change the þscal capacity of the non-receiving provinces. Consequently, even after equalization, the þscal capacity of Alberta was 75 percent larger than for any of the receiving provinces. For Newfoundland it was 61 percent larger and for Saskatchewan 40 percent.

The striking point that comes out of the analysis of both Figures 1 and 2 is that the distribution of þscal capacities across provinces appears to be closely related (or correlated) with the terms-of-trade changes that occurred during the resource boom period. This point is emphasized in Figure 3 with a scatter diagram.

The scatter and the þtted regression line (equation R1) illustrate the close relationship between the good fortune of a Canadian province (terms-of-trade changes during the resource boom) and living standards in 2011ð2012. In the regression equation (R1), the variable *FS* (measured in 2012) stands for the þscal capacity (Figure 2). This is our dependent variable. The variable is regressed on a constant and the terms-of-trade variable *TT* (the change between 2002 and 2008 as depicted in Figure 1). The *R*-square and the *p*-value (signiþcance level) of the estimated coefþcient (the slope in Figure 3) are shown below the regression equation.

With just ten observations (one per province) for the variables (ten points only to þt in Figure 1), it is usually extremely difþcult for any variable to reach statistical signiþcance in a regression. Statistical theory tells us that signiþcance levels increase (*ceteris paribus*) with the number of observations. In our case, however, the coefþcient of terms of trade is signiþcant well below the 1 percent level. In order to have the slope coefþcient signiþcant at the 1 percent level with only ten observations, you need a good model, good data, and é good luck.

$$FS = \quad + \quad TT \quad \square \qquad \text{(R1)}$$
$$R =$$

Another interesting result coming from the regression analysis is the high level of the *R*-square (0.83). This number indicates that 83 percent of the þscal capacity of Canadian provinces in 2011ð2012 is òexplainedó by the simple model that includes only a constant term and terms-of-trade changes. That does not leave much room for other explanations.

We now turn to see if productivity growth across Canadian provinces is also a signiþcant determinant of todayõs portrait of Canadian disparity. The data on labour productivity during the resource boom are depicted in Figure 4. Only Newfoundland stands out in terms of labour productivity gains. With an average annual growth of 4.4 percent per year, Newfoundland clearly outpaces the other nine provinces, which average only 0.9 percent. Newfoundlandõs performance resulted from the

shift in its industrial structure from a low-productivity-level activity, þshing, to a high-productivity-level activity, offshore oil extraction. Consequently, taking into account both the terms of trade and the productivity factors, Newfoundland stands out as the clear winner in the resource boom across Canadian provinces.

The regression equation (R2) tests if labour productivity growth (the *LPG* variable in R2), together with terms-of-trade changes during the resource boom period 2002ð2008, accounts for a substantial and signiþcant contribution to provincial disparity in 2012. The answer is no. The coefþcient on the productivity variable is far from being signiþcant with a *p*-value of 0.640. Interestingly, the coefþcient on the terms-of-trade variable remains signiþcant well below the 1 percent level.

$$FS = + TT \quad LPG$$

$$R =$$

Figure 4: 8 '

One could argue that it takes times for productivity growth to create substantial differences in living standards such as those depicted in Figure 2 and that, consequently, the six-year study period might be too short. In the regression equation (R3), I use the mean labour productivity growth during the 25-year period from 1984 to 2009 (the whole sample used in Coulombe 2011). The results concur with those of (R2). The productivity growth variable is far from being signiþcant. The terms-of-trade variable remains highly signiþcant, and the small model continues to explain more than 80 percent (*R*-square) of the observed disparity in 2012. In equation regressions (R2) and (R3), one could also note that the estimated coefþcient for the productivity variable has the wrong sign (negative). However, since the *p*-values in both cases are very high, these coefþcients are not signiþcantly different from 0.

$$FS = + TT \; \square \; \square \; LPG \; \square \qquad \text{(R3)}$$
$$R =$$

The results for (R2) and (R3) illustrate the robustness of the key stylized facts highlighted in this section. Provincial disparities in 2012 have been to a large extent shaped by terms-of-trade changes that occurred during the relatively short period of time between 2002 and 2008. Productivity differences across provinces do not matter statistically. Of course, economically, productivity growth does matter for Newfoundland.

The fruits from the resource boom are unevenly distributed across provinces. The consequences of these imbalances are exacerbated in Canada given the high degree of decentralization of the federation (see Boadway, Coulombe, and Tremblay 2012). Federal equalization payments transfer some of the bitumen bust to non-booming provinces, yet the þscal capacities of the have and s

bust comes with technological progress that renders obsolete a speciþc resource-extraction process (the Guano Boom in Peru in the mid-1800s). Booms and busts are the main reason why a Dutch disease might occur from the exploitation of natural resources. It is more delicate to plan consumption and savings from an income arising from temporary windfalls than from income generated in a steady stream by economic activities in the secondary and tertiary sectors. Some economic activities from the primary sector such as agriculture and livestock also generate a relatively steady stream of income and are not subject to generating a Dutch disease.

Of course it is not possible to know today if the manufacturing activities lost in Canada due to the resource boom will come back when the boom is over. There is too much uncertainty. It is possible, however, to quantify whether some manufacturing activities in Canada have been lost because of the resource boom. This was precisely the subject of the empirical analysis by Beine, Bos, and Coulombe (2012).

Our analysis consisted of three steps. First, we divided the evolution of the Canada-US bilateral (real) exchange rate in Canadian dollars (CAD) into a Canadian and a US component. The division was based on the observation that an exchange rate is a relative price, that is, the ratio between the value of the Canadian and the

Since the end of 2008, the developed economies have gone through þve years of þnancial crisis, deep recession, and Euro crisis. The US economy, still our main trading partner, has been particularly affected by the turmoil. The resource

III

Energy and Equalization

4

A NATIONAL ENERGY STRATEGY FOR CANADA: GOLDEN AGE OR GOLDEN CAGE OF ENERGY FEDERALISM?

Monica Gattinger

òIf people put their differences aside and work towards a common goal and vision, results can be achieved. A truly national vision for energy that we can take to the rest of the world requires us to set our sights high. We can achieve this.ó

Alison Redford, Premier of Alberta, 2011ð2014
Speaking to the Economic Club of Canada
Toronto, Ontario, November 16, 2011

òThis report emphasizes the need for all levels of government to collaborate to create a pan-Canadian energy strategy.ó

The Standing Senate Committee on Energy,
the Environment and Natural Resources, July 2012

òA Canadian Energy Strategy for the 21st century is needed. One that is pan-Canadian and collaborative. é Tradition should not restrict our thinking.ó

For more than three decades, energy federalism in Canada has been heavily inÿuenced ð some would say cursed ð by the Trudeau governmentõs National Energy Program (NEP) of 1980. Developed in the midst of the energy crises of the time, the policy called for increased Canadian ownership and control in the energy industry, a two-price policy for energy resources with preferential pricing for Canadian consumers, restrictions on energy exports, and a host of other protective measures to enhance domestic energy security and independence from world markets. The NEP was demonized by western energy-producing provinces ð particularly Alberta ð as an unjustiþed and unjustiþable intrusion of the federal government into a domain of provincial jurisdiction, and was denounced by the United States as an attack on American energy security and US energy companiesõ operations in Canada. The NEP soured both federal-provincial and Canada-US energy relations and was ultimately undone, most notably by the Western Accord, which deregulated oil prices and opened the sector to international trade, and by the Canada-United States Free Trade Agreement (CUSFTA), which institutionalized free trade in energy between Canada and the United States, including explicit provisions against two-price policies and discriminatory export restrictions. Despite the NEPõs demise in practical policy terms, however, it has lived on in the minds of politicians, policy-makers, and citizens alike. Provinces vigorously assert their dominance and defend their powers over energy, and they develop their respective energy policies in mostly autonomous ways. Ottawa, for its part, sticks closely to its knitting, intervening in energy or related areas in tightly circumscribed manners, knowing that provinces wonõt hesitate to challenge federal intervention ð either in political or judicial arenas ð as unconstitutional. Since the NEP, therefore, national approaches in the energy sector have been verboten, anathema to the ònaturaló order of energy federalism in the country, tantamount to a òthird railó in Canadian politics ð say ònationaló and òenergyó in the same breath and prepare to suffer the consequences.

Given this, growing interest and momentum in recent years for a national energy strategy represent a near conversion of things energy in the country. When touted by Alberta, the province that has most frequently played the NEP card, the change is all the more striking. What led to this shift in intergovernmental relations in the energy sphere? Does it mark a turning point to a ògolden ageó of energy federalism, in which governments collaborate extensively to pursue shared energy objectives? What are the contours, promise and prospects of a ònational energy strategyó? This chapter seeks to answer these questions. It does so by positioning recent national energy strategy ideas in the broader historical context of intergovernmental energy relations in Canada. I develop the concept of òenergy federalism,ó understood as the character of intergovernmental energy relations (conÿictual, cooperative, collaborative, etc.), to undertake the analysis. I argue that contemporary energy federalism, which for decades has eschewed national approaches to energy and is characterized by provincial assertiveness and federal cautiousness, is but one form of intergovernmental relations in the energy sphere. Prior periods have witnessed openness to and debates over national approaches to energy, as well as

greater levels of federal-provincial and interprovincial collaboration. Against this backdrop, I propose that recent national energy discussions would beneþt from a more explicit focus on developing a norm of collaboration in intergovernmental energy relations, more comprehensive engagement of the Canadian public in the discussions, and greater involvement of the federal government ð as partner not dominator ð in the process.

The chapter is structured as follows. It begins with a brief primer on energy policy-making in the twenty-þrst century, a þeld that is increasingly complex and challenging. Governments face four demanding policy imperatives when it comes to energy: markets, environment, security, and social acceptance, what I refer to as the energy MESS. The text then develops the concept of òenergy federalismó in Canada. The division of powers in the Canadian Constitution, along with the distribution of energy reserves, population, and environmental impacts of energy, has tended to produce progressively greater north-south (Canada-US) energy ties over time and, over the last three decades, intergovernmental relations tending toward competition, independence, and conÿict. Given the overarching emphasis on provincial primacy, autonomy, and assertiveness in the energy sphere and the ever-present potential for hair-trigger conÿict since the NEP, I characterize intergovernmental energy relations since the mid-1980s as òthird rail energy federalism.ó As this section reveals, however, this approach represents but a recent period in Canadian intergovernmental energy relations, with prior years often characterized by greater openness to and higher levels of cooperation and collaboration among federal and provincial governments.

The next section of the chapter zeros in on the national energy strategy ideas of provincial, parliamentary, industrial, and non-governmental actors. The text reviews key proposals put forward and argues that markets, the *M* of the energy MESS, are the main driver propelling these plans. A number of fundamental changes in energy markets in North America have called into question the north-south logic of energy economics for Canada and spurred signiþcanm s ! signiþ ъ ق ɣ

These policies include, for example, Albertaõs levies on large emitters in 2007, Quebecõs carbon charge in 2007, British Columbiaõs carbon tax in 2008, Ontarioõs Green Energy Act of 2009, and provincial participation in the US-based Western Climate Initiative, including Quebecõs 2014 cap-and-trade program with California. The environment also formed the basis of a domestic intergovernmental agreement in 1998, the Canada-wide Accord on Environmental Harmonization, which lays out the objectives and principles underpinning governmentsõ collaboration on pan-Canadian environmental issues.[3] Action on the energy-environment interface at the federal level has often focused on international treaties (e.g., UNFCCC and Kyoto), with limited action domestically beyond subsidies and voluntary measures to pursue the countryõs international climate change commitments (Jaccard and Rivers 2007). In recent years, the federal government has adopted a number of American policies (e.g., tailpipe emissions and US commitments at Copenhagen) and made some progress on regulations for coal-þred generation in the electricity sector.

Third, energy security concerns, while always an undercurrent of energy policy, came to both broaden and deepen at the turn of the century. In the United States, mounting reliance on foreign energy imports in the 1980s and 1990s, particularly for oil, prompted growing concern over the countryõs energy security. While Canada does not face these challenges to the same degree given its status as a net energy exporter, Canadian consumers and the Canadian economy are nonetheless vulnerable

ere τ " ito energy price spikes]ÐMggg ƎÞ Ŏ`

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communications technologies to the electricity grid (the so-called smart grid), both physical and cyber-security in the electricity sector have likewise received heightened attention. The focus on critical energy infrastructure protection has also sharpened following revelations of sophisticated and systematic hacking efforts targeting energy þrms and critical energy infrastructure in Canada and the United States, allegedly by the Chinese military (Sanger, Barboza, and Perlroth 2013).

Fourth, energy policy-makers have increasingly to attend to social acceptance ð or lack thereof ð for energy exploration, production, distribution, and use. Energy policy and regulation used mostly to òhum alongó under the political radar, but over the last number of years, it is scarcely possible to open leading dailies or listen to the news without coverage of one or more stories of public opposition to energy projects of various descriptions. Not only has public opposition intensiþed, it has also grown considerably in scope. Opposition in the 1980s and 1990s could predominantly be characterized as NIMBYism (ònot in my backyardó), but in recent times, this has progressed to far more challenging forms of principled opposition, captured neatly by the acronyms BANANA (òbuild absolutely nothing anywhere near anythingó) and NOPE (ònot on planet earthó). These forms of opposition cannot always ð indeed can rarely ð be addressed by conventional responses in regulatory and industrial toolkits (compensating affected parties, project relocation, etc.).

Taken together, these four policy imperatives ð market, environment, security, and social acceptance ð constitute the complex, multifaceted policy terrain facing energy policy-makers in the twenty-þrst century. The question for policy-makers is, What kind of MESS will they make of energy policy: a mess in the sense of disorder and disarray (uncoordinated, ill-conceived policies) or a mess in the sense of a òmess hall,ó a place where people come together to meet their shared needs (policy that identiþes balance-points between market, environment, and security imperatives that garner social acceptance)? The chapter returns to this question when discussing the proþle, promise, pitfalls, and prospects of a national energy strategy for Canada.

ENERGY FEDERALISM IN CANADA: FROM COOPERATION AND COLLABORATION TO

conÿict between Ottawa and the provinces of Nova Scotia and Newfoundland and Labrador over the status of their offshore energy royalties in the program, with both provinces securing protection for their resource revenues from òclaw backsó through equalization. In broader terms, the treatment of provincial energy revenues in equalization can indirectly inÿuence the energy sector by shaping the þscal incentives for provinces to develop their energy resources. The federal government also plays a strong role when it comes to the development of energy resources on or crossing Aboriginal lands given its jurisdiction over reserves and in instances where it negotiates land claims or other agreements (provinces, of course, can also be key actors in these arrangements).

The environmental imperative of energy policy arguably generates the greatest level of involvement of both provincial and federal governments in the energy sphere. Provinces have jurisdiction over the conservation of energy resources within their boundaries as well as intraprovincial environmental impacts of energy. The federal government has jurisdiction over transboundary environmental impacts, as well as þsheries, navigation and shipping, agriculture, criminal law, and the power to legislate for peace, order and good government. Any single energy project is very

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Table 1: Canadian Population, Economic Activity, Energy Reserves/Production, and Greenhouse Gas Emissions

development and there is þerce opposition to shale gas in Nova Scotia and New Brunswick). In the electricity sector, all provinces generate electricity for domestic consumption,[10] but they do so with varying generation sources (hydroelectricity, coal, nuclear, natural gas, etc.). As the table reveals, energy reserves and production tend to be at a distance from major population centres; reserves are predominantly in the west, north, and east while major population concentrations are in the central provinces. This characteristic accentuates the differences in provincial GHG emissions, with major hydrocarbon producers emitting the highest volumes of GHGs either in absolute (Alberta) or per capita (Saskatchewan) terms.

The demographic context and the location of energy reserves and r l א m ɔ ɕ ʃ

the Pearson government to pass legislation to establish a power corridor through Quebec so that it could sell electricity directly into the US market, but Pearson was concerned that if he intervened, the Liberal Party would lose support in Quebec. Without support from Ottawa, Newfoundland was left in the position of negotiating with Hydro-Qu®bec, the sole potential buyer. The two provinces signed an agreement that in hindsight was extremely disadvantageous to Newfoundland and Labrador. The province agreed to sell power to Quebec at a very low rate locked in for 65 years. As of the mid-2000s, Quebec was beneþting from this agreement to the tune of about $850 million a year (Dunn 2005). Ottawaõs decision not to intervene left Newfoundland and Labrador mistrustful of the federal government and bitter in its relations with Quebec.

But conÿict over energy in this period was far from conþned to electricity. When the energy crises of the 1970s hit and world prices for oil and gas soared, the stage was set for explosive conÿict between Ottawa and the western-producing provinces and between Eastern and Western Canada. As Doern and Toner (1985) note, post-1973, ògovernment-industry and inter-governmental political conÿict became much more prevalentó (67). The federal government sought to protect eastern consumers from world prices and enhance Canadian energy security with domestic production. Western producers went along up to a point, but as Ottawaõs demands began to cut further and further into proþts and royalties, western tolerance withered. Tensions ran particularly high between Ontario and Alberta, with Alberta even threatening to cut off gas exports to the east, and Ontario announcing in 1973 that it would test the constitutionality of the threat. As the energy crisis deepened, Ottawa, intent on shielding Eastern Canada from world oil prices, brought in the National Energy Program in 1980. This policy was a bridge too far for western-producing provinces, which characterized it as unwarranted federal intervention into a sphere of provincial competence, given its direct impact on provincial capacities to develop, manage, and raise revenue from energy resources. Alberta successfully challenged the constitutionality of the federal governmentõs export tax on natural gas (Chalifour 2010, 179). Given these dynamics, this period, which focused mainly on the *M* and þrst *S* of the energy MESS (markets and security), can be termed one of *competitive energy federalism* ð not only between Ottawa and energy-producing provinces, but also between producing provinces in the west and consuming provinces in the east.[14] The period ended in the mid-1980s when the federal government rolled back the last of the NEP measures and negotiated the Canada-US Free Trade Agreement (CUSFTA), which institutionalized free trade in energy. The period also included constitutional amendments in 1982 granting provinces the power to levy indirect taxes on their natural resources.

[14] The popular bumper sticker of the time in Alberta, òLet the eastern bastards freeze in

Third rail energy federalism (mid-1980s–): The fourth period begins in the mid-1980s after the conflict over the National Energy Program. While one might have expected that the demise of the NEP and the coming into force of CUSFTA would bring peace to the energy federalism landscape and set the stage for collaboration and cooperation, what has occurred instead is entrenchment of a norm of provincial assertiveness and federal reticence when it comes to intergovernmental energy relations. Provinces vigorously assert their dominance in the energy sphere and develop their respective energy policies relatively independently from one another, while the federal government treads lightly in the energy field, ever wary of raising provincial hackles. Ottawa has even circumscribed its jurisdiction in energy, not only through CUSFTA, but also through such measures as the Atlantic Accords with Nova Scotia and Newfoundland and [illegible]

[illegible]

commitments òprovoked concern in the West that Kyoto could be ôanother NEPõ, that is, another unilaterally imposed policy by eastern governments over western oil and gasó (Doern and Gattinger 2002, 80). These dynamics also help to explain why the Chr®tien government established the principle that no region be unfairly burdened by Kyoto implementation ð a commitment needed to assuage Alberta (Doern and Gattinger 2002, 88) and one that greatly reduced Ottawaõs capacity to make meaningful progress on national climate change policy. More recently, the late former Alberta premier Peter Lougheed warned in a 2007 speech to the Canadian Bar Association that federal efforts on climate change harboured signiþcant potential for constitutional conÿict if seen to impinge on Albertaõs oil sands development. And in 2008, former Liberal leader St®phane Dionõs ògreen shiftó (carbon tax) proposals in the federal election campaign vividly illustrated what happens when politicians get too close to the third rail of energy. His opponent, Prime Minister Stephen Harper, immediately compared the proposal to the National Energy Program, dismissing it as òinsaneó (Clark 2008).[15]

But itõs not only in the environmental domain where third rail dynamics can be found. Since the signing of the two Atlantic Accords in the mid-1980s, periodic renegotiations have taken place between Ottawa and the provinces of Nova Scotia and Newfoundland and Labrador over offset payments and the treatment of provincial revenues from offshore energy development in the equalization program. Growth in provincial revenues from the offshore industry resulted in reductions in equalization payments to both provinces; by the early 2000s, roughly 70 cents of every dollar was clawed back (Dunn 2005). In 2004, dp(¯ce 200 ŏ ㅋ ceIn ˊ eve } A E

strategy and how likely are they to meet with success? The next section turns to this question.

A NATIONAL ENERGY STRATEGY FOR CANADA: GOLDEN AGE OR GOLDEN CAGE OF ENERGY FEDERALISM?

Over the last few years, numerous public, private, and non-governmental organizations at both federal and provincial levels have advocated for the development of a national energy strategy. This is a remarkable change in the Canadian energy federalism scene, which has systematically shunned national approaches to energy since the 1980s. What accounts for this turn of events? What are the proþles of these various proposals? What are their promise and prospects? This section explores these topics, arguing that energy market dynamics (changing market conditions) ð the þrst letter of the energy MESS ð are the primary driver fuelling the turn to national energy strategies. Of note, these proposals tend to be aspirational

ð it is the rationale for TransCanadaõs Keystone XL pipeline. While price spreads have varied since 2010, ratcheting higher or lower depending upon production, consumption and reþnery capacity, the volatility is especially challenging for the oil sands. Given how heavy oil from the oil sands is, it can be far more expensive to produce and reþne than light/medium oil from shale formations like the Bakken basin in North Dakota, Montana, and Saskatchewan. Bakken oil has a much lower break-even point, and given its geographic location, can be an obstacle to crude from the oil sands accessing pipelines into the US market (Els 2012).

In sum, oil from the Canadian oil sands is often selling at a discount to both US and world prices and is increasingly landlocked in a hydrocarbon-rich North America. Even if the Obama administration approves the Keystone XL pipeline ð which has turned out not to be, as Prime Minister Stephen Harper famously quipped, a òno-braineró ð it is not clear that this would entirely address the market challenges facing oil sands in North America or capitalize on market opportunities elsewhere. Oil sands crude would still face the discount between WTI and Brent to the extent that it persists, and if the WTI declines further, the commercial viability of oil sands projects may weaken. Indeed, Suncor and Total cancelled an upgrader planned for the oil sands in March 2013, and the dramatic drop in oil prices since mid-2014 has unleashed a ÿurry of major announcements from the Canadian oil patch, including layoffs, lower earnings and in some cases losses, and deferred or scaled back investments. The oil sands also face some stiff political opposition in the United States, and potential regulatory challenges in the form of low carbon fuel standards in jurisdictions like California.

So where will oil sands oil go if the opportunities to go south begin to weaken? The main alternative market opportunities are east to eastern Canadian markets, reþneries, and export markets, and west to British Columbia tidewater for export to Asian markets. Both of these options are being pursued at time of writing: west via Enbridgeõs Northern Gateway pipeline proposal and Kinder Morganõs proposal to expand an existing pipeline into British Columbia, and east via two proposals. The þrst is TransCanadaõs Energy East pipeline, which would construct new pipelines and convert and expand an existing natural gas pipeline to carry crud e. ¾ p new w e v and Montbeal which would ṭ hi t ner arrying r po l w d

the US Energy Information Administration projections also forecast a decline in im-

Given the extensive and broad-based interest in developing a national approach to energy and the similarity in the main thrust of recommendations coming forward from economic, social, environmental, governmental, and opinion leaders, one might expect the idea of a national energy strategy would have legs. In principle, national collaborative approaches hold great promise for Canadian governments to address their respective and collective energy MESS (e.g., collaboration on climate change adaptation and mitigation; shared approaches to labour force sourcing, training, and development; and pan-Canadian efforts on energy literacy and social acceptance). Collaborative approaches also hold the potential to strengthen a key industry of the Canadian economy, not only in its own right as a direct contributor to jobs, GDP, and trade but also as a platform for competiveness, efþciency, and growth in other industrial sectors, and a key contributor to Canadiansõ standard of living.

But is a return to collaboration, along the lines of the expansionist collaborative energy federalism of the 1930s to 1960s, a possibility? At time of writing, it is far from clear. The summer 2012 Council of the Federation meeting and the intervening months have underscored the challenges of moving beyond third rail energy federalism. At this meeting, discussions between the premiers on moving a national energy strategy forward got bogged down in competitive dynamics between Alberta and British Columbia over the Northern Gateway pipeline, with BC premier Christy Clark refusing to participate in the working group mandated to further the provincesõ national energy strategy discussions (Council of the Federation 2012). Premier Clark used the Council meetings as a platform to underscore British Columbiaõs þve conditions for support of the Northern Gateway pipeline: concluding the environmental review, using top-notch marine oil-spill response, deploying world-class prevention techniques for oil spills on land, sufþciently consulting and involving Aboriginal peoples, and equitably sharing revenues based on risks (CBC News 2012a, 2012b).[20] Ontario premier Kathleen Wynne and Quebec premier Philippe Couillard likewise laid out òcriteriaó fm ɔ ᴰ l of Energy East pipeline propm ᵔ al, including that the company assess whethem ᴰ Ό ᵐ ɤ l Mproject will lead increased GHG emissions, and that TFirst Nations and local communities, take respm ο sibility fm ɔ ᴰ ʁ l ɹ ʁ ʊ ᴰ א א l ɹ ᵐ p. Mand econ take into the neon gas (Mm ɔ ᴵ m ʁ 2014). The federal government, for its part, has been all but silent on the of a national energy strategyWhile government identiþed

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streamlining regulatory and environmental review processes, and advocating in the United States for approval of the Keystone XL pipeline ð it has not engaged with the provinces as a group on energy matters. Rather, its approach to the provinces has tended to be piecemeal and based on bilateral deals, for example, federal investments in carbon capture and storage research in Alberta and loan guarantees for Newfoundland and Labradorõs development of the Muskrat Falls hydroelectric

passive dynamics to a more collaborative approach. This is a major change in orientation to be sure, and the challenges of moving in this direction should not be underestimated. The ògolden cageó of third rail energy federalism enables provinces to develop their resources in diverse ways reÿective of local circumstances, but it militates strongly against national policy approaches ð whatever their inherent merits. Prevailing norms of provincial primacy and assertiveness can blind policy-makers and citizens alike to shared energy interests across the country, serving instead to reinforce and accentuate differences and conÿict. As such, instead of shooting immediately for a comprehensive òenergy dealó between the federal and provincial governments, those advocating for a national energy strategy might do well to begin with a *process* and a *framework* that supports building and strengthening the norm of collaboration. This would lay the foundation for negotiation of an energy deal moving forward.

This two-step approach could begin with a framework agreement identifying the rationales, principles, and opportunities for collaboration. This would have the advantage of beginning where it matters most: developing the norm of collaboration. A framework approach could be underscored in nomenclature, by selecting a name like the Energy Collaboration Framework Agreement. The federal government should support this process as convener ð not dominator ð and could aim to reduce incentives for interprovincial competition and zero-sum thinking by, at a minimum, working with the provinces to establish a set of principles guiding use of the federal spending power in the energy þeld. These agreed-on principles would go a long way toward reducing interprovincial jealousy and bitterness over federal spending decisions that

to move forward with executive processes but must also begin to meaningfully incorporate non-governmental actors in developing a national approach to energy. The numerous reports noted above are testament to the interest of the think tank, business, labour, and environmental communities in energy, and represent a strong foundation on which Canadian governments can build. Some progress has been made on this front by the Council of the Federationõs Canadian Energy Strategy Working Group. For example, it convened a June 2013 workshop in Edmonton engaging the think tank, environmental, academic, NGO, and industry communities. In addition, when the Council of the Federation met in Charlottetown in August 2014, it tabled a revised Canadian Energy Strategy document, which explicitly incorporated the principle of òcollaboration and transparencyó (Council of the Federation 2014). This is a positive development to be sure, as premiers underscored the importance of collaboration between governments and with other key stakeholders including, notably, Aboriginal peoples.

Beginning with a framework approach would have the added advantage of facilitating òvariable geometryó ð greater levels of collaboration in some areas (and perhaps even between subsets of the full set of Canadian governments), and lesser in others. The relative weight provinces place on the four components of the energy policy MESS will vary over time, and a framework approach would accommodate differences. The process could begin by collaborating where wins can more readily be had (e.g., labour shortages and labour force development, regulatory coordination, research and technology collaboration) in order to build momentum, experience, and appetite to take on more challenging þles. Where collaboration proves too challenging in the short term, governments can at a minimum share their experiences, using the òlaboratoryó of federalism to identify best practices on shared policy challenges (e.g., shale gas development, public engagement mechanisms, best practices for Aboriginal involvement in energy developments).

The second step would involve negotiation of an energy deal between the federal and provincial governments that would support the market access objectives of energy-producing provinces, while addressing the environmental, social, and economic concerns of other provinces, Aboriginal communities, environmental groups, and local communities. While the contours of such a deal would need to be identiþed through dialogue and exchange, potential elements could include mechanisms to address climate change concerns related to development of Canadian hydrocarbons (e.g., establishing some form of price on carbon applied across the country) and concerns about environmental and social risks associated with oil and gas transportation (e.g., creating a þnancial mechanism to address concerns that environmental risk and þnancial reward are not equitably distributed between producing provinces and consuming destinations when it comes to pipeline projects).

What will be imperative, though, in both of these steps, is ensuring that all four dimensions of the energy MESS are addressed and that the process reÿects a mess hall ð not messy ð approach. Of greatest importance is the meaningful involvement of Canadians ð including Aboriginal Canadians ð in the process.

In sum, while it is unlikely that Canada will ever enter a golden age of energy federalism with consistent, comprehensive, and unwavering pan-Canadian collaboration, the imperatives and opportunities of the energy policy MESS are such that governments need to break with (recent) tradition and move beyond third rail energy federalism. National approaches to energy have been on the table in the past and need to become politically acceptable going forward.

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SURPLUS RECYCLING AND THE CANADIAN FEDERATION: THE HORIZONTAL FISCAL BALANCE DIMENSION

Thomas J. Courchene

INTRODUCTION

In his 2011 book, *The Global Minotaur: America, the True Origins of the Financial Crisis and the Future of the World Economy,* Greek economist Yanis Varoufakis makes a convincing case that effective surplus-recycling mechanisms (SRMs) are

mechanism is stymied and the burden of adjustment is shifted to the deþcit countries

Readers will recognize that these are highly explosive issues: they tamper, albeit indirectly, with provincial entitlements; they are inherently zero-sum games; they embody empirical assessments that are both complex and controversial, and so on. Phrased differently, there can be no þrst-best solutions. As such, the policy recommendations cannot consist of doctrinaire remedies, but instead must of necessity take the form of a series of options or avenues for improving the operations of these macro-equilibrating mechanisms. Indeed, the primary contribution of the chapter may well lie not in providing solutions, but rather in shedding political and empirical light on some existing inadequacies of the status quo in respect of the ability of these SRMs to provide the resilience and stability that the Canadian federation requires.

EQUALIZATION AS AN INTERPROVINCIAL SURPLUS-RECYCLING MECHANISM

There are many programs that recycle revenues/incomes/beneþts across individuals

Canadaõs system of equalization payments was introduced as part of the 1957 Tax Sharing Arrangements that transferred shares of federal taxes back to the provinces ð 10 percent of federal income taxes, 9 percent of federal corporate income taxes, and 50 percent of succession duties. Since these federal abatements were allocated to the provinces on a *derivation basis* (i.e., on the basis of what was actually collected in the respective provinces), larger per capita revenues were generated in the richer provinces. Ottawa responded by introducing an equalization program to offset some of these per capita differences. From the outset, equalization payments have always been unconditional transfers in that the recipient provinces can spend them as they please.

While equalization payments are a key component of interprovincial surplus recycling, this recycling does not involve direct transfers of provincial revenues from rich to poor provinces. Rather, Ottawa makes these payments to the poorer provinces from its consolidated revenue fund (CRF). Although identically situated citizens, no matter where they reside, will contribute the same amount to the CRF, this nevertheless means that, in aggregate, residents of rich provinces will pay higher per capita revenues to Ottawa than will residents of poorer provinces. In this sense it can be said that Albertans (but not Alberta) contribute more per capita to the cost of equalization than say, residents of Nova Scotia, but this is also the case for National Defence or Old Age Security or any other federal spending program.

A þnal and often-overlooked point merits airing, namely, that equalization also beneþts the richer provinces. Speciþcally, without the presence of an equalization program, there is no way that Canada would be as decentralized on the taxation front as we currently are, which clearly and hugely privileges the rich provinces.

Attention is now directed to the operations of the equalization program since þscal year 2005ð06, after which focus will turn to the performance of equalization in þscal year 2012ð13.

The Recent Evolution of Canada's Equalization Program

Table 1 presents per capita data on equalization (and the associated payments from the Offshore Accords) from þscal year 2005ð06 through to 2012ð13. It may come as a surprise that at one time or another over this period all provinces except Alberta have been recipients of equalization.[1] While Newfoundlandõs revenues from offshore energy have made it a òhaveó (i.e., non-equalization-receiving)

[1] In the early years of equalization Alberta qualiþed for equalization, and in the mid-1980s the province also qualiþed for several hundred million dollars of òstabilization payments.ó No longer existing, these payments were designed to ensure that a provinceõs revenues (at unchanged tax rates) would not decline from one year to the next.

Table 1: The Evolution of Equalization Payments (2005–2013, $ million)

	2005–06	*2006–07*	*2007–08*	*2008–09*	*2009–10*	*2010–11*	*2011–12*	*2012–13*
NL								
Equalization	861	687	477	0	0	0	0	0
OA	(189)	(329)	(494)	(557)	(465)	(642)	(536)	0
PEI	277	291	294	322	340	330	329	337
NS								
Equalization	1,344	1,386	1,465	1,465	1,391	1,110	1,167	1,268
OA	(31)	(57)	(68)	(106)	(180)	(227)	(250)	(458)
NB	1,348	1,451	1,477	1,584	1,689	1,581	1,483	1,495
QC	4,798	5,539	7,160	8,028	8,355	8,552	7,815	7,391
ON	0	0	0	0	347	972	2,200	3,261
MB	1,601	1,709	1,826	2,063	2,063	1,826	1,666	1,671
SK	89	13	226	0	0	0	0	0
AB	0	0	0	0	0	0	0	0
BC	590	459	0	0	0	0	0	0
YT TFF	501	517	544	564	612	653	705	767
NT TFF	737	757	843	805	864	920	996	1,070
NU TFF	821	844	893	944	1,022	1,091	1,175	1,273
CA								
Equalization	10,907	11,535	12,925	13,462	14,185	14,372	14,659	15,423
OA	(220)	(386)	(562)	(663)	(645)	(869)	(786)	(458)
TFF	2,058	2,118	2,279	2,313	2,498	2,664	2,876	3,111

Note: OA = Offshore Accord; YT = Yukon Territory; NT = Northwest Territories; NU = Nunavut; TFF = Territorial Formula Financing.

Source: Department of Finance Canada (2013).

province since 2008ð09, it still received signiþcant Offshore Accord[2] payments until 2011ð12. On the other hand, Nova Scotiaõs offshore rebates have grown every year, with presumably larger increases to come.

However, the most policy signiþcant economic news in the table is the descent of Ontario into the ranks of the receiving provinces. In þscal year 2012ð13, its $3.261 billion equalization payment represents 21 percent of total equalization ($15.423 billion, from the last row panel of the table). Given this rapid rise in populous Ontarioõs equalization entitlements in the presence of an overall cap on the system, the inevitable result was that all other recipient provinces saw declines in their annual entitlements from what they otherwise would have been (Nova Scotia is an exception if one includes its offshore payments). Not surprisingly, this has led to major concerns on the part of the traditional recipients, even to the point of pressing Ottawa to prevent Ontarioõs entitlements from having a negative impact on their own entitlements.[3] The more general point here is that equalization is becoming increasingly problematical when six provinces with over 70 percent of the all-provinces population fall into the have-not category: without the equaliza-

overall total depicted in row 7 (òoverall þscal capacityó) is the sum of equalization-deþned þscal capacity including all resource revenues plus the Offshore Accords plus the CHT/CST transfers.

In more detail, row 1 contains the provincial per capita values for þscal capacity that enter the equalization formula. These are the sum of 100 percent of the per capita þscal capacity for the components of four non-energy tax bases (i.e., personal income taxes, corporate income taxes, sales taxes, and property taxes) plus 50 percent of the actual values for resource revenues.[5] In turn, the þscal capacity estimates for the four non-energy tax bases for each province are the product of the value of the provinceõs tax base multiplied by the national average tax rate (not the provinceõs own rate).

Row 2 contains the per capita values of equalization payments. If equalization payments were strictly formula driven, these values would be the difference (where positive) between the all-Canada average for þscal capacity in the þnal column of row 1 of Table 2 and the respective provincial þscal capacities. However, overall equalization payments were scaled down (on an equal per capita basis) to ensure that they would be in line with the overall cap on equalization.

Row 3 then adds the other 50 percent of resource revenues (where relevant),[6] and row 4 contains the Offshore Accord offset payment for Nova Scotia. Row 5 sums the previous four rows to obtain what might be called the aggregate taxation-cum-equalization measures of provincial þscal capacity. Row 6 then contains the equal per capita federal-provincial CHT/CST transfers (i.e., about $1,200 per capita).[7] Finally, row 7 is the sum of row 5 and row 6 and, as such, represents the overall per capita þscal capacity available to the individual provinces. Note that this is not quite the same as *actual* overall per capita provincial revenues because it assumes i "

An Alberta Detour

A brief detour is in order because many readers will be puzzled by the fact that super-rich Alberta with its near-$14,000 in per capita revenues is struggling with a signiþcant *defcit* more recently. Not surprisingly, the principal reason for this is the sharp reduction in expected energy revenues. However, there are at least three additional reasons for the difference between Albertaõs superior þscal capacity in

Similarly, lower-income states will also have lower wages and rents so that they do not need the higher level of per capita revenues of the higher income and revenue states in order to provide comparable levels of public goods and services. In other words, income differentials will be òcapitalizedó in terms of wages and prices, so that in the þnal analysis there may be little or nothing to equalize, as it were. In Oatesõs view, the decision to have an equalization program in a federal system is more a matter of òtasteó than of social or economic principles.

Within the Oates framework and under the assumption of full or 100 percent capitalization, there would be no need for an equalization program since higher wages and rents in high-income states would offset their revenue advantage and vice versa for states with low wages and rents. However, most analysts would take the view that the assumption of 100 percent capitalization is extreme. But so is the opposite assumption that Canada embraces in its equalization program, namely, that there is *zero capitalization* so that one can ignore the prices/costs of provincial public goods and services in the calculation of equalization payments. This issue merits further attention.

An excellent place to start this rethinking is with the Constitution. Section 36(2), reproduced earlier, does not call for equalizing per capita revenues across the recipient provinces. Rather the stated thrust is that provinces should end up with revenues sufþcient to provide *reasonably comparable* *of public goods and services.* This being the case, the ability of the recipient provinces to provide comparable levels or bundles of public goods and services will obviously depend not only on provincial revenues but, as well, on the prices or costs of providing these bundles. In other words, my reading of 36(2) is that equalization is about providing comparable *quantities,* that is, about providing comparable *real or purchasing-power-corrected* bundles of provincial public goods and services.

What difference would this approach make to the results in Table 2? Table 3 provides one answer. Row 1 of the table reproduces the overall per capita þscal capacity þgures from row 7 of Table 2. Note that these þgures *include* equaliza-
tion [illegible]

Table 3: Capitalization and Equalization: Incorporating Wages and Prices into Equalization (2012–13)

pool runs dry. This process leads to the per capita equalization payments in row 5 of Table 3, with the original equalization payments (row 2 of Table 2) reproduced for convenient comparison in row 4. Not surprisingly, the row 5 equalization payments for all of the traditional five recipient provinces fall substantially while the payment for Ontario rises. In particular, Ontario's equalization rises from $249 per capita to $388 per capita. The decreases in equalization for Prince Edward Island, New Brunswick, and Manitoba are about $300 per capita while the decreases for Nova Scotia and Quebec are roughly $150 per capita.

While Ontario's share of overall equalization in 2012–13 from Table 1 [illegible] ed3.

forward reading of section 36(2) would appear to support taking the prices/costs

Row 7 contains the data on equalization payments for þscal year 2008ð09, reproduced from the Gusen paper. The þnal row of the table presents òexpenditure-

In the þnal analysis, given the implications of the results in either Table 3 or Table 4, Gusen is probably right in that the capitalization and/or expenditure-needs options are not likely to see the light of legislative day. Nonetheless, I have two observations-cum-proposals that follow from the preceding analysis. The þrst is that since Quebec and Manitoba are much better off under the status quo than under the capitalization or needs exercises, it seems not that unreasonable to bring hydro rents more fully into the equalization calculations. The second is to note that probably the most important role we can assign to the implications arising from the Gusen exercise is to use them to a ↓ m a

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benign oil sands and by developing a corresponding green energy policy, the overall energy strategy would arguably be made more saleable both at home and abroad.

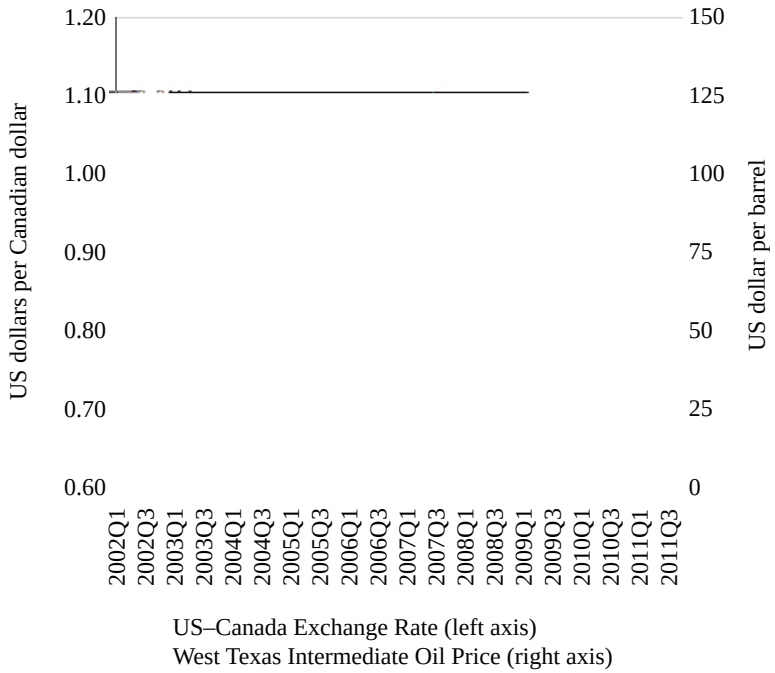
Energy Royalties and Differential Provincial Fiscal and Economic Fortunes

The Achilles heel of such a hydrocarbon/hydroelectric strategy may well lie on the þscal and federal (indeed þscal-federalism) fronts. Or in terms of the theme of this chapter, the failure to þnd ways to (indirectly) recycle the resulting þscal surpluses, interprovincially and federal-provincially, could seriously complicate, even undermine, any national resource-based industrial strategy.[14] There are two seemingly unrelated, but actually closely intertwined, issues at play here.

The þrst and most obvious is that a ratcheting up of resource royalties would dramatically increase the þscal disparity between the resource-rich and the equalization-receiving provinces. This is because, as noted above, the federal government cannot, constitutionally, *directly* access provincial royalties, and so the prospect of tax havens and/or superior provincial public goods and services in resource-rich provinces becomes a distinct possibility. Hence, Ottawa has to þnd indirect ways of recycling these resource revenues, which is in large measure the subject matter of this section. By way of an instructive aside in relation to the tax-haven issue, Canadians ought to be thankful that Albertans abhor sales taxes. This is the most

that our currency area is too small to accommodate at the same time a world class manufacturing sector and a global energy powerhouse. This is clear from Figure 1, which plots the rise in energy prices (in US dollars per barrel) and the value of the loonie (in US cents per Canadian dollar). The relationship is readily apparent: a rise in global energy prices generates export-driven resource income from, as well as inward foreign direct investment into, our energy patch, both of which will drive up the value of (i.e., appreciate) the loonie. In the process, the global price of resources rises relative to the global price of manufactures ð a relative price change that will carry over to Canada. However, because resources play a larger role in the Canadian economy than they do in the US economy, the Canadian dollar will appreciate relative to the US dollar. But the near-doubling of the loonie in Figure 1 (from 62 US cents in 2002 to just over 110 cents in 2008) represents very signiþcant *exchange-rate overshooting*, well beyond the appreciation required to accommodate the increase in resource prices relative to the price of manufacturers. Although not shown in Figure 1, there was an earlier and equally rapid depreciation in the 1990s that also represented exchange-rate overshooting, this time on the downward side.

Figure 1: US-Canada Exchange Rate and Crude-Oil Price, 2002Q1–2011Q4



Source: Bank of Canada; US Federal Reserve Bank of St. Louis, FRED data retrieval system. Reproduced from Courchene (2012, Figure 2).

implications of resource revenues for both the Dutch disease and interprovincial þscal equity. This principled perspective is *stewardship*:

> A longer-term, more disciplined approach to managing energy and resources is required. Natural resources are long-term assets that belong to generations of Canadians now and into the future. Government leaders and decision-makers have an implied custodial and stewardship responsibility to manage across the generations. In þscal and economic terms, non-renewable energy and natural resources are long-life, þxed assets that, when sold and monetized, should be reinvested in ways that will beneþt Canadians over the long term. *Pretending that resource revenue is just another form of operating revenue, to be spent on current consumption of public services, is an abrogation of this m˜ φ T ב beneft*
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and (2) meaningful indirect surplus recycling requires that it be reinstated along the lines outlined above.

Pricing Carbon Emissions

6

EQUALIZATION AND THE POLITICS OF NATURAL RESOURCES: BALANCING PROVINCIAL AUTONOMY AND TERRITORIAL SOLIDARITY

Daniel Béland and André Lecours

INTRODUCTION

Equalization, the so-called òglue that holds the federation togetheró (Bryden 2009, 76), often seems to be anything but. In fact, the equalization program, a central element of þscal federalism and territorial redistribution in Canada, sometimes generates intergovernmental conÿict that seems antithetical to the national social cohesion the program was intended to promote (Lecours and B®land 2010). All federal systems represent balancing acts between territorial (substate) autonomy and solidarity, a sociological concept that is not necessarily used by citizens and policy actors but that stresses a crucial institutional and political imperative ever present within these systems. In a country like Canada, where provincial autonomy is politically and constitutionally entrenched and supported by strong territorial (provincial) identities, the challenge to mechanisms of territorial redistribution and solidarity is considerable. Therefore, it comes as no surprise that, from time to

The authors thank Loleen Berdahl, Tom Courchene, Frank Graves, Andr® Juneau, and the other participants of the 2012 State of the Federation conference for their comments and suggestions. Daniel B®land acknowledges support from the Canada Research Chairs Program.

time, provincial governments think that they are getting òshaftedó[1] by the federal equalization program, either because they feel that they do not receive the payments they deserve or because, as non-recipient provinces, they believe that they have nothing to gain from the program.[2]

In Canada, intergovernmental conÿict over equalization has several different sources, but a quick survey of the debates shows that a speciþc one stands out: the uneven territorial distribution of natural resources (especially oil and natural gas) across the country. In the context of high resource prices and revenues and the structural decline of the Ontario manufacturing sector, the political economy of the country is changing in a way that puts pressure on the federal equalization program, which is now allocating money to Ontario for the þrst time since its inception in 1957. Shifting patterns of territorial economic inequalities are creating discontent in provinces seeking to develop their non-renewable natural resources (for example, Saskatchewan and Newfoundland and Labrador). Such a reality also increases disparities linked to rising oil and gas prices while exacerbating cynicism toward the equalization program in Alberta. Provinces with no signiþcant oil and gas resources are struggling to keep pace with their (non-renewable) resource-rich counterparts, and are likely to remain in the equalization recipient category for some time.

This chapter examines the changing dynamics between equalization and natural resources by focusing on the political tensions between territorial solidarity and provincial autonomy. The chapter is divided into three main sections. In the þrst section, we discuss how the creation and development of the federal equalization program was grounded in a logic of territorial solidarity. In the second section, we suggest that, in the historical and institutional context of Canadian federalism, natural resources are closely tied to the idea of provincial autonomy.[3] In the third section, we explore the politics of collision between the logic of territorial solidarity (inherent to equalization) and the idea of provincial autonomy (associated with natural resources).

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[1] This was the terminology used in 2007 by Newfoundland and Labrador premier Danny Williams (CBC News 2007).

[2] One could argue that even non-recipient provinces have beneþted from equalization because, without it, the Canadian tax system would probably have been centralized as poorer provinces would have not accepted such a high level of institutional fragmentation. The authors wish to thank Tom Courchene for his insight on this issue.

[3] For a similar argument focusing on the West, see Janigan (2012).

EQUALIZATION: FOSTERING UNITY AND SOLIDARITY IN CANADIAN FEDERALISM

Federal systems often represent answers to governance issues stemming from ethno-linguistic diversity (Canada, India, Switzerland), from a history of territorial autonomy in the context of state formation (the United States and Australia), Î ¯ ‘ a l ial (tl ¾ и ҷ ъ и ђ MM m ъ Т ¾contMim l æ ntWm l m f NþSontstatexttd Yands¾ и ë є

Quebecers of staying within the Canadian federation. Equalization payments are a major component of this *fédéralisme rentable.*

For Quebec Liberals (PLQ), equalization is part of Canadian citizenship. They simply argue that it is the right of Quebecers as Canadian citizens to have their province receive equalization payments from Ottawa.[4] Liberals explain that, although Quebecõs position as a recipient province is an unfortunate situation, it is the product of both its late industrial development and its lack of non-renewable natural resources such as oil and gas. Consequently, there is no shame in receiving equalization payments. In fact, former Quebec Liberal premier Jean Charest (2003ð2012) even suggested that the program should be enhanced, þnding that the unconditional nature of equalization payments makes it a better funding structure than conditional transfers (S®guin 2004).

For sovereignist politicians, equalization represents a political problem. Their argument for an independent Quebec means that they can never ascribe any value to Canadian citizenship. As such, they typically want to avoid speaking about equalization and, when forced to do so, will attempt to put it in a broader þscal and policy context.[5] Sovereignists suggest that, in the overall scheme of þscal federalism, Quebec does not gain anything; in fact, they argue, it probably comes out a

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population. In Manitoba, New Brunswick, Nova Scotia, and PEI, equalization is therefore seen as a key source of þscal solidarity that renders available quality public services in spite of a lower than average þscal capacity. This attachment also comes with expectations concerning the predictability and stability of equalization payments. Just as large health and social programs such as medicare create large constituencies who are likely to þght for the preservation of these programs (Pierson 1996), the equalization program has generated powerful vested þscal and political interests in receiving provinces.

The solidarity imperative embedded in the equalization program acquired a new status with the constitutionalization of equalization in 1982.[7] By stating that òParliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufþcient revenues to provi [illegible]

assigns to provinces responsibility over òthe Management and Sale of the Public Lands belonging to the Province and of the Timber and Wood thereonó (92.5).[8] Furthermore, the Constitution Act of 1982 speciþes that the provinces have the exclusive powers to make laws on the exploration, management development, and conservation of non-renewable natural resources, forestry resources, and electrical energy (92A). When British Columbia and Prince Edward Island joined the federation in 1871 and 1873, respectively, their natural resource ownership was fully recognized, just as it had been for the þrst four provinces (New Brunswick, Nova Scotia, Ontario, and Quebec). The situation was different in the Prairies. In 1870, arguing that it needed to control western resources to offset the costs of railroad construction, Ottawa denied resource ownership to Manitoba when it joined the federation. In 1905, Alberta and Saskatchewan received the same unfavourable treatment (Thompson, n.d.). After a long political battle with Ottawa, the three Prairie provinces þnally gained full control over their natural resources in 1930. òTo mark the handover of resource control, he [Prime Minister Mackenzie King] presented a cheque for $4,822,842.73 to [Manitoba Premier] Brackenó (Janigan 2012, 328-29). Despite this, the treatment of resources within Canadian federalism has remained a sensitive question in Western Canada.

In Alberta, oil and gas deþne much of the provinceõs economy and politics (Tupper, Pratt, and Urquhart 1992, 35-36). Albertaõs heavy redi ance on non-renewable natural resources for its economic development exacerbates political anxieties grounded in a sense of institutional vulnerability vis-¨-vis Ottawa. So-called Western alienation, as it pertains to Alberta, stems primarily from the fact that the province has neu ъ ɹ ɣ א tatieu ÿ pm " uΓþasented a ᵠ ᘐ M ą ieu ђ pro

> via the export tax on the other. And these forgone royalties soared as the difference between the world price and the domestic price likewise soared. (Courchene 2007, 26)

Although one could argue that the collapse of global oil prices in the early 1980s was more harmful to the provinceõs economy than the actual provisions of NEP, this controversial federal policy still serves as a reference for those defending Albertaõs resources, and autonomy, against federal actions viewed as detrimental. Indeed, òthe NEP remains indelibly etched in the psyche of Albertans, ready to emerge when their interests are at stakeó (Courchene 2007, 26).

Natural resources also play a direct role in the deþnition of the political community in Saskatchewan. Previously dominated by agriculture, it now self-identiþes as an òenergy and mineral powerhouse,ó[9] enjoying its status as the worldõs largest producer of potash and second-largest producer of uranium in addition to being Canadaõs second-largest oil

has contributed to connecting resources to provincial identity in Newfoundland. Indeed, Newfoundland and Labrador premiers have condemned the 1969 agreement with Quebec that earmarks most of Churchill Fallsõ power to Quebec, and in 2010 Danny Williams vigorously denounced a *Régie de l'Énergie du Québec* decision to deny transmission through Quebec of power that would come from the development of another hydroelectricity project in the Lower Churchill Falls. In this struggle with Quebec, the Newfoundland identity was a key element in a political þght over the control, exploitation, and transmission of renewable resources in the context of residual tensions over the physical boundaries of the two provinces (Churchill 1999). In March 2013, the Harper government put forward a $6.3 bil-

TERRITORIAL SOLIDARITY AND PROVINCIAL AUTONOMY: EQUALIZATION MEETS NATURAL RESOURCES

The tensions between equalization as a form of territorial redistribution and natural resources whose control lie with the provinces have come through in discussions and debates over the design of the equalization formula. As the 2006 report of the Expert Panel on Equalization and Territorial Financing Formula, commissioned in March 2005 by the Martin government to assess the equalization formula, asserted, òThe treatment of resource revenues is the most complex and controversial aspect of Equalizationó (5). This controversy is reÿected in the many different treatments of non-renewable natural resources that have been featured in the various equalization formulas adopted since 1957.

Initially, the program excluded revenue from natural resources. In 1962, the

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generates revenues that push their þscal capacity above the equalization standard. In reaction to the federal governmentõs 2007 equalization reform, which featured an enriched pool but with 50 percent inclusion of resource revenues (a move that seem to go against Stephen Harperõs previous position, which was to exclude these revenues altogether) and a cap on equalization (designed to make sure that a provinceõs actual þscal capacity post-equalization would not be greater than that of a non-recipient province), then Saskatchewan premier Lorne Calvert threatened to sue the federal government. The 2007 equalization reform, Calvert argued, was potentially unconstitutional because it disregarded provincial ownership of natural resources and contravened the clause stating that equalization payments should be equitable and fair (Canwest News Service 2007).

No province makes an argument for 50 percent inclusion of non-renewable natural resources in the calculation of the average provincial þscal capacity. Yet, this is a formula that has been used in the past and, indeed, the one that is currently in use. This approach is a pure political compromise; equalization is, after all, closely tied to the politics of Canadian federalism (Lecours and B®land 2010). As the report of the Royal Commission on the Economic Union and Development Prospects for Canada stated, òA portion of resource revenues ð greater than zero but signiþcantly less than 100% ð must be included in Equalization. There is no magic þgureó (quoted in Expert Panel 2006, 58). In this context, 50 percent is a reasonable þgure. The Expert Panel (2006) came to the same conclusion: òA portion of resource revenues should be included because of the fact that resource revenues do contribute substantially to a provinceõs þscal capacityó (57), but not all of these revenues should be factored in because, among other things, òbased on the principle of policy neutrality, the Equalization program should not provide incentives or disincentives for provinces to develop natural resourcesó (57). The panel members also stated, òOur best judgement indicates that a 50 percent inclusion rate combines the merits of the various arguments and provides the most reasonable results for all receiving provincesó (58).

The 50 percent inclusion rule has overall been a good political compromise. It is certainly a better *political* solution to the issue of how equalization should deal with natural resources than full inclusion (which could be seen as unfair because the provinces would have no ability to take off the infrastructure and policy ex-
inclusio

sell electricity to their residents at artiþcially low prices. As a result, the equalization payments of Manitoba and Quebec are boosted by the fact that some hydro revenues òdisappearó through these below-market sale rates. As the *Globe and Mail* puts it in the case of Quebec, òThe Quebec government artiþcially reduces its ôþscal capacityô ð thereby qualifying for higher equalization payments ð by allowing provincially owned Hydro-Qu®bec to charge consumers, especially large industrial ones, a price far below the market valueó (Yakabuski 2008, B2). This is something that oil- and gas-producing provinces cannot do with their own resour-

Yet, interestingly, the recent Northern Gateway project has been at odds with this pattern, as former Alberta premier Allison Redford promoted the notion of a National Energy Strategy. The very wording of this initiative may sound odd as something coming from Alberta, not only because it can recall the arch-demonized NEP but also because provincial governments, as we have seen, tend to avoid placing resources in a pan-Canadian framework. However, for the current Alberta government, the challenge is to get oil over to Asia. This involves some form of cooperation with the British Columbia government, which responded to the Northern Gateway project by asking for a òfair shareó of royalties while voicing environmental concerns. In more general terms, the Northern Gateway has meant an otherwise surprising effort at òCanadianizingó energy policy in Canada. Premier Redford brought her idea of a National Energy Strategy to the 2012 Council of the Federation (COF) meeting in Halifax and spearheaded the renewal of the 2007 COF initiative on energy, a process from which the BC government disengaged because of Albertaõs refusal to compensate it in any way for pipelines going through its territory. Indeed, Liberal BC premier Christy Clark indicated that she was not interested in discussing any national energy strategy.

The Alberta government is therefore making appeals to Canadian solidarity so that its oil can be shipped to Asia. It has emphasized interprovincial cooperation because it is, at this point in time, in the provinceõs interests. Interestingly, this appeal has been well received by most provinces, especially land-locked ones such as Saskatchewan, which see some potential threats to their export capacity in the position of the BC Clark government. Back in Alberta, Wildrose leader Danielle Smith was,th " þ. p sro h Į m h

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IV

Resources and Resiliency: Institutional Considerations

7

COMPARING INTERGOVERNMENTAL INSTITUTIONS IN HUMAN CAPITAL DEVELOPMENT

willing to cooperate. Bolleyer (2006) compared the institutionalization of IGR in six federations ð Germany, Switzerland, United States, Austria, Australia, and Canada ð by looking at peak institutions (e.g., First Ministers and the Council of the Federation). She concluded that Canada had very low scores related to institutionalization. However, peak institutions are just the tip of Canadaõs IGR system.

Drawing on Dennison (2005) and Bolleyer (2006), this chapter uses the following variables to assess the institutionalization of the four policy sectors in Canada and one of these sectors in the EU: a founding agreement, statement of purpose, or mandate; presence or absence of senior level (minister or deputy minister) engagement; an established pattern of meetings; shared or rotating chairmanship; secretariat support with deþned funding arrangements and deþned fun]0U ʻ g00 0 ęʻ gvaM

on very speciþc matters, mostly on an ad hoc basis. Haskel (2013) calls federal involvement in post-secondary education the òelephant in the room,ó laying down puzzle pieces (e.g., student assistance, research, international marketing) without consultation with the provinces. Without routinized and regular access to CMEC, the federal government has undertaken unilateral action on many post-secondary education issues.

CMEC is highly institutionalized, with work driven at the level of ministers and deputy ministers, who hold face-to-face meetings two or three times per year. In July 2014, ministers celebrated their 103rd CMEC meeting. Located in Toronto, the secretariat is headed by a director general supported by 60 staff. CMEC is governed by an Agreed Memorandum approved by all members. It is funded 75 percent by leviMm ^ bָĻ נ ט מ governmenMm an] נ N percent by thegovernm

once a year. The federal/provincial/territorial Support Committee meets mostly by teleconference, with three deþned working groups in operation. The lead-province role rotates every two years; provinces collectively contribute the equivalent of one position for overall coordination. There are also director-level federal/provincial/territorial committees on income support, child welfare, research, and child care that try to meet annually. The federal government provides funding to cover 50 percent of the cost of federal/provincial/territorial meetings.

COMPARING INTERGOVERNMENTAL INSTITUTIONS IN CANADA

I turn now to a direct comparison of the four Canadian IGR institutions and processes, focusing on key dimensions from the analytical framework: interdependence in the sector, nature and composition of the forums, secretariat and functioning, relationship of the work to þrst ministers or heads of state, presence or absence of intergovernmental agreements, degree of transparency, participation beyond government executives and invoM

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There is less interdependence in the social services and labour sectors, where governments agree that most responsibilities are provincial. In labour matters, the most that has ever been aspired to under both Liberal and Conservative governments is a sharing of information and best practices. This contrasts with social services, where historically the federal Liberals saw the Government of Canada as playing a coordination, leadership, and funding role, even though most programs were in provincial jurisdiction. The Conservatives view the world differently, hence the cancellation of the early learning and child-care agreements, the hiatus on further federal investments in the National Child Beneþt, and a lack of engagement on disability issues. Many social policy advocacy organizations, it should be noted, fundamentally disagree with this approach; in their view, issues such as income inequality require a pan-Canadian approach *with* the engagement of the federal government.[6]

Nature and Composition of the Forums

Three of the four forums contain federal representatives as well as provincial/territorial governments. The exception here is CMEC; whether under Liberal or Conservative federal leadership, provinces and territories in Canada have consistently resisted institutionalizing how they connect with the federal government under the rationale that education is solely within provincial jurisdiction (Cameron 2005). This position may indeed þnd some degree of accuracy as it relates to Kð12 education, but it is not the case for post-secondary education, where the federal government has played a long-standing role. Even though CMEC (2003) itself commissioned an internal report that recommended þnding productive ways to enter into federal/provincial/territorial dialogue, and the Canadian Council on Learning (2011) made a detailed proposal to set up a Ministersõ Council on Learning, no action has been taken. Haskel (2013) suggests that changing approaches to intergovernmental coordination in post-secondary education would require a compelling vision, objective, or anxiety in order to motivate the key actors.

The most formalized IGR institutions in Canada are the oldest: CAALL and CMEC. Both have constitutions or memorandums of understanding outlining how they operate, and ongoing routinized face-to-face engagement at both the deputy ministersõ and the ministersõ levels. This engagement has been in existence for many years and is now embedded in practice. To *not* have ministersõ meetings would be an exception. Both policy domains also have a signiþcant international

[6] See the 47 submissions to the Parliamentary Committee Study of Income Inequality April 2013, available at http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=6079428&Language=e&Mode=1&Parl=41&Ses=1.

dimension, requiring a coordinated interprovincial response to deþned issues. Both

Relationship to First Ministers or Heads of State

The work that ministers of social services and the FLMM undertook to feed into the federal/provincial/territorial social union negotiations in the late 1990s was triggered by action at the þrst ministersõ level. Labour ministers and CMEC were not as directly involved. This activity reached its peak through the establishment of the Ministerial Council on Social Policy Reform and Renewal in 1999 under the federal Liberals, but like the Social Union agreement itself, the work has since faded away.

Since 2006 and the assumption of power by the Conservatives, there have been few issues where any of the four forums has undertaken action in response to requests from federal/provincial/territorial þrst ministers. Premiersõ discussions at the Council of the Federation meetings in 2006, 2009, 2011, and 2013 triggered FLMM and CMEC action on labour mobility, foreign qualiþcation recognition, and post-secondary education and skills training. This included requests to the Government of Canada to engage. However, there has been no response. Prime Minister Harper has called only one formal First Ministersõ Meeting since he took power in 2006, and refused the premiersõ invitation in the fall of 2012 to attend their meeting to facilitate cooperation on a national economic strategy. Connections are handled instead on a bilateral and ad hoc fashion (Whittington 2012).

Intergovernmental Agreements

from the Employment Insurance account to fashion a leave program for parents on the birth of their child that meets Quebecõs needs. No other province has taken up this arrangement.

Transparency

A very signiþcant difference between the four forums is the amount of information available, especially through public websites. Because CMEC ministers meet regularly and there is a robust secretariat able to undertake research and analysis, considerable information is available on overall directions, actions, and outcomes. CMECõs public website contains extensive and up-to-date information on its activities and deliverables, including 230 publications and reports (CMEC 2013). Although CAALL has a public website maintained by the federal government (CAALL 2013), up-to-date deliverables and current activities are provided on the private, members-only side of the website. Working groups are listed, but there are few deliverables and the information is dated.

Despite a limited secretariat, the FLMM maintains two websites on labour market information and labour mobility, as well as a broader website for the forum as a whole (FLMM 2013). The latter was set up by Alberta in 2012, with the assistance of federal ESDC ofþcials. Unfortunately, much of the information on the three sites is dated. Since the forum does no research or outreach, the information available to be posted is slim. There is no cross-referencing to the bilateral agreements and reports available on ESDCõs site. There is no website or information publicly available at all on the work of the Social Services forum. Although the National Child Beneþt (2013) website is still operational, the latest reports refer to 2008 activity. A federally run website that connected to the Social Union Framework Agreement, the National Child Beneþt, In Unison, and the child-care agreements (all federal Liberal initiatives) quietly disappeared a few years ago, after the Conservatives assumed power in 2006.

Workersõ Compensation Boards) to their meetings. CMEC has directly engaged with the leaders of Aboriginal organizations, inviting them to join ministers for part of their meetings. There is no evidence of these kinds of connections by the FLMM or Social Services ministers. None of the forums have any relationship with committees in the House of Commons or in provincial legislative assemblies. In our executive-dominated Westminster system, not even federal-provincial agreements are brought forward to be ratiþed by legislators. These practices are long-standing and have not changed under the federal Conservatives.

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The closure of these kinds of institutions has consequences; for example, with the demise of the Canada Assistance Plan in 1996, Canada no longer even collects and publishes up-to-date social assistance statistics on a pan-Canadian basis.[7] As a result, the media and the public have no way to compare how provincial governments are managing this very expensive social program, a key barometer of the country's economic well-being. Intermediary organizations funded by membership or foundations such as the Caledon Institute for Social Policy, the Canadian Centre for Policy Alternatives, the Canadian Education and Research Institute for

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education.[8] CMEC has also played a signiþcant role in addressing the transferability of foreign credentials, as well as increasing the attractiveness of foreign students to Canada through the Education in Canada brand. Both of these successes had the involvement of federal ofþcials. However, there is no evidence that issues related to high student tuition fees are being worked on collectively across governments, despite the increased level of student debt highlighted in the media in 2012. The Canadian Council on Learning (2011) was highly critical of the lack of pan-Canadian progress on many post-secondary issues. When asked about CMEC effectiveness, more than one provincial ofþcial suggested that its activities involve too much time and effort for only marginal results.

While the FLMM has made progress in addressing issues related to labour mobility, there are no recent reports publicly available to conþrm this. On labour market information, the Advisory Panel on Labour Market Information (2009) was highly critical. Although the federal Conservatives initiated the panel, they have not

CONCLUSION

This chapter assessed how Canadian governments collectively made the federa-

Table 1: Comparing Five Intergovernmental Forums in Human Capital Development between 1993 and 2012

Name of Forum	*Canadian Association of Administrators of Labour Legislation (CAALL)*	*Council of Ministers of Education Canada (CMEC)*	*Forum of Labour Market Ministers in Canada (FLMM)*	*Ministers of Social Services in Canada (MSS)*	*Employment, Social Policy, Health and Consumer Affairs Council (EPSCO in EU)*
Interdependence	Low	High	High	Medium	Medium
Nature and composition of the forum	F/P/T	P/T	F/P/T	F/P/T	Member states and Commission
	Ministers and deputy ministers	Ministers and deputy ministers	Assistant deputy ministers	Ofþcials	Ministers and ofþcials
	Formal	Formal	Informal	Informal	Treaty based
Secretariat and functioning	Permanent	Permanent	Rotating	Rotating	Rotating
	Federal	Provincial	Provincial	Provincial	Member state
	Consensus	Consensus	Consensus	Consensus	Consensus/ QMV
Relationship to First Ministers	None	Medium	High under Liberals, then medium under Conservatives	High under Liberals, now low under Conservatives	Consistently high
IGR agreements	None	A few	Extensive with 49 agreements	High under Liberals, now low under Conservatives	Minor, except for European Social Fund
Transparency	Website	Website	Website improved under Conservatives	No website; those in place under Liberals discontinued	Many websites
	Limited information	Extensive information	Some information	No information	Extensive information

... continued

Despite the wishes of the Canadian public and the Supreme Court of Canada, in my view our current intergovernmental structures in human capital development are not particularly conducive to facilitating constructive dialogue and cooperation between governments. CAALL outputs are slim. CMEC by its very structure has not provided a place for federal/provincial/territorial governments to come together and bridge their differences on post-secondary education matters. In the absence of a federal-provincial structure, intermediary organizations have tried to play a role, but in many ways this has only increased incoherence in post-secondary education, with provinces now covering the cost of teaching and the federal government covering the cost of research. Governments are avoiding key issues such as student debt loads.

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pas simpliþ® pour autant, puisque les anciennes structures locales demeurent en place et quõune structure r®gionale politiquement plus complexe que celle qui la pr®c¯de vient sõy ajouter (Otis et Motard 2009). Le texte qui suit a pour objectifs de pr®senter la structure juridique de la nouvelle instance r®gionale et de v®riþer la mesure dans laquelle cette institution sõinspire structurellement de la th®orie de la d®mocratie consociative. La d®mocratie consociative cherche ¨ r®pondre aux besoins de gouvernance partag®e de groupes ethniques fortement divis®s,

2009, 950-953; Grammond 2008; Morin 2006, 57-58; Glenn 1986; Proulx 2002, 129-190) suscitent la m®þance des communaut®s autochtones du fait que celles-ci ç [s]e trouvent [¨ lõinstar des autres acteurs locaux] ¨ la base [de la gouvernance territoriale], et y occupent au surplus une position tr¯s minoritaire. Le contraste est frappant avec la gouvernance partag®e, davantage horizontale, o½ des relations ç de nation ¨ nation è sõ®tablissent entre lõ£tat et les autochtones è (Grammond 2009, 952). De mani¯re plus sp®ciþque, la politique de gouvernance r®gionale posait trois probl¯mes importants pour les Cris.

La source principale du m®contentement des Cris se trouve dans le texte m°me de la *Convention de la Baie-James et du Nord québécois* (Convention de la Baie-James et du Nord qu®b®cois et conventions compl®mentaires 2012, ci-apr¯s CBJNQ), puisque celle-ci exclut largement les Cris de la gestion dõensemble du territoire traditionnel cri, Eeyou Istchee. En vertu de la CBJNQ, les Cris ne sont en effet pas responsables de lõadministration des terres de cat®gorie III, lesquelles composent la majorit® du territoire traditionnel cri[2]. Depuis la conclusion de la CBJNQ, ces terres sont en effet administr®es par la Municipalit® de la Baie-James (MBJ) (Loi sur le d®veloppement et lõorganisation municipale de la r®gion de la Baie James, ci-apr¯s LDOMBJ, art. 34), laquelle ®tait dirig®e, depuis sa cr®ation en 1971, par le conseil dõadministration de la Soci®t® de D®veloppement de la Baie-James (SDBJ), une soci®t® de d®veloppement ®conomique dont le conseil est d®sign® par d®cret gouvernemental. La MBJ nõ®tait donc pas une entit® d®mocratique. Malgr® cela, celle-ci pouvait exercer des pouvoirs de nature municipale. En 2001, le gouvernement du Qu®bec proc¯de ¨ une r®forme qui d®mocratise la direction de la MBJ. Depuis, le conseil de la MBJ est compos® des maires des municipalit®s de Chibougamau, de Lebel-sur-Qu®villon, de Matagami, de Chapais et des

[2] La CBJNQ met en place un r®gime de terres particulier qui sõapplique ¨ lõensemble du territoire couvert par cette convention. Sõagissant des Cris, la CBJNQ cr®e trois cat®gories de terres : les terres de cat®gorie I (qui comprend les terres de cat®gorie IA, IB, et IB sp®ciales) ainsi que les terres de cat®gorie II et III. Les terres de cat®gorie 1A sont mises de c¹t® ¨ lõusage et au b®n®þce exclusif des Cris, mais le Qu®bec en conserve la nue-propri®t® (cl. 5.1.2). Aussi mises de c¹t® pour lõusage et le b®n®þce exclusif des Cris, les terres de cat®gorie IB sont cependant la propri®t® de corporations provinciales cries (cl. 5.1.3). Ces terres sont limitrophes, elles sont les plus exig¿es puisquõelles totalisent environ 5 500 km^2. Ce sont sur ces cat®gories de terre que sont situ®s les villages cris (terres de cat®gorie IB) et les administrations locales cries (terres de cat®gorie IA). Les terres de cat®gorie II et III font partie du domaine de la couronne provinciale, mais les Cris peuvent exercer des droits exclusifs de chasse, p°che, trappage sur les terres de cat®gorie II et ont aussi lõexclusivit® de lõexploitation de certaines esp¯ces sur les terres de cat®gorie III (voir par exemple

Enþn, le dernier probl¯me ¨ lõorigine du diff®rend ayant men® ¨ la cr®ation du gouvernement r®gional concerne la mise sur pied, par les autorit®s qu®b®coises, de la CR£-BJ. Les CR£ ont, de fa-on g®n®rale :

> ç [l]e mandat dõç ®valuer les organismes de planiþcation et de d®veloppement locaux et r®gionaux è, de ç favoriser la concertation des partenaires de la r®gion è, dõç ®tablir

sont situ®s certains ç terrains de trappage è (ou territoires familiaux traditionnels des

non du d®veloppement ®conomique du territoire : ç [w]ithout a governance regime acceptable to the Cree, there will [be] no Plan Nord in Eeyou Istchee è (The Grand Council of the Crees 2011, 12 et 21). En outre, ils souhaitent °tre impliqu®s dans la d®þnition des concepts auxquels le gouvernement du Qu®bec a recours dans le Plan Nord et notamment dans la d®þnition de ce que constituent des ç activit®s industrielles è et des ç aires prot®g®es è (The Grand Council of the Crees 2011, 13, 34-39, 45, 52-55, 64, 70, 76, 78, 92, 95-102 et 106). Compte tenu du nombre important de conÿits susceptibles de se poser et de la n®cessit®, pour le Qu®bec, de limiter les conÿits ð et les poursuites judiciaires qui sõensuivraient (Entente 2012, cl. 205-206; *Grand Chef Matthew Coon Come et al.* c. *Hydro-Québec, le Procureur général du Québec et le Procureur général du Canada*; *Grand Chef Matthew Coon Come et al.* c. *Hydro-Québec, le Procureur général du Québec et le Procureur général du Canada*) ð en vue notamment dõattirer les investisseurs, la r®forme de la gouvernance r®gionale ¨ Eey ʻ ɟ leu _uv

de la nation crie doit le faire parvenir au Minist¯re des Ressources naturelles et de la Faune (MRNF) qui doit aussi lõaccepter ou en proposer des modiÞcations. Ce nõest quõapr¯s autorisation par le ministre que le ç Projet de plan è devient un plan dõam®nagement. Du point de vue des revendications dõautonomie des Cris, il sõagit certes dõune am®lioration par rapport ¨ la situation pr®c®dente ð on passe en effet dõune institution paritaire Crie-MBJ ¨ une institution totalement contr¹l®e par les Cris. Il =M

municipales, des R®gions et de lõOccupation du territoire parmi les membres des conseils des Municipalit®s qui r®sident sur le Territoire. Outre la r®partition ®quitable des vingt-deux (22) si¯ges qui composent le Conseil du Gouvernement r®gional, lõentente ne pr®voit pas les m®thodes de d®signation qui seront utilis®es pour choisir les repr®sentants des Jam®siens et des Cris. Concernant les Cris, ce choix nous semble judicieux dans la mesure o½ lõon respecte ainsi leur droit ¨ lõautod®termination. Ensuite, la r®partition des vingt-deux (22) voix reconnues aux Jam®siens sera d®termin®e par le ministre. Pour ce faire, le ministre tiendra compte du poids d®mographique de chaque municipalit® (entente 2012, cl. 83). La r®partition des vingt-deux (22) voix des Cris entre les communaut®s cries nõest pas pr®vue par lõentente, ce qui permet encore une fois de respecter le droit ¨ lõautod®termination des Cris.

ë la lecture de ces dispositions, qui mettent lõaccent sur la parit® de repr®sentation, sur lõ®quilibre dans lõexercice du pouvoir d®cisionnel et ultimement sur la n®gociation des normes, il nous est apparu que la forme choisie pour mettre en place le Gouvernement r®gional sõinspirait de la d®mocratie consociative. La section suivante sõattache par cons®quent ¨ v®riþer dans quelle mesure les n®gociateurs ont eu recours ¨ ce mod¯le et ¨ cibler les ®l®ments de lõentente qui nous semblent probl®matiques. م s T ë = ΰ

Le consocialisme a cons®quemment ®t® utilis® de mani¯re beaucoup plus pouss®e dans le cas du Gouvernement r®gional quõil ne lõa ®t® jusquõici ailleurs au Canada, du moins dans le contexte de la r®forme de la gouvernance autochtone. De plus, le caract¯re d®mocratique du Gouvernement r®gional le distingue des m®canismes de cogestion g®n®ralement mis en place, par exemple dans les accords dõautonomie gouvernementale et de revendications territoriales globales. En effet, dans ces ententes, ce sont par exemple des agents de lõ£tat ð et non pas des ®lus ð qui y si¯gent. D¯s lors, nous ne pouvons que constater que le Gouvernement r®gional se d®marque des autres formes institutionnelles choisies ¨ ce jour pour mettre en ï uvre le droit ¨ lõautonomie et ¨ lõautod®termination des nations autochtones au Canada.

Principal penseur de la d®mocratie consociative, Arend Lijphart (1969, 1999) demeure encore de nos jours la r®f®rence premi¯re en la mati¯re. Si les auteurs r®pertorient plusieurs conditions ou sous-conditions pour d®terminer la nature consociative ou non dõune structure institutionnelle (Christensen et Studlar 2006), tous sõentendent pour lui reconna´tre quatre (4) attributs fondamentaux (Seaver 2000; Sinardet 2011; Iyer 2007; Lemarchand 2006; Cooley et Pace 2012; Spears 2002). Ainsi, dans les mots de Lijphart, la d®mocratie consociative

du Gouvernement r®gional, reÿ¯te sans doute le mieux le caract¯re consociatif des arrangements institutionnels choisis par les n®gociateurs.

Le caract¯re consociatif des arrangements institutionnels se conþrme aussi par le mode de s®lection du pr®sident et du vice-pr®sident qui sont d®sign®s en alternance par les Jam®siens et les Cris pour des mandats de deux ans. Le segment responsable de la s®lection du pr®sident ne d®signe pas le vice-pr®sident (entente 2012, cl. 101). Le caract¯re consociatif du conseil ressort aussi de la composition du comit® ex®cutif, celui-ci ®tant paritaire, sauf en ce qui concerne le pr®sident du Conseil du Gouvernement r®gional qui si¯ge dõofþce au comit® ex®cutif (entente 2012, cl. 112-113). La reconnaissance du cri et du fran-ais en tant que langues principales du Gouvernement r®gional constitue aussi une mesure conforme ¨ lõesprit qui anime le consocialisme (entente 2012, cl. 108, 110-111), ce qui est toutefois limit® par lõabsence de reconnaissance du cri comme langue de travail du Gouvernement r®gional (entente 2012, cl. 109). Enþn, lõentente exige aussi une majorit® qualiþ®e pour prendre plusieurs types de d®cision, par exemple en ce qui concerne le d®veloppement et lõam®nagement du territoire ou encore ce qui

lõarticle 35 de la *Loi constitutionnelle de 1982* en ce sens (Partie II de la *Loi constitutionnelle de 1982*; *R.* c. *Pamajewon*). D¯s lors, on ne pourra se surprendre que la jurisprudence interpr¯te de mani¯re parfois restrictive les pouvoirs cris, ceux-ci ®tant alors interpr®t®s, ¨ tort selon nous, conform®ment aux r¯gles du droit administratif ®tatique en mati¯re de pouvoirs d®l®gu®s (*Eastmain* c. *Gilpin*, 1987, 1644, *Bande de Mistissini* c. *Iserhoff et Conishish-Coon*, 1996, 6). En somme, lõautonomie reconnue ¨ chaque composante de la soci®t® demeure toujours tr¯s asym®trique, cette asym®trie ®tant ¨ lõheure actuelle d®favorable aux Cris.

La reconnaissance et la mise en place du principe de proportionnalit® dans les institutions et lõadministration publique constituent le troisi¯me attribut ®num®r® par Lijphart. Bien quõil ne sõagisse pas l¨ dõun des attributs principaux, lõexigence de proportionnalit® a pour but de favoriser une juste repr®sentation politique des diff®rents groupes dõune soci®t® multiethnique ou multinationale. En revanche, lõexigence de proportionnalit® est critiqu®e en pr®sence dõun d®s®quilibre d®mographique important entre les groupes, ce qui ne nous para´t pas °tre le cas ici. ë tout prendre, cette exigence nõest, dans lõentente, pas rencontr®e. Dõabord, la distribution proportionnelle des fonds publics, des emplois et des charges publiques nõest pas garantie par lõentente de juillet 2012. ë cet ®gard, on doit toutefois observer certaines dispositions qui vont dans le sens dõune repr®sentation proportionnelle, comme cõest le cas de la mention selon laquelle le conseil doit assurer ç é dans la mesure du possible, un ®quilibre dans la repr®sentation è aux postes de direction (entente 2012, cl. 118). Ensuite, la repr®sentation des diff®rentes communaut®s nõest pour lõinstant pas proportionnelle, puisque le principe de la parit® a ®t® retenu pour les dix (10) premi¯res ann®es du Gouvernement r®gional. Puisque les Cris repr®sentent plus de cinquante pour cent des personnes qui r®sident sur le territoire, cela signiþe que les Cris sont pour lõheure sous-repr®sent®s. De plus, sauf exception, lõentente exclut du calcul menant ¨ ®tablir la population crie, les personnes vivant ¨ lõext®rieur des terres vis®es par la CBJNQ. Une telle clause a pour effet de sous-estimer la composition de la population crie. Cela dit, en vertu de lõentente de juillet 2012, la distribution des si¯ges et des voix au sein du Gouvernement r®gional sera, au terme dõune ®ch®ance de dix (10) ans, ®tablie sur la base dõune nouvelle formule (entente, cl. 82, 85). D¯s lors, pour assurer une repr®sentativit® proportionnelle ad®quate, il conviendra de tenir compte de la diaspora crie.

Finalement, en ce qui concerne le dernier attribut, soit la reconnaissance dõun droit de veto au groupe minoritaire, celui-ci est n®cessaire pour garantir au groupe minoritaire ou vuln®rable que lõon ne portera pas atteinte ¨ ses int®r°ts fondamentaux ou vitaux. Dans lõentente de juillet 2012, on peut avancer quõun tel droit de zdro " ʻ p ᵐ p M Ą l ɣ ʌ ɹ ɹ p ŕ ꝑ p M p ᴱ M p p p

vitaux des Cris, mais permet au contraire dõy passer outre. En effet, le m®canisme permet la mise en tutelle du Gouvernement r®gional si un blocage survient et dure plus de trente (30) jours (entente, cl. 103). Cette d®cision revient ¨ la Commission municipale du Qu®bec qui peut d®cr®ter la mise en tutelle en se basant sur le crit¯re de lõint®r°t public. Consid®rant la nature vague dõun tel crit¯re et la port®e attentatoire au droit inh®rent ¨ lõautonomie des Cris de la mise en tutelle, cette mesure nous para´t fort critiquable. La d®cision doit ultimement °tre conÞrm®e par la Cour sup®rieure du Qu®bec, ce qui assure une certaine protection pour les Cris[4]. ë tout prendre, lõexercice du pouvoir de tutelle par la Commission municipale du Qu®bec devra alors, selon nous, respecter le principe de lõhonneur de la Couronne d®velopp® dans la jurisprudence canadienne. En dõautres termes, une mise en tutelle ne saurait, ¨ notre sens, °tre d®cr®t®e par les autorit®s administratives qu®b®coises sans consultation, voire sans approbation, par les Cris. Or, lõentente ne pr®voit pas une telle garantie pour les Cris.

La structure de gouvernance ®tablie par lõentente de juillet 2012 est originale ¨ plusieurs ®gards. Elle se distingue de toutes les autres formes institutionnelles reconnues dans le cadre de la mise en ï uvre de la politique f®d®rale sur lõautonomie gouvernementale et des revendications territoriales globales, tant en mati¯re de cogestion quõen mati¯re de gouvernance autonome. Il sõagit en fait dõun mod¯le inspir® ¨ la fois des m®canismes de cogestion dans sa composition, des formes

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9

THE POLITICS OF REGIONS AND RESOURCES IN AUSTRALIA

Douglas Brown

INTRODUCTION

Canada and Australia are both resource-producing giants. The long resource boom has brought enormous beneþts but also some costs to our two countries. This volume addresses the politics of regions and resources in the large and diverse Canadian federation. Australia is a natural point of comparison as we examine our own issues, problems, and potential solutions. Like Canada, Australia is a large, territorially diverse country with a federal constitution and many similar political institutions. It, too, is a multicultural settler society with a coexisting indigenous population, a wealthy, advanced industrial economy well integrated globally, and an Anglo-American business culture. Unlike Canada, Australia is an island continent, relatively isolated ð it is not attached geographically to a much more populous continental neighbour, and thus is not as dependent on a single major trading partner as Canada is on the United States. While resource and energy production and markets in Australia do differ from Canadaõs,[1] the issues surrounding terms of trade and economic adjustment, environment (including greenhouse gas emissions), interregional income, and labour force balance, among others, are all very similar to the issues that have arisen in Canada in the past decade.

This chapter examines recent resource and energy politics in Australia and how they are affected by or in turn inÿuence federalism and intergovernmental relations, including federal values and the overall ability of the system to manage conÿict and change. The next two sections explore the broader context: þrst, the

I wish to thank Andrew Banþeld, Robert Milliken, and the editors of this volume for their helpful comments.

[1] For further details see Grant (2013) and Blackwell (2013).

comparison to Canada ð the regional incidence of GGEs is not nearly as concentrated (see Table 1). Australia, like Canada and the United States, is a carbon-intensive economy with relatively cheap gasoline prices and dispersed urban populations, is heavily dependent on automobiles, and has had strong economic and population growth. Australia has the highest level of carbon emissions per capita among the OECD countries. It is a major domestic consumer of coal for electricity in addition to exporting coal for electricity production elsewhere. The three largest coal-producing states are Victoria (brown coal mainly for domestic energy consumption), New South Wales, and Queensland (black coal, with most production exported). On the whole, the resource production sectors including agriculture and mining are major GGE emitters (Crowley 2010; Garnaut 2008). As will be discussed more fully below in relation to the federal carbon price òtax,ó the issue of regulation of GGEs is not just an issue of regions and resources, but the latter are important factors.

Table 1: Greenhouse Gas Emissions by State and Territory, 2010 (Million tonnes CO2)

	Volume	*Per Capita*
New South Wales	157.4	21.6
Queensland	157.3	34.7
Victoria	117.9	21.1
Western Australia	74.3	30.8
South Australia	29.3	17.8
Northern Territory	14.7	63.0
Tasmania	7.6	14.8
Australian Capital Territory	1.2	3.2
Total Australia	**560.8**	**24.8**

Source: Commonwealth of Australia website, http://www.climatechange.gov.au/publications/, accessed August 13, 2013.

Finally, there is the issue of þscal resources. Natural resources onshore are owned by the states,[5] and they have the right to levy royalties. Otherwise, þscal federalism is considerably centralized in Australia, such that the federal government is in a position to beneþt directly from natural resource growth and development. The enormous proþts (including windfall proþts) of the mining companies in particular have become a magnet for the federal government. The controversy over a short-

[5] Offshore resources are owned by the federal government, although in the case of one natural gas development the federal government agreed to share royalties with Western Australia; see Anderson (2012).

lived federal minerals tax is discussed below. Federal taxes are by far the most signiþcant taxes and are redistributed extensively. Moreover, in the long-standing practice of þscal transfers, richer states (including newly richer states) contribute

jurisdiction. Overall, however, the Australian distribution of legislative jurisdiction is relatively centralized.

One consequence of centralized legal power is centralized þscal power (Saunders 2011, 237-43; Ward and Stewart 2010, 137-41). The rather narrow initial allocation of statesõ taxing powers has been narrowed even further by High Court decisions favouring the federal government, in particular in the 1940s and 1950s to conþrm federal control over the income tax þeld, and in later cases that keep the states out of the consumption tax þeld. As a result, the central government now levies þve out of every six dollars in taxes in Australia, coupled with an explicit and broadly interpreted spending power in which state jurisdiction seems to matter very little. The states are left with gaming revenues, resource rents, and a variety of small tax sources as well as property tax powers delegated to local government. A severe vertical þscal imbalance is alleviated by substantial intergovernmental transfers, both conditional (special purpose payments, national partnership payments, among others) and unconditional (almost all in the form of the GST distribution noted above), totalling $44.1 billion and $51.2 billion respectively in 2013ð14 (Commonwealth 2013). The average state reliance on federal transfers is around 45 percent (see Figure 2).

A þnal federal feature is the system of intergovernmental relations. Australia being a parliamentary federation also exhibits òexecutive federalismó whereby relations are concentrated in the executive branch. This means they are monopolized by þrst ministers, other cabinet ministers, and their senior ofþcials, to the general exclusion of legislatures (Watts 1989, 2008). Formal and informal relations among governments became much more intense with the increased role of the state after the Second World War, particularly with the build-up of social programs þnanced by intergovernmental grants. As de facto government roles became less divisible and more interdependent, the signiþcance of intergovernmental relations to the overall policy-making process and to the political system as a whole increased. Trends in the development of executive federalism in Australia were very similar to those in Canada until the 1990s. At that m t ʙ iti m ᵀ m n " m ȝ

- a rationalized and streamlined set of standing and ad hoc Ministerial Councils (MCs), under the scrutiny of COAG, if not always reporting directly to it;
- MCs that can take binding decisions, backed up by uniform federal and state and territorial legislation;
- voting rules in these MCs that allow the councils to take decisions by majority or qualiþed majority vote;
- several new joint ònationaló agencies in þelds such as energy, environment, food standards, road transport, training, and competition policy; coordination through non-centralized devices such as mutual recognition of standards, and ònegative integrationó through such policies as national competition; and
- from 2007 to 2014, the COAG Reform Council, an independent body, provided assessments of whether governments were meeting commitments made in intergovernmental undertakings.

Figure 2: Aspects of Fiscal Arrangements – Australian Federal System

Major Federal Tax Assignments (100% of feld unless otherwise specifed):

- Personal income tax
- Corporate tax
- Goods and services (sales) tax
- Excise tax
- Payroll taxes (25%)

Major State Tax Assignments (100% of feld unless otherwise specifed):

- Payroll taxes (75%)
- Land tax
- Financial services tax
- Gambling tax
- Motor vehicle registration
- Mining revenue
- Property (100% levied by local government)

General Government Revenues and Expenditures as Percentage of GDP

	Federal Revenues	*Federal Expenditures*	*State Revenues*	*State Expenditures*
2000ð01	26.3	25.5	16.3	15.9
2005ð06	26.3	24.4	16.3	15.3
2010ð11	22.1	25.4	16.2	15.7
2013ð14	24.3	24.9	15.5	15.4

Sources:
On tax assignments: Morris (2007), Table 4.
On revenues and expenditures: Commonwealth (2013), Table C4.

signiþcant current political issues, but they have also been chosen to illustrate how the Australian system delivers results relevant to Canadian problems.[8]

National Electricity Market

Electricity market reform was one of the many targets of microeconomic reform in Australia from the mid-1980s. Key problems identiþed were the lack of competition among electricity providers, the inefþciencies of state-based and often state-owned electricity systems, and the absence of a national electricity grid. The federal Labor government under Robert Hawke began a wide-ranging initiative in 1991 to engage
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mining, etc.) were to contribute to GGE reductions, and of course about whether a new òtaxó was the best approach. Fourth, Australia actually achieved, unlike Canada or the United States, a binding national regime for GGE reduction, even if the new federal government under Prime Minister Tony Abbott has pledged to scrap the policy in favour of a òdirect actionó emissions reductions fund. In any case, there is no doubt that any federal scheme will be binding on the states.

Resource Revenue Issues

The states and territories own the mineral resources onshore and levy a complex set of royalty and related taxes, usually based on production volumes not value, geared historically to promoting development in the context of struggling markets and prices. In the long resource-commodities boom that started about 2002, only recently faltering (Blackwell 2013), mining company proþts have attracted attention, as has the regionalized economic boom over hugely increased mining sector development. Australiaõs petroleum resources are mostly in the form of natural gas. These resources until recently have been mostly in offshore deposits off the southeast and (especially) northwest coasts. There are currently major new developments for coal seam and shale gas deposits onshore. Historically, public revenues from petroleum resources have been quite small in comparison to those in Canada. Nonetheless, resource revenues are increasingly an important intergovernmental and interregional issue as illustrated by two continuing controversies: the treatment of resource-based economies by the overall þscal equalization system, and the entry of the federal government into the mining tax þeld.

A major component of Australiaõs system of intergovernmental grants is the distribution of the revenues from the federal governmentõs Goods and Services Tax (GST). The arrangement dates from 1999 when the Howard government reached agreement with the states and territories, through the COAG process, to distribute all of the revenue (minus collection costs) from the new GST to the states on an equalized basis (Brown 2002, 218-22).[13] The agreement was a way both to reform tax structure by introducing a new, broad-based national consumption tax at the same time as abolishing many inefþcient state taxes, and to reform þscal relations by providing states with a source of unconditional funding tied to a growing revenue source (a pool that yielded $A51 billion in þscal year 2013ð14). The equalization process involves the determination of relative þscal capacity for each state and territory by the Commonwealth Grants Commission (employing methodology and principles used for decades) applied to the GST revenue pool. States with

[13] For the text of the 1999 agreement, see http://www.coag.gov.au/node/75, accessed June 4, 2013. On current issues about the GST distribution and the equalization process, see Commonwealth (2012).

optimum development and return for the public owners of the resource and for private investment (*Economist* 2012d; Western Australia 2011.[15] In short, there was potential for a form of tax war as the states increased their royalties, which would reduce federal revenue from the tax.

Both the equalization clawback issue and the conÿict over mining resource revenues were taken up recently by an independent panel appointed by the federal government. The panel carefully listened to the views of the states. Its report bluntly stated that

> the impasse between the two levels of government on this [resource revenues] issue is harmful and unsustainable, but [é] it wonõt be þxed by penalizing the States through the GST distribution system. The panel concludes that what is needed is for the States and the Commonwealth to settle a negotiated income. Ideally such an agreed position would enable State royalties to be lower and the revenue from the Commonwealth resource taxes to be greater. (Commonwealth 2012, 4)

This advice is now moot as the new Liberal-National coalition federal government, elected in September 2013, abolished the ALPõs mining tax, leaving the states free rein.

CONCLUSION: LESSONS CANADA CAN LEARN

This chapter has deliberately presented issues about regions and resources in Australia within the context of the federal system and other political features of the country, as well as the broader geographic, economic, and social context ð all of which differ in important ways from Canada. So at þrst blush the prospects for Canadians in fact applying Australian models can seem very remote. Still, the value of comparative analysis is often as much in what one learns about oneõs own country as the other. So, without necessarily treating Australia as a paragon, there are several points that should be taken away from the brief discussion in this chapter. These can be organized þrst in terms of the capacity for national policy-making and how Canadians might be able to do better to achieve effective results, and second in terms of comparing actual policy outcomes on key resource issues, and where we might want to emulate or avoid the Australian example.

The þrst systemic þnding about Australia is the obvious point that it is a much more centralized federation than Canada. This is due, as we have seen, to both institutional and societal factors. On the social side, there is no linguistic divide, and despite elements of Aboriginal resurgence and multicultural diversity, the prevailing

legitimacy; and part is attributable to a political culture, on both sides of the major ideological divide, that does not shrink from the very words ònational strategy.ó The obstacles to Senate reform in Canada remain signiþcant, but the will to do

we lack the certain capacity to resolve difþcult regional and intergovernmental issues in a collaborative way. Too much relies on all the stars aligning; political consensus has to be overwhelming before even incremental progress can be made.[17] In short, the history of substantive intergovernmental cooperation on greenhouse gas emissions has been abysmal. Our governments should take another hard look at Australian (or European Union) models that incorporate co-decision, including through qualiþed majority voting, and the legislative establishment of joint, binding regulatory authority for the relevant ministerial council. A renewed Canadian commitment to strengthen intergovernmental institutions dealing with the GGE issues seems overdue.

Finally, on the þscal issues, the solutions and process in Australia as a whole are not especially transferable to Canada, given our apparent preference for þscally strong provinces. Still, we also face widening horizontal þscal inequity as a result of the accumulation of resource rents in some provinces. The net operation of the GST distribution in Australia, whereby richer states get a smaller per capita entitlement, seems more transparent even if it is not wholly satisfactory to all parties. However, the calculation of þscal capacity that goes into the distribution is famously complex and intrusive, even if it is done by a reputable independent agency (the Commonwealth Grants Agency). On the federal minerals tax, we have our own scarring history of the National Energy Program, which probably prevents any such proposal from achieving lift-off in Canada. A national carbon price/tax regime might be a very different case, in that it is not on its face conþscatory of resource wealth surpluses, but it would probably have regional distributive effects more profound than those in Australia and would have to be carefully balanced. All of which begs the question about whether a decentralized federal country can have ònationaló energy and resource strategies at all.

The clear lesson from Australia is that a country with so many similar conditions, and at least some similar institutions, successfully achieves national strategies as a matter of course, even if the direction and pace of national action can change abruptly depending on the federal party in power. We need not adopt their entire approach to þnd useful solutions. For our part, Canadians would be better served by at least starting with a franker discussion about what we might all gain from a national strategy or strategies on our most pressing energy and resource issues.

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Identity and Resiliency

10

GUARDING THE NATION: RECONFIGURING CANADA IN AN ERA OF NEO-CONSERVATISM

Tim Nieguth and Tracey Raney

INTRODUCTION

In recent years, a number of media observers have suggested that the current federal government is attempting to rebrand Canadian national identity by emphasizing the military, war heroes, and the monarchy (Boesveld 2011; Martin 2010; Rowe 2011; Taber 2011). Such a shift would constitute a major change from previous constructions of the Canadian nation that rested on symbols of social equality, inclusiveness, and plurality, expressed in policies and documents such as universal health care, the Charter of Rights and Freedoms, and multiculturalism. Should the Conservative governmentõs rebranding of the nation be successful, the consequences could be far-reaching. A reconþgured national identity tied to Canadaõs military and the monarchy might, for example, deepen ethno-national cleavages, erode cross-regional cohesion, and contribute to Conservative Party dominance. At the same time, the governmentõs national policy agenda may encounter a number of roadblocks, including opposition from other political actors as well as public attachment to previous versions of national identity. It is therefore imperative to understand the scope of potential changes to Canadaõs national identity, as well as the political processes and mechanisms that enable or inhibit these changes.

In this chapter, we examine the nation-building strategies of the current Conservative government, and we argue that these strategies both extend and depart from previous constructions of Canadian nationhood in important ways. They are

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Authors listed alphabetically.

an extension of previous strategies in that the Conservatives have continued the process of decoupling social policy from deþnitions of Canadian national identity, a process that began well before the party came to power in 2006. At the same time, the Conservative vision of the Canadian nation constitutes a signiþcant departure from previous nation-building processes in at least two respects: it entails a change of the policy þelds that are central to Canadian national identity, and it involves a redeþnition of Canadian national symbols. This version of Canadian national identity is decidedly neo-conservative in its assumptions about the role of the state, market, and individual citizens in Canadaõs political community.

The chapter is divided into three sections. It will begin by discussing some of the key poliy ʈ no o
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National policy agendas provide broadly deþned policy goals, or òoverarching philosophical frameworksó that shape public policy (Bradford 1998, 3). Put differently, national policy agendas revolve around a relatively coherent set of political ideas that frame policy choices across a wide swath of public policy areas and determine which policy domains state actors do (or do not) perceive to be central to their vision of the nation.

The current Conservative governmentõs national policy agenda is informed by neo-conservative ideology.[1] Broadly deþned, neo-conservatism is a combination of neo-liberalism and social traditionalism (McBride and Shields 1993, 1997; Stelzer 2004; Teghtsoonian 1993). Neo-liberalism assumes that the free market is superior to the state in creating wealth and guaranteeing individual liberty; it aims to decrease state activity in the economy, and to increase state activity in the areas of safety, security, and the rule of law. Social traditionalism rejects the secular orientation of modern societies and the disintegration of the traditional roles of family, gender, religion, and morality. Social traditionalists believe that the state can and should be called upon to stop the erosion of traditional values. Overall, neo-conservatism advocates a leaner state, but not a weaker one ð a state that limits social and economic redistribution, refrains from imposing a rights agenda that is at odds with traditional values, and focuses on the provision of security, law and order.

These ideological commitments appear in numerous texts and documents published by the Conservative Party and members of the Conservative government, including party platforms and policy declarations, speeches, and newspaper articles. They are conveniently summed up in a speech Prime Minister Harper delivered three years into his governmentõs tenure; it is worth quoting this speech at some length:

> In the Canada of the future, we should be able to have one of the most free-enterprise, one of the most prosperous, societies on the planet. That would require us to govern according to conservative values. What exactly are those conservative values? [é] I like to summarize my idea of conservatism in three òFsó ð freedom, family and faith. Individual freedom, political and economic, is one of our fundamental values. It is absolutely critical. But it must be tempered. First, individual freedom must be tempered by family. We are part of a chain in which we honour and build upon those who came before us and in which we hope and look out for the future of those who will come after. Second, freedom must be tempered by faith that there is a right and wrong. It teaches us that freedom is not an end in itself, that how freedom is exercised

[1] This is not to suggest that all decisions made by the Conservative government will reÿect neo-conservatism. There have been some Conservative government decisions that appear to depart from neo-conservatism, such as Mr. Harperõs refusal to open up the same-sex marriage debate, and his decision to have a free vote in the House on abortion rights in the spring of 2012. These ideological departures are to be expected where public opinion is quite divided on particular issues, as is the case with same-sex marriage and abortion. Other factors that explain divergences from government policy are discussed later in the chapter.

of the GDP; by 2015ð16, it is projected to drop to 12.9 percent (Reynolds 2012). While absolute federal program expenses increased from $183 billion to $271 billion between 2002ð03 and 2011ð12 (Receiver General for Canada 2003, 2012), it is important to keep in mind that this increase occurred in the context of a rapidly growing and aging population, a global economic recession that resulted in considerably higher social expenditures, and a signiþcant þnancial commitment to the war in Afghanistan. In addition, a substantial portion of this increase is owed to inÿation, which amounted to 18 percent between 2003 and 2012. In the 2013ð14 budget, total spending is expected to rise less than 1 percent from the 2012ð13 budget. When inÿation and population growth are considered, this constitutes an actual cut (Cheadle 2013). Direct program expenses (not including major transfers to the provinces and territories) are also expected to drop substantially (Cheadle 2013).

Social policy has been especially vulnerable to cutbacks over the last 20 years. For example, the þrst Chr®tien budget in 1994 restrained federal expenditures and restructured social programming (Prince 2006, 214). This trend has continued under the Conservative government: in 2012, the Conservative government announced changes to Old Age Security (OAS), which will increase the age of eligibility from 65 to 67 between 2023 and 2029. As of January 2013, Ja Ů ᴋ ice l ᴰ ɹ Maane th

time, there are compelling reasons to conclude that the Conservatives are reframing

Symbolic Reordering

As part of its rebranding strategy, the Conservative government has not only attempted to change the policy þelds that are at the heart of Canadian national identity, but has simultaneously undertaken broad changes to Canadaõs symbolic order. Many of these policy changes highlight Canadaõs war history and heritage as a British colony. For example, the government invested signiþcant effort and þnancial resources into commemorating the War of 1812. In contrast, the *Road to 2017* ð the governmentõs roadmap for celebrating the 150th anniversary of Confederation ð downplays some of the key events and symbols that are commonly linked to rival visions of the Canadian nation, such as the 30th anniversary of the Charter of Rights and Freedoms, which took place with extremely limited government promotion in April 2012. In a similar vein, the government reinstated the òroyaló designation for Canadaõs navy and air force in 2011, a move that emphasizes Canadaõs historical ties to the British monarchy. In 2012, the Bank of Canada began to release a new series of banknotes; among other changes, the redesigned bills place a stronger emphasis on war and the military.

In addition, the Conservative government published a new citizenship guide in 2009 (Government of Canada 2012). The citizenship guide is a particularly important means for transmitting national myths and symbols, since it is explicitly directed at newcomers to help them prepare for the citizenship test (applicants must pass this test in order to qualify for Canadian citizenship). In other words, the guide provides access to ofþcial membership in the nation; in doing so, it is an important opportunity for articulating national narratives that weave together the values, practices, institutions, and experiences considered central features of the Canadian national community. By extension, changes to the citizenship guide may point to larger changes in the symbolic order underpinning the national community. The fact that the Conservative government replaced the previous citizenship guide, released by the Liberal government under the title *A Look at Canada* (Government of Canada 1999), with a new guide entitled *Discover Canada*, accordingly merits some analysis.

A direct comparison shows that the vision of Canadian national identity entrenched in these two documents contains important continuities, but that there are also several signiþcant changes in the emphasis on different national symbols and experiences. According to Wilton (2010), *A Look at Canada* revolved around four major discourses on Canadian national identity: ò(1) Canada is a nation of immigrants; (2) Canada is a country of regions; (3) Canada is a bilingual country; and (4) Canada is a multicultural countryó (95). To a large extent, these themes also þgure prominently in the new citizenship guide. However, *Discover Canada* differs from the earlier document in a number of respects. For example, where *A Look at Canada* makes scant mention of warfare, the military, or soldiers, *Discover Canada* is replete with military references: òwaró and òwarfareó are mentioned

POLITICAL AND INSTITUTIONAL CONTEXTS

What factors have enabled the Conservative government to pursue such a comprehensive redeþnition of Canadian national identity? The short answer is that there are several interrelated factors at work, rather than a single causal variable. These factors include, for example, a heightened emphasis on security in the post-9/11 era, a succession of global economic crises, Canadaõs relationship with the United States, the ascendancy of neo-liberalism since the 1970s, and the prime ministerõs control over the appointment of senators and Supreme

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party in at least 30 years. This continues a long-term decline of Quebecõs representation within the governing party: despite small upswings in 1988 and 2000, the percentage of Quebecõs seats won by the governing party has dropped from 99 percent in 1980 to a mere 7 percent in 2011. Figure 1 shows the percentage of regional seats won by governing parties since 1980. What is clear from the þgure is that no governing party has managed to secure a parliamentary majority with such weak support from Quebec in recent decades; the closest comparison was the 1993 election, when the Bloc Qu®b®cois þrst emerged on the electoral scene. Even then, Prime Minister Chr®tien won a majority with 25 percent of Quebecõs seats.

Signiþcantly, the Conservativesõ declining fortunes in Quebec buck the trend emerging in other parts of the country. A comparison of the most recent election results to two other signiþcant federal elections can serve to illustrate this point. In 1984, Brian Mulroney was able to stitch together a coalition of western populists, traditional Tories, and francophone nationalists. Figure 1 shows that in that year,

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regional representation in the Progressive Conservative governing caucus was quite high and somewhat balanced across the four regions (the East, Quebec, Ontario, the West): the governing party managed to win 78 percent (the East), 77 percent (Quebec), 71 percent (Ontario), and 75 percent (the West) of available seats, respectively. In the highly regionalized 1993 election, the Liberal governing partyôs share of seats dropped both in Quebec and in the West, but increased sharply in Ontario and the East. By comparison, in 2011, the governing Conservatives were able to increase their share of seats in Ontario, the West, and the East (continuing a trend established in the 2006 election), but the party lost seats in Quebec. Thus, for the þrst time in 30 years, electoral trends in Quebec are out of sync with those in the entire rest of the country.

Yet, these constraints are being eroded by the current Conservative government in at least two ways, both of which weaken the role of the provinces on the national scene, reduce the necessity for federal-provincial negotiation, and increase the federal governmentõs ability to implement its national policy agenda. As discussed earlier, the Conservative government has emphasized different policy þelds in deþning Canadian national identity than previous governments. While policy þelds that fall under provincial jurisdiction (such as health care) have been de-emphasized, those that now take centre stage in deþning the Canadian nation (such as national defence) fall within the exclusive purview of the federal government. One consequence of these changes is that the federal government can now more easily monopolize how the Canadian identity is deþned, by whom, and through what means. In effect, a new federal bargain has been struck that grants more power to the premiers within their own jurisdictions, in exchange for reducing the provincial role in Canadian nation-building.

This new bargain is also reÿected in the Conservative governmentõs model of òopen federalism,ó which seeks to disentangle the two orders of government through strict observance of the (narrowly construed) constitutional division of powers between Ottawa and the provinces. The principles of open federalism are laid out in some detail in Section D of the Conservative Partyõs 2005 òPolicy Declaration.ó In brief, these principles include an adherence to the constitutional division of powers between Ottawa and the provinces; a belief in the importance of strong provinces; promises to limit the use of the federal spending power and to alleviate the òþscal imbalanceó between the two orders of government; support for strengthening instruments of interprovincial cooperation; and a commitment to address historical grievances of Quebec, the West, and Aboriginal peoples (Conservative Party of Canada 2005, 6-7).

It is worth emphasizing that open federalism does not simply aim to reduce the role of the federal government and strengthen that of the provinces. While it mil-

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2011. These changes were imposed unilaterally and without provincial consultation; unsurprisingly, they provoked vehement (but ultimately unsuccessful) protests from several provincial premiers.[6] More recently, Prime Minister Harper opted not to attend the 2012 First Ministersõ Conference on economic issues ð a decision that was widely interpreted as public afþrmation that the federal government would limit its involvement in policy areas that fall under provincial jurisdiction.

POTENTIAL IMPLICATIONS

National Unity

A number of implications arise from the Conservative governmentõs nation-building strategies that need to be considered. During the latter half of the twentieth century, Canada was mired in a protracted national unity crisis. For much of this time period, Quebec separatism posed a serious threat to the continuation of Confederation, despite the fact that the separatist option was soundly defeated in the þrst independence referendum of 1980. Less than a generation later, support for Quebec independence had reached a high water mark: in the 1995 referendum on independence, 49.5 percent of Quebec voters supported secession from Canada. The YES side (favouring secession) and NO side (opposing secession) were separated by a scant 54,000 votes.

Almost two decades after the second referendum, the picture has, in some ways, changed dramatically. While the separatist Parti Qu®b®cois managed to eke out an electoral victory in Quebecõs 2012 provincial election, it received only 32 percent of the popular vote (3 percent less than in the previous election) and fell short of a legislative majority. Support for the Parti Qu®b®cois further declined in the 2014 provincial election, where it obtained 25 percent of the vote ð a result that relegated the party to opposition status and put it a mere 2 percentage points ahead of the third place party, Coalition Avenir Qu®bec. Similarly, surveys conducted in the lead-up to the 2012 election indicated that support for independence had dropped to a historic low of 28 percent (Ibbitson 2012; Mendleson 2012). Outside Quebec, political passions seem less exercised by the prospect of secession: a poll conducted in the summer of 2012 showed that 49 percent of respondents in the rest of Canada òdonõt really careó whether Quebec secedes (Ibbitson 2012). Canadaõs national

(McAllister 2011, 505). Recent measures, such as the changes to the Canada Health

eschews the welfare state nationalism of previous generations and seeks to build a national identity that emphasizes the military, law and order, and traditional national symbols like the monarchy. The symbolic reordering of Canadian national identity has followed broadly similar linem ol itintocwenem T inntm o]iowed si

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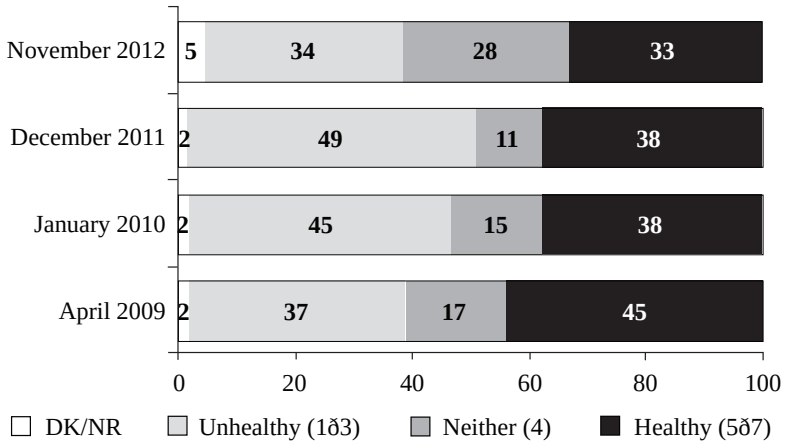
prospects in the new global economic order, a people fearing the end of progress in their and their childrenõs lives. It shows their conÞdence in their countryõs direction to be declining sharply (Figure 2), especially among those under 40, the university educated, and Quebecers.

Yet while Canadians are raising questions about their journey together and, in fact, whether they still are journeying together, perhaps paradoxically their attachment to their country (while modestly declining) remains high across all demographic cohorts, higher than national attachment in virtually every other country on Earth (Figure 3). And surprisingly (if not equally paradoxically), the values of most Canadians are at odds with the social conservative convictions of the political right ð certainly of their federal government ð and the maxims of the political marketplace that declare as a given the need to advocate a minimalist state as the only certain path to electoral success.

Figure 1: Health of Democracy

Q. How would you rate the overall health of democracy at the federal level in Canada?



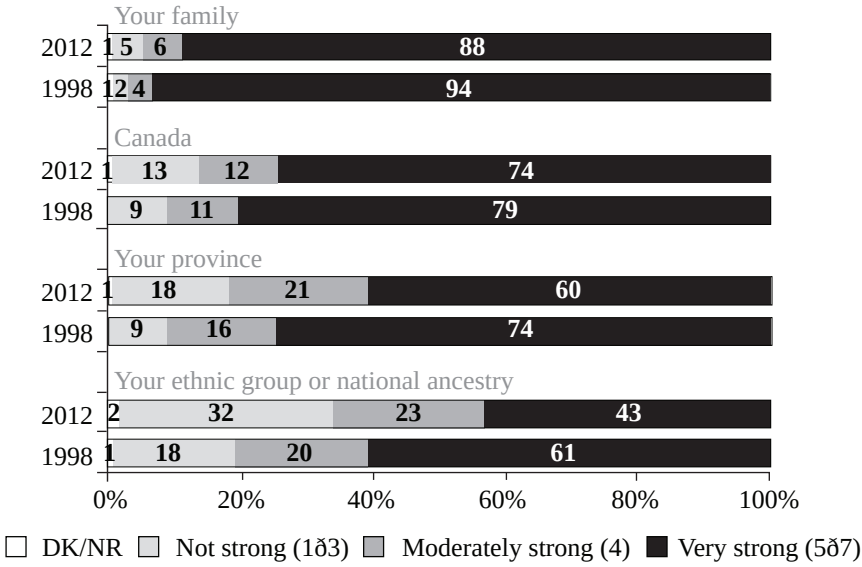
BASE: Canadians; most recent data point November 20ðDecember 3, 2012 (n=5,433).

Source: EKOS Research Associates (2013c, 1).

Figure 2: Direction of Government

Figure 3: Personal Sense of Belonging

Q. How strong is your own personal sense of belonging to ...



BASE: Canadians; most recent data point November 20ð29, 2012 (n=1,181).

Source: EKOS Research Associates (2013b, 16).

FRACTURES AND POLARIZATION (AND THE STATE AS IDENTITY)

Michael Ignatieff (2009), when he was leader of the Liberal Party of Canada, wrote:

> We need a public life in common, some set of reference points and allegiances to give us a way to relate to the strangers among whom we live. Without this feeling of belonging, even if only imagined, we would live in fear and dread of each other. When we can call the strangers citizens, we can feel at home with them and with ourselves. Isaiah Berlin described this sense of belonging well. He said that to feel at home is to feel that people understand not only what you say, but also what you mean. (4)

If Ignatieffõs fellow citizens embraced those words, it was not to his political beneþt. Indeed, in EKOSõs þndings, Canadiansõ public life in common is beset by boulders.

This chapter explores the shifts that are impacting Canadian society. It examines the reasons for those shifts and the deeper and sharper fractures in Canadian society that they are causing. It assesses what effect those fractures might have on Canadiansõ sense of being together ð their social cohesion ð and what remedies might be found for the good of the Canadian collective journey.

The central thesis is twofold: one, that Stephen Harperõs ruling Conservatives are going one way on values and notions of government and the role of the state, while the great majority of Canadians are heading in the opposite direction; and, two, that almost all Canadians ð primarily middle-class and young Canadians ð are afraid, very afraid, for their economic future.

Most Canadians have dismissed social conservative values from their catalogue of whatõs im

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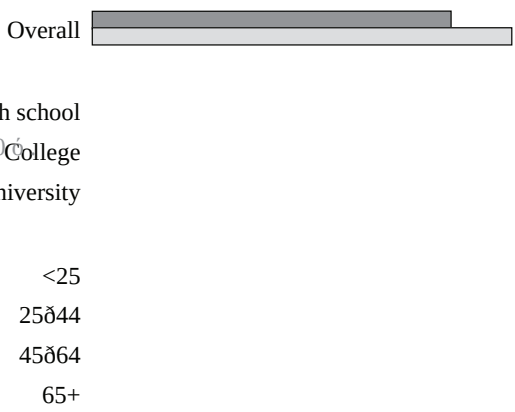
argued (and we concur) that Canadiansõ identity beginning with Confederation has been forged by what he called òstate nationalism,ó a dialogue of citizens linked to their national institutions such as medicare, military peacekeeping and diplomacy, national railroads, the Charter of Rights and Freedoms, and the CBC.

Thus, it is interesting to consider how national identity might be evolving in an era where both the stateõs role and its relative size have taken a decidedly different trajectory in Canadiansõ lives. What we see, with the younger generation of adults, is that their identity ð up until recently, at any rate ð is not driven by what governments do but by how Canadians live, an ethos unfolding daily at interpersonal and societal levels. Among older Canadians, on the other hand, we see a fault line between those who continue to accept the state as the common terrain on which Canadians meet to defend each otherõs class interests and those who see the state as a barrier to their prosperity and even their liberty. And what EKOS þnds, as shown in Figure 4, is a sharp decline among those listing òminimal government intrusionsó as an important value in their lives, a substantial gap between younger and older Canadians on the issue (16 points, compared to a statistical tie in 1994), and a considerable gap between university-educated and college-educated Canadians (15 points, a gap that did not exist at all in 1994).

Figure 4: Importance of Minimal Government Intrusion

Q. If you were to direct Canadian society as to which goals or values should be most important in its direction, how important would you say each of the following goals and values should be? □ □

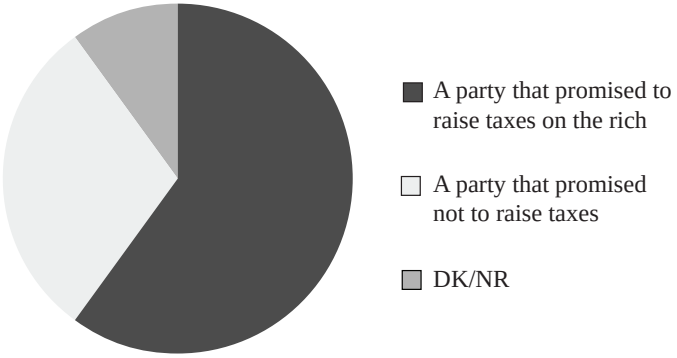


BASE: Canadians; most recent data point November 20ð29, 2012 (n=1,181).

Source: EKOS Research Associates (2013b, 35).

Figure 7: No New Taxes versus Taxing the Rich

Q. In the next federal election, would you be more likely to support a party that promised to NOT raise taxes or a party that promised to raise taxes on the rich?



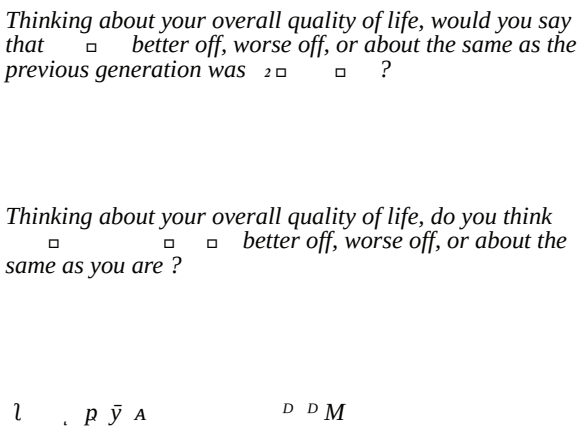
BASE: Canadians; February 21ð28, 2012 (n=3,699).

Source: EKOS Research Associates (2012a, 5).

The middle class has always been by far the most popular self-deþned class in

the ethic of progress (Figure 10). Uncorrected, this will lead to inevitable further decline. The fact that only 14 percent of Canadians think their children will inherit a better world underlines the gloominess of the national mood.

Figure 10: End of Progress



Source: Graves (2013b, 13).

Figure 13: Perceived Shift in Canadian Ideology

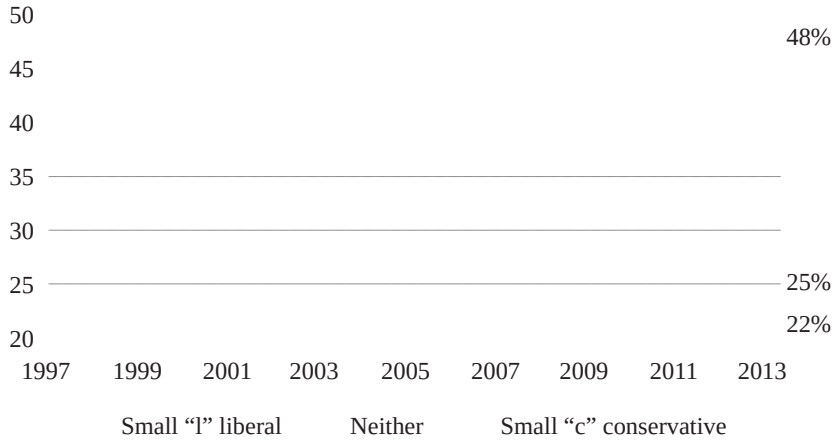
Note: This study was conducted using Interactive Voice Response (IVR) technology, which allows respondents to enter their preferences by punching the keypad on their phone, rather than telling them to an operator. The þeld dates for this survey are May 22ð26, 2013. In total, a random sample of 3,318 Canadian adults aged 18 and over responded to the survey. The margin of error associated with the total sample is +/-1.7 percentage points, 19 times out of 20.

Source: EKOS internal survey.

Respect for authority and traditional family values, still very important in older and conservative Canada, holds no resonance in younger and university-educated Canada. There are similar downward trends for conservative values such as minimal government (Figure 16) and heightened security ð particularly in younger Canada, metropolitan Canada, university-educated Canada, and among women. EKOS research þnds a growing appetite for larger (albeit more effective) government. It þnds growing skepticism and fatigue with the neo-liberal mantra that less government plus lower taxes equals prosperity for all. It þnds declining acceptance for the proposition that tax is a four-letter word.

Figure 14: Political Ideology

Q. Do you consider yourself a small òcó conservative or a small òló liberal?



BASE: Canadians; most recent data point November 20–29, 2012 (n=1,181).

Source: Graves (2013b, 7).

We state clearly that there is virtually no plausible evidence to suggest that on social values Canada is shifting to the right. The Conservative Party is doing better politically among immigrants but that does not equate to saying immigrants are moving Canadian values to the right. The success of political parties of the right is not a product of a rightward shift, nor is the presence of a right-of-centre party in Ottawa moving the public to the right. The best indicator of who votes Conservative nationally is religiosity and, in reality, the factors that are moving values are far deeper and transnational than those within the purview of national governments. The value shifts that we see continuing in Canada are part of broader rhythms that are evident throughout the advanced western world (and may be becoming more global in nature).

Thus, while explicitly excluding þscal conservatism from this claim, we can say without hesitation that the evidence is clear that Canadians are signiþcantly less connected to socially conservative values than they were 20 years ago. Even more important, these values are much less relevant in certain portions of Canadian society such as younger Canada, metropolitan Canada, university-educated Canada, and Quebec. In short, these socially conservative values have little relevance to the emerging, next Canada. While they are highly motivating

Figure 15: Most Important Goals and Values

Q. If you were to direct Canadian society as to which goals or values should be most important in its direction, how important would you say each of the following goals and values should be?

		2005	2002	1998	1994
Freedom	**87**	90	88	89	89
Integrity and ethics	**86**	86	84	81	84
A healthy population	**85**	87	86	86	86
Collective human rights	**83**	84	80	80	80
A clean environment	**83**	86	87	83	87
Security and safety	**78**	84	82	80	83
Tolerance	**77**	80	74	75	74
Social equality	**77**	79	--	77	76
Hard work	**77**	80	81	79	--
Sharing of wealth	**69**	74	70	72	70
Prosperity and wealth	**66**	68	73	72	73
Respect for authority	**65**	78	81	79	81
Traditional family values	**60**	77	78	79	78
Minimal gov. intrusions	**57**	65	67	66	67

0 20 40 60 80 100

BASE: Canadians; November 20–29, 2012 (n=1,181).

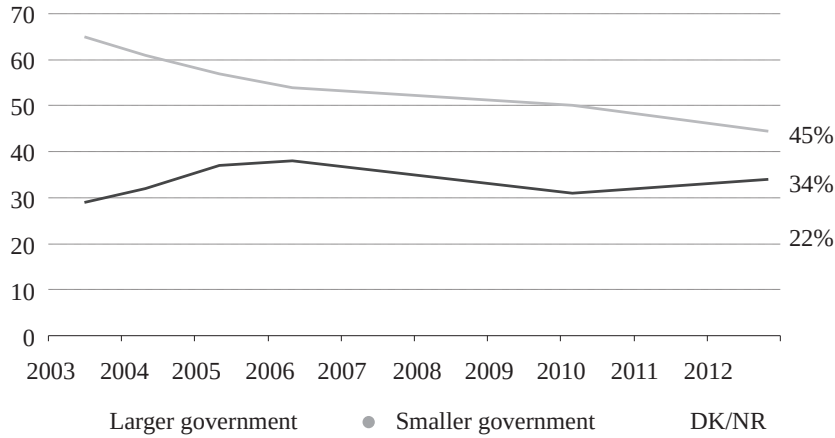
Source: EKOS Research Associates (2013b, 15).

to the older, core Conservative vote, they are next to meaningless to the groups mentioned above.

All of which lead to obvious questions. If Canada is abandoning (relatively) conservative values, then why is a politically successful conservative federal government in power? What is the relationship between a politically success-

Figure 16: Preferred Size of Government

Q. Generally speaking, which of the following would you say that you favour?



BASE: Canadians; most recent data point Novembert 20–29, 2012 (n=1,181).

Source: Graves (2013b, 36).

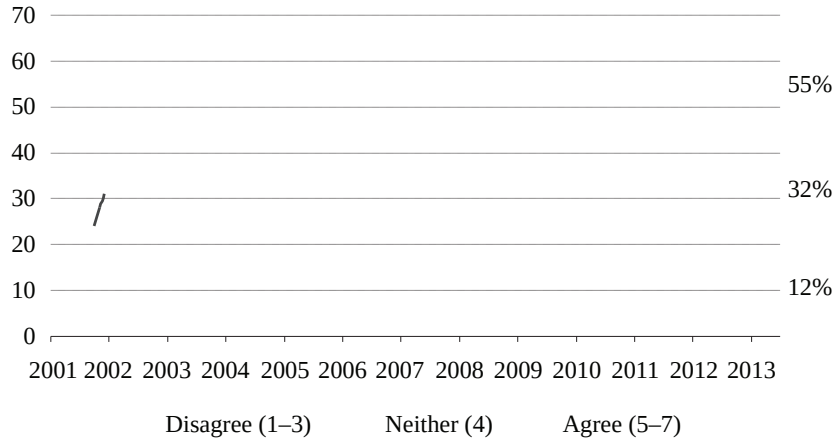
THE DEEP FEARS OF THE MIDDLE CLASS

EKOS þnds growing conÿict between a conservative gerontocracy and a progressive ònextó Canada ð a ònextó Canada seen to be disengaging from formal political participation and with a rising conviction that public institutions favour the old. There is, as noted earlier, a striking left-right split linked to educational attainment. And the relative salience of reason and knowledge versus moralism and certainty is contested terrain, with the rational-empirical view much more prevalent among younger and better-educated Canadians.

Aggravating these fractures are economic fears, fears of a generational decline, fears of an eroding middle class, fears that inequality is removing the middle rungs of the economic ladder, a growing resentment of the upper classes (unfamiliar language to describe Canadian society), fears of the eroding relative global positions of the European and US/Canadian economies, and a steady rise in pessimism for the future of the progress ethos ð the belief in inevitable social and economic betterment ð that has been the underpinning of the Canadian economy for at least as long as there has been a Canada. In sum, Canada has moved from the 9/11-inspired need-for-security decade (Figure 17) to the economic anxiety decade (Figures 18 and 19).

Figure 17: Additional Powers for Law Enforcement

Q. To what extent do you agree or disagree with the following statement: police and intelligence agencies should have more powers to ensure security even if it means Canadians have to give up some personal privacy safeguards?



BASE: Canadians; most recent data point April 30–May 2, 2013 (n=1,309).

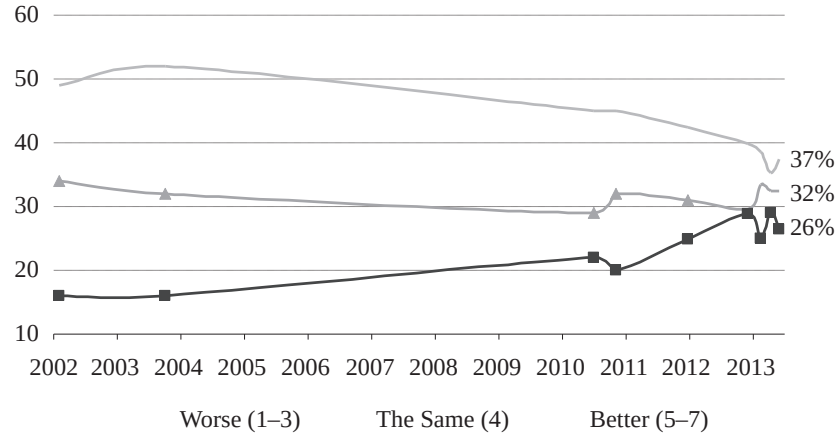
Source: Graves (2013a).

It presents a toxic combination: economic insecurity plus fractures over age, education, class, as well as urban/rural domicile and even gender. Moreover, at the root of Canadiansõ ð primarily middle-class Canadiansõ ð economic anxiety is the spectre of inequality. What kind of national society allows these discontents and disconnections and miseries to befall its citizens? The implications for public life in common and social cohesion and identity are not good.

Discussions of class structure and class tensions tend not to be top-of-the-head topics of conversation for Canadians. We are inclined to think of ourselves, however imperfect the notion, as a relatively classless society. Yet concerns with the òmiddle classó have now become a mainstay of politicians in Canada and the United States, similar to how òfamilyó only a few years back was the pitch-word programmed for political triumph. Beyond the bromides about the importance of a healthy middle class and about how middle-class people need to þnd their lives affordable and optimistic again, there are truly profound changes happening that are decidedly unhealthy and, taken together, may spell a deep rupture in the castle-in-the-air of perpetual progress that has underpinned liberal capitalism since it emerged in the eighteenth century.

Figure 18: Long-Term Personal Financial Outlook

Q. Thinking ahead over the next FIVE YEARS or so, do you think your personal financial situation will be better or worse than it is today?



BASE: Canadians; most recent data point May 22–26, 2013 (n=3,318).

Note: This study was conducted using Interactive Voice Response (IVR) technology, which allows respondents to enter their preferences by punching the keypad on their phone, rather than telling them to an operator. The þeld dates for this survey are May 22ð26, 2013. In total, a random sample of 3,318 Canadian adults aged 18 and over responded to the survey. The margin of error associated with the total sample is +/-1.7 percentage points, 19 times out of 20.

Source: Internal EKOS survey.

Despite pronouncements about the end of history, the death of state socialism, and the þnal triumph of free-market capitalism, all pervasive themes in the late nineties, there are now grave doubts about the present and future of the advanced western economies. The American and Canadian dreams of a better future extracted from hard work and ingenuity are fading and being replaced with a grimmer sense that not only are we not doing better than our parents but the next generation will confront a starkly darker future, and what meagre proþts do emanate from stagnant western economies are increasingly appropriated by a tiny cadre of ¿ber rich who donõt really participate in the mainstream of society.

Charles Beach (2013), Queenõs University emeritus professor of economics, writes:

> While the share of income of the poorest 20 percent of families has remained roughly the same since the late 1970s, between 1977 and 2010 the share of income of the middle 60 percent of families fell from 56.1 percent to 50.7 percent, or by about the

same amount as the income share of the top 20 percent has gone up. So the rising top income share has come at the expense of a falling middle class income share.

[In addition,] there has been a decline in economic mobility in Canada, resulting in receding opportunity to get ahead. Between the 1980s and the 1990s, the average probability of moving up or down in earnings classes over an eight-year period for male earners fell from 64.7 percent to 62.7 percent, and it fell for female earners from 59.9 percent to 58.4 percent. The probability of moving up across earnings classes also fell for both men and women. Evidence also suggests that it is getting harder for

In the United States, it has been recognized that institutional precepts and investments favour the rich. In Canada, we havenõt gone as far down that road because our social institutions were put in place at a time of low inequality. But the warning signs are undeniably present. Inequality is real. Our labour market is becoming much more polarized. Our middle class faces higher and higher barriers to investing in their own future. Those are facts of which Canadian workers are starkly aware in the face of rather relentless efforts by Canadaõs mainstream media, right-wing think-tanks, and þnancial institutions to demonstrate otherwise. On its inequality scale, the Conference Board of Canada ranks Canada 12th of 17 peer countries ð meaning income inequality is higher in Canada than in 11 of its peers ð as measured by the standard Gini coefþcient (Laÿeur et al. 2013). Statistics Canada reports that the median earnings of full-time Canadian workers rose to $41,401 in 2005 from $41,348 in 1980 ð an increase of $53 over 25 years or about $1 a week measured in constant dollars. In that period, the incomes of the richest Canadians increased by 16.4 percent while incomes of the poorest fell by 20.6 percent, meaning the incomes of the middle class either stagnated or went down (Valpy 2008). Meanwhile, personal income tax levels and capital gains and corporate tax levels are all dramatically lower today than they were 40 years ago (Cadesky and Weissman 2013), and the proportion of unemployed Canadians receiving jobless beneþts is lower today than it was in 1945 (M ъ n 194

in comparable jobs. Psychiatrist Kwame McKenzie, a senior scientist at Torontoõs Centre for Addiction and Mental Health, says that immigrants, when they arrive in Canada, are healthier on average than native-born Canadians; seven years later they are unhealthier, primarily because of the stresses that envelope them as they try to þt into Canadaõs labour force and culture (Goar 2013, A11; Valpy 2013).

þnal point, the *Financial Times* reported in 2010 that òsome of the brightest minds at Moodyõs rating agency have been mulling a fascinating question.ó Should they introduce a formal rating of òsocial cohesionó into sovereign debt indices, when they judge whether a government is likely to default on its debt or not? òSo far,ó said the *Financial Times*, òneither Moodyõs nor any other agency has actually done this. But the discussion points to a fundamental issue that will hang over bond markets this decadeó (Tett 2010, 20). In fact, a Canadian academic expert on the global rating agencies, speaking on condition of conþdentiality because of the nature of his research work, has told the authors of this chapter that Moodyõs does indeed use a social cohesion indice in determining sovereign debt ratings (interview, July 10, 2013).

AGE FRACTURE, SOCIAL MEDIA, AND THE EMERGENT GERONTOCRACY

We turn now to the greying of Canada and why growing youth disengagement from the countryõs formal democracy could not be more poorly timed against this demographic backdrop.

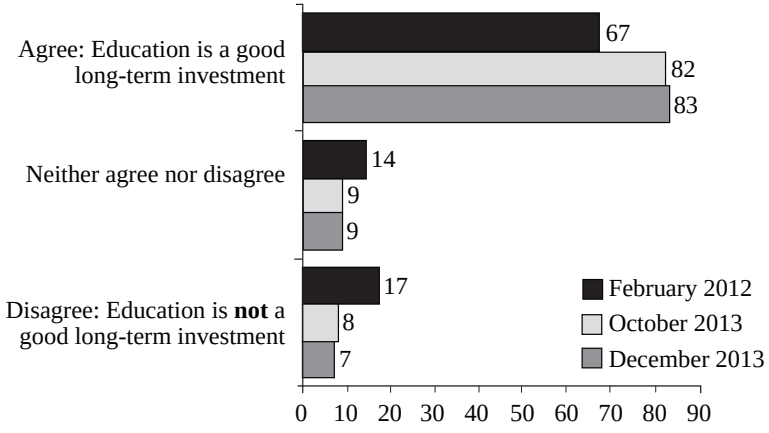
Canadian society has never been older. The more apocalyptical grey tsunami-to-come scenarios are no doubt exaggerated, yet there is something disturbing about the new generational fault lines in both the economic and, even more vividly, the political realms.

Beginning þrst with youth unemployment, the Conference Board of Canada (Laÿeur et al. 2013) ranks Canada no better than ninth out of 16 peer countries, with joblessness among young people (ages 20ð24 not in employment, education, or training [NEET]) at almost 14 percent, double the national average. Youth unemployment has not budged since the 2008 recession ð the most severe recession since the 1930s ð and virtually no federal government programs have been created to target youth joblessness. Young Canadians have tried hard to adjust to the labour markem я я я я st ɹ p· e я Ƭe a stɻ ľ r - m

Canadaõs Gen Y student cohort þnds itself increasingly with only one means ð borrowing ð to move up the social-class rungs. They are weakening in their belief that post-secondary human capital is worth the ever-mounting debt associated with its achievement (Figure 20). Canadian employers are not giving them the crucial work experience needed to make them appealing for full-time employment, with the result that what skills they do have are in danger of atrophying the longer they go without work. Canada trails most peer countries in spending on active labour market programs such as training and skills development. The Conference Board reports that Canada has not improved its ranking on absorbing young people into the labour market for over three decades (Laÿeur et al. 2013). Canada facilitates the training of far fewer skilled-trades workers than the economy requires. In 2010, only 6 percent of upper secondary students were enrolled in vocational or prevocational programs, the lowest rate among peer countries from which data are available; in nine peer countries, more than half of upper secondary students were in vocational

Figure 20: Benefts of a University Education

Q. Please rate the extent to which you agree or disagree with the following statement: "The cost of a university education is a good, long-term investment for today's young people."



BASE: Canadians; most recent data point February 21–28, 2012 (n=3,699).

Note: This online-only study was conducted using EKOSõs research panel, Prob*it*. The þeld dates for this survey are July 16ð23, 2014. In total, 2,891 Canadians aged 18 and over responded to the survey. The margin of error associated with the total sample is +/-1.8 percentage points, 19 times out of 20.

Source: Internal EKOS survey.

programs (Laÿeur et al. 2013). Meanwhile, Canadian businesses press government to allow skilled trades workers into the country who have been trained elsewhere, thus sparing Canada the cost.

Across the Atlantic, there are warning signs on what failing to absorb young people into the labour market can mean. Thirteen of the European Unionõs 27 member states have youth unemployment above 25 percent. The Brussels-based think-tank Bruegel says youth unemployment could reverse Europeõs slow þnancial recovery, and the Roman Catholic global aid and development agency Caritas, in a February 2013 report, warned that eurozone countries are creating a huge class of poorly educated and poorly fed young people with low morale and few job prospects. òThis could be a recipe not just for one lost generation in Europe but for several lost generations,ó the agency said (quoted in Davenport 2013, A12).

Canadaõs millennials have such shining promise. They are much more ethnically diverse than older Canada. They grew up digitally. They are the þrst generation to have more women than men obtain post-secondary credentials. They have different attitudes to community, privacy, and authority than their older fellom rirjd ^ di

voter participation rate of younger Canadians. In the 1993 federal election, they participated slightly less than seniors at around 65 percent. Today their rate is about half that (38.8 percent of the population aged 18 to 24 voted in the May 2011 federal election) while senior voting has remained constant. Effectively, a younger voter has about one-third to one-quarter the impact today that she or he did 20 years ago. Throwing one þnal ingredient into the mixture, we note that while the senior vote tended in years past to be more or less evenly split between the Liberal and Conserv]

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We cannot push back the tides of technology and globalization, but in the age of the precarious workplace we can look at the Danish system of òÿexicurityó and see what Canada can borrow. We can þgure out a way of putting a ÿoor under wages so that we are not socially excluding people who cannot afford adequate accommodation, who canôt invest in family, who are young and canôt afford to live in the cities in which they grew up, who are newcomers to the country and have yet to become fully integrated into the economy.

We can examine our education system to see what recalibrations are required. More than a decade ago, the Dutch turned their school system upside down and placed their major resources into the vocational stream. In nine peer countries, more than half of secondary students are in vocational programs. The 6 percent þgure for Canada is self-evidently too low.

We can encourage intergenerational solidarity by widening the pathway for adequately trained young Canadians to enter the workforce and obtain digniþed jobs and by collectively guaranteeing digniþed support for older Canadians at the end of their active working lives.

Bernard Ostry (2005), the author of Pierre Trudeauõs multiculturalism policy, wrote just before his death in 2005 that multiculturalism was coming under increasing criticism and that Canadians no longer were sure where it was taking them. He

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