



CANADA WATCH

Practical and Authoritative Analysis of Key National Issues

THE PCs AS THE PARTY OF CHANGE?

by *Kenneth McRoberts*

If one thing is clear about the contemporary political scene, it's that the electorate wants change. Canadians are profoundly dissatisfied with the state of the economy, the GST, and just about everything else for which they can hold the federal government responsible. They feel disenfranchised and unable to influence the making of government policy. And, of course, they have an especially high level of animus for the current prime minister.

It's hard to identify an instance in which a government has been more roundly rejected by the electorate both for its policies and the personal qualities of its leadership. The federal PCs seem to constitute a textbook example of a party whose standing in the polls guarantees that it will be thrown out of office at the first electoral opportunity.

Yet there is a distinct possibility that things won't turn out that way. Although voters clearly want change, they may well wonder whether any of the opposition parties can provide it. For one reason or another, they may find each of them to be lacking. Ironically, it could be the PCs who, with a new leader, will be best able to project the image, if not the reality, of change.

The primary liability of the Liberals is, of course, a leader who has been part of the federal political scene for 30 years now — almost twice as long as the combined ca-

reers of the other two party leaders. Given his tenure in so many Cabinet portfolios during the Trudeau years, Jean Chrétien may have difficulty convincing voters that he is the solution to Canada's problems rather than a major past contributor to them. Nor does his discourse credibly offer new ideas and fresh approaches.

For its part, the NDP should be much better placed to present itself as the agent of change. Not only is its leader relatively new to federal politics, and for that matter the first woman to lead a federal party, but the party has a long and distinguished history of articulating an alternative political vision, rooted in a distinct set of principles. The NDP, and its CCF forebear, has been the quintessential party of change.

Yet the contemporary NDP seems to be determined to disassociate itself from this tradition. For several years now it has been trying to project the image of a more humane but clearly moderate alternative to the old-line parties. The federal NDP has even taken the step of hiring an economic consulting firm to certify the fiscal responsibility of its proposals.

Moreover, we are now being treated to the spectacle of provincial NDP governments whose determination to cut spending and downscale the state rivals, if not exceeds, that of the old-line parties. This is especially true with the Ontario NDP government that, in its futile effort to secure the

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Guy Laforest's *Quebec Report* will return in the next issue of *Canada Watch*.

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toleration (if not the approval) of business, has at times seemed remarkably pro-business. Now it is preparing an assault on compensation in the public sector, broadly defined, which in its threats of wage rollbacks and layoffs, evokes the campaign that the Parti québécois government waged in the early 1980s. Just as happened with the Lévesque government, the Rae government seems headed for a confrontation with one of its most clearly defined electoral constituencies: teachers and other public sector workers. In the eyes of many Quebeckers, the early 1980s episode compromised forever the PQ's credentials as a party of "social democratic" change.

Even the Reform party has apparently lost some of its credibility as an instrument of change. For a time, the party seemed to be riding on the groundswell of popular desire for change. A new party that had not been sullied by holding office, it offered both a new political leadership and whole host of clearly defined alternative policies. Yet, by many accounts, the Reform party has already become "just another party" in the eyes of many Canadians, including western Canadians. During its campaign against the Charlottetown Accord, which the Reform party spearheaded, both party literature and Preston Man-

ning himself were too quick to label the agreement "the Mulroney Deal." By making partisan attacks, Reform lost its status as a "movement."

Thus, ironically, the party that is best able to present itself as a party of change may in fact be the one in power — simply because alone


"Thus, ironically, the party that is best able to present itself as a party of change may in fact be the one in power — simply because alone among all the parties it will enter the next election campaign with a newly minted leader."

among all the parties it will enter the next election campaign with a newly minted leader. The most likely PC leader, Kim Campbell, would indeed be "new" in a good number of respects. Not only has she been on the federal political change for a short period of time, she comes from a region that has never produced a leader of a major federal party. Equally important, she projects a capacity for independent thought and a readiness to entertain new solutions to old problems.

In the end, however, this still might not be enough to save the PCs. Appointing a new leader with

many of these same characteristics, Audrey MacLaughlin, didn't enable the NDP to make a breakthrough in the polls. And a change in leader alone is certainly no guarantee to voters that a new PC government would be significantly different from the present one. We have no clear sense whether and in what direction Campbell would want to change the government's way of doing things. Nor do we have any reason to believe that if she did have an agenda of change Campbell would be able to impose it on both the party and the government. The idea of the Tories as the party of change may be a bit too much for many people to swallow — other than Tory party strategists who, of course, are seeking precisely the opposite of change.

Nonetheless, it does raise an intriguing and ironic prospect: the party that has held office for nine years, engendering profound public wrath in the process, manages to beat the opposition parties at their own game. The fact that this is even a possibility speaks volumes about the quality of democracy in Canada.

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CAMPBELL CAKEWALK MAY BE SIGN OF TROUBLE IN FALL ELECTION

Effort to recruit new contenders suggests Tory anxiety at lack of leadership horse race

by Patrick J. Monahan

The biggest headache for Kim Campbell these days appears to be whether her already overloaded bandwagon can support the weight of the many latecomers who are still trying to jump on board. Even with Environment Minister Jean Charest making up some ground in the first leadership debate, Campbells's overwhelming early lead and organizational superiority suggest that she is headed for a first ballot win on June 13.

The question is whether the absence of a leadership horse race is likely to make a difference to Campbell's prospects in the general election that must be called before the end of the year.

A number of political observers have suggested that the uncompetitive nature of the leadership race will damage the party's prospects in the fall. One theory is that Campbell's over-

whelming early lead will cause the media to lose interest in the campaign and deprive the new prime minister of the attention that might propel her to a electoral victory over Jean Chrétien in the fall. Others suggest that the lack of a leadership fight will create the impression that the process is somehow tainted—that Campbell was selected by party heavyweights meeting behind closed doors on Parliament Hill, rather than by the "grass roots" on the leadership convention floor.

The widely reported efforts to draft Hugh Segal into the leadership race indicate that many Tories must be very disturbed indeed at the extent of Campbell's early lead. The 42-year-old Segal, the PM's chief of staff for the past 15 months, has a well-deserved reputation in Tory circles as a skilled and shrewd political adviser. But selling a party

insider like Segal to the Canadian public (as opposed to the Tory party brass) would have been a different matter entirely. Segal has never held political office (he ran twice, unsuccessfully, in an Ottawa riding in the early 1970s) and is closely associated with the outgoing prime minister. His candidacy would have been a long shot, at best—a conclusion that Segal himself arrived at after a few days of reflection.

DOES A HORSE RACE MAKE A DIFFERENCE?

What about the assumption that appears to underlie these recent efforts—the idea that an uncompetitive leadership contest will hurt the Tories' electoral chances in the fall election?

One way of testing this assumption is to examine past experience:

Table 1 — Selected National Leadership Conventions 1945-1993

| Convention | Winner | Ballots | Winner's Position/% on Ballot 1 | Winner's % on Final Ballot | Next Election | Result |
|-----------------------------------|-------------|---------|------------------------------------|-------------------------------|-------------------|--------------------------|
| Liberal August 7, 1948 | St. Laurent | 1 | 1/69.1 | — | June 27, 1949 | Liberal Majority |
| Conservative October 2, 1948 | Drew | 1 | 1/66.6 | — | June 27, 1949 | Liberal Majority |
| Conservative December 14, 1956 | Diefenbaker | 1 | 1/60.3 | — | June 8, 1957 | Conservative Minority |
| Liberal January 16, 1958 | Pearson | 1 | 1/77.9 | — | March 31, 1958 | Conservative Majority |
| Conservative September 9, 1967 | Stanfield | 5 | 1/23 | 54 | June 25, 1968 | Liberal Majority |
| Liberal April 6, 1968 | Trudeau | 4 | 1/31.8 | 52.3 | June 25, 1968 | Liberal Majority |
| Conservative February 22, 1976 | Clark | 4 | 3/12.3 | 51.4 | May 22, 1979 | Conservative Minority |
| Conservative June 11, 1983 | Mulroney | 4 | 2/29.3 | 54.5 | September 4, 1984 | Conservative Majority |
| Liberal June 16, 1984 | Turner | 2 | 1/46.4 | 54.4 | September 4, 1984 | Conservative Majority |
| Liberal June 23, 1990 | Chrétien | 1 | 1/57 | — | N/A | N/A |

is there any established relationship between the competitiveness of a leadership convention and the party's subsequent electoral fate?

The data presented in tables 1 and 2 suggest that there may well be some real connection between com-

petitiveness in leadership selection and later electoral success.

Table 1 records the results of national leadership conventions involving the governing party or the official opposition since 1945. It shows that national leadership con-

ventions for the major parties have tended to become more competitive over time: whereas all four contests in the 1940s and '50s were decided on the first ballot, five of the six held since 1960 required two or more ballots.

Table 2 — Provincial Leadership Conventions Electing First Ministers 1961-1993

| Convention | Winner | Ballots | Winner's Position/% on Ballot 1 | Winner's % on Final Ballot | Next Election | Result |
|---|-----------------------|---------|---------------------------------|----------------------------|--------------------|------------------------|
| Conservative [Ont.] January 25, 1961 | John Robarts | 6 | 2/20.3 | 60.7 | September 25, 1963 | Conservative Majority |
| NDP [Sask.] November 2, 1961 | Woodrow Lloyd | 1 | 1/79.6 | — | April 22, 1964 | Liberal Majority |
| Conservative [N.S.] November 4, 1967 | G.I. Smith | N/A | Acclaimed | — | October 13, 1970 | Liberal Majority |
| Conservative [Man.] November 25, 1967 | Walter Weir | 3 | 1/35.8 | 60.5 | June 25, 1969 | NDP Majority |
| Social Credit [Alta.] December 6, 1968 | Harry Strom | 2 | 1/48.7 | 54.9 | August 20, 1971 | Conservative Majority |
| Un Nationale [P.Q.] June 21, 1969 | Jean-Jacques Bertrand | 1 | 1/58.0 | — | April 29, 1970 | Liberal Majority |
| Liberal [Nfld.] November 1, 1969 | Joey Smallwood | 1 | 1/62.4 | — | October 28, 1971 | Conservative Majority |
| Conservative [Ont.] February 12, 1971 | Bill Davis | 4 | 1/33.1 | 51.4 | October 24, 1971 | Conservative Majority |
| Liberal [P.E.I.] December 9, 1978 | Bennett Campbell | 1 | 1/71.6 | — | April 23, 1979 | Conservative Majority |
| Conservative [Nfld.] March 17, 1979 | Brian Peckford | 3 | 1/31.4 | 53.5 | June 18, 1979 | Conservative Majority |
| Conservative [P.E.I.] November 7, 1981 | Jim Lee | 3 | 1/39.7 | 56.1 | September 27, 1982 | Conservative Majority |
| Conservative [Ont.] February 27, 1985 | Frank Miller | 3 | 1/35.0 | 52.3 | May 2, 1985 | Liberal Minority |
| Conservative [Alta.] October 13, 1985 | Don Getty | 2 | 1/48.4 | 56.2 | May 8, 1986 | Conservative Majority |
| Parti québécois [P.Q.] September 29, 1985 | Pierre-Marc Johnson | 1 | 1/59.4 | — | December 2, 1985 | Liberal Majority |
| Social Credit [B.C.] July 30, 1986 | Bill Vander Zalm | 4 | 1/28.4 | 63.8 | October 22, 1986 | Social Credit Majority |
| NDP [Man.] March 30, 1988 | Gary Doer | 3 | 1/37.9 | 50.6 | April 26, 1988 | Conservative Minority |
| Conservative [Nfld.] March 11, 1989 | Tom Rideout | 3 | 1/39.7 | 51.7 | April 20, 1989 | Liberal Majority |
| Conservative [N.S.] February 9, 1991 | Donald Cameron | 3 | 1/32.1 | 53.2 | N/A | — |
| Social Credit [B.C.] July 20, 1991 | Rita Johnston | 2 | 2/35.3 | 51.6 | October 17, 1991 | NDP Majority |
| Conservative [Alta.] November 29, 1992 & December 5, 1992 | Ralph Klein | 2 | 2/31 | 59.1 | N/A | — |
| Liberal [P.E.I.] January 23, 1993 | Catherine Callbeck | 1 | 1/79.1 | — | March 29, 1993 | Liberal Majority |

Table 3 — Prime Ministers/Premiers Selected by Party Conventions, 1961-1993: Electoral Success

| | First Ballot Winners | Multiple Ballot Winners | Total |
|---|----------------------|-------------------------|-------|
| Prime Ministers/Premiers Selected by Convention | 7 | 16 | 23 |
| Fought Subsequent Election | 7 | 14 | 21 |
| Won Subsequent Election | 1 | 7 | 8 |

Source for all three tables and bar graph: *Canada Watch* staff.

Convention Winners' Success Rates in Next Election

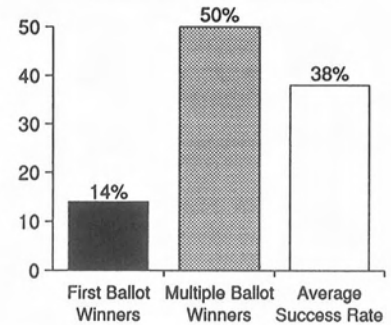


Table 1 underlines the fact that what is happening in the current Tory race is quite remarkable, given the experience of the past 30 years. Whereas national party leadership contests have tended to become more competitive and contested, Campbell appears to have virtually sewn up the leadership before a single delegate has even been selected.

"The widely reported efforts to draft Hugh Segal into the leadership race indicate that many Tories must be very disturbed indeed at the extent of Campbell's early lead."

At the same time, because we have had almost no single-ballot winners in the past 30 years, this evidence seems insufficient as a basis for gauging the possible significance of a first ballot victory. Moreover, there have been only two national party conventions since 1961 (Liberals in 1968 and 1984) that chose the prime minister and that could be considered directly comparable to the current Tory contest.

Table 2 broadens the sample to include the most directly comparable provincial conventions held since 1961 — the 21 conventions in which governing parties were choosing the province's first minister. In total, then, there have been a combined 23

conventions since 1961 (2 federal and 21 provincial) in which governing parties chose either a prime minister or a premier.

This sample of 23 conventions does seem to suggest a link between the competitiveness of the leadership race and the party's subsequent electoral success.

The first point to observe is that first ministers chosen by party conventions do not appear to fare particularly well in subsequent elections, regardless of how competitive the party selection process is. As table 3 illustrates, of the 23 first ministers chosen in this way, 21 have subsequently faced the electorate, but only 8 of the 21 (Trudeau, Robarts, Davis, Peckford, Lee, Getty, Vander Zalm, and Callbeck) managed to form a government following the next election.

Table 3 also indicates an apparent connection between the competitiveness of the party contest and subsequent electoral success. Of the eight first ministers who went on to victory in subsequent elections, seven were chosen in conventions that went to two or more ballots. In total, there were 14 first ministers who required more than one ballot to secure the leadership and have gone on to fight an election. (Premiers Cameron and Klein have yet to face the electorate.) Thus, first ministers chosen in multiple ballot

contests have a 50 percent "success rate" in subsequent elections.

Conversely, the subsequent election record of first ministers who won first ballot victories at party conventions is positively dismal. Of the seven first ministers who secured a first ballot win, six of them went on to lose the next election. In fact, until

"... the subsequent election record of first ministers who won first ballot victories at party conventions is positively dismal. Of the seven first ministers who secured a first ballot win, six of them went on to lose the next election."

Catherine Callbeck's recent win in P.E.I., not a single first minister who won on the first ballot since 1961 went on to win the next election.

THE MEANING FOR CAMPBELL

This evidence does suggest that there is some relationship between the competitiveness of party conventions (at least when the party is in government) and subsequent electoral success. But the evidence considered above doesn't tell us the *reason* for this demonstrated connection.


One possible explanation is that the competitiveness of a leadership race is merely a reflection of other factors, including the party's pre-exist-

ing popularity. It stands to reason that a governing party that is seen as likely to win the next election will attract more leadership hopefuls than one that faces probable defeat. Thus, those parties with hotly contested leadership races tend to do well simply because those are the very parties whose electoral prospects were the brightest to begin with.

What does all this suggest for Kim Campbell? On the one hand, there is clear evidence to suggest

that first ministers who take office without a tough fight are likely to be relegated to the opposition benches come the next consultation with the voters. On this view, a first ballot cakewalk for Campbell may be a sign of electoral disaster lurking over the horizon. On the other hand, the current Tory race seems to have already contradicted the historical trend toward more competitive national leadership contests. A Campbell first ballot victory in June,

followed by a successful fall election campaign, would certainly defy the historical record. But it would also confirm the almost unprecedented character of the Campbell phenomenon that has emerged in the spring of 1993.

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AN EQUITABLE AND EFFICIENT DEFICIT REDUCTION STRATEGY

Questionable Tax Breaks Cost Ottawa Over \$5 Billion Annually

by Neil Brooks

Canada has a deficit crisis. The need to cut government spending is urgent. Everyone must be prepared to sacrifice for the good of the country. Although this is the central message that business interests and others have been pressing on the federal government for the last decade, this year (for no apparent economic reason) deficit hysteria appears to have reached new heights.

When business interests talk about the need to cut back on government spending, they invariably have in mind the social programs that benefit, by and large, low-income families and the middle class. Occasionally, they will also renounce public subsidies for business; however, here they usually have in mind the direct subsidies that benefit farmers, regional development, and the development of some natural resources. These subsidies tend to benefit groups that are not well represented in the powerful national business organizations. Moreover, arguably some of them further national goals.

Somewhat surprisingly, in their zeal to end wasteful government spending to reduce the deficit, business interests always seem to over-

look a large number of subsidies that benefit them almost exclusively, serve no national goals, are incredibly cost-inefficient, and cost the government billions of dollars a year.

It is now well recognized by most public policy analysts that the *Income Tax Act* contains numerous spending programs that benefit big business and their owners. The repeal of even a small number of these programs would save the government billions of dollars and at the same time increase fiscal equity and further economic prosperity.

CAPITAL GAINS

The most inequitable and inefficient subsidies in the *Income Tax Act* are those that provide preferential tax treatment to taxpayers who realize capital gains: taxpayers can realize \$100,000 of capital gains tax free over their lifetimes, and only 75 percent of gains over this amount have to be included in their income for tax purposes.

From 1985 to 1990, the average annual amount of capital gains reported by individuals was \$11.7 billion and by corporations \$10.8 billion. The average annual cost to

the federal and provincial governments for the subsidy inherent in the \$100,000 lifetime exemption alone was between \$2.5 and \$3.0 billion. Well over 50 percent of this subsidy went to the richest 1 percent of Canadians.

The principal argument the Conservative government advanced in 1985 for providing an additional subsidy for investors who realized capital gains was that it would encourage investment. This claim is ridiculous. Almost all capital gains are earned on the sale of real estate and financial assets. The investment behaviour that matters for the economic growth of the nation is investment in assets that will enhance productivity — plant and equipment, research and development, and the training and education of workers. The subsidy does almost nothing to encourage this type of investment.

Even more ludicrous was the government's claim that a subsidy for capital gains would spur venture capital activity. Venture capital represents a minute fraction of the assets that would typically qualify for capital gains treatment — less than 1 percent, according to a U.S. study. Thus, this

subsidy to encourage risk taking is not only viciously regressive but also absurdly inefficient.

THE DIVIDEND TAX CREDIT

Shareholders who receive dividends from Canadian corporations can claim a dividend tax credit. This reduces their income tax payable on dividend income by about one-third. In 1989, this subsidy for shareholders cost the federal government alone about \$655 million. One-fifth of 1 percent of tax filers, those earning over \$250,000, received over 20 percent of this subsidy.

The government introduced this subsidy for Canadians investors mainly to reduce the cost of equity

"... the government could both increase the prosperity of the Canadian economy and further the goal of social justice while at the same time reducing the deficit, if that were its real agenda."

capital for Canadian firms. But, in a small economy such as Canada's, in which foreigners can freely invest, and in which many large investors such as pension funds are tax-exempt, attempting to increase share prices by giving a tax break to individual Canadian investors is futile. If share prices do increase because of the dividend tax credit, foreign shareholders and tax-exempt institutions are likely to withdraw funds from this market. The overall effect on the price of Canadian equity securities might well be negative.

FAST WRITEOFFS

In its 1987 tax reforms, the Conservative government reduced some subsidies for corporate capital investment. But several rates at which corporations are allowed to depreciate capital investments remain too generous. And in its 1992 budget,

when the government was cutting back on direct spending programs, it increased the capital cost allowance for some equipment from 25 to 30 percent. Over a five-year period, the cost of the increase alone in this subsidy was estimated to be \$730 million.

By allowing corporations to write off their assets for tax purposes faster than they are in fact depreciating, the government provides firms with, in effect, an interest-free, non-collateral, non-recourse loan in the amount of the taxes they can thus defer. By 1988-89 Canadian corporations had been able to defer over \$37 billion in taxes largely because of fast writeoffs. In that fiscal year they deferred an additional \$2 billion. Although in theory these taxes are only postponed, studies show they are unlikely ever to be repaid.

BUSINESS MEALS AND ENTERTAINMENT

Business people, including self-employed professionals, can deduct 80 percent of the costs of their "business" meals and entertainment. Yet the personal benefits from meals and entertainment are likely the same whether they are incurred in a business context or not. When almost 400,000 Canadians, including 150,000 children, are dependent on food banks for survival, this \$1 billion subsidy for business meals and entertainment represents an outrageous perversion of collective morality.

In addition, like all these tax subsidies, this subsidy is not only inequitable, it creates economic inefficiencies. If the subsidy were repealed, Canada might have fewer workers waiting on and entertaining business people. But, since businesses would presumably continue to spend their gross revenues on activities designed to increase their profits, more workers would likely be engaged in productive activities

— maybe even doing research and development.

BUSINESS LOBBYING AND POLITICAL ACTIVITIES

Businesses spend hundreds of millions of dollars every year lobbying governments for favourable treatment. A special rule inserted in the tax act in the early 1960s allows these expenses to be deducted. The result of this tax rule is that the public is forced to subsidize the efforts of businesses — and business groups like the Business Council on National Issues — to influence the political process, but not groups representing other points of view. This subsidy results in an obvious distortion in the public policy process.

ADVERTISING

When businesses invest in advertising as opposed to physical property, they receive the most generous

"... when the government assists its largest corporations with billions of dollars of tax breaks, the commitment to protect the rest of us from 'waste, fraud and abuse' — so piously expressed when directed at the poor — suddenly vanishes. It is impossible to determine which corporations benefited from particular tax expenditures ..."

tax treatment — an immediate write-off. The correct tax policy would require large companies to deduct some of their advertising expenses over several years since some of it clearly contributes to brand recognition and product acceptance that may last for many years.

The brief descriptions of these tax subsidies are meant simply to illustrate how the government could both increase the prosperity of the Canadian economy and further the goal of social justice while at the

same time reducing the deficit, if that were its real agenda. But two further points about tax subsidies might be noted.

To protect taxpayers from "waste, fraud and abuse," when the government provides aid to its poorest citizens it creates extensive sets of rules and regulations requiring the poor to disclose even the most intimate details of their personal lives in exchange for government assistance. Yet when the government assists its largest corporations with billions of dollars of tax breaks, the commitment to protect the rest of us from "waste, fraud and abuse" — so piously ex-

pressed when directed at the poor — suddenly vanishes. It is impossible to determine which corporations benefited from particular tax expenditures, let alone how much additional employment or other economic benefit we might have received as a result of providing them with these hand-outs. In fact the government does not even publish the cost of these business tax spending programs.

Business interests sometimes argue that repealing these subsidies would amount to tax increases on business, not spending cuts. But of course that is nonsense. Cutting these programs is no more a tax increase

than cutting direct farm subsidies is a tax increase for farmers, or cutting unemployment insurance is a tax increase for unemployed people. These subsidies just happen to be delivered indirectly by allowing the recipients to offset them against their tax liability, but otherwise they are absolutely equivalent to direct spending programs. Collectively, these subsidies are costing the federal treasury well over \$5 billion annually.

Neil Brooks is Professor of Law and the Associate Dean at Osgoode Hall Law School.



DEFICITS AND DEBTS: REDEFINING THE COUNTRY AND THE POLICY AGENDA

Managing the Transition to a New Fiscal Federalism Poses Big Challenge for Ottawa

by Donald J. Savoie

The ties that bind Canada may be varied but there is one that has been prominent for the past 35 years — that is, federal transfer payments. To be sure, some politicians of the day saw those payments as the underpinnings of a caring society and as an investment in Canada's mutual insurance policy. However, there is no denying that it was also the price the centre had to pay to develop and protect Canada's industrial heartland.

Government deficits and debts, together with the requirements of the global economy, are now playing havoc with our mutual insurance policy. As each region becomes inserted differently into the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. The result is that the economic well-being of each Canadian region will depend less and less on that of the others. These developments alone are push-

ing the industrial heartland to hang question marks alongside a number of federal transfer programs both to regions and to individuals. Why should it continue to support transfer programs to regions that are no

"People in British Columbia will be asking why they should continue to finance equalization payments to keep universities, hospitals and schools in Newfoundland or Nova Scotia open while they have to close some of their own."

longer captive markets for its manufactured goods?

The global economy is also imposing a new discipline on how governments manage their finances. It is no longer possible to have an expenditure budget or a government debt completely out of sync with those of other nations. The size of the public debt, the efficiency of tax systems,

and the level of taxation and interest rates determine in part a country's ability to play on a world stage and its economy to be competitive.

The point here is that the global economy would threaten Canada's mutual insurance policy even if the federal treasury and those of the wealthier provinces were relatively healthy. Such is not the case. Ottawa's fiscal problems are well documented: the ratio of the federal debt to GDP has risen from a post-war low of 20 percent to well over 50 percent. Despite significant tax increases, the introduction of new taxes and the promise of a "balanced budget," Ottawa's annual deficit remains at over \$30 billion a year, as it has for the past eight years or so. The cost of servicing the federal debt now accounts for about 40 percent of all the revenues Ottawa takes in every year.

Until a few years ago, this was essentially an Ottawa problem. It no longer is. All provincial governments, including those from the tra-

KIM CAMPBELL: THE PIERRE TRUDEAU OF WESTERN CANADA

by Roger Gibbins

At a Montreal campaign meeting on March 26, Progressive Conservative leadership candidate Kim Campbell drew attention to the strong sense of western alienation she feels as a British Columbian and suggested that she could, as a consequence, understand the sovereignty aspirations of Quebeckers.

Campbell's statement is interesting in several respects. First, it implies her intent to maintain the bridge that Brian Mulroney built between Quebec nationalism and western alienation, a bridge that played an important role in his success. Forget for the moment that Quebec nationalists and alienated westerners coexist in considerable tension, that the latter draw a good deal of their anger from the former, and that the former are at best indifferent to the aspirations of the west. The fact remains that Mulroney held this unlikely coalition together through two very successful election campaigns and that Campbell stands a reasonable chance of doing so for a third.

In large part, Mulroney's success stemmed from his fidelity to nationalist aspirations in Quebec and the willingness of his western colleagues to stomach that fidelity in exchange for power. Campbell's long-term strategy, however, is likely to be more reminiscent of Pierre Trudeau than of Brian Mulroney.

AN ALIENATED WESTERNER?

This suggestion relates to the second interesting aspect of Campbell's Montreal speech and that was her

ditionally wealthier provinces, are looking at "fiscal nightmares" and "permanent deficits." The governments of Newfoundland, Saskatchewan, and Nova Scotia no longer have a choice — they have to introduce hardline budgets or risk losing the confidence of the financial markets. Even the governments of Ontario and Alberta have seen their deficits soar and their credit ratings drop. A growing number of provincial governments are calling for a "national" effort to get at the "fiscal crisis," with some now asking for a federal-provincial meeting to discuss the issue.

There is no denying that the challenges ahead for both the federal and the provincial governments will be

"Ontario may well be calling for a fundamental rethinking of Canadian fiscal federalism since both its unemployment rate and its debt as a percentage of gross provincial product are getting close to New Brunswick figures. The implications for a whole range of public policy issues are obvious."

particularly difficult. There is a widely held perception that the revenue side has been pretty well tapped to the limit. Indeed, there is some evidence that a tax revolt is underway with people turning to illegal means to avoid paying taxes — especially the GST.

Shaping Canada's mutual insurance policy was relatively easy. In Ottawa's attempt to attenuate the sting of economic misfortune, however, federal and provincial spending and even revenues became entangled with each other. In time, federal transfer payments of one kind or another became known as the "glue that holds the nation together."

Managing the disentanglement and cutting back federal transfer

payments will be another story and considerably more difficult. The transition to the new fiscal federalism will not only prove difficult to manage but will very likely overshadow many of the issues (such as a triple E Senate, special status, federal-provincial coordinating mechanisms) that have lately dominated the country's constitutional agenda. The likely elimination of thousands of public service jobs, the elimination of some services, and the closing down of schools, hospitals, and perhaps universities are potentially explosive issues. People would understand it in terms of their pocket books — and it could be a great deal easier to grasp than the finer points of constitutional principles.

Such developments are likely to fuel regional and provincial nationalism. People in British Columbia will be asking why they should continue to finance equalization payments to keep universities, hospitals, and schools in Newfoundland or Nova Scotia open while they have to close some of their own. Ontario has recently been asking for generous stabilization payments from Ottawa, knowing full well that the federal government can ill afford it. Indeed, Ontario may well be calling for a fundamental rethinking of Canadian fiscal federalism since both its unemployment rate and its debt as a percentage of gross provincial product are getting close to New Brunswick figures. The implications for a whole range of public policy issues are obvious. How, for example, do you redefine Canadian regional development policy when there are, at least on the fiscal side, no longer any "have" regions?

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attempt to paint herself as an alienated westerner. This portrait is not without some merit, for there is no doubt that British Columbians see themselves as a region, indeed, a world apart from their distant and less fortunate cousins sprawled across the interior land-mass lying to the east of the Rockies. Some of the province's chronic malaise will have rubbed off on Campbell, if only as a consequence of her brief life as a Social Credit MLA.

At a deeper level, however, Campbell is likely to be to western alienation what Pierre Trudeau was to Québécois nationalism. The cello-playing, bilingual (trilingual?) Campbell has little emotional connection with the street-level concerns that drive much of western alienation. She is not an outsider, she does not feel remote from the intellectual power centres of central Canada, and she does not buy into the machismo subtext of western alienation. Moreover, as she demonstrated during the referendum debate, she has a constitutional vision that has been more forged in the nationalist cauldron of Quebec than shaped by the rainforests of the west coast.

In this context it is also important to remember that British Columbia is not western Canada. BC politicians have traditionally had a difficult time coming to grips with political life on the prairies and there is little to suggest that Campbell's west coast life style has equipped her to deal with the symbolism and reality of prairie life.

TRANSFORMATIONAL POLITICS

Once the election campaign is behind her and the short-term advantages of being a regional champion have dissipated, Campbell is likely to bring the same level of empathy to chronic western Canadian discontent that Trudeau brought to the discontent of Quebec nationalists. Of course, she will work hard

in a pragmatic way for western interests, just as Trudeau certainly looked out for Quebec in the distribution of federal largesse. However, she is also likely to have little tolerance for the whining rhetoric of western alienation and will urge her western Canadian compatriots to join her in a new style of politics.

If this scenario is accurate (and if Campbell wins both her party's leadership and the upcoming federal election), she will have the capacity to transform western Canadian poli-

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MULRONEY'S STYLE LIKELY TO BE REJECTED


Campbell may bring the west fully into the mainstream of Canadian politics just as Pierre Trudeau brought Quebec into the Canadian

mainstream in the late 1960s. Like Trudeau, she is likely to benefit immensely from a secure regional base. At the same time, and also like Trudeau, she is likely to challenge rather than accept many of the shibboleths of regional politics. Mulroney played to the spirits of Québécois nationalism, Trudeau used them as a foil — and both succeeded. Given these two models of how she might approach western alienation, Campbell is more likely to follow the lead of Trudeau, with whom she has a clear intellectual affinity, rather than Mulroney.

Ironically, it is this very transformative potential that may strengthen Campbell's electoral appeal for many western Canadians mired in the monotony of regional conflict. For those who still see the resolution of such conflict as central to their political lives, they may still support Campbell as a regional champion just as Pierre Trudeau captured the Quebec nationalist vote in federal elections.

Roger Gibbins is Professor and Head, Department of Political Science, University of Calgary. *Western Report* is a regular feature of *Canada Watch*. 

QUEBEC REPORT

Guy Laforest's *Quebec Report* will return in the next issue of *Canada Watch*. 

LEGAL REPORT

EXPUNGING UNWELCOME POLITICAL TESTIMONY: A CULTURE OF CENSORSHIP?

by Jamie Cameron

THE ORDER TO EXPUNGE

Recently, a parliamentary committee conducting hearings on Bill C-113, which proposes changes to the *Unemployment Insurance Act*, voted to expunge the entire testimony of a witness. The witness, representing the International Association of Machinists and Aerospace Workers, had stated, "[w]e find it particularly despicable that anyone leaving a job is treated as an abuser of the system."

To that he had added, "[w]ell, the proportion of UI recipients cheating the system is less than the proportion of Tory MPs convicted of corruption." The vote to expunge followed the witness's refusal to withdraw that "one extremely inflammatory and accusatory statement about government members."

The next day a member of the committee raised a point of privilege in the House. *Beauchesne's* 6th edition, citation 109, states that "[w]itnesses before committees share the same privilege and freedom of speech as members." By silencing the witness, the member from Timmins Chapleau argued, the government majority on the committee had committed a breach of parliamentary privilege.

The speaker reserved decision on the point. By the time he ruled, a subsequent witness had read the expunged testimony back into the record, without incident. Expressing his reluctance to interfere in the proceedings of a committee, the

speaker ruled that the decision to erase a witness's testimony was within the committee's powers.

THE BROUHAHA

Stevie Cameron's column in *The Globe and Mail* described the incident as "a blow to freedom of speech in Canada." Later the same week, after lamenting that free speech is not a "living part of our political culture," a *Globe* editorial portrayed the decision to erase the union's brief as "an exercise in Stalinist historiography."

The Office of the Speaker responded with a letter that chided Cameron and *The Globe* for a "gross misrepresentation of the facts, of the role of the speaker, and of history."

"The committee's action against the witness was surely punitive. In the circumstances, one can certainly argue that respect for Parliament demanded protection of the privilege, not censorship."

A second published letter complained that, in her "crusade" to heap scorn on parliamentarians, Cameron failed to understand "the fundamental working of the House of Commons and its committees."

Most telling, perhaps, was a letter by Doug Fee, MP from Red Deer, Alberta and chair of the committee. As he explained, the issue was not one of censorship but "more appropriately" one of "respect."

RESPECT OR CENSORSHIP?

In the House, the Hon. Warren Allmand had spoken in support of MP Samson's request for a ruling on privilege. In Allmand's view, it would be "totally unparliamentary" if the House accepted a procedure that would allow a committee to expunge proceedings, whenever it "simply [does] not like the tone of debate or what is said."

In defence of his ruling, the speaker referred to a standing order that authorizes committees to choose to publish all or a portion of the evidence they receive. By necessary implication, he concluded, committees can likewise choose not to publish any of the evidence they hear. Subsequently, in its letter to *The Globe*, the Office of the Speaker maintained that parliamentary tradition does not permit the speaker to "comment on legal or political matters."

Moreover, Fee's letter to *The Globe* declared that the witness's remarks would have been ruled out of order in the House, not because "politicians can't handle hearing nasty remarks," but because "there should be respect for the institution of Parliament."

However, as Allmand had pointed out, the great bulk of the witness's testimony had been useful, and had made many telling points. If the committee truly was concerned about one remark, he said, that remark could have been expunged, leaving the rest of the testimony intact.

The committee's action against the witness was surely punitive. In the circumstances, one can certainly argue that respect for Parliament demanded protection of the privilege, not censorship.

Why, then, did the speaker rule against the claim? Committee matters normally come before the House through the presentation of a report. To permit disgruntled committee members to raise complaints in the House might undermine the committee system and waste Parliament's precious time. As one letter in *The Globe* suggested, conflicts in committee should be resolved in committee, "not in the House of Commons and not by fiat of the speaker acting alone."

Yet more was at stake than a partisan dispute about the work and operation of a committee. As MPs observed, witnesses before committees

enjoy the same privileges as members. If it is permissible for a majority of committee members to vote to strike testimony, it would be equally permissible for a majority in the House to strike unwelcome debate from *Hansard*. To them, the incident raised larger issues about the integrity of parliamentary debate.


FREEDOM OF EXPRESSION AND POLITICAL CULTURE

Last month, this column commented on the Supreme Court of Canada's decision, in rejecting camera access to the legislatures, that the *Charter* does not apply to Nova Scotia's Legislative Assembly (see "Cameras in the Legislature: Stran-

"... more was at stake than a partisan dispute about the work and operation of a committee. ... If it is permissible for a majority of committee members to vote to strike testimony, it would be equally permissible for a majority in the House to strike unwelcome debate from Hansard."

gers or Watchdogs?" (March 1993) 1 *Canada Watch* 89). There, McLachlin J. stated that the legislative branch must enjoy a certain autonomy, "absolutely and unconditionally," which even the Crown and courts cannot touch.

Neither the legislatures nor the courts have shown a willingness to protect expressive freedom in our representative institutions. Were it not for Stevie Cameron and *The Globe and Mail*, the public might still be unaware that a parliamentary committee succeeded in purging testimony from the public record.

Jamie Cameron is Associate Professor and Assistant Dean at Osgoode Hall Law School, York University. Legal Report is a regular feature of Canada Watch. 

CW UPDATE

THE MONTH IN REVIEW

by Jonathan Batty

CONSERVATIVE LEADERSHIP CAMPAIGN

Defence Minister Kim Campbell announced her candidacy in the race to succeed Prime Minister Brian Mulroney on March 26. Widely believed to be the front-runner, she was the fifth entry into the field. Jean Charest, the federal minister of the environment and only other Cabinet contender, announced his candidacy on March 16. MP Patrick Boyer was first to declare his candidacy on March 9. Halton-Peel MP Garth Turner declared on March 17 and Tory whip James Edwards declared on March 22. No other Cabinet ministers are expected to join the race.

Several ministers ruled out joining the race after exploring their chances, and concluding that Campbell was likely to win. These included Perrin Beatty, Thomas Hockin, Barbara McDougall, Otto Jelinek, Michael Wilson, Benoit Bouchard, Bernard Valcourt, and Don Mazankowski.

The decision of so many prominent Cabinet ministers not to run reflects a general assumption within the Conservative party that Campbell is the most likely to lead the party to re-election. A *Maclean's*/Compass survey conducted from March 1 to 4, of 450 delegates from the 1991 Conservative policy convention, revealed that Campbell was considered to have the best chances for electoral success by a very wide margin.

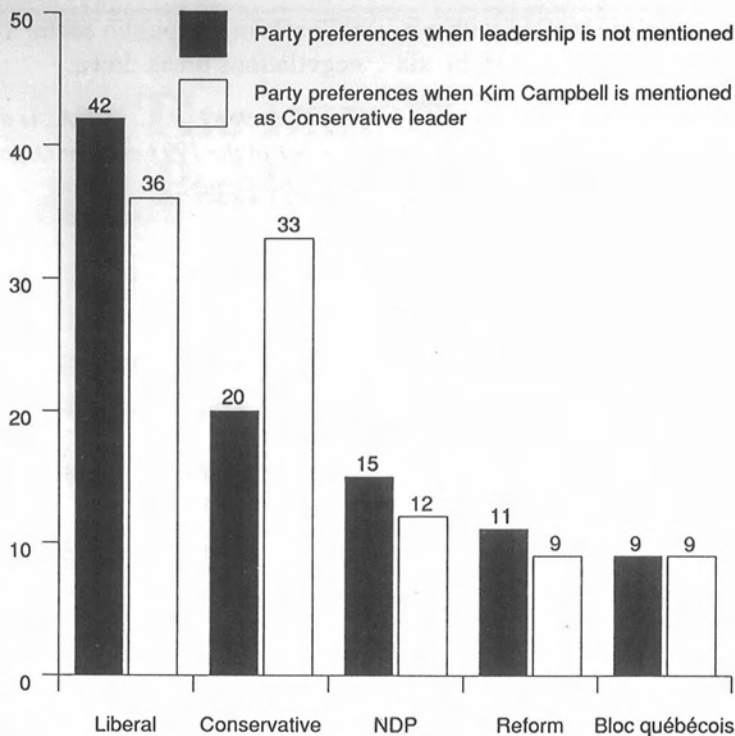
CONFLICTING NATIONAL OPINION POLL RESULTS

Recent opinion polls have suggested the Conservative party under Kim Campbell would challenge the Liberals in voter popularity and would stand an excellent chance of being re-elected. A *Globe and Mail* telephone survey of 1,439 voters, conducted by ComQuest from March 8 to 15, found that 45 percent of decided voters said they would vote for the Conservatives led by Campbell, compared with only 32 percent who would vote Liberal. The NDP received 9 percent, Reform 10 percent, and Bloc québécois 4 percent.

An Angus Reid/Southam News poll of 1,500 voters, from March 15 to 18, gave a Campbell-led Conservative party 43 percent support, with the Liberals trailing at 25 percent, the NDP at 11 percent, and Reform at 10 percent. In comparison, the Tories under Jean Charest garnered only 25 percent, compared with 35 percent for the Liberals and 15 percent for the NDP.

However, an Environics poll conducted between March 10 and 25 that involved in-house interviews with 1,988 voters showed the Liberals slightly ahead. According to Environics, the party standings are: Liberal 36 percent, Conservatives 33 percent, NDP 12 percent, Reform 9 percent, and Bloc québécois 9 percent.

It is noteworthy that the respondents in the polls were all specifically asked about their intentions in the event that Kim Campbell is chosen as prime minister and Conservative leader. When respondents were asked simply about their voting intentions without any reference to leadership, Conservative support was substantially lower. (See chart opposite.)



Source: Environics Research, March 10-25

PRINCE EDWARD ISLAND ELECTION

On March 29 Catherine Callbeck became the first woman in Canada to be elected premier of a province. The former federal MP succeeded Joe Ghiz as leader of the Liberal party of Prince Edward Island in January. Before the election, the Liberals held 30 of the 32 seats in the legislature. Callbeck's party won another majority by capturing 31 seats; the other seat was won by Conservative party leader Patricia Mella.

NEWFOUNDLAND ELECTION

Premier Clyde Wells announced that a provincial election will be held on May 3. The Wells government is seeking a second mandate. Premier Wells, whose majority government was elected in 1989, called for an election to win a mandate to curb contributions to the province's pension fund for teachers.

P.E.I. CAUSEWAY

On March 19, Madam Justice Barbara Reed of the Federal Court

of Canada handed down a decision that halted the federal Public Works Department's plan to build a causeway across the Northumberland Strait between New Brunswick and P.E.I. Justice Reed ruled that the project had violated federal environmental guidelines and was unconstitutional because it breached the terms under which P.E.I. had joined Confederation in 1873. On April 1, the federal government Public Works Minister Elmer MacKay announced the government would appeal the decision.

HARPER BECOMES LIBERAL CANDIDATE

Elijah Harper, a former Manitoba NDP MLA, will run for the Liberal party in the next federal election. Harper, nominated in the Manitoba riding of Churchill, gained national prominence in June 1990 for blocking the Manitoba Legislature from voting on the Meech Lake Accord before its deadline expired. Some observers argue that the nomination will hurt the chances of the federal

Liberal party, under Jean Chrétien, in Quebec.

NAFTA NEGOTIATIONS

Negotiations over so-called side deals to the North American free trade agreement (NAFTA) began in Washington on March 17. President Clinton, who supported the deal in principle during the presidential election campaign, has insisted that three "side deals" be negotiated on labour standards, environmental protection, and import surges. Import surges refer to a rapid increase in imports of goods from one nation to another, and is a matter already dealt with in the main agreement. Labour standards and environmental protection are seen as being more controversial because any harmonization of labour and environmental policies raises concerns, especially in Canada and Mexico, about undue interference in domestic policy. The deals are expected to be concluded by June, before national elections in both Canada and Mexico.

ONTARIO THRONE SPEECH PROMISES HIGHER TAXES AND REDUCED EXPENDITURES

The April 13 Ontario speech from the throne, which opened a new session of the Ontario Legislature, promised higher corporate and personal taxes as well as expenditure cuts. The speech promised immediate action to bring the provincial debt under control, which now stands at about \$60 billion. The government argues that if decisive measures are not taken now, the debt will balloon to \$120 billion by 1996, at which point nearly a quarter of government revenues would be required just to cover interest payments. The throne speech did not specify which expenditures were to be cut or which taxes raised; Treasurer Floyd Laughren's May budget is expected to provide those details.

The throne speech comes just days before the government opens negotiations with over 900,000 public sector workers over a so-called social contract. The social contract talks open on April 19 with govern-

ment negotiators meeting with employer and union groups in six "sectoral negotiations." No deadline has been set for the conclusion of the talks and the premier has refused to rule out a legislated wage

rollback in the public sector if the negotiations break down.

Jonathan Batty, B.A., M.P.A., is a member of the 1993 class at Osgoode Hall Law School.



CANADA WATCH CALENDAR

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|----------|--|-----------|--|
| March 17 | NAFTA negotiations on "side agreements" begin in Washington. | April 19 | Parliament resumes. |
| March 18 | Newfoundland and Saskatchewan budgets announced. | April 21 | Second Conservative leadership debate, Montreal. |
| March 29 | P.E.I. Liberal Premier Catherine Callbeck re-elected with majority government. | April 22 | Beginning of delegate selection by Conservative riding associations. |
| March 30 | British Columbia budget. | April 30 | Third Conservative leadership debate, Calgary. |
| March 31 | New Brunswick budget. | May 3 | Newfoundland election. |
| April 2 | Parliament breaks for Easter. | May 8 | Close of delegate selection for Conservative leadership. |
| April 6 | Manitoba budget announced. | May 13 | Fourth Conservative leadership debate, Vancouver. |
| April 12 | Beginning of delegate selection for leadership convention by Conservative student organizations. | May 18 | Fifth and final Conservative leadership debate, Halifax. |
| April 13 | Ontario Legislature resumes sitting. | June 9-13 | Conservative leadership convention, Ottawa. Over 3,800 delegates expected to attend. |
| April 15 | First Conservative leadership debate, Toronto. | | |

Canada Watch welcomes submissions on issues of current national interest. Submissions should be a maximum of 1,000 words. The deadline for consideration in our May/June issue is Friday, May 14. Write or fax us at:

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