

The gutting of Ottawa

A Conservative-Bloc Québécois alliance will render the federal government irrelevant and unable to deal with national priorities, say *Eugene Lang and Philip DeMont*

If recent polls are accurate, the prospect of a Conservative minority government, supported in the House of Commons by the Bloc Québécois, is a real possibility in the near future. If you think that kind of an alliance is bizarre and unworkable, think again.

These two parties, while having little of substance in common, both grew out of the ashes of the old Progressive Conservative party. And they have both worked for over a decade to cast the last vestiges of the PCs onto the scrapheap of Canadian political history. They have now succeeded.

Apart from this, the only common ground between the Conservatives and the Bloc is their mutual antipathy toward the traditional role of the federal government.

While their economic and social views diverge, and their international agendas could not be farther apart, these two parties believe in a far more decentralized federation, ignoring that Canada is by any measure already one of the most decentralized federations in the world (far more so than the U.S., for example). What the marriage of these two parties would mean is the gutting of Ottawa, rendering its ability to deal with national policy priorities, including economic slumps, irrelevant.

Scariest still, this could be achieved even if a Conservative-BQ minority government were to last but a few months. One federal budget is all that it would take.

The Conservative party platform from the 2004 election rested on one fundamental pillar that is rooted in the neo-conservative ideology of leader Stephen Harper: a major tax reduction package, including income and payroll tax cuts, as well as increases to some tax credits and deductions.

The Conservatives estimated this would cost about \$37 billion over five years, which probably understates the true cost by several billion dollars (they grossly underestimate the cost of their proposed changes to the GST, for example).

There is no reason to believe that they will not stick to a tax reduction agenda at least this aggressive during the next election campaign.

The Bloc does not subscribe to the conservative economic philosophy that underpins large tax cuts as they are a soft social democratic party that does not believe in tax cuts as the tonic that cures all ills. Yet the BQ would support a Harper budget containing these initiatives, with the concession of a transfer of "tax points" to the provinces, something both parties favour because it is core to the decentralist agenda they share.

A tax point transfer effectively means the federal government cuts its taxes by a specific percentage, paving the way for the provinces to increase their tax rates to take up that room.

Not surprisingly, tax point transfers are supported by most premiers, because this helps fill their coffers with ever-increasing revenue, absent the political pain of a provincially mandated tax increase (the value of tax points grow in line with the economy).

A tax point transfer would also permit the Conservatives and the BQ to claim they have addressed the "fiscal disequilibrium" between Ottawa and the provinces that has been the subject of rancorous federal-provincial debate for years and that we hear so much about these days, notably out of Queen's Park.



ILLUSTRATION BY MALCOLM MAYES



J. Eugene Lang, left, worked as economic policy advisor to former deputy prime minister Herb Gray and as senior economist in the federal finance department. Lang is co-author with **Philip DeMont** of *Turning Point: Moving Beyond Neoconservatism*.

Pierre Trudeau experimented with tax point transfers in 1977, when the federal government had much more fiscal weight in absolute and relative terms than it has today.

Liberal and Progressive Conservative governments have regretted this move ever since. That is because Ottawa gets no credit for the money transferred, while the financial power of the federal government is permanently weakened.

Once tax points are given away, they can never be retrieved without touching off a federal-provincial war.

A Conservative-BQ budget constructed around a major tax reduction package and tax point transfers will severely constrain Ottawa's spending power. Given the current malaise over federal financial management, some Canadians might like the sound of this.

Yet successive federal governments, Progressive

Conservative and Liberal alike, have used their fiscal might often to good effect to pursue national objectives, creating pan-Canadian social programs, such as medicare, Old Age Security and more recently the National Child Benefit.

The ability of Ottawa to do so in the future will be severely curtailed after a Conservative-BQ budget. And it will not be reversible even if this government is thrown out of office in a few months.

Ottawa's spending power has also historically been a vital instrument of national economic management during recessions.

Its authority here would also be weakened, leaving provincial governments and the Bank of Canada as the primary economic stewards during downturns.

So the legacy of even a short-lived Conservative-BQ administration that delivers but one budget would likely be a radically decentralized Canada.

Ottawa would be hobbled in its ability to manage the economy and pursue national goals in areas where the provinces need the federal catalyst to get things moving, as was true with medicare some 40 years ago and is the case with child care today.

Canadians are angry with the Liberal government due to financial improprieties. In fact, they might want to see Ottawa's financial wings clipped. And the election of a Conservative minority government, supported in Parliament by the BQ, certainly would guarantee that.

But Canadians need to keep their anger in perspective.

No good decision is ever made in anger and the consequences of such a decision for the national government, and hence Canada, could be severe and virtually impossible to reverse.