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HOW OTTAWA SPENDS 2015 - 2016

THE LIBERAL RISE AND THE TORY DEMISE

HOW OTTAWA SPENDS 2015-2016:
THE LIBERAL RISE AND THE TORY DEMISE

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PREFACE

This is the 36th edition of *How Ottawa Spends*. As always we gratefully thank our roster of contributing academic and other expert authors from across Canada and abroad for their research, their insights and for their willingness to contribute to informed public debate in Canada.

This edition is different in two key respects. It is the first digital on-line publication rather than the normal book version of the past 35 years. And it is also the first where contributing chapters have been assessed under normal academic anonymous peer review processes. We thank these peer reviewers as well.

Very special gratitude is owed to Sheena Kennedy for her skill in helping us launch an on-line peer reviewed process and to Sarah Ingle for her work and expertise in the overall on-line publication process.

We also extend our deep appreciation for the scholarly stimulation and encouragement provided by our colleagues at the School of Public Policy and Administration at Carleton University.

Christopher Stoney and G. Bruce Doern Ottawa

Chapter 1

THE LIBERAL RISE AND THE TORY DEMISE

Christopher Stoney and G. Bruce Doern

INTRODUCTION

Canadian voters on October 19th, 2015, delivered a decisive majority government election victory for the Justin Trudeau-led Liberal Party of Canada and a crushing defeat for the Stephen Harper Tories that ended their decade in power. To lose to a Trudeau is Harper's worst political and personal nightmare, given Harper's visceral opposition to his opponent's father, Pierre Trudeau's energy and Western Canada policies in the 1980s and also to his *Charter of Rights and Freedoms* which the senior Trudeau secured through constitutional amendment and which Harper has gone out of his way never to celebrate in any public manner even though it is a central feature of the Canadian constitution.

The Liberals won 184 seats in Parliament compared to 99 for the Conservatives, 44 for the NDP, 10 for the Bloc Quèbecois and 1 for the Green Party. With almost a 68.5% voter turnout, the percentage of total votes garnered are 39.5% for the Liberals, 31.9% for the Conservatives, 19.7% for the NDP, 4.7% for the Bloc Quèbecois, and 4.3% for Other (including the Green Party at 3.4%).[1]

While polls in the last couple of weeks of Canada's longest-ever modern election campaign showed Liberal potential for a minority government victory, a majority government was not expected. The Liberals, however, surged on election day as a high voter turnout allowed voters finally to give meaning to consistent earlier polls that showed that up to 70 percent of Canadians wanted a change in government. In last year's edition of *How Ottawa Spends*, we posed the question of whether the Harper government was "good to go" and Canadians have now given a resounding Yes to that increasingly asked question in the run-up to 2015.

In this 2015-16 edition of *How Ottawa Spends*, we focus in this chapter on four analytical imperatives: the contributing reasons and forces for the Trudeau majority government victory; the Liberal Party agenda as seen through a comparative look at selected policy domains in the 2015 electoral platforms of the three main political parties; the nature of the Harper legacy as an initial political success but then as a failed and increasingly isolated one-man government; and a preview of our contributing authors' analyses in chapters 2 to 10 of several key policy and governance issues in the Harper era that also extend in some chapters to earlier Liberal governments in the Chretien-Martin era as well.

WHY A TRUDEAU LIBERAL MAJORITY DECISION BY CANADIANS?

Several factors and dynamics helped deliver a majority government for Justin Trudeau. The first dynamic was his own emergence as a political risk taker and leader of some genuine depth. A key factor here was his decision to have the Liberals earmark three years of deficit spending followed by a return to surplus in their fourth year (see more below and in chapter 2). The focus of the proposed deficit years is expected to be on cities-related infrastructure spending. This macro economic and fiscal policy position marked the Liberals as the only party of change, since Harper's electoral campaign stressed balanced budgets (after 7 years of deficits) to "protect the economy", which essentially meant protect it from the untrustworthy Liberals and NDP. The NDP helped the Trudeau public position as leader and risk-taker because it (the NDP) too had opted for balanced budgets to cement its argument that it was actually a trustworthy and fiscally responsible party. The unexpected fiscal deficit position announced by the Liberals cemented the overall view that it was the party of change and would link up with the underlying opinion polls that showed that Canadians wanted a changed government.

The very long 78-day election campaign was designed by Harper as a vehicle to show that Trudeau, or “Justin” was “not ready”, as Tory attack ads oft repeated. But in very crucial ways it was precisely what gave Trudeau the time and the multiple arenas of electoral debate that showed his skills and more inclusive values and which allowed him to stand up to both Harper and Mulcair and to increasingly make his policy agenda case to Canadians. Ironically Trudeau was also helped by the Tory attack ads that had lowered expectations of his leadership abilities. In this context Trudeau needed only to perform competently to excel in the eyes of the watching public.

The long campaign had other positive impacts in that the two main opposition parties, but also the Tories, felt the need to reveal important policy initiatives and announcements early on that, in each case, resulted in debate and exposure for longer periods than would be typical of policy revelations in a normal five week or so election campaign.[2] For the NDP this included plans for a national day care initiative built on the Quebec program and for an economic policy that focussed on the manufacturing sector rather than Harper's energy and resources focus. For the Trudeau Liberals, the initiatives included aspects of Senate reform but more crucially a democratic and election/voting reform proposal that moves strongly towards a system of proportional voting rather than the current first- past- the- post system.[3] Attention to these initiatives was a function of the greater election run-up time available but also of course to the fact that the polls for some time had been showing a virtual tie in voter intentions for all three parties and then later showed the NDP as having a serious chance to challenge for and win power while Liberal support declined.

The long campaign also allowed for more debate and exchange (and media and social media coverage) on whether the economy was the dominant priority or whether democracy itself and Canadian values were the main issues as Canadians tired of Harper's one-man rule and attack politics modus operandi. Young Canadians were also engaged and thus many more of them voted and voted Liberal.[4]

The Harper election Budget of April 21st, 2015, delayed by a month because of the impacts on forecasting of the fast plummeting global oil prices, was the initial and continuing core Harper campaign platform. The Budget was titled “Strong Leadership”[5]. It was the Prime Minister’s Budget in every respect rather than Finance Minister Joe Oliver’s first Budget. Its sub-title was “a balanced –budget, low-tax plan for jobs, growth, and security”. It sought to show the government’s entire record since 2006 (albeit selectively) as one of sound economic management in troubled times to support the key overriding claim of economic competence and make the case for re re-election on October 19th. As we see further below, when the Harper election campaign platform came out, the core budget themes and discourse had morphed into the language of needing to “protect” the economy (from the interventions of the other two parties).

As 2015 proceeded, Prime Minister Harper continued to stress that he was the steady hand that Canadians could rely on and that voters should avoid the risky options of either an NDP or Liberal government amidst slumping oil prices, the Greek-EU Euro crisis, and economic problems in China. Then, on July 15th, 2015, Bank of

Canada governor Stephen Poloz announced that he would reduce Canada's already low interest rate to 0.50 percent because the Canadian economy had been below zero growth since the year began.[6] He avoided calling it a recession although it seemed to meet the technical test. In any event, Harper and his Finance Minister reacted by saying that international forces were the cause, not Canada's Tory policies. Again, the Harper message was that this was no time to take further risks under the NDP or the Liberals. The retort by some that the Harper Conservatives were now a "two recession" government was irresistible. So too was the view that the Harper government was a natural-resources government rather than a government interested in the whole pan-Canadian economy, including manufacturing.

When Harper conceded defeat on election night and the Conservative Party announced that he had also resigned as party leader, the full magnitude of his defeat was fully evident. So were the reasons why. Sympathetic conservative journalists and commentators gave Harper credit for his early leadership and some of his economic policies and for bringing greater power to Western Canada. They also stressed, however, that in the end, it was Harper's controlling one-man government hubris, his contempt for democratic conventions and institutions and his continuous negative politics that brought about his demise, along with his utter failure to reach out to Canadians with whom he disagreed.[7]

THE LIBERAL POLICY AGENDA IN THE CONTEXT OF COMPETING PARTY ELECTION PLATFORMS

Table 1.1 sets out several of the main electoral platforms in key policy domains.[8] The Trudeau Liberal platform will anchor their initial agenda in power but it will also undoubtedly be changed in content and discourse as governing takes hold and electoral campaigning recedes. We focus here on some aspects of the Liberal agenda per se, but the positions of the two other main parties will certainly preview how they will critique, support and oppose a Liberal agenda in Parliament and in the country.

Table 1.1 Main Political Party 2015 Election Platforms

Policy Domains	Conservative	Liberal	New Democrats
Macro-Economic	-Balanced Budget, Low Tax Plan for Jobs and Growth as per April 2015 Budget; -Election platform titled The Conservative plan to protect the economy; -ensure federal budget remains balanced so that more money is put back into the pockets of hard-working families; -continue and extend New Build Canada infrastructure investment as per April 2015 Budget; -new platform spending will be \$590.1 million in first mandate year, increasing to \$2998.5 in the 4th year; but planned fiscal surplus in each year; -continue to reduce Canada's debt-to-GDP ratio; -aim to create 1.3 million new jobs by 2020; cut business taxes from 11 to 9 percent; -implement the Trans-Pacific Partnership (TPP) free trade agreement; -announced multi-\$ billion support for auto and farming sectors adversely impacted by TPP; -permanent \$1.5 billion home-renovation tax credit; -positive plan to sustain our	-presented as a "new plan for a strong middle class"; -will run modest short- term deficits of less than "\$10 billion in each of next two fiscal years to fund investments in infrastructure but then followed by return to balanced budget in 2019; -\$500 million for the provinces for skilled trades training; -increased federal infrastructure investment includes dedicated funding to provinces, territories and municipalities for public transit and for social infrastructure; -will conduct a review of all tax expenditures to target tax loopholes that particularly benefit Canada's top one percent; -will establish the	-presented as "Tom's Plan" to strengthen the middle class, grow the economy and protect the economy; -a balanced budget in the first year of an NDP mandate; -promise to champion manufacturing jobs and growth with concrete action to protect Canada's auto and aerospace industries; -reduce small business taxes from 11% to 9%; -invest in infrastructure and transit; -opposition to TPP free trade deal;

	manufacturing sector; -create a $100 million manufacturing technology fund; -cut "red tape" for business from legislation and policy in addition to regulations; -$200 million to expand high-speed broadband Internet network across remote and rural areas;	Canadian Infrastructure Bank to provide low-cost funding for new infrastructure projects; -lower federal income tax rate to 20.5 percent on incomes between $44,700 and $89,401, paying for it by raising taxes on wealthiest 1 per cent;	
Social-Justice	-legislation to ensure that criminals sentenced to life are not eligible for parole; -announced the establishment of "snitch" lines for Canadians to report "barbaric cultural practices"; -opposition to wearing of niqabs at citizenship ceremonies; -$2000 tax credit for single seniors to help with pension income; -raise government contribution when low and middle-income families invest in education savings plans;	-launch a Canada Child Benefit which would repackage and expand existing programs; -add $515 million per year to funding for First Nations education; -will restore fair and balanced laws that acknowledge the important role of unions in Canada; -sweeping changes to the immigration system, by making family reunification at the core of its immigration policy; -no two-tier Canadian citizenship, by repealing the Conservative government-passed law that allows dual	-provide $2.6 billion over 4 years and work with the provinces to establish universal prescription drug coverage; -create one million child care spaces over eight years, and cap fees for parents-no more than $15 a day; -strengthen the Canada Pension Plan for the long term by working with, not against the provinces;

		citizens convicted to terrorism or treason to have their Canadian citizenship revoked; -$300 million a year to reform veteran's benefits and delivery of services to veterans;	-spend $250 million over 4 years to recruit 2500 new police officers; -$454 million over 4 years to provide treatment for veterans suffering from effects of post-traumatic stress disorder;
Foreign and Defence	-continue to participate in the broad international coalition against ISIS; -support persecuted religious minorities around the world; Defend Canada's northern sovereignty; -continue to make the immigration system faster, flexible and more responsive to the needs of Canada's economy; -continue to be a world leader in refugee protection; -increase the intake of applications for the parents and grandparents sponsorship program, as the backlog and processing times continue to decrease; -initial promise to bring in 10,000 additional refugees from Syria and Iraq; -slow later response to Syrian refugee crisis, which also brought out rigidities of Canadian refugee system; -Conservative focus on Isis,	-will expand intake of Syrian refugee by 25,000; -scrap the long delayed Conservative purchase of the F-35 fighter jet and replace with cheaper planes to replace the aging CF-18s, based on a competitive-bid process. -will restore Canadian leadership in the world, including renewed commitment to peacekeeping operations	-strong support for greater and more humane response to Syrian refugee crisis.

	terrorism threat and national security		
Environment	-support an approach to climate change that benefits both the environment and the economy. The solution to climate change must come from innovation, not deprivation-through technology and Canadian ingenuity, not by closing down our vital natural resources industries or imposing job-killing carbon taxes; -continuing policies regarding "responsible resource development"; -continue to support Sustainable Development Technology Canada's work to finance the development and demonstration of new clean technologies; -allocate $5 million annually for programs to sustain habitat that support bird, moose and turkey populations, starting in 2017;	- provide national leadership and join with the provinces and territories to take action on climate change; put a price on carbon, and reduce carbon pollution; -will make environmental assessments credible again; -will restore lost environmental protections caused by Harper changes to the Fisheries Act and his elimination of the Navigable Waters Protection Act; -put a moratorium on tanker traffic along the northern coast of British Columbia; -increase protected marine and coastal areas to five percent from 1.3 percent by 2017, and to 10 percent by 2020.	-national cap-and- trade system to fight climate change; -listen to climate science and usher in an era of fact-based decision making by ending the Harper era muzzling of government scientists; -protect Canada's lakes and rivers;
Institutions and Democracy	-will introduce legislation enshrining in law requiring any future government to hold a referendum on major electoral reforms; -will do nothing further to entrench	-ensure that 2015 will be the last federal election conducted under the first-past-the-post voting system;	-bring in legislation to make Parliamentary Budget Officer (PBO) a fully

	an unelected, unaccountable Senate; instead it will impose a moratorium on further Senate appointments until real reform is achieved; -pass "tax lock" legislation to prohibit tax increases in the next four years; -will continue to support the crucial energy industry, and the many Canadians who depend on it for their livelihoods. This means not interfering in the independent project review process, and making final decisions on individual projects based on the science and recommendations of expert bodies;	-bring-in merit-based appointment process for the Senate; -promise to make government information open by default, increase the information watchdog's powers, and require a mandatory five year review of the Access to Information Act; -ensure that Access to Information applies to the Prime Minister's and Ministers' Offices; -strengthen Statistics Canada as an independent agency and also restore the mandatory long-form census to give communities the information they need to best serve Canadians;	independent officer of Parliament; -would ensure full reporting of departmental spending, including a searchable online database for Canadians to access; -give information watchdog the ability to compel the release of documents;

The *macro-economic* domain agenda focusses on the above mentioned infrastructure funding and deficits but also includes personal tax measures to help the Canadian middle class. There is also an interesting reference to a tax expenditure review, perhaps to foster a less complex personal tax system. The Harper era practice of providing boutique tax incentives to foster the Tory brand among targeted voters (see chapter 8) may also be targeted in such a Liberal review (perhaps as a way to get rid of some incentives or possibly to add new Liberal boutique substitutes, or promote major tax reform). The *social-justice* domain reveals Liberal plans for a re-jigged child benefit program, more balanced and fair rules regarding unions (see Harper era constraining public service union reforms, as analyzed in chapter 5); and a reformed immigration system geared more to family reunification and thus a move away from the Harper era immigrant worker-focused policy.

In the *foreign and defence policy domain*, the Trudeau agenda is geared explicitly to demonstrating changes in values and progress such as a much greater intake of Syrian refugees (up to 25,000) and a renewed commitment to Canada's peacekeeping role in the Pearsonian tradition. And it promises to fill a huge Tory defence policy weakness by taking action via a competitive-bid process to find effective replacements for Canada's aging CF-18s. Regarding *environmental policy*, climate change for the Liberals is still cautious and is routed through federal-provincial arenas related to carbon pricing. But it also seeks to remedy some Harper era green weaknesses such as removing requirements for environmental assessments and changes to fisheries legislation and navigable waters.

Last but hardly least given the focus of the election campaign and the egregious contempt for Parliament and traditional checks and balances displayed during the Harper era, the Liberals promise reforms on *institutions and democracy*. These include: electoral system reform to end the first-past-the post voting system; a merit-based appointment process to anchor Senate reform; reform of access to information laws and practices; and a strengthened Statistics Canada including restoration of the mandatory long-form census, abolished in the early Harper years.

There will of course be other new or changed policies on offer by the Liberals once the Trudeau Cabinet gets to work and with new ministers whom Trudeau stresses will be actual decision- makers rather than just spokespeople of the policy fields as appeared to be the case in the Harper era, when the Prime Minister alone made most decisions, big and small, most of the time.

THE HARPER RECORD: FROM LEADER TO LONER TO

DEFEATED ONE-MAN GOVERNMENT

Stephen Harper was a central issue in the election campaign mainly as a result of his own strategy and hubris. He had indeed been given legitimate credit for uniting the political right in Canada and forging a new Conservative Party that through his insistence ceased to be called the Progressive Conservative Party. He also united political forces in Western Canada and in 2006 won a minority government victory, repeated it in 2008, and then secured a majority Conservative government in 2011.

The Harper as leader versus loner dynamic built on long developing views of him as a hyper- controlling prime minister both vis a vis his government and cabinet but also regarding Parliament and his backbenchers.[9] He was in many ways the minister of everything in his own government and had practiced the dubious arts of continuous attack politics against the opposition parties and interests such as environmental groups. His policy and governing strategy was consistently to appeal to his core political voting base rarely if ever reaching out to Canadians who disagreed with him.

The Harper as loner dynamic was further directly facilitated by the 78 day election campaign that ultimately gave a trio of his senior ministers, John Baird, Peter MacKay and James Moore, the time to plan and announce their own departure on their own terms.[10] If the more normal snap election mode had been in operation it would tend to "short-circuit the political retirement process".[11] Each senior minister no doubt had his own personal reasons leaving but it was also likely that they were all leaving because they saw a Harper defeat or minority government as a likely election outcome. Harper was now even more visibly the loner, a state of affairs further supported by the death of his long term Finance Minister, James Flaherty, as well as by the early departure of senior Tory minister Jim Prentice who became the Conservative Premier of Alberta, but who then lost to the NDP in the 2015 Alberta election, thus ending the five decade dominance by the Alberta Progressive Conservative Party. Alberta of course is the heartland of the Harper Conservatives as well.

The Senate scandal was also politically significant for several reasons. First, it emerged as a direct threat to the Prime Minister's personal credibility over how much he knew about his then PMO chief of staff Nigel Wright's personal $90,000 payment to reimburse Senator Mike Duffy for alleged illegal expenses. Harper was more fully briefed on the Duffy "deal" than he subsequently led Parliament and the media to believe during weeks of unrelenting questioning from opposition parties. Far more of his inner circle of trusted and senior advisors were also fully aware of the deals being made in an effort to protect the Conservative brand from further damage than the public and importantly Parliament had been (mis-)led to believe.

Second, it has exposed a serious lack of oversight and entitlement that the Harper government said it had been elected to "clean up" in 2006. After almost a decade in power little has been done to reform the Senate as an elected body as the Conservative's promised to do. Indeed, since the Wright-Duffy payment scandal broke two years ago, Harper and his PMO loyalists have put "as much distance as possible between the prime minister and a Senate dominated by his hand-picked appointees".[12] Initially, Harper had appointed 40 new Conservative senators even though he promised he would appoint none, given his apparent goal of an elected Senate, in order to deliver on a policy forged in Harper's Reform Party days in opposition. But in 2015 not a single Senate vacancy has been filled by Harper. The Senate has become morally and ethically worse, not better, than when Harper came to power. Moreover, the Supreme Court has ruled that reform of the second chamber requires constitutional change including therefore agreement by a majority of the provinces to change or abolish it.

Third, the Senate scandal has raised questions about Harper's judgement as well as the political and policy advice he is receiving, and may have further undermined his alleged status as a master tactician and strategist. In particular, questions have been raised about his choice of high profile Senators based in Ottawa to represent regions far away from where they reside; appointments that led in part to the subsequent abuse of residency rules and the misuse of travel expenses as the line between their Senate duties and political fundraising became increasingly blurred.[13]

Fourth, as the 2015 election drew near, the Senate's Conservative Harper appointees, including now senior leaders such as the Speaker, now cast as the pawns of the PMO, played a major role in gaining passage through Senate rule-breaking tactics of Bill C-377 whose purpose was to diminish the power of unions by requiring unions to "publicly disclose any spending of more than $5000- naming the payer and the payee—and the salaries of any members earning more than $100,000, all to be publicly posted on a website".[14] Seven provinces opposed the law as an infringement of provincial labour law.

Conservative MP Michael Chong's backbench House of Commons Reform Act intended to enhance democracy in the House of Commons, was subject to some last minute PMO and Senate efforts to delay and postpone the bill past the election period.[15] Harper seemed to support Chong's bill at an earlier time when Tory MPs were openly criticizing Harper's controlling practices. But it was also the PMO that was trying to edge the bill out in the Senate. In the final analysis Chong's legislation had enough cross-party support in the Senate to recognize and then defeat such manoeuvers.

In 2006, the Harper government's first priority was its *Accountability Act* which arose as a legitimate response to the Liberal government' sponsorship program scandal and the Gomery Inquiry.[16] This legislation was cited again in the Harper 2015 election platform as its main accountability credential. However, one-man Harper government rule thereafter ensured that Harper became in many ways by far Canada's most unaccountable modern Prime Minister. By his own personal design and insistence he: 1) avoided press conferences and media questions except a very few scripted ones; 2) avoided regular public meetings and discussions with provincial premiers in the Canadian federation; 3) used massive omnibus legislative bills to ram complex law and policy through Parliament and thus seriously and deliberately weakened parliamentary legislative democracy; 4) ran a scripted Cabinet where ministers were regularly told by his junior PMO operatives exactly what to say and when to say it; and 5) practiced the muzzling of environmental scientists thus further reducing and harming evidence-based government; 6) ran a 2015 election campaign centered on his government's alleged economic competence by trumpeting balanced budgets when in fact he ran deficits for 7 of the 9 years, and despite inheriting a $13 billion surplus upon taking office in 2006, a surplus that had disappeared on his watch before the 2008-2012 recession had barely begun; and 7) devised and ran his 78 day long 2015 election strategy by which he was resoundingly defeated by the Trudeau Liberals and the Canadian electorate who had very different views about what democratic accountability ought to be. In the aftermath of the election rout it appears as though many Conservative MPs and cabinet ministers also disapproved of Harper's controlling, centralising and ultimately alienating approach to leadership and campaigning.

CONTRIBUTING AUTHOR ANALYSES

While the editors necessarily focus in this chapter on the October 19th 2015 election result and campaign including some initial implications as set out above, our contributing authors in chapters 2 to 10 provide insightful and more in depth analysis of particular policy fields and issues. These naturally tend to cover the Harper era but some also cover developments extending back to the earlier Chretien-Martin Liberal era and even the Mulroney Conservative era from 1984 to 1993. We preview here some of their conclusions and where appropriate suggest related issues and challenges regarding them for the newly elected Trudeau Liberal government.

The chapter 2 analysis of *federal fiscal policy* by Fanny Demers, Michel Demers, and Alain Paquet is situated in the context of federal finances in the short and medium term. The authors are cautious about the merits, pitfalls and budgetary implications of a national child care program, and health care costs, in that the medium term does not leave much room for manoeuver. Regarding the revenue side, the authors emphasize that a key consideration in judging the impacts of taxes and transfers is how agents' behaviour and decisions are altered when the last dollar earned or spent is taxed at a higher marginal rate.

Heather Whiteside's assesses in chapter 3 Ottawa's shifts regarding *private financing and the municipal infrastructure gap*. The former is centred on the greater use of the public-private partnership (P3) model, and the latter on the continuing struggle to fund continuing and often long-standing gaps in municipal infrastructure. Whiteside argues that municipalities require greater federal support but that progress will be hindered by the P3 model which is higher priced and shifts control and decision-making away from democratic channels. This will be an increasingly important policy debate as the Trudeau government look to pursue and finance infrastructure renewal during persistently sluggish economic times.

Old age security policy and funding is the focus in chapter 3 by Allan Moscovitch, Nick Falvo, and David Macdonald. It covers past, present and projected possible future federal policy on programs such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). Their analysis shows that over four decades seniors' poverty has seen a major decrease. But they argue that the Harper government's increasing of the age of eligibility by two years will almost certainly increase poverty among seniors who are under the age of 67. This analysis will be timely given the Liberal plans to reverse this policy and consider further options.

Public Service reforms in the Harper decade is the focus of Ian Lee and Philip Cross' research in chapter 5. They trace what they see as a clear and broadened vision that included a smaller bureaucracy, fundamentally lower public service compensation and a new balance of power between the employer and public service unions. This strategy, the authors argue, was delayed by the financial crisis but then ultimately adopted, particularly regarding the changed underlying collective bargaining system. Given the Liberal commitment to renew the role of the public service and a commitment to restore trust between politicians and public servants this chapter provides valuable context for the direction and challenges of future reform.

The Harper legacy regarding *Canadian veterans and veterans affairs* is examined in chapter 6 by Michael Prince and Pamela Moss. They trace the changing nature of veterans issues and Veteran's Affairs Canada. They argue that veterans are under siege because the Harper government systematically relinquished its responsibility to honour its special relationship to veterans and provide suitable support to a group of citizens whose sole purpose is to serve the interests of the state. This too became a key area of controversy during the election and it will be interesting to see if lessons have been learned and relations can be improved with the change in government.

Ruby Dagher examines in chapter 7 whether Canada is doing the right thing regarding the *Islamic State (IS)*. She argues that Canada's contribution to the international offensive against IS is inadequate if Canada wants to degrade, destabilize and weaken IS so as to protect the vulnerable and innocent civilians of the region. She argues that Canada should instead complement the coalition's aerial campaign by spending on development initiatives that avoid the trap of defeating one group before others resurface. The Liberal pledge to pull Canada out of the US-led bombing campaign could be seen in this context as the first stage in a longer-term strategy.

In chapter 8 Jennifer Robson examines Harper era *boutique tax credits* and how central they became to the Conservative political brand. She shows how such smallish, hence boutique, but consistently deployed credits and tax measures, have been aimed at individual tax payers so as to recognize and deliver changes to everyday Canadians.

They are valuable as symbiotic communication with and finding narrowly defined voter segments and also a direct to consumer strategy. Such credits, moreover, come with little or no noticeable marginal increase in overhead administrative requirements and formed a key part of the ‘pocketbook’ politics that came to characterize the final weeks of the campaign.

Balanced budget legislation is the focus of Genevieve Tellier’s analysis in chapter 9. Though the Harper government promised such legislation if elected, Tellier’s research focuses on the rich longer term experience with provincial legislation and policies. While such legislated rules are often regarded as effective tools that can force budget decision makers to behave in a more fiscally disciplined manner, she argues that evidence from the provinces does not support this assertion. This is because Canadian provinces were able to balance their budgets without being constrained by legislated rules and they ran deficits despite the presence of such rules. Nevertheless, Tellier concludes that the real benefits of balanced-budget laws lie in their capacity to open up the budget process and to foster meaningful public debates on important issues.

In chapter 10, Donna E. Wood examines Aboriginal *employment programming*, with the focus in particular on the Aboriginal Skills and Employment Training Strategy (ASETS). A 25 year story is told of this key field and Wood concludes over all that such programs have made a significant difference in Aboriginal labour market outcomes. But Wood also concludes that federal commitment to expansion and growth along with supporting Aboriginal control and empowerment evident in the late 1990s has diminished significantly. There has also been greater fragmentation between Aboriginal organizations delivering the programs.

In concluding this overview of the chapters we believe that collectively they will provide an important link between some of the key policies of the Harper government and the plans and priorities of the newly minted Liberal government. In addition to providing a record and analysis of some of the Harper government's most recent policy ideas and spending plans they will provide valuable feedback and assessment for those entrusted with continuing, cancelling or overhauling them in the new regime.

Endnotes

[1] Elections Canada, *Election Results*. October 19th, 2015. Elections Canada. For an extensive account of the conduct of the election campaign, see Richard Warnica, "The Liberal Resurrection". *National Post*, October 23, 2015. http://news.nationalpost.com/features/the-liberalressurection

[2] See Andrew Coyne, "It may have escaped the political class's notice, but the advent of the endless campaign has actually made room for some pretty good policy debate", *National Post*. May 15, 2015. See also Richard Warnica, "The Liberal Resurrection".

[3] Interestingly, if some form of proportional voting had been in place for the 2015 election, the Liberals would have about 50 fewer MPs in Parliament.

[4] See Emma Teitel, "Campaign Was Too Long For Young Voters to Ignore", *Toronto Star*, October 19, 2015.

[5] Canada, Strong Leadership: *A Balanced-Budget, Low-Tax Plan for Jobs, Growth and Security. Economic Action Plan 2015. The Budget in Brief*. April 21, 2015.

[6] See Les Whittington, "Bank of Canada Cuts Key Interest Rates, Dollar Plunges to Lowest Since 2009", *Toronto Star*. July 15, 2015.

[7] See for example, John Ibbitson, "As Conservatives Fall, Questions Remain About Harper's Legacy", *Globe and Mail*, October 19, 2015, Conrad Black, "Stephen Harper Did Many Good Things for This Country, But He Hung On to Power a Little too Long", *National Post*, October 17, 2015, and Raymond M. Hebert, "The West Blew

it", *Winnipeg Free Press*, October 24, 2015.

[8] For the full electoral platforms of the three main parties, see Conservative Party of Canada, *Protect Our Economy: Our Conservative Plan to Protect the Economy*, 2015; Liberal Party of Canada, *Real Change: A New Plan for a Strong Middle Class,* 2015, and New Democratic Party of Canada, *Tom's Plan*, 2015.

[9] See Lawrence Martin, *Harperland: the Politics of Control*. Toronto: Viking Canada.

[10] See Chantal Hebert, "Fixed-date Election Comes Back to Bite Stephen Harper" *Toronto Star*, June 26, 2015, 1-2.

[11] Chantal Hebert, "Fixed-date Election Comes Back to Bite Stephen Harper", p. 2

[12] Chantal Hebert, "Senate Scandal Throws Spotlight on the Political Management of Government", *Toronto Star*. June 5, 2015.

[13] David Reevely,"Mike Duffy's Trial to Examine His Secrets—and the Conservative Government's". *Ottawa Citizen*. March 27, 2015.

[14] See Tim Harper, "Senate is Merely Home to Stephen Harper's Puppets", *Toronto Star*, June 26, 2015.

[15] See Joan Bryden, "Michael Chong's Reform Act Passed by Senate". *Toronto Star*. June 22, 2015.

[16] See G. Bruce Doern, ed. *How Ottawa Spends 2006-2007: In From the Cold, the Tory Rise and the Liberal Demise*. McGill-Queen's University Press, 1-23.

Chapter 2

FEDERAL FISCAL POLICY: PRIORITIES AND CONSTRAINT IN THE CONTEXT OF THE 2015 ELECTION AND BEYOND

Fanny Demers, Michel Demers, and Alain Paquet

INTRODUCTION

In the run up the fall 2015 election, the political arena is awash with various policy proposals and promises from the different contenders, while Canada's economy is confronted with several significant and potentially serious fiscal challenges. The economic outlook has substantially changed during the past year, with an unexpectedly strong and persistent decline in oil-prices, and weaker-than-anticipated global growth partly due to the slower pace of the Chinese economy and the uncertainty generated by the Greek debt crisis in the Eurozone. The pace of the US recovery has also been somewhat unsteady. As a result, projections for real GDP growth are now lower than those in the April 2015 federal budget.

In this chapter, we analyze the economic challenges that a newly elected government will face. We first present recent developments in the economic outlook and their impact on federal public finances. Secondly, we analyse the expenditure side of the budget and assess key fiscal policy orientations advanced by the Conservatives, the Liberals and the NDP. In the same vein, we then analyze the alternative views on tax policy defended by the three main political parties. We conclude with some thoughts about the available policy options.

OVERVIEW OF THE 2015-16 ECONOMIC ENVIRONMENT

Prior to the current oil shock, Canada's economy was doing well, with a reasonable 2.4% real GDP growth in 2014 and lower unemployment rates than most OECD countries. Since June 2014, the price of a barrel of crude oil fell from US$105 to about US$49 by April 2015[1]. After rebounding in May and June, it slid further to $48 towards the end of July as the US-Iran nuclear agreement is expected to further flood the market in 6 to 8 months' time. According to the US Information Administration, this agreement could lower WTI price predictions for 2015 by US$5 to US$15 per barrel.[2] Hence, there is a great deal of uncertainty with respect to the price of crude oil for 2015 and 2016.[3]

As the fifth largest oil producer in the world, and with the energy sector accounting for about 10% of GDP and 25% of exports, Canada's economy was bound to be affected by this shock. In fact, Canadian real GDP growth was slightly negative for the first five months. In July, the Bank of Canada revised its estimate for 2015 to 1.1%,[4] a substantially lower figure than the federal budget prediction of 2%. Predictions for world-wide growth have also been revised downward from 3.5% to 3.3%.[5] (IMF, 2015) While unemployment in Canada has so far only increased from 6.6% (January) to 6.8% (February) and has held steady so far, the job market remains fragile.[6]

An important observation is that oil prices remained fairly high (above US$80) for a relatively sustained period between 2010 and 2014, shaping the long run expectations of oil producers and leading to excess capacity. Oil production is based on long-term expectations about future oil demand. In view of already-existing capacity, producers have very little flexibility in adjusting output according to market conditions in the short run. Moreover, storage is expensive and its capacity is limited, permitting even less flexibility in responding to price changes. Even in the longer run, changes in production cannot be achieved easily and require long lags.

Oil production in troubled regions, mainly Libya and Iraq, has been larger than expected. OPEC members and particularly Saudi Arabia[7], announced their decision to maintain their production at 30 million barrels per day in spite of the 0.8 million barrel per day of excess supply in world oil.[8] Last but not least, technological improvements in the shale-oil and sand-oil industries have reduced marginal costs, making extraction economically feasible under favourable price conditions and leading to unprecedented increases in the production of crude oil in Canada and the US since 2009, an important contributing factor to the excess supply.[9] While lower demand resulting from the slow-down in the world economy and also greater efficiency and environmental concerns have also contributed to the fall in oil prices, supply-side factors have played a larger role.[10]

Lower oil prices are likely to persist for the next few years. First, economic recovery and an increase in world economic growth are not likely to bring back oil prices to their 2014 levels soon unless there is also a supply-side adjustment. Some firms have already reduced their investments in both Canada and the US, and have closed about half of operating rigs[11], but oil production is still expected to increase in 2015 and 2016, resulting in large inventories in all OECD countries.

Many projects in Canada may become economically unviable with lower prices, especially as the average break-even price for Canadian sands-oil production is at least US$60. Since capital investment in the energy sector represents 25% of non-residential private investment in Canada, a reduction in energy-related investment will have a sizeable negative impact on business investment. In fact, business gross fixed non-residential investment in structures and machinery and equipment (M&E) has already decreased by 4.1% in the first quarter of 2015.[12] Beyond the oil sector, the overall commodity price index fell by 24.5% since June 2014 with lower prices for base metals (especially copper), forest products and agricultural products owing to sluggish growth in emerging economies.

At the same time, weaker world demand for Canadian exports, lower-than-expected growth in the US, and the short term worsening of our terms-of-trade resulted in a substantial trade deficit during the first half of 2015. Yet, lower commodity prices may have a positive impact on the Canadian economy and provide a direct stimulus to

GDP through higher consumption demand and business investment in the non-energy sector. Without being a panacea for long-term low productivity, the substantial depreciation of the Canadian dollar (22 % since July 2014) will benefit Canadian exports. The large manufacturing sectors in the US and in other trade partners stand to gain from lower commodity prices. This impact should stimulate their economies and have positive repercussions on Canadian exports.

However, there are some downside risks. The household sector being heavily indebted (more than 160% of disposable income), the real income gains from lower oil prices may be allocated to lowering household debt. While this effect would improve the resilience of the Canadian economy, it will reduce the short-run stimulus to demand from lower commodity prices. In addition, an eventual correction in housing prices, currently assessed to be 10-30% overvalued across Canada[13] could lower households' wealth and hinder demand. Furthermore, the deterioration in Canada's terms of trade will negatively impact consumer spending and private investment through higher import prices. Finally, the increase in investment in the non-energy sector may not suffice to compensate for the fall in investment in the energy sector since the Canadian manufacturing sector has shrunk considerably in recent years, while the services sector has expanded.

IMPACT OF THE ECONOMIC ENVIRONMENT ON FEDERAL FINANCES

Canada will have to contend with lower oil prices and lower growth for at least the next few years, a reality that will have important repercussions on both federal and provincial budgets.[14] A lower nominal GDP implies a smaller tax base and lower oil prices lead to a decline in corporate income tax revenues from the energy sector.

In Budget 2015, the federal government announced a $1.4 billion surplus for 2015, after using $2 billion out of the $3 billion set-aside for contingencies (and after selling its shares of General Motors worth $2.1 billion). In view of the subsequent changes to the Canadian economic environment, the Parliamentary Budget Officer (PBO) provided a budgetary update in July. The implications of the new PBO estimates regarding the government's budgetary balance are summarized in Table 2.1.

TABLE 2.1

	Federal Budget Planning Assumptions (April 2015)			
	and revised assumptions (PBO July 2015)*			
		2015-16	**2016-17**	**2017-18**
Budget 2015 real GDP growth (%)		1.9	2.3	2.3
	*Revised PBO estimate***	*1.0*	*2.7*	*2.4*
	Impact on revenues ($ billions)	*-3.3*	*-2.3*	*-1.8*
	Impact on expenses ($ billions)	*0.7*	*0.5*	*0.3*
	Net budgetary impact ($ billions)	***-3.9***	***-2.8***	***-2.1***
Budget 2015 GDP inflation (%)		0.4	2.7	2.2
	Revised estimate (PBO)(%)	*0.6*	*2.7*	*2.2*
	Impact on revenues ($ billions)	*0.7*	*0.6*	*0.6*
	Impact on expenses ($ billions)	*0.3*	*0.2*	*0.2*
	Net budgetary impact ($ billions)	***0.4***	***0.4***	***0.3***
Budget 2015 interest rates				
	3-month treasury bill rate (%)	0.6	1.0	2.0
	10-year government bond rate (%)	3.0	3.5	4.1
	Revised estimate (PBO)			
	Percentage-point-change to all interest rates **	*-0.25*	*-0.25*	*-0.25*
	Impact on revenues ($ billions)	*-0.3*	*-0.4*	*-0.5*
	Impact on expenses ($ billions)	*-0.4*	*-0.7*	*-0.8*
	Net budgetary impact ($ billions)	***0.1***	***0.3***	***0.4***
Budgetary Balance ($ billions)				
	Budget 2015 planning assumptions	1.4	1.7	2.6
	Impact of total PBO revised estimates	*-3.4*	*-2.1*	*-1.4*

	Updated budget balance (PBO)	*-2.0*	*-0.4*	*1.2*
	After set aside for contingencies ($ 1 billion)	***-1.0***	***0.6***	***2.2***
Notes: *(some figures may not add up due to rounding-off)*				
* The federal budget estimates have been adjusted for fiscal years (as opposed to calendar years) by the PBO (Cameron and Matier, 2015).				
** The estimates are from the Bank of Canada (July 2015) but adjusted for fiscal years (Cameron and Matier, 2015).				
*** Change resulting from the Bank of Canada's reduction of the overnight rate by 0.25 percentage points in July 2015.				

Thus, the estimate for real GDP growth is revised downward from 1.9% in Budget 2015 to 1%, while GDP-inflation is forecast to be slightly higher (0.6% instead of 0.4% in the budget). In addition, interest rates are adjusted downward by 0.25 percentage points in accordance with the Bank of Canada’s July reduction of the overnight rate.[15] Assuming that the government would use the remaining $1 billion set-aside for contingencies, the overall impact of these revised estimates lead the PBO to predict a deficit of $ 1.0 billion for 2015-26 and a surplus of $0.6 billion for 2016-17.

Yet, there are some risks which may cause the government’s budget balances to be lower than these projections. First, these new PBO estimates do not take into account that the price of crude oil in both 2015 and 2016 may turn out to be lower than assumed in Budget

2015. Second, while interest rates are currently low, a possible 1-percentage-point rise in the medium term would increase public debt charges for the government. Using the Budget 2015 (p.378) sensitivity analysis, a one-time one-percentage-point increase in interest rates would reduce the budget balance by $0.5 billion in the first year, by $1.2 billion in the second year, and by $2 billion in the fifth year after the increase. This is in the realm of possibilities as the Federal Reserve is expected to raise US interest rate this fall, with possibly sustained incremental increases thereafter.

The current economic outlook also has additional risks for the provinces. Equalization payments, calculated from a weighted average formula of the past three fiscal years, do not yet reflect the impact of the oil shock. If its effects were to persist, equalization payments to provinces will decrease.

Another angle of public finance in the Canadian federation also deserves some attention, especially over a somewhat longer horizon. According to the PBO's *Fiscal Sustainability Report* the federal government has a *negative* fiscal gap[16] of -1.4% of GDP.[17] That is, it has *fiscal room* to increase expenditures or reduce taxes, while still maintaining its debt-to-GDP ratio on a sustainable path. By contrast, the subnational governments (provinces, territories and municipalities) are following an unsustainable debt-to-GDP path, with a *positive* fiscal gap of 1.4% of GDP. The PBO report estimates that they would need to increase their primary balance by 1.4% of Canadian GDP in 2015, and annually thereafter, to become sustainable over a 75-year horizon. Such a change would require a combination of increases in revenues, reductions in expenditures and/or higher transfers from the federal government.[18]

The PBO's current prediction of a small deficit has greater political than economic significance.[19] The federal government has relatively healthy public finances. However, the Canadian economy suffers from relatively low productivity, high private sector debt, low private investment levels, as well as large provincial fiscal imbalances. From an economic perspective, the challenge facing the government is to pursue growth-promoting policies while maintaining a sustainable debt-to-GDP ratio. Different mixes of spending, taxes and transfers, provided they are appropriately and judiciously calibrated, and efficiency and welfare enhancing, can permit Canadians to have cost-effective public services that respond to their needs, without undermining long-term sustainability objectives.

ADDRESSING FEDERAL SPENDING NEEDS AND ASSESSING SOME RELATED POLICY OPTIONS

In this section, we analyse specific questions pertaining to the recent and prospective evolution of government spending. We focus on direct program spending and federal transfers to other levels of government, and especially on the Canadian Health Transfer since it is at the heart of the federal-provincial imbalance. We also discuss the NDP's proposal for $15-a-day daycare. Finally we discuss infrastructure spending which has received much attention in the recent economic literature as an engine for growth.

TABLE 2.2

Table 2 Federal Government Expenses 2013-14 to 2019-20

($ billion)

	Major transfers to persons				Major transfers to other levels of government							Direct program expenses				
Year	Elderly benefits	Employment Insurance Benefits	Children's benefits	Total	Canada Health Transfer	Canada Social Transfer	Equalization Payments	Territorial Formula Financing	Gas Tax Fund	Other Fiscal Arrangements	Total expenses	Operating Expenses	Transfer payments	Capital amortization	Total	Total Expenses
2013–14	41.8	17.3	13.1	72.2	30.3	12.2	16.1	3.3	2.1	-3.5	60.5	74.7	36.7	4.5	115.9	**248.6**
2014–15	43.7	17.8	14.2	75.7	32.1	12.6	16.7	3.5	2	-4	62.8	74.9	36	5.2	116.1	**254.6**
2015-16	45.7	18.4	18	82	34	13	17.3	3.6	2	-4.5	65.4	76.1	34	5.7	115.8	**263.2**
2016-17	48.1	19	18	85.2	36.1	13.3	18	3.6	2.1	-4.8	68.3	78.3	36.7	5.8	120.8	**274.3**
2017–18	50.8	19.5	18.3	88.6	37.4	13.7	18.6	3.7	2.1	-5.1	70.5	80.2	37.3	6	123.5	**282.7**
2018–19	53.6	20.2	18.5	92.3	39.1	14.2	19.5	3.8	2.2	-5.3	73.5	82.5	38.3	6.4	127.2	**293**
2019–20	56.5	20.9	18.7	96.1	40.9	14.6	20.4	3.9	2.2	-5.6	76.3	84.3	39.1	6.7	130.1	**302.6**

Source: Budget 2015; figures for 2015-16 to 2019-20 are projections.

The Evolution of Federal Expenses

The federal government's total program expenses consist of transfers to persons[20], transfers to other levels of government[21], and direct program spending. (Table 2.2)

Transfers to persons are projected to grow by 8.3% in 2015-16, but on average, by 4% annually for the next five years, at approximately the rate of nominal GDP.Transfers to other levels of government as a whole will also grow at the rate of GDP. However the growth rate of its individual components vary. In particular, the CST which supports social services, early childhood and post-secondary education by providing per capita cash transfers increased at about 3.30% over the past fiscal year and is projected to grow at only 3% on average for the next five years. Thus, the CST is projected to grow at a slower rate than GDP, increasing the financial burden of the provinces and contributing to the federal-provincial fiscal imbalance.

As can be seen in Figures 1 and 2, since 2005-2006, when the Conservatives took power, the federal government total program expenses have been on average between 13% and 14% of GDP (except for the recession years 2009-2010 and 2010-2011 when they rose to 15.8% and 14.6% respectively), while revenues have declined from about 16.2% to 14.1% of GDP in 2014-15.

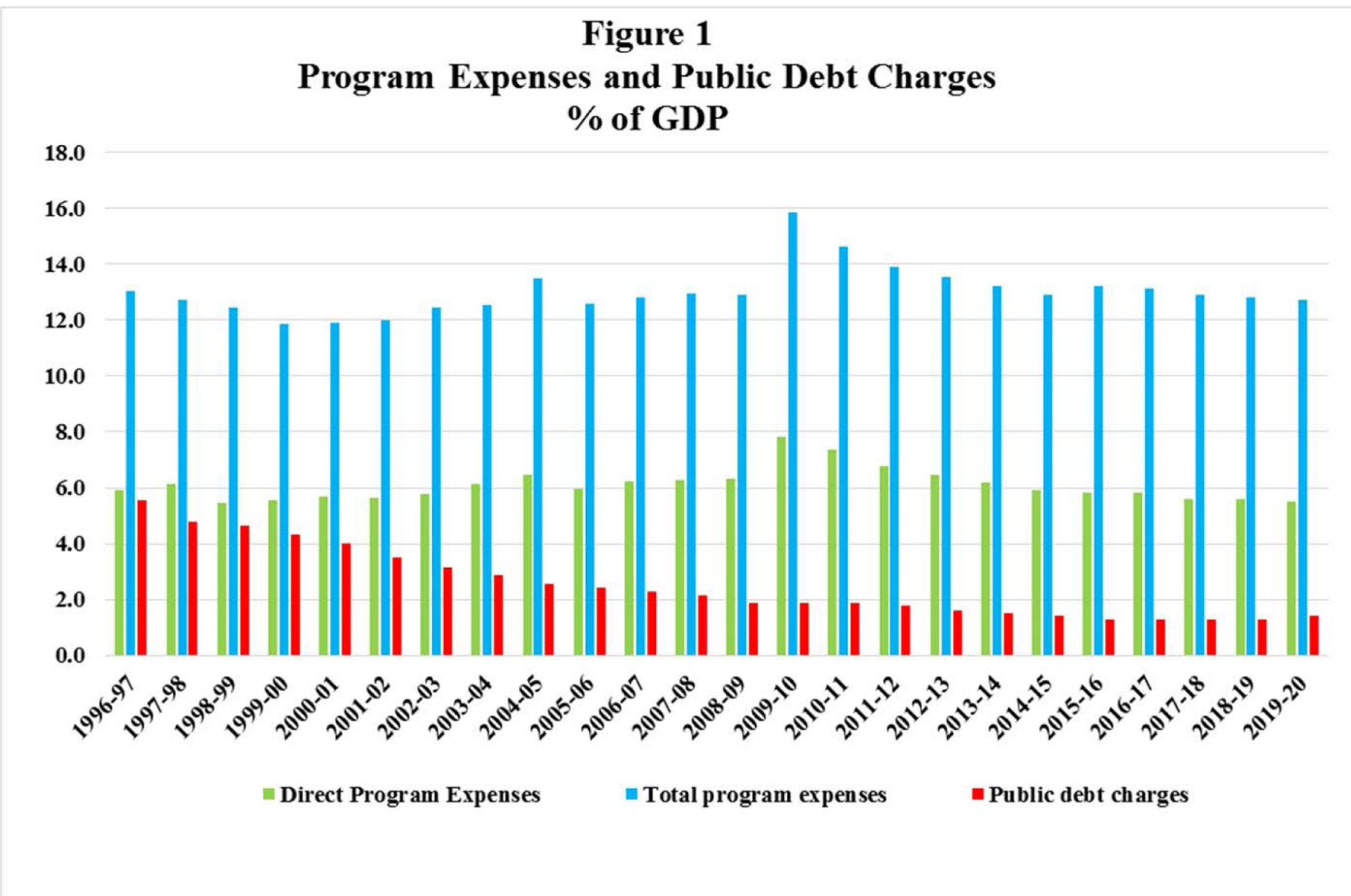
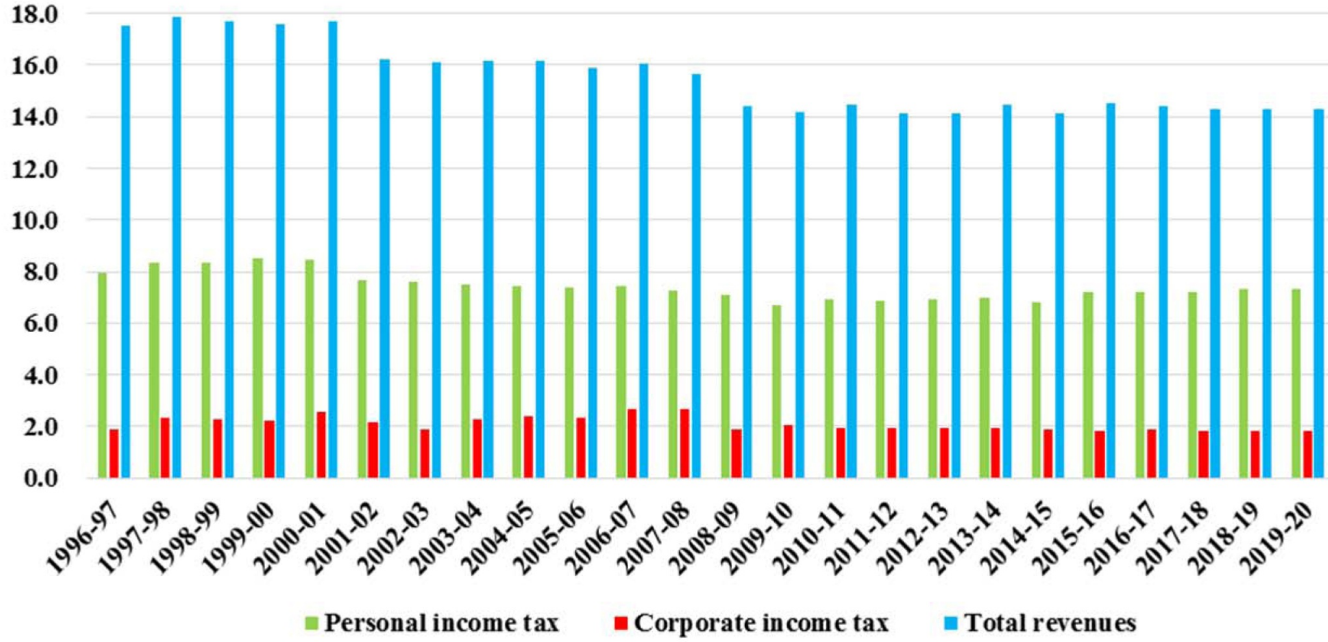


Figure 2
Total revenues
% of GDP



Source: *Finance Canada (2015)* and *Budget 2015*
Values for 2014-15 through 2019-20 are based on budgetary projections.

Despite falling revenues and relatively stable expenditures, the government posted surpluses during its first three years in office, and gradually declining deficits following the 2009-10 stimulus spending.[22] In fact, the Conservatives were able to finance expenses, at first by using the surplus from the previous Liberal government, and then by taking advantage of lower interest payments on debt which fell from 2.4% of GDP in 2005-2006 to 1.4% in 2014-15.[23]

Direct program expenses were $116 billion or 5.9% of GDP for 2014-15, remaining relatively stable as a percentage of GDP and comparable to previous Liberal governments until now. However, according to Budget 2015, to achieve the projected surpluses for the next five years, direct program spending will grow more slowly than GDP and will fall from its current 5.9% of GDP to 5.5% in 2019-20. This lower growth of direct program spending is likely to affect some services or programs. Consequently, some thought needs to be given to the government's options on spending, especially as it faces lower oil prices and potentially higher debt services in the medium run. Thus, important questions will need to be addressed by all political parties with respect to the role of the federal government's spending and transfers, considering not only the implications for fiscal balance, but also the welfare impact on Canadians.

We now turn to three representative topics that are going to be front and center in policy debates beyond the 2015 election.

Contemplating Subsidized National Daycare

Families occupy a central place in politics and in the formulation of policies. While the Conservatives and the Liberals have proposed alternative personal-income tax-and-transfer packages, which we discuss later in this chapter, on the expenditure side, the NDP favours the financing of childcare spaces in the spirit of the program put in place in Quebec in 1997.

The rationale behind a public day-care program is two-fold. First, it can be considered as a way to increase indirectly a family's disposable income and to alleviate the burden of balancing work and family responsibilities for a single parent or two working parents. Second, it has also been put forward as a means of facilitating children's development and socioeconomic integration. However, from an economic and a public policy viewpoint, many questions dealing with cost-effectiveness, accessibility, equity, as well as freedom-of-choice must be addressed.

The proposal put forward by the NDP consists in a new per-capita federal transfer that would cover up to 60% of the cost of new spaces, capping the amount disbursed by families to $15–a-day per child. The initial plan, first announced in October 2014, proposed to finance 370,000 childcare spaces over 8 years from 2015 to 2023. This would amount to approximately a $2-billion annual cost for the federal government.[24] In July 2015, the NDP seems to have raised their proposal to "creating *one million* new high-quality childcare spaces at a cost of no more than $15 a day."[25] Hence, the annual cost would be around $5.5 billion, creating a very substantial dent in the federal budget.

In a recent article, Haeck, Lefebvre and Merrigan provide an econometric assessment of the Quebec program more than 10 years after its implementation.[26] On the positive side, the Quebec experience is seen to have increased the labour market participation of women. However, in practice, low-income families are not necessarily the main beneficiaries of the program as children of women with higher education (who often belong to higher income groups) have occupied a larger proportion of the subsidized spaces. Moreover, the evidence does not support the notion that the program has increased school-readiness. The measured impact on children from low-income families having attended subsidized daycare was even negative.

Finally, it is also worth noting that, since it was introduced, the costs of the Quebec program have been significantly rising, due to requests for additional spaces and increases in its operating costs. Finding alternative means of pursuing the intended desirable policy goals might be preferable.

The Canadian Health Transfer

Amounting to $32.1 billion, or about 50% of total federal intergovernmental transfers in 2014-15, the Canadian Health Transfer (CHT) is the largest transfer program. The CHT is paid to provinces and territories conditionally on satisfying five criteria set in the Canada Health Act, namely comprehensiveness, universality, accessibility, portability and public administration. In order to assess the appropriateness of federal financing, that is, of the growth rate of the CHT, we need to examine the factors driving the evolution of public health spending, notably population aging, relative price effects, technological developments and income growth. These cost drivers are mostly outside of political control.

The percentage of the population over the age of 65 is increasing rapidly. Aging raises health spending since a greater number of individuals find themselves at the end of their lives when health expenditures are at their highest due to ill health.[27] However, as longevity rises, the number of years in good health also increases, exerting a moderating influence on rising health costs.[28] All in all, aging will have an important impact that is likely to rise future provincial health costs (especially in Quebec and in the Atlantic provinces whose populations are older).

Medical technology (whether equipment, procedures or drugs) profoundly affects the delivery and cost of medicine today.[29] Technological advances may explain more than 50% of total health spending growth.[30] Since technological change originates mainly in the US, Canada does not have control over this major cause of cost increases in health spending. New, highly-valued, health-improving technologies often replace old ones in medical treatments. Some technologies reduce treatment-costs per patient, such as angioplasty compared to heart-by-pass surgery. Yet, when these technologies become accessible to a greater number of patients, this treatment-expansion effect contributes to the rise of medical costs. Nonetheless, unduly limiting access to new technologies is neither desirable, nor necessarily a means of curbing growing costs. Inadequate (or lack of adequate and timely) treatment of someone's illness may not only be detrimental to that person's well-being, but even impose an even greater cost on the health system over time. Finally, income growth is conducive to increased health spending since individuals value longevity and quality of life.

In December 2011, the Conservative government extended the

2004 Health Accord and announced that the CHT would keep growing at an annual rate of 6% until 2016-17. Thereafter, its growth will be determined by a moving-average of the previous three-year growth in GDP, with a guaranteed minimum of 3%.[31] An important policy question is whether the planned growth in the CHT is in line with projected trend growth in health expenditures that is estimated to be between 5.1% and 7%.[32] Moreover, on average, 37.7% of provincial governments' total program expenditures are devoted to health spending.[33]

While the CHT will amount to financing 22% of total health spending in 2016, thereafter, in the likelihood that the rate of increase in health spending will be greater than that of GDP, this share will gradually decrease. Consequently, the planned reduction in CHT growth would place an increased burden on provincial finances beyond 2017. This will aggravate the federal-provincial fiscal imbalance.

Alternatively, the federal government could allow the CHT to rise at the rate of increase of provincial and territorial health spending. Assuming an annual health-expenditure growth rate of 5.1%, the CHT would rise by $400 million in 2017-18, $900 million in 2018-19 and $1.4 billion in 2019-20.[34] In ten years, the additional federal contribution (over and above the CHT effective 2017-18) would amount to $5.5 billion.

Both the Liberal Party and the NDP have asserted that they would increase financing of health care. The NDP proposed a continued increase in the CHT at the rate of 6% per year. The additional cost would be $1.6 billion in 2018-19. According to this proposal, in ten years, the federal government would be injecting an additional $10 billion (over and above the CHT effective 2017-18).

If the federal government is to pursue its role in financing the Canadian medical care system and in ensuring its long-term viability, its financial commitment must be reviewed.[35] However, a new Accord with the provinces should leave some room for innovation. For example, while guaranteeing portability, the provinces could be allowed to experiment with potentially more efficient ways of providing medical services, while still being required to abide by the spirit of the remaining 4 criteria in the Canada Health Act. The various pressures on costs, discussed earlier, highlight the necessity to make the Canadian health system more efficient by introducing cost-saving incentives on both the supply and demand side, and by improving the provision of health services. The compensation and remuneration system of physicians could be reviewed. Greater emphasis on prevention is needed. Greater cooperation among provinces could increase their bargaining power and lower the purchase costs of drugs and medical equipment.

Finally, agreed targeted and concerted initiatives could be financed by CHT funding above 5.1% to address specific needs in a given timeframe (e.g. to reduce further waiting times for surgeries, to fight specific illnesses which underlie health-cost increases such as cancer and Alzheimer's disease and related disorders).

Improving Infrastructure

Public infrastructure projects[36] promote greater productivity, growth and welfare. For example, the quality of roads and bridges affects the competitiveness of firms that rely on an efficient just-in-time inventory management system. Infrastructure investments are large capital-intensive projects that increase aggregate demand in the short-run, and potential output in the long-run, through efficiency and productivity enhancing effects.

Provided they are judiciously chosen and efficiently implemented, the impact of public investment tends to be larger when there is economic slack, when monetary policy is accommodative (two conditions currently met by Canada) and when it is financed by debt. Under these conditions, public investment may have large output effects, potentially *reducing* the debt-to-GDP ratio.[37] In addition, the import-leakage of such projects are low, with mostly domestic inputs being utilized, an important consideration given the depreciation of the Canadian dollar. Resorting to tax-financing would greatly reduce the employment and output impact and the multiplier effect.[38]

In its analysis of federal infrastructure from 2009-2011, Finance Canada's estimates of a 1.6 multiplier is in line with US data.[39] The Federation of Canadian Municipalities estimates that $172 billion are needed to repair roads, waste-water, and drinking-water and storm-water systems.[40] Such repairs may be especially important in view of extreme weather patterns such as heavy precipitations and intense cold, resulting from climate change. Moreover, this figure does not take into account the massive investment in public transit systems required to reduce congestion in metropolitan areas, nor the provincial and federal infrastructure needs. There may also be other worthwhile initiatives such as building deep-sea harbors or roads to the North to facilitate the development of the territories, the transportation of resources and access to markets.

In 2007, the Conservative government established a $33 billion infrastructure plan that was followed by a 10-year 53-billion New Building Canada Plan (NBCP) for provincial/territorial and municipal infrastructure in 2014. The NBCP is supported by several funds: the $32-billion Community Improvement Fund for municipal projects such as roads and public transit (pooling funds from the indexed Gas Tax Fund (GTF) and the Goods and Services Tax Rebate for Municipalities); a $14-billion New Building Canada Fund (NBCF), (consisting of a $4-billion National Infrastructure Component (NIC) and a $10-billion Provincial-Territorial Infrastructure Component (PTIC); a $1.25 billion for the Public-Private Partnerships Canada Fund; and $6 billion in funding from continuing infrastructure programs. In principle, this plan will raise productivity, if efficient, productivity-growth-enhancing projects are selected and implemented.

To benefit from federal funding, provinces and municipalities have to provide substantial co-financing. Furthermore, as Stoney and

Krawchenko argue, infrastructure project selection has been much more centralized in Canada than in the US and Australia.[41] As the NBCP is implemented there will be a need for better intergovernmental cooperation and a careful evaluation of economic benefits.

In view of the huge Canadian infrastructure deficit, the funding from the NBCP will not suffice. There is a need to diversify sources of funding. Harnessing pension and other investment funds may be a promising avenue worth exploring, as long as there is a rigorous and untainted selection process for worthy projects. Thus, in January 2015, the Quebec government announced that a public institution, the Caisse de Dépôt, will be funding two public transportation projects for an amount of $5 billion. Another possibility is to create an independent Canadian Infrastructure Investment Bank.[42] The federal and some provincial-territorial or municipal governments, pension funds and investment funds could be shareholders who would provide equity capital. With the backing of these shareholders the Bank could borrow additional funds. Such a critical mass of funds and expertise could permit an efficient selection of projects.

In the same vein, the Liberal party would expand infrastructure funding by persuading large pension funds as well as the Canada Pension Plan to invest in Canadian infrastructure projects, possibly through the creation of an investment bank. The NDP on the other hand, is proposing to allocate an additional $1.5 billion to the GTF and to invest $1.3 billion annually in a dedicated public transit fund.

Public infrastructure investment has become the most important policy tool to promote growth, innovation and sustainable development of a society. In view of tight public finances, innovative ways of financing need to be considered to respond to existing needs.

Assessing the Canadian Tax Policy Debate

Inescapably, tax revenues need to be collected to finance government programs and transfers. An ideal tax system should be equitable, efficient, growth promoting, transparent and easy to implement. Achieving all these goals often involves trade-offs. Despite some changes, the Canadian tax system remains rooted in the 1966 Carter report's ability-to-pay principle with more concerns for fairness than inefficiency costs. Over the years, more or less important modifications made to the federal tax system were not all guided by economic principles.

We first review some principles and recent advances in the economics of taxation to put in perspective the competing policy orientations of the main federal political parties and to evaluate key aspects of their platforms (to the extent they are currently known) with respect to consumption, personal and corporate income tax. We then analyse their impact on the economy and the well-being of Canadians.

Economic principles of taxation and practical issues

Taxes are distortionary and are not equivalent in their effects on economic agents' decisions to work, invest, consume or save. Moreover, equity issues are multi-faceted and their implications for economic growth need to be pondered.

A key consideration in judging the efficiency-impact of taxes is how agents' behaviour and decisions are altered when the last dollar earned or spent is taxed at a higher marginal tax rate (MTR). Accordingly, a reduced after-tax wage creates a disincentive for workers to supply additional labour. A higher MTR on consumption hinders consumption. A higher MTR on capital investments lowers the after-tax return and depresses private investments in physical capital, human capital and innovation, thereby adversely affecting economic growth. In addition, frequent and unpredictable variations in tax rates are detrimental to both efficiency and economic growth.

Fairness of the tax system also matters. According to horizontal equity, people in identical socio-economic situations should be subjected to the same tax treatment. According to vertical equity, people with a higher ability to pay should face a higher tax burden. Yet, should equity apply to individuals or households? Which of revenue or wealth is the appropriate measure of ability-to-pay? These are open issues for political debates.

It is generally established that taxes on the capital stock, and taxes on capital income are the most damaging for efficiency and welfare, followed by taxes on labour income, while the least harmful is a consumption tax.[43] Hence shifting the tax-mix away from corporate and personal income taxes towards a consumption-based tax can generate smaller economic costs to raise the same level of government revenues. While the consumption tax tends to be regressive, appropriate compensations and tax-credits to lower-income households can address these concerns for vertical equity. Hence, there are often ways to improve efficiency without necessarily sacrificing on equity.

Finally, individual responses following a rise in the MTR on labour income can take different forms. A lower after-tax real wage may prompt individuals to supply less work, either by simply reducing hours worked or by altogether exiting the labour market.[44] Moreover, for the aggregate economy, higher MTRs have a strong negative impact on participation in the labour market, especially for younger workers with lower levels of education, parents with young children, and older workers approaching retirement.[45] Thus, small changes in high MTRs potentially cause important welfare losses and substantial fluctuations in aggregate employment.[46] In addition, high MTRs might induce individuals to engage in tax evasion schemes or opt for tax-favoured modes of compensation (such as fringe benefits, dividends, capital gains) to lower their tax-bill, leading to distortions.[47]

The federal Canadian tax schedule is progressive, with three income brackets and corresponding official marginal tax rates. However, for an increasing income that remains in the same tax bracket, even low and low-middle income individuals often lose several tax credits in proportion to the increment of revenue, once some thresholds are crossed. High clawback (or reduction) rates create implicit marginal effective tax rates (METR) much higher than official tax rates.

Both federal and provincial programs contribute to this effect. At the federal level, the impact on METRs arises from the interaction of the Canada Child Tax Benefit (CTB), the Universal Child Care Benefit (UCCB) and the Working Income Tax Benefit (WITB), along with the computation of the GST tax credit, and the federal Income-tested Benefits (including Old Age Security and the Guaranteed Income Supplement). The METR faced by individuals depends also on the province of residence, the household's composition (including the number of children, the number of income-earners), and the level of earnings. As shown in Table 2.3, the combined federal and provincial METRs can be quite high and punitive, and the primary earner in a family with two children may have more than 90¢ clawed back out of the last dollar earned (an METR of 90,1%).[48]

We now discuss some key aspects of the tax policies adopted by the incumbent Conservative government or proposed by the Liberal party and the NDP to the extent that these are known at the time of writing. They are summarized in Table 2.4.

TABLE 2.3

Table 3: Examples of implicit effective marginal tax rates in Canada (Ontario) 2013					
		1-adult household			
Wage level		67%	100%	167%	67%
(% of the Canadian average wage)					
Number of children		0	0	0	2
Household's gross wage earnings ($)		$ 32,052	$ 48,078	$ 80,129	$ 32,052
Earner's effective marginal tax rate		33.80%	63.70%	35.40%	55.80%
		2-adult household			
Wage level		100% / 0%	100% / 33%	100% / 67%	100% / 33%
(% of Canadian average wage: for primary/secondary earner)					
Number of children		2	2	2	0
Household's gross wage earnings ($)		$ 48,078	$ 64,103	$ 80,129	$ 64,103
Earner's effective marginal tax rate	**Primary**	90.90%	67.30%	67.30%	63.70%
	Secondary	40.30%	41.50%	37.30%	37.90%
Source: OECD (2014)					

Table 2.4

Some key orientations proposed and advocated by the main aspiring parties to government in Canada on tax policy*		
Conservatives	**NDP**	**Liberals**
Consumption taxes		
2006 and 2008: GST decreased from 7% to 5%	--	--
2008; Introduction of tax-free-savings-account (TFSA) with maximum annual contribution initially set to \$5,000, \$5,500 in 2012, and \$10,000 in 2015	--	--
Personal income taxes		
2006: Introduction of the UCCB: \$100 monthly payments for each child under the age of 6	To rescind *Family income tax splitting*	To create a \$22 billion integrated income- tested CCB to replace the existing taxable UCCB, the not-taxable, but income-tested CCTB and NCBS programs.
2015: On July 20th, retroactive to January 2015, the monthly allowance raised to \$ 160 for children under 6 and a new \$60 monthly allowance for children aged 6 to 17	To close the preferential tax treatment associated with some CEOs earnings from stock options (only half being taxable) and to use the proceeds to increase the Working Income Tax Benefit & the National Child Benefit Supplement	To rescind *Family income tax splitting*
		To allocate an additional \$2 billion to CCB
Introduction of Family income tax splitting for families with children under 18: non-refundable tax-credit by transferring up to \$50,000 of taxable income from the primary		To lower the MTR from 22% to 20.5% for taxable income between \$44,701 and \$89,401 financed by the introduction of a new tax bracket with a 33%

earner to a spouse facing a lower tax bracket Maximum tax-savings: $2,000 per family		MTR (instead of 2 9%) on taxable income exceeding $200,000
Corporate income taxes		
Between 2006 and 2012: Reduction of the general federal corporate income tax rate from 21% to 15%	To raise the general tax rate in the 18-19% range (to bring it more in line with the average rate in G-7 countries)	To maintain the current corporate tax rates or to reduce it if the US reduces its rates to remain competitive
2008: Reduction of small business tax rate to 11%	To lower the small business tax rate to 10%, then to 9%	
Increase in the annual income eligibility from $300,000 to $500,000 for a business to qualify as small		
Accelerated capital consumption allowance (CCA) of 50 per cent on a declining-balance basis for qualifying M&E purchased between 2015 and 2026.		
Note: *UCCB: Universal Child Care Benefit; CCB: Canada Child Benefit; CCTB: Canada Child Tax Benefit; NCBS: National Child Benefit Supplement; MTR: marginal tax rate		
Source: Department of Finance Canada: various Budgets, the political parties' Web sites, Liberal Party of Canada (2015), NDP (2015), Curry (2015), McLeod (2015), Wingrove (2015).		

Consumption taxes

In the early 1990s, in line with efficiency and equity considerations, a Progressive-Conservative government replaced the 68-years-old ill-conceived manufacturers' sales tax with a broad-based form of the value-added tax: the GST. For equity considerations, a tax credit was also introduced for low-income households. Despite some differences, the GST is close to a theoretically sound value-added tax. Over the years, the GST has been formally or informally harmonized with provincial sales taxes in most provinces, improving overall efficiency.

In its first term in office, the Conservative government cut the GST from 7% to 5% depriving the federal government of crucial revenues, a decision unsubstantiated by any economic rationale. Lowering the burden of personal and/or corporate income taxes would have been preferable on the grounds of both efficiency and fairness. However, the introduction of tax-free-savings-account (TFSA) in Budget 2008 added a complement to existing registered retirement and education saving plans (RRSP and RESP) by sheltering some current savings from income taxation. Allowing individuals to shield the returns on part of their savings from income tax brought the tax system closer to a consumption-tax regime, and improved its efficiency.

Yet, since higher-income individuals have a greater ability to save, the government could have set a ceiling on total lifetime savings exempt from tax to address vertical equity concerns and also to mitigate the significant reduction in federal revenues estimated to be

$1.1 billion between 2015 and 2019. With this policy choice, the government may have missed the political opportunity to proceed with more pressing changes to the Canadian tax system. At this point, the three political parties have given no indication of favouring further changes to the GST (except for some recently additional exclusion of hygienic products supported by all).

Personal income taxes and transfers

As we argued above, the interaction of tax rates, credits and transfers needs to be taken into account to assess how federal parties' proposals differ with respect to the net effect on after-tax personal income and the economy. At the outset of the 2015 election campaign, as shown earlier in Table 2.2, the clearest divide among parties is to be seen in this policy area.

Effective 2015, the Conservative government increased the UCCB monthly allowance for each child under age 6 to $160. It also made the UCCB available to families with children aged 6 to 17 at a lower monthly rate of $60. Though the UCCB is taxable, this policy raises families' disposable income to a degree. In addition, the Conservatives have introduced *Family income tax splitting,* which may be viewed as a step towards greater horizontal equity. However, since the federal government foregoes $2.2 billion in receipts to benefit only 15% of Canadian families, many of them affluent households with one high-paid working spouse, this represents a setback on vertical equity.[49]

Furthermore, there is a downside on efficiency grounds. While this policy lowers some households' average tax rate and decreases the MTR of the primary family earner, it increases that of the secondary earner. To the extent that the labour supply elasticity with respect to net-of-tax wages is higher for secondary earners, the number of hours worked may decrease, while the participation rate of the secondary earner may also fall. The overall response is likely to be a net decrease in labour supply.[50]

The NDP proposes an increase in the *Working Income Tax Benefit* and the *National Child Benefit Supplement* financed by removing the special treatment of stock option earnings (estimated by Finance Canada to cost $750 million). Public statements made so far reveal that the NDP does not intend to raise individual taxes,[51] but plans to rescind *Family income tax splitting*. While the NDP criticized the increase in TFSA contributions, no changes have yet been proposed. It thus seems that the NDP aims at addressing vertical equity concerns without aggravating existing inefficiency costs.

Meanwhile, the Liberals propose a revamped CCB program more generous for families with children and with incomes between $26,000 and $44,999. This is a simplification of the tax regime as it better integrates tax and transfer programs for families with children. It is advisable on efficiency grounds as well since it lowers METRs for this income group, and provides a greater incentive to work and to invest in human capital.[52] However, while reducing clawback rates and thus the METR for some income groups compared to existing programs, higher clawback rates worsen the METR for families whose income exceeds $45,000, and even more so for 3-children households. (See Table 2.5).

Actually, the three federal parties could take a broader view on the issues pertaining to the efficiency and equity impact of METRS. Recently, the 2015-2016 Quebec provincial budget announced that, as of January 2016, a "tax shield" will be implemented to offset some loss of transfers for individuals whose income increases.[53] In the interest of inducing greater work-effort, it may be worth adapting and extending the idea underlying the Quebec tax-shield to the federal tax system. A portion of a (possibly capped) increase in an individual's income could be exempted from personal income tax or be subjected to a lower marginal tax rate for that year. It would be economically sensible that the combined impacts of income-tax rates and clawback rates in transfer programs be set not to exceed a "reasonable" proportion of an additional dollar of earned income (e.g. 50%).

Table 2.5

<table>
<tr><th colspan="7">Clawback rates (or contribution to METR) of the current CCTB/ NCBS regime and that of the Liberal plan for an integrated CCB 2015</th></tr>
<tr><th></th><th colspan="2">1-child family</th><th colspan="2">2-childen family</th><th colspan="2">3-children family</th></tr>
<tr><th>Family's income level</th><th>Current</th><th>Liberal Plan</th><th>Current</th><th>Liberal Plan</th><th>Current</th><th>Liberal Plan</th></tr>
<tr><td>$ 0 - $ 26,019</td><td>0.0%</td><td>0.0%</td><td>0.0%</td><td>0.0%</td><td>0.0%</td><td>0.0%</td></tr>
<tr><td>$ 26,020 - $ 29,999</td><td rowspan="2">12.2%</td><td>0.0%</td><td rowspan="2">23.0%</td><td>0.0%</td><td rowspan="2">33.0%</td><td>0.0%</td></tr>
<tr><td>$ 30,000 - $ 44,999*</td><td rowspan="2">6.8%</td><td rowspan="2">13.0%</td><td rowspan="2">16.0%</td></tr>
<tr><td>$ 45,000 - $ 64,999</td><td rowspan="2">2.0%</td><td rowspan="2">4.0%</td><td rowspan="3">4.0%</td></tr>
<tr><td>$ 65,000 - $ 118,999</td><td>3.1%</td><td>6.5%</td><td>8.0%</td></tr>
<tr><td>$ 119,000 - ...</td><td>0.0%</td><td>3.1%</td><td>0.0%</td><td>6.5%</td><td>8.0%</td></tr>
<tr><td colspan="7">*In the current regime, the actual threshold is approximately around $44,699, while it would be $44,999 under the proposed plan.</td></tr>
<tr><td colspan="7">Source: Constructed from Milligan's (2015) computations</td></tr>
</table>

Finally, with the intent of improving vertical equity for the middle class, the Liberals also plan to decrease the tax rate from 22% to 20.5% on income between $44,701and $89,401. However, they would make up the lost revenues with a new 33% tax rate on income over $200 000. This 4-percentage-point higher federal top-tax bracket is reckoned to affect less than 1% of tax-filers. On the other hand, the combined federal-provincial top marginal tax rates would now be higher than 48% in 8 provinces and 1 territory, exceed 50% in 6 provinces, and 53.5% in 4 provinces. This would not be a favourable signal to foreign investors. While the adverse effect on labour supply may not be quantitatively large, empirical evidence suggests that government receipts could be lower than expected due to tax avoidance.

Corporate taxes

In the aftermath of the last financial crisis there have been calls for increases in business taxes in the interest of better income distribution. It is important to remember that, while it is paid by business firms, the corporate tax is ultimately borne by consumers (through higher product prices), by workers (through lower salaries and pension benefits) and by the owners of the firm (the shareholders). Notably, many middle income individuals are also shareholders through their pension funds.

Since the late 1990s, the federal corporate income tax base has been gradually broadened, differential tax treatment across capital assets and sectors alleviated and its tax rate reduced. Following the general corporate tax rate reduction from 28% to 21% between 2000 and 2004 under Liberal governments, the Conservatives further lowered it from 21% in 2007 to 15% in 2012. The applicable rate to small businesses was also cut back to 11% in 2008 and the income threshold to qualify as a small business was raised from $300,000 to

$500,000. Budget 2015 also extended the accelerated Capital Cost Allowance (CCA) for qualifying machinery and equipment (M&E) acquisitions between 2015 and 2026, to decrease their after-tax purchase price and stimulate investment.[54]

The Liberals seem inclined to follow a policy similar to that of the Conservatives regarding corporate taxes, and have declared that corporate tax rates should remain at their current level, unless the US lowers levies on corporations. However, the NDP is proposing to raise the general corporate tax rate from 15% up to 18%, or even 19%, while diminishing the small business tax rate to 9%. First, from an economic perspective, increasing the gap between the large and small business tax rate by as much as 9% is questionable as it creates a strong disincentive for a firm to grow.

Second, a corporate tax hike could be significantly detrimental to investment, growth and job creation especially so at a time when the Canadian economy is showing signs of weakness. In a globalized economy, the corporate tax plays a significant role with respect to the worldwide allocation of corporate investment and a country's competitiveness. In fact, the US may soon lower its corporate tax rate as part of its upcoming tax-reform[55], and the UK has already announced plans to lower its corporate tax rate to 18% (from its current 20%) by 2020.

Furthermore, having a low combined federal-provincial corporate tax rate of 26.3%, actually has increased tax revenues.[56] A comparison with the US reveals that, since 2000, corporate tax revenue has averaged 3.3% of GDP in Canada, compared to 2.3% in the US where the corporate tax rate (39% for the combined federal-state rate) is the highest in the OECD. This suggests that Canada's lower tax rate and a relatively simpler tax system may be attractive to multinationals. Increasing corporate tax rates at this time would clearly go against economic logic and international tendencies.

CONCLUSIONS

At the outset of the 2015 federal election, the large drop in oil prices, depressed world markets for resources, and weak growth in Canada and abroad, have significantly altered the economic playing field for policymakers and contenders for government.

This chapter has provided an assessment and overview of the current economic outlook and its implications for the federal finances in the short and medium term. The actual growth trend in spending, along with the economic outlook, raise questions about the federal government's financial framework, no matter which political party forms the government.

After reviewing the recent evolution of the federal government's spending programs and their likely trend path, we have examined three key political areas of expenditure: the merits, pitfalls, and budgetary implications of a national child care program; health spending, including the causes of rising health care costs and the impact on provincial budgets of the lower growth in the Canadian Health Transfer announced for 2017-18 and argue that financing at a higher rate and a new Federal-Provincial-Territorial Accord are called for. In view of the huge infrastructure deficit and of the estimated economic benefits, we have also discussed various approaches to financing infrastructure projects.

Finally, we focussed on the revenue side firts by reviewing some principles of taxation, namely equity (both horizontal and vertical), efficiency and growth promotion. We emphasize that a key consideration in judging the efficiency-impact of taxes and transfers is how agents' behaviour and decisions are altered when the last dollar earned or spent is taxed at a higher marginal tax rate. We compare different types of taxes, namely consumption, income and corporate taxes and their impact on individuals' incentives to work, to consume, or to invest. We analyze the Conservative government's recent changes to taxation and personal transfers as well as the alternative policies proposed by the other two main parties. We then turn to corporate taxes and contrast the different parties' positions arguing that maintaining Canada's competitive corporate tax rates is critical to growth.

The likely persistence of the current economic conditions in the medium term does not leave much room to maneuver to maintain a balanced budget (a commitment initially made by all three main federal parties, though the Liberals later declared support for a deficit) and to implement new initiatives on spending, transfers and taxes. Without sufficient economic growth generating enough new receipts from the existing tax structure, the government budget constraint requires that new programs be funded either by new sources of tax revenues or by cuts in previously existing government programs. Even without new programs, the most likely projected path of healthcare spending as well as the maintenance of existing infrastructures will exert pressures on federal and/or provincial public finances. The resolution of the resulting fiscal imbalance will require not only goodwill, but especially sound economic evaluation and innovative solutions.

Beyond an election campaign, the development and implementation of good policies should be based on judicious and rigorous analysis. The impact of each policy in terms of efficiency, equity and growth must be assessed, and its opportunity costs determined to ensure judicious choices. We can only hope that informed debates take place and guide choices about public services that are fair, cost-effective and viable, while responding to Canadians' needs. These are essential conditions for improving Canadians' welfare without living beyond our means.

Endnotes

[1] These prices refer to WTI (West Texas Intermediate), a light crude oil used as a benchmark for pricing oil. Canadian sand-oil, known as WCS, (Western Canadian Select) is a lower quality heavy crude oil whose price is lower than WTI by US$17-20 per barrel.

[2] U.S. Energy Information Agency, *Short-Term Energy and Summer Fuels Outlook.* April. 2015. http://www.eia.gov/forecasts/steo/archives/Apr15.pdf.

[3] U.S. Energy Information Agency, *Short-Term Energy Outlook.* July. 2015. http://www.eia.gov/forecasts/steo/report/prices.cfm.

[4] Bank of Canada, *Monetary Policy Report*, July 2015.

[5] International Monetary Fund, *Canada: Selected Issues* Country Report No.15/23, January, 2015.

[6] Statistics Canada, *The Daily*, July 10, 2015. http://www.statcan.gc.ca/daily-quotidien/150710/dq150710a-eng.htm.

[7] In the past, Saudi Arabia reduced production to maintain high oil prices. Its current decision is partly motivated by a desire to drive US shale-oil and Canadian sand-oil producers out of the market. Shale- and sand-oil rigs have high break-even prices. In particular, sand oil break-even prices vary between US$50 and US$60 for *in situ* methods of extraction and US$85-95 for surface mining.

[8] OECD International Energy Agency, *Oil Market Report* February 10, 2015. https://www.iea.org/oilmarketreport/omrpublic/.

[9] Between February 2010 and February 2015, production of crude oil increased by 41% in Canada, and nearly doubled in the US. See National Energy Board, *Canadian Energy Dynamics: Review of 2014*. 2015, 1-16, and U.S. Energy Information Agency, *Short-Term Energy and Summer Fuels Outlook.* April. 2015. http://www.eia.gov/forecasts/steo/archives/Apr15.pdf.

[10] Taking into account estimates of the short-run oil-supply elasticity, supply factors account for at least 65% of the fall in oil prices. See R. Arezki and O.J. Blanchard, “Seven Questions About the Recent Oil Price Slump.” December 22, 2014. http://blog imfdirect.imf.org/2014/12/22/seven-questions-about-the-recent-oil-price-slump. For a recent discussion of demand versus supply-induced oil shocks, see J.D. Hamilton, “Causes and Consequences of the Oil Shock of 2007-2008.” *Brookings Papers on Economic Activity,* Spring, 2009, 215-283, J.L. Smith, “World Oil: Market or Mayhem?” *Journal of Economic Perspectives* 23(3):2009, 145–164, and L. Kilian, L. 2009. “Not All Oil Price Shocks are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market.” *American Economic Review,* 99(3):2009, 1053-69.

[11] Total oil industry expenditures are expected to fall by Can $1.5 billion over the next two years while the number of operating rigs fell by 57% in Canada and 41 % in the US relative to 2014. See Conference Board of Canada. 2015. *Canada’s Oil Extraction Industry* March, 2015, 6.

[12] Statistics Canada, *The Daily*, May 29, 2015. http://www.statcan.gc.ca/daily-quotidien/150529/dq150529a-eng.htm

[13] Bank of Canada, *Financial System Review* December, 2014. http://www.bankofcanada.ca/wp-content/uploads/2014/12/fsr-december2014.pdf.

[14] In spite of tax increases, the government of Alberta has announced a deficit of almost $5 billion for 2015-2016. See Alberta Government, *Fiscal Plan 2015-20, Budget 2015*, March 26. Ontario which has a large manufacturing sector, and to some extent, Quebec, may benefit

from lower oil prices. See M-C. Bernard, M-C. 2015. “Ontario Back Among Growth Leaders.” Executive Summary, *Provincial Outlook Economic Forecast,* March. 2015.

[15] In an earlier report, PBO estimates a price of $US59 per barrel for 2016 instead of US$67/barrel as assumed in Budget 2015. See Parliamentary Budget Officer, “Statement by Jean-Denis Fréchette, Parliamentary Budget Officer to the House of Commons Standing Committee on Finance, 28 April 2015.” http://www.pbo-dpb.gc.ca/files/files/2015-04-28_FINA_Opening_Remarks_EN.pdf.

[16] The PBO defines the *fiscal gap* as the change in the operating budget that is necessary to avoid an unsustainable debt-to-GDP ratio in the long run.

[17] See Parliamentary Budget Officer, *Fiscal Sustainability Report 2015*. July 21 2015, 9-10. Ottawa www.pbo-dpb.gc.ca

[18] Since the combined fiscal gaps add to zero, the *total* general government debt/GDP ratio (including the Canada Pension Plan and the Quebec Pension Plan) is, however, on a sustainable path.

[19] Parliamentary Budget Officer, *An Update of the Budget 2015 Fiscal Outlook*. July 22 2015, Ottawa www.pbo-dpb.gc.ca

[20] Transfers to persons include Elderly Benefits, Employment Insurance Benefits and Children’s benefits.

[21] Transfers to other levels of government consist of three major programs: the Canada Health Transfer (CHT), the Canada Social Transfer (CST) and the Equalization Payments and Territorial Formula Financing).

[22] The stimulus spending following the recession included increases in transfers from 6.5% of GDP in 2008-2009 to nearly 8% of GDP in 2009-2010. The direct program spending also contributed significantly to the temporary cyclical boost in total government expenditures, increasing from 6.3% of GDP to 7.8% before gradually declining to 5.9% in 2014-15.

[23] Jean-Pierre Aubry, "Évolution des revenus et des dépenses: du gouvernement federal ces dix dernières années: 2005-06 versus 2015-16." CIRANO. 2015.

[24] The government's annual contribution to a subsidized childcare space for one child attending the service 243 days (50 weeks excluding week-ends and holidays) would be $ 5,467.50.

[25] New Democratic Party, *Middle Class Jobs: Media backgrounder*. 2015.

[26] C. Haeck, P. Lefebvre, and P. Merrigan, "Canadian evidence on ten years of universal preschool policies: The good and the bad," *Labour Economics*, forthcoming 2015.

[27] As the population's share of older people rises, the demand for long-term care will increase. As these services are both labour intensive and subject to limited productivity gains, their relative prices are likely to rise. See also A. S. Werblow, P. Felder and P. Zweifel. 2007. "Population ageing and health care expenditure: a school of 'red herrings'?" *Health Economics* 16, 2007, 1109-26.

[28] C. De la Maisonneuve and J. Oliveira Martins, "Public spending on health and long-term care: a new set of projections." *OECD Economic Policy Papers*, 06, June, 2013.

[29] Examples include medical and surgical procedures (angioplasty, joint or renal replacement therapy), drugs (beta blockers, anti-retroviral therapy) and medical devices (CT scanners, defibrillators, and magnetic resonance imagery).

[30] See J. Newhouse, "Medical Care Costs: How Much Welfare Loss?" *Journal of Economic Perspectives* 6(3)1992:7-8, L. Di Matteo, "The Macro Determinants of Health Expenditure in the United States and Canada: Assessing the Impact of Income, Age Distribution and Time." *Health Policy,* 2005. 71, and S. Smith, J. P. Newhouse and M. S. Freeland. "Income, Insurance, and Technology: Why Does Health Spending Outpace Economic Growth?" *Health Affairs* 28(5), 2009, 1276-1284.

[31] See C. Matier, "Renewing the Canada Health Transfer: Implications for Federal and Provincial-Territorial Fiscal Sustainability." *Office of the Parliamentary Budget Officer,* 2012. Ottawa, Canada.

[32] See S. Levert, "Sustainability of the Canadian Health Care System and Impact of the 2014 Revision to the Canada Health Transfer." *Society of Actuaries and Canadian Institute of Actuaries*. 2013, and C. De la Maisonneuve and J. Oliveira Martins, "Public spending on health and long-term care: a new set of projections." *OECD Economic Policy Papers*, 06, June, 2013.

[33] Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2014,* Canadian Institute for Health Information 2014. Ottawa.

[34] We assume that the nominal growth rate is 3.9%, which is the average growth rate from 2018-2020 assumed in Budget 2015. By

contrast, the PBO assumes a 3.6% nominal growth rate so that the figures for additional funding would be higher. See Parliamentary Budget Officer, *Fiscal Sustainability Report 2015*. July 21 2015, Ottawa www.pbo-dpb.gc.ca

[35] We would argue that cash transfers remain preferable to tax point transfers to reach the objectives of the Canada Health Act and to ensure that the money is indeed spent on health services.

[36] These include the construction and repair of roads, bridges, drinking and waste-water systems, harbors, airports, railways, public transportation and communication systems.

[37] International Monetary Fund, *World Economic Outlook,* October 2014, 75-114.

[38] Josh Bivens, "The Short- and Long-term Impact of Infrastructure Investments on Employment and Economic Activity in the U.S. Economy. " *Economic Policy Institute. Briefing Paper* 374. July 1, 2014.

[39] Resorting to input-output models, the Conference Board evaluate that a $1 billion generic investment in public infrastructure in Ontario increases real GDP by $1.14 billion, along with 6 700 jobs. See Conference Board of Canada, Conference Board, "The Economic Impact of Ontario's Infrastructure Investment Program." 2013. Ottawa, Ontario. The multiplier might be larger for some types of infrastructures, such as for transportation, as suggested for the US. See L. Brun, G. J. Jolley, A. Hull and S. Frederick. 2014. *Infrastructure Investment Creates American Jobs,* Duke University, Center on Globalization, Governance & Competitiveness 2014.

[40] Canadian Infrastructure Report Card, "The 2012 Report Card" http://www.canadianfrastructure.ca/.

[41] C. Stoney, and T. Krawchenko, "Transparency and Accountability in Infrastructure Stimulus Spending: A Comparison of Canadian, Australian and U.S. programs." *Canadian Public Administration.* 2012*,* 55.4.

[42] Craig Hodgson, "Canada's public infrastructure gap will require a creative solution," *The Globe and Mail,* op-ed, July 2, 2015.

[43] This ranking is established either using a computable general equilibrium model or by evaluating the marginal cost of public funds associated with efficiency losses due to taxation. See J. F. Wen, B. Dahlby and D. Ferede. "Les implications des distorsions fiscales sur la réforme fiscale au Québec." *Study for the Québec Taxation Review Committee*. 2014.

[44] Recent work suggests that the negative response of labour supply to a higher MTR has been underestimated in past studies and that the implied inefficiency costs are more important than previously thought, as it also deters human capital accumulation from work experience. (see M. P. Keane and R. Rogerson. "Micro and Macro Labor Supply Elasticities: A Reassessment of Conventional Wisdom." *Journal of Economic Literature,* 50(2):2012, 464-476.

[45] R. Blundell, "Taxation of Earnings: the Impact on Labor Supply and Human Capital." *Working Paper, Becker Friedman Institute*. 2013.

[46] R. Rogerson and J. Wallenius, "Micro and Macro Elasticities in a Life Cycle Model with Taxes." *Journal of Economic Theory*

144:2009, 2277–2292.

[47] See Finance Canada. "The Response of individuals to Changes in Marginal Income Tax Rates." *Tax Expenditures and Evaluations 2010,* Government of Canada, 65 p, and K. Milligan, and M. Smart, "Taxation and Top Incomes in Canada." *NBER Working Paper* 20489, 2014.

[48] In Quebec, it is estimated that a two-parent family with two children and a $20,000 income faces a 125% combined METR. As family income rises to $30,000 the METR falls to 40%, but rises thereafter, reaching 60%-75% for the $30,000 to $50,000 income-range. (See A. Blancquaert, N.J. Clavet, J-Y Duclos, and S. Marchand, "La fiscalité québécoise et l'incitation au travail." *Study for the Québec Taxation Review Committe*e. 2014. Another analysis shows that the METRs are also very high for low-income seniors. See A. Laurin and F. Poschmann. 20 "Who Loses Most? The Impact of Taxes and Transfers on Retirement Incomes." *C.D. Howe Institute*. 2014.

[49] J.R.Kesselman, "Family Tax Cuts: How Inclusive a Family?" *Caledon Institute of Social Policy*. 2014, and T. Scholz and T. Shaw, T. "The Family Tax Cut." *Parliamentary Budget Office*, March 17, 2015.

[50] Scholz and Shaw's simulations (see note 49 above) are consistent with this prediction.

[51] NDP leader, Thomas Mulcair, was quoted as follows: "I am categorical on that. Several provinces are now at the 50 per cent rate. Beyond that, you're not talking taxation; you're talking confiscation. And that is never going to be part of my policies, going after more

individual taxes. Period. Full stop.”. Quoted in J. McLeod, “Mulcair says people want him to kick Harper out.” *The Telegram*, August 8.2013. http://www.thetelegram.com/News/Local/2013-08-08/article-3342167/Mulcair-says-people-want-him-to-kick-Harper-out/1

[52] See K. Milligan, “Phaseout Rates for Child Benefits*.” Blog post, May 5, 2015 Policy Options*. 2015. And Jack Mintz, “Trudeau’s tax plan a mixed bag that does nothing for growth*.”* 2015 http://business.financialpost.com/fp-comment/jack-m-mintz-trudeaus-tax-plan-a-mixed-bag-that-does-nothing-for-growth

[53] However, this provision does not alleviate the impact of high METRs for pensioners or experienced workers, who do not receive the existing work premium.

[54] The NDP expressed agreement with a similar extension of the CCA in their January backgrounder.

[55] In addition, representatives in the US Congress are considering establishing a business consumption tax that would rebate US exports to foreign countries, and that would tax both domestic and imports sales (including those from Canada).

[56] W. McBride, “Canada’s Lower Corporate Tax Rate Raises More Tax Revenue.” *The Tax Policy Blog, U.S. Tax Foundation*, 2014 http://taxfoundation.org/blog/canadas-lower-corporate-tax-rate-raises-more-tax-revenue.

Chapter 3

HOW OTTAWA SHIFTS SPENDING: PRIVATE FINANCING AND THE MUNICIPAL INFRASTRUCTURE GAP

Heather Whiteside

INTRODUCTION

All sectors in Canada are experiencing a growing infrastructure gap – a significant discrepancy between the amount being spent by government and what is actually needed for upgrading, maintaining, and developing public infrastructure. Municipal projects face additional hurdles as these jurisdictions often have limited avenues for generating revenue, and in 2013 the Federation of Canadian Municipalities identified the need for infrastructure spending and federal cost sharing for public works as being at the top of their agenda. The long run worsening of the municipal infrastructure gap can be attributed to a number of factors, namely the decades-long withdrawal of the federal government from public capital investment and the ownership of public capital stock.

More recently, federal spending and procurement initiatives to address infrastructure needs carve out a central role for the public-private partnership (P3) model to privately design, build, operate and finance public infrastructure at all levels of government. This includes Infrastructure Canada's requirement that applications to access its 10-year, $14 billion New Building Canada Fund first consider the P3 option if a project's capital costs exceed $100 million, and that municipalities adopt P3s in exchange for support from the $1.25 billion P3 Canada Fund.

This chapter examines changes in Canadian infrastructure spending, the federal government's role in producing the infrastructure gap, and the push for the P3 solution. It argues that the infrastructure spending onus has increasingly shifted from federal to municipal governments and from traditional budgeting and tax-based schemes to private debt market financing and user fee or availability payment-based infrastructure developed via P3s. The characteristics and long run implications of this twofold shift will be analyzed in terms of their impact on the features of Canadian infrastructure projects and spending, and new governance arrangements for infrastructure developed across the country.

> There is no great mystery as to what must be done to govern Canada. The federal government must facilitate the creation of wealth; redistribute it regionally and among income groups to achieve greater equality and fairness; and do both while maintaining or enhancing national unity and Canadian independence.[1]

The above, written by G. Bruce Doern in the third annual volume of *How Ottawa Spends* (when the title came with the more provocative, though appropriate, tail *Your Tax Dollars*), harkens back to a day when governments, particularly federal governments, were prepared to both row and steer, and hold a firm grip on governance processes across the country. Doern goes on to write that "The balanced achievement of these tasks, however, requires political skills of a high order".[2] Indeed, this certainly remains true today. Gaining consensus, however, on what balance ought to be struck, who (and which order of government) possesses those skills, let alone agreement on any of the items that make up the governance 'to do' list, would likely be a far more difficult task after decades of (real and rhetorical) New Public Management inspired privatization, marketization, liberalization, and deregulation, and myriad other ways in which the role of the Canadian state has changed since the early 1980s. Yet at the same time, capital accumulation and its distribution, national unity and independence nonetheless remain key considerations in this country. One policy area linking each of these goals, both in the past and present, is public infrastructure planning and spending.

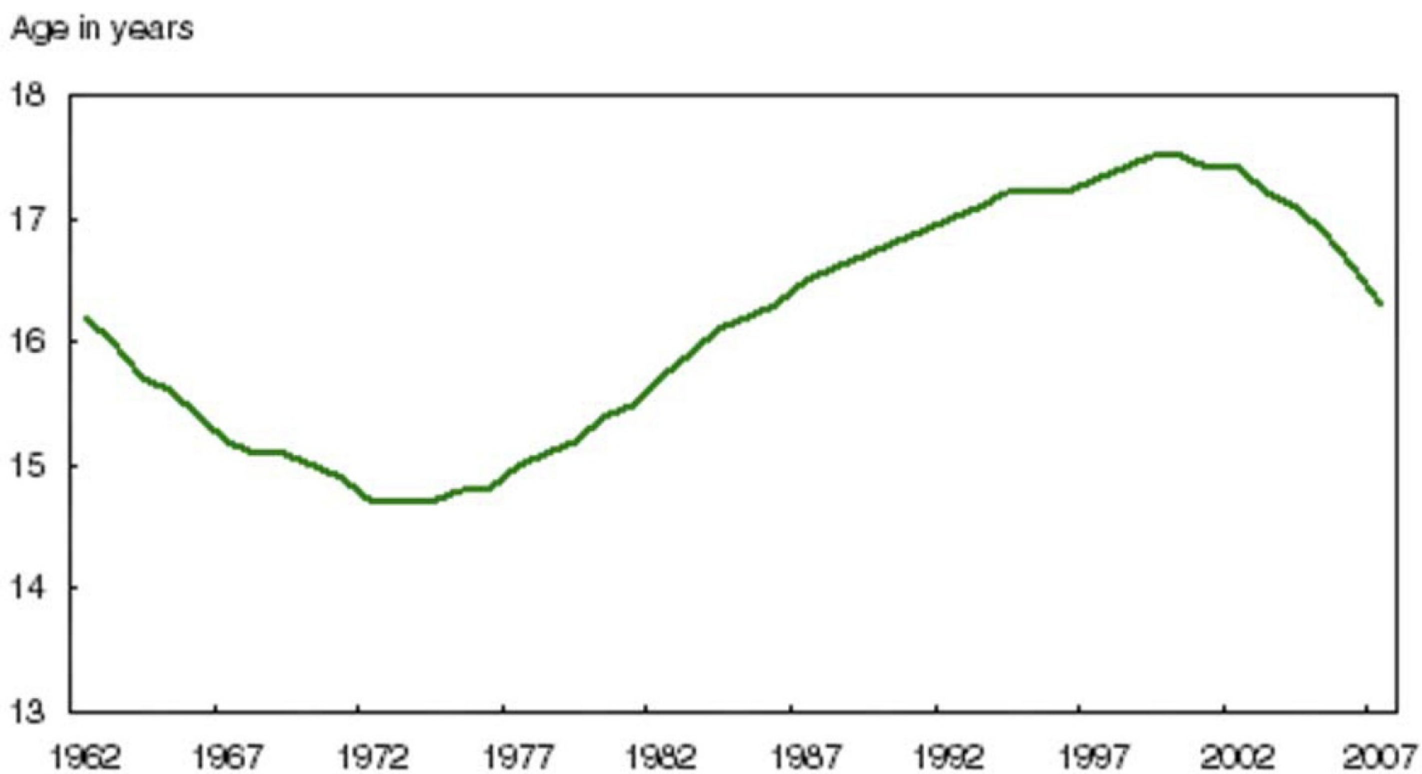
Like other forms of state involvement in the economy to guide development, public infrastructure serves diverse roles and its importance in Canada historically relates to contingent yet recurrent political concerns including: a lack of internal economic linkages and the need to integrate distinct colonial (now regional) economies into a national economy as a way of forging (now maintaining) a national identity, and directing economic development and foreign investment.[3] For public policy, physical infrastructure is often the vehicle of social service provision (such as hospitals for health care, schools for education, water treatment facilities for sanitation, and public transit for mass transportation); and procurement practices can create jobs, act as stimulus during downturns, and promote green/sustainable development.[4] Public infrastructure has also been linked to macroeconomic performance, with one study crediting public infrastructure investment with a 9 percent growth in labour productivity from 1962 to 2006.[5]

Aside from direct government spending of taxpayer dollars through budgetary allocations to departments and line ministries, economic infrastructure which facilitates the production of goods and services has often been provided through the activities of arm's length Crown corporations, reflecting similar considerations of economic development, redistribution, unity, and independence.[6] Taylor sums this up when he writes that Crown corporations were a means by which government could intervene in the economy "to bind the nation (together), to develop and market its resources, and to retain some measure of the profits and rents".[7] Notable Crown corporations established to provide economic infrastructure (or infrastructure-like services) in previous eras include the federal Canadian National Railways (1917), Air Canada (1937, named Trans-Canada Air Lines until 1965), and Petro-Canada (1975), along with a host of provincial hydro power and telephone system providers. With few exceptions, these entities and activities were commercialized and privatized in the 1980s and 1990s.

More basic forms of public infrastructure, often labeled as 'public goods' in the economic sense (as non-rival and non-excludable) – like bridges, highways, roads, water and wastewater treatment facilities, schools, and correctional facilities – have been largely left as public sector responsibilities either because they are too politically sensitive to privatize outright, or because they are potentially unprofitable. Where public sector responsibilities remain, two significant shifts can be identified over the past few decades: the federal government has effectively transferred key burdens and responsibilities downward onto municipal governments and laterally into the private sector. These changes have emerged within, and been produced by, a significant and growing infrastructure gap in Canada.

The 1950s and 1960s were the highpoint in Canadian investment in public capital stock, and thus the age of the country's infrastructure was lowest in the 1970s (Figure 1). Aging infrastructure is therefore the face of the infrastructure spending gap in Canada. By 2004, TD Bank estimated the deficiency in the addition, maintenance and replacement of Canadian public infrastructure stock to be as high as $125 billion, or 6-10 times current annual investment[8]; and others warn it could reach $400 billion by 2020.[9] Not only does aging and inadequate infrastructure make it difficult to meet the social policy obligations of government along with creating problems for individuals and communities (e.g., traffic gridlock, a lack of affordable housing, poor air quality), it is also an economic drain.

Figure 1. Age of Canadian Public Infrastructure



M. Gagnon, V. Gaudreault, and D. Overton, *Age of Public Infrastructure: A Provincial Perspective*. Statistics Canada. 2008

Congestion and shipment delays in the Greater Toronto Area alone lead to an estimated loss of $2 billion annually (TD Economics 2004).[10] In other words, Canada's "infrastructural pre-conditions for urban growth" have become increasingly reliant upon spending inherited from earlier decades, leaving aged and stressed infrastructure by the mid-2000s – a phenomenon not too unlike what is witnessed in other countries as well.[11]

The gap did not happen overnight, it is the result of decades of public sector spending restraint. The majority of current Canadian public infrastructure was built during the postwar era[12] but because infrastructure is a long run investment, the effects of cuts in any one year to capital expenditures are far less obvious than with more politicized social program spending. Thus when governments are looking to balance the books, it ought to be no surprise that infrastructure would hold a lower priority in a lean year. However, that this area of spending would suffer for so long – decades on end – is what makes addressing the infrastructure gap today particularly vexing. For nearly half a century, from the 1960s to early 2000s, investment in public infrastructure as a proportion of GDP has declined, but the 1980s and 1990s experienced the lowest levels by far.[13] This is in line with the onset of austerity more generally in Canada by the 1980s.[14]

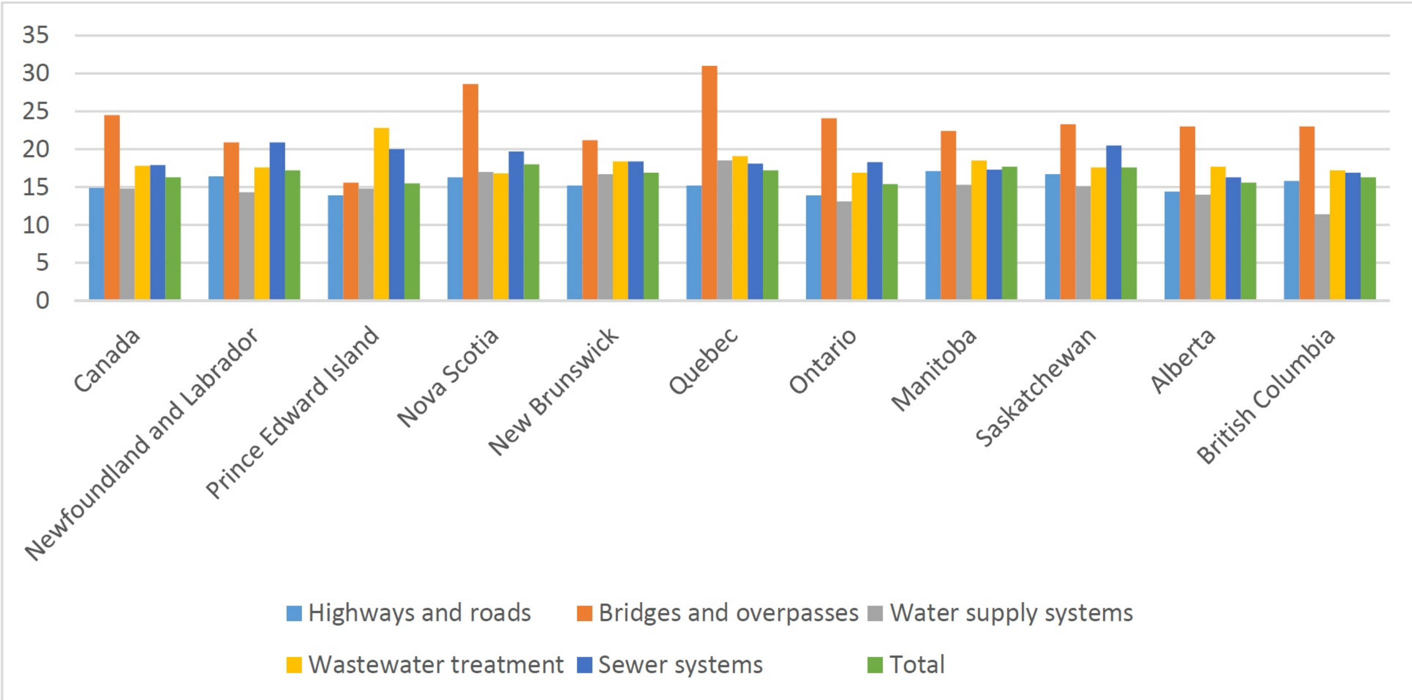
The types of infrastructure that are now the oldest vary by province (Figure 2), but tend to be bridges and overpasses, wastewater treatment, and sewer systems. Without exception, these public works are now over ten years old on average. Bridges and overpasses are the oldest, at around 25 years, and water supply systems are an average of 20 years old.

SHIFT # 1: FROM FEDERAL TO MUNICIPAL

Not all levels of government have equal resources or capacity to fund public infrastructure, nor do they have equal responsibilities. Municipalities are doubly burdened in these respects: with widespread (and constitutionally unforeseen) urbanization and urban sprawl occurring in the second half of the 20th century, municipal jurisdiction came to control now vital infrastructure like public transit and ports, landfills and recycling facilities, water and sewage, roads and bridges; yet municipalities receive only 8 percent of tax revenue in Canada.[15] From 1961 to 2005, responsibility for all categories of infrastructure asset indicated in Figure 3 have been on the rise for municipalities, and simultaneously on the decline federally.

Municipal infrastructure, despite being of such importance socially, culturally, and economically to most Canadians, faces a particularly chronic and growing backlog and in 2013 the Federation of Canadian Municipalities identified the need for infrastructure spending and federal cost sharing for public works as being at the top of their agenda. Roughly 25 percent of the municipal infrastructure gap comes from the need to renew or improve water and wastewater infrastructure, nearly 35 percent relates to transportation and transit infrastructure, and approximately 8 percent to waste management.[16] The type of infrastructure in need of renewal matters – not only do water, waste management, and transit constitute core municipal responsibilities of central concern to city residents, they have long lifecycles and large capital requirements. These latter two features make passing costs off to successors through deferred renewal both easy and tempting in the short run but a difficult-to-resolve conundrum in the long run given the imposition of balanced budget legislation by cash-strapped provinces subject to their own spending limits as well.

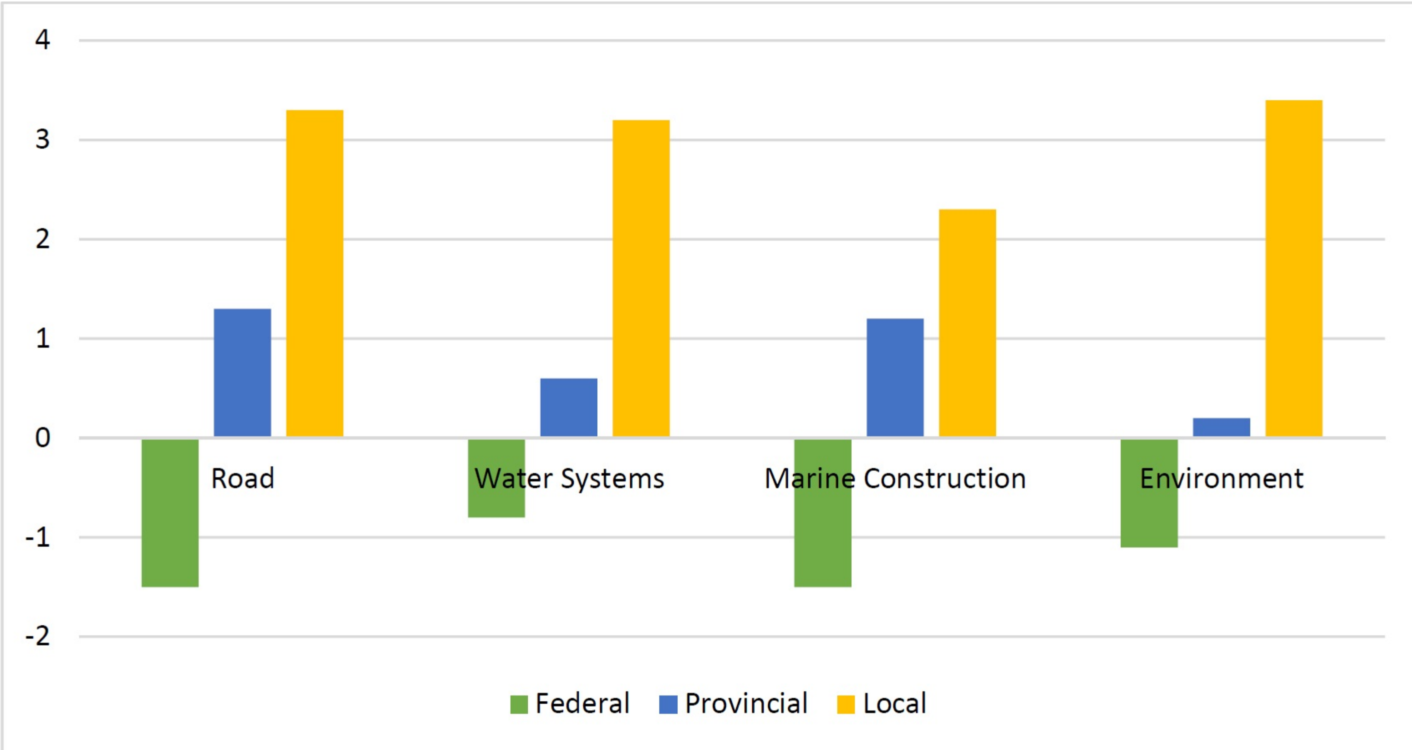
Figure2. Average age of public infrastructure by province and type of infrastructure, 2007



Source: M. Gagnon, V. Gaudreault, and Overton, D. 2008. *Age of Public Infrastructure: A Provincial Perspective*. Ottawa: Statistics Canada. 2008

Stringent provincial regulations applied to municipal budgeting and expenditures, along with an inability to secure triple A credit ratings (given that municipal tax revenue is limited mainly to property taxes), effectively thwarts bond use for public works at the municipal level. Provincial rules either impose borrowing restrictions based on particular debt-discouraging formulae or require that provincial approval be first sought[17]; and provincial rules simultaneously require that cities and towns in Canada balance their operating budgets each year.

Figure 3. Average annual growth of government infrastructure capital by level of government and type of asset, 1961 to 2005



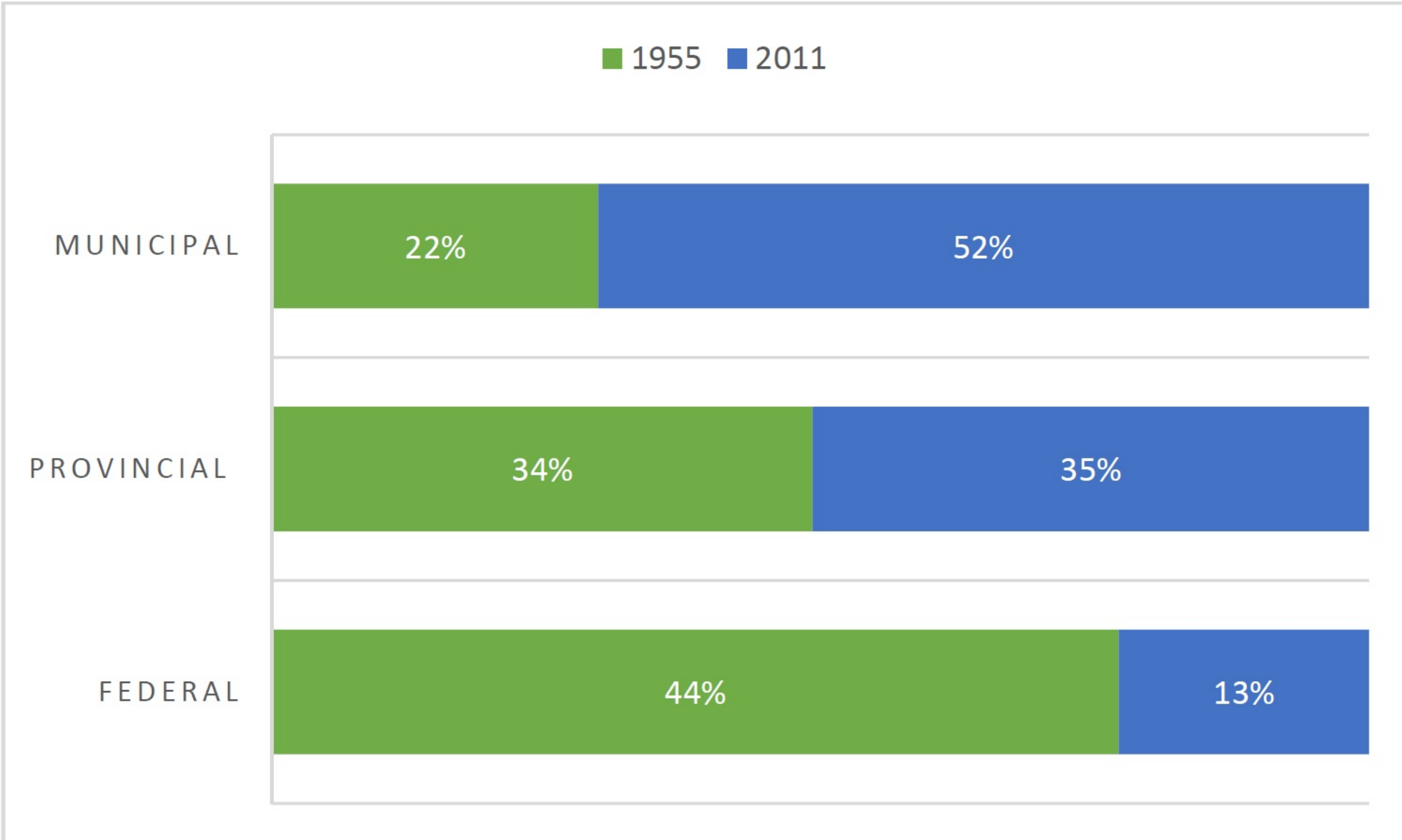
Source: F. Roy, F*rom Roads to Rinks: Government Spending on Infrastructure in Canada, 1961 to 2005*. Ottawa: Statistics Canada. 2011

Because of this, in 2012 municipal government debt made up only 2 percent of the domestic bond supply; in that same year, the federal government issued $93 billion of long-term bond debt, provincial governments issued a total of $55 billion, and municipals issued $6 billion (Stewart 2013).[18] Some provincial effort has been put into finding ways to broaden city revenue sources beyond relatively inelastic municipal property tax. For example, BC (through its *Community Charter Act*, 2003) and Ontario (via the *Municipal Act*, 2006) have granted municipalities in their jurisdiction greater flexibility and autonomy to enact user fees (such as tolls) and create new taxes (like entertainment and hotel taxes) but the appetite for such measures remains lacking in Canada. For practical as well as competitive reasons, their uptake may prove to be limited to only the largest cities.

Municipal revenue and finance rigidities together with instances of poor asset management, municipal tax cuts amid an already-thin tax base, and price inflation for raw materials, construction, and technology costs, form one side of the infrastructure gap.[19] Of greater significance, however, as illustrated in Figure 3, is the withdrawal of the federal government from public capital investment and the ownership of public capital stock. As Mackenzie[20] shows, in 1955 the federal government owned 44 percent of the Canadian public capital stock, the provinces owned 34 percent and local governments owned 22 percent; by 2011 this federal-municipal relationship had reversed: the federal government's share dropped to 13 percent, municipalities owned 52 percent and the provincial ownership portion was at 35 percent (Figure 4).

Thus a long run (and relatively covert) shift in the Canadian public infrastructure spending burden from federal to municipal governments has been an important component of Ottawa's fiscal austerity agenda over time. This is not to say that the federal government has completely withdrawn, rather what has occurred is a reduction or circumscription of funding through programs that involve temporary and targeted federal infrastructure spending (which may or may not match actual need and desire locally) and the implementation of programs that require matching funds from municipalities (which may or may not be practical given local constraints).[21] The Federation of Canadian Municipalities (2013, 25) argues that the proclivity for short-term funding (which they liken to a "funding lottery") with limited scope and program duration has discouraged long term capital planning and is at odds with municipal planning frameworks and needs.[22]

Figure 4. Ownership of Canadian Public Capital Stock



Source: H. Mackenzie, *Canada's Infrastructure Gap: where it came from and why it will cost so much to close*. Ottawa: Canadian Centre for Policy Alternatives. January. 2013. 7-8.

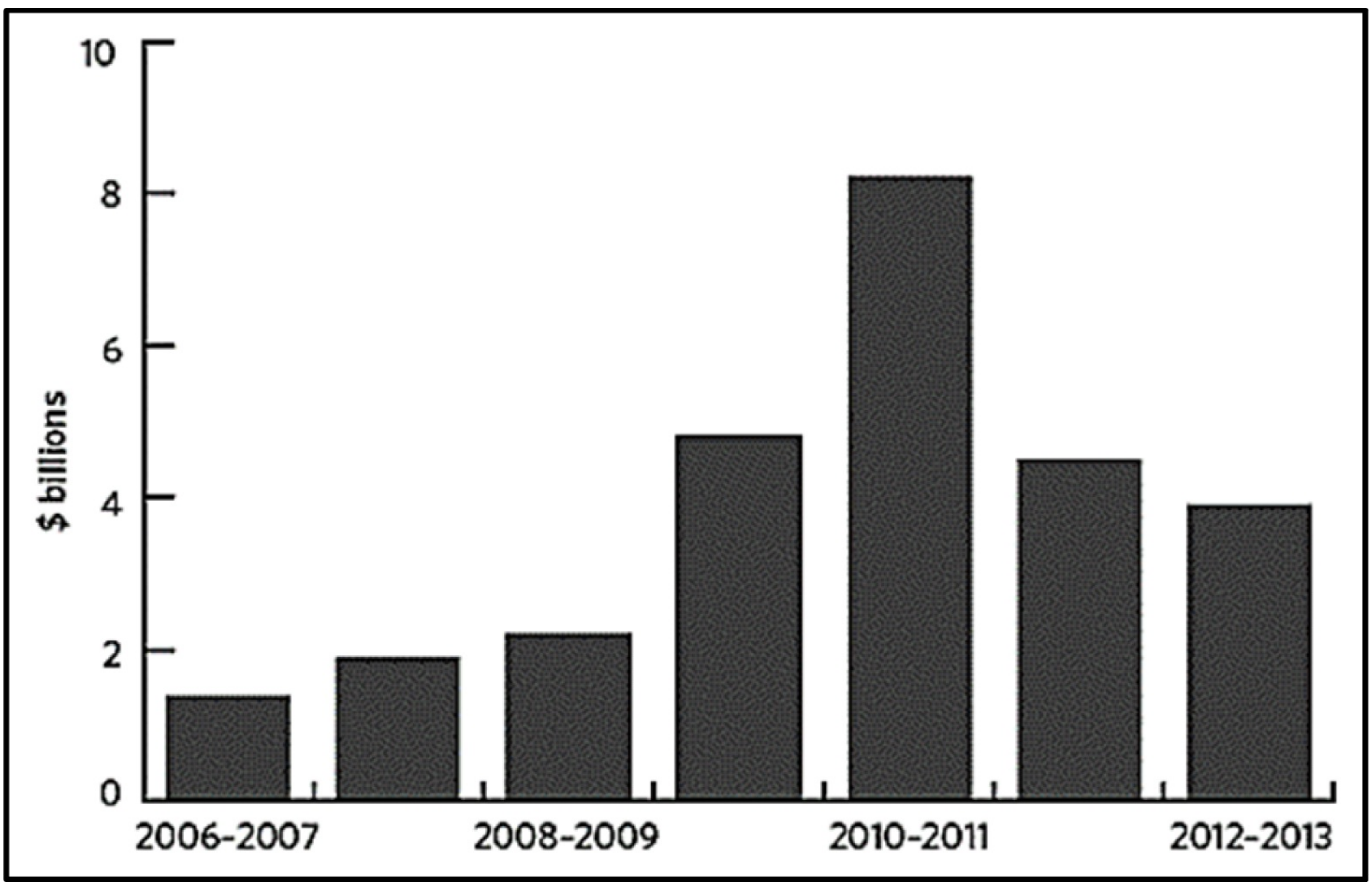
In the 1990s, the Canada Infrastructure Works Program (1994 to 1999) was the main form of federal support, though it allocated only $3 billion (approximately) and required $4 billion from provinces and municipalities. Federal support increased and diversified in the 2000s, the main examples being the Infrastructure Canada program (2000 to 2010; $2 billion), the Municipal Rural Infrastructure Fund (2004 to 2014; $1.2 billion), the Canadian Strategic Infrastructure Fund (2003 to 2013; $4.3 billion), and the Building Canada Fund (2007 to 2014; $8.8 billion). The Building

Canada Fund is cost shared: for city infrastructure, all levels of government jointly fund each project. Public transit initiatives also include the Public Transit Fund (2005 to 2006; $400 million), and Public Transit Capital Trust (2006 and 2008; $900 million and $500 million). Public transit has traditionally been a municipal responsibility but with the Infrastructure Canada program, it has become a category eligible for federal funding. Another prominent program is the Gas Tax Fund (providing $11.8 billion between 2007 and 2014), and as of 2014 this has become permanent with the federal government agreeing to contribute $2 billion per year.

In 2007 Ottawa introduced its $33 billion Building Canada Plan, later the New Building Canada Plan, to which by 2014 it has committed $75 billion toward provincial and municipal public infrastructure over the coming decade. In contrast to previous programs, the federal government touts the New Building Canada Plan as flexible, predictable, and the largest and longest in Canadian history.[23] There are several nested components to it. It includes revenue measures like the $32 billion Community Improvement Fund (involving the Gas Tax Fund and a GST Rebate for Municipalities), $14 billion in expenditures on the New Building Canada Fund, $6 billion in existing programs, and an additional $1.25 billion in funding for the P3 Canada Fund (more on this item below). The Infrastructure Stimulus Fund was allocated $9 billion in the 2009 federal budget, for infrastructure built by March 31, 2011. Federal support was restricted to half (50 percent or less) of the capital costs. Taken together, there has been a clear increase in federal infrastructure spending since 2006 (particularly in the years immediately following the 2008 global financial crisis when *temporary* stimulus measures were enacted in 2010-11) (Figure 5).

There can be no doubt that recent federal infrastructure spending initiatives represent an improvement over previous years but several concerns remain. First, the plan is not quite as ‘flexible’ as suggested given that provinces and cities must still come up with iterative or piecemeal proposals by applying for federal funding on a project-by-project basis. This discourages integrated long run planning and ensures Ottawa’s commitment remains sufficiently vague as to what exactly will be funded, when, and to what degree.[24] Second, though it is a 300 percent increase in federal spending on infrastructure since 2006, the current plan will not actually close the infrastructure gap – which says as much about current spending as it does about the decades of underfunding. Even with the recent increases, federal spending amounts to only 0.5 percent of GDP, whereas provincial and territorial leaders say 2 percent is required.[25] For their part, provinces are currently spending approximately 2 percent of GDP, leading all Premiers to agree on the "need for an overall increase in federal infrastructure investments" at the 55th Annual Premiers' Conference.[26]

Figure 5. Annual Federal Infrastructure Spending



Source: J. Dupuis and D. Ruffilli, *Government of Canada Investments in Public Infrastructure*. Ottawa: Library of Parliament. 2011

Given the chronic shortfall in public money for infrastructure, and the concomitant return of fiscal austerity more generally since 2010, this challenge has created an opportunity for privatization enthusiasts to argue that the public-private partnership (P3) model offers a readymade solution. TD Economics, Deloitte, and the Canadian Chamber of Commerce, just to name a few, recommend greater use of the P3 model since it is uniquely able to leverage private financing for the delivery of public infrastructure and services. For their part, the federal government has been eager and acquiescent on the P3 front, with a significant role now carved out for privately financed P3s in recent infrastructure spending schemes, namely through the New Building Canada Fund operated by Infrastructure Canada and the P3 Canada Fund overseen by PPP Canada.[27] However, as the next section documents, the shift from government to private financing of public infrastructure is far from innocuous, making it a troubled long run strategy.

SHIFT #2: FROM PUBLIC TO PRIVATE

Distinguishing features of the P3 model include lengthy (multi-decade) lease-based bundled contracts and complex risk sharing arrangements.[28] They can be used in all areas of public infrastructure and service provision (e.g., hospitals, schools, water and sewage facilities, bridges and highways). Infrastructure P3s involve the private sector in a variety of ways, the most common form being the design-build-finance-operate/maintain (DBFO or DBFOM) model which features contracts running upwards of 30 years. Depending on the type of project, the operational component will privatize support services such as security, help desk, food, laundry, and housekeeping; maintenance includes physical plant upkeep, grounds keeping, and repairs. P3s therefore introduce, to varying degrees, profit-making and private partner control and decision-making into the heart of public policy.

Greater market dependence for the public sector is promoted largely through New Public Management ideals that aim to transform the government and its agencies into the procurer of services rather than the provider.[29] P3s are a unique form of public/private collaboration and privatization, setting them apart from, although located within the same family as, full-scale asset divestiture, contracting out, and joint ventures. With P3s in particular there is an assumption (rooted in the public choice school of thought and neoclassical economics) that partnering with the private sector will avoid the problems associated with an inherently inefficient public administration.

A P3, it is argued, can more effectively deliver services and infrastructure when compared with traditional public methods, as it uniquely harnesses the efficiencies, innovative capacities, and (financial) resources of the private sector.[30] Project efficiencies and innovation are to be generated when private for-profit partners compete for contracts that transfer a wide range of risks and responsibilities, and when private partner performance is linked with expected revenue and profit making.[1]

These arguments suggest benefits for the public sector through reduced costs and better value for money than traditional public procurement, however, as Grimsey and Lewis summarize, “in risk allocation, nothing is free.”[31] Prospective private partners build risk premiums into their bids as a form of “self-insurance”. Private partners are therefore compensated for accepting certain project risks whether they arise or not, and indeed this is a major source of private partner profit making with P3s. This model tends to be more expensive than traditional projects in other ways as well. Increased costs typically relate to the higher interest rates paid by the private sector, but can also result from higher than bid construction costs, as well as the administrative and legal fees that accompany P3s. Vining and Boardman have labeled additional hidden costs associated with P3s as 'transaction costs', which include: contracting and negotiation costs, and formal contract agreement costs such as monitoring, renegotiation, and termination.[32]

In the UK, where these types of partnerships first began as the Private Finance Initiative (PFI) and where P3 markets remain the most sophisticated of any, recent reports analyzing decades of P3 policy foreshadow worrisome implications for Canada's increasingly widespread use. Graham Winch of Manchester Business School reports that "the value-for-money case for PPP in the public sector has yet to be proven. The benefits gained from the availability of 'extra' finance, the transfer of risk from public to private sector, and improvements in decision-making processes are too nebulous to provide any certainty that they outweigh all the known problems".[33] Problems include, for example, that PFI private financing costs are on average 2 to 3.75 percent higher than direct public funding and that the average private finance contract took nearly twice as long to negotiate than large conventional projects.[34]

In Canada, case study evidence points to similar results. For example, in 2012 Siemiatycki found that for 28 P3 projects developed in Ontario over the past decade the average cost was 16 percent higher than it would have been with traditional public tendering.[35] Boardman and Vining summarize the Canadian experience as one where "evidence that P3s meet the public interest is scarce."[36] In Ontario, the province most eager to use P3s for its public infrastructure, there has yet to be any systematic analysis of the track record of risk and performance associated with traditional public procurement. Despite these drawbacks, there is a growing normalization of P3 use in Canada at all levels of government, with some 200 infrastructure projects having been developed over the past two decades.[37]

Private financing through the P3 model must either be paid back by the state through availability payments or the public directly through user fees. In that sense, it is a mechanism of infrastructure *financing*, not *funding* – funds for public infrastructure ultimately come from taxpayers or service users one way or another. As Boardman and Vining say, P3 in Canada represents 'rented' money.[38]

This money could be raised in many ways, and different financing arrangements hold unique implications for service users, taxpayers, and government.

The total capital cost of a P3 project may not be drawn entirely from financial markets. In fact it has been noted that a distinctive feature of the 'Canadian model' is the use of large amounts of public money upfront.[39] With the $2.1 billion Canada Line in Vancouver, for example, only one third of the capital costs were covered privately. For P3s generally, private financing is typically split between debt and equity. An equity stake involves fundamental ownership rights over the P3's private partner (a firm, consortium, or special project vehicle), entitling asset holders to revenue after costs are met and debt obligations paid.[40]

Debt during the construction phase of a project is often secured through private commercial banks, with bond financing used for the operational phase. Stakeholder investors (equity holders) are typically engineering, procurement, construction, operations, and maintenance firms; project investors (debt holders) are usually pension funds, sovereign wealth funds, infrastructure funds, and banks (public investment banks and private commercial banks).[41] Wall Street infrastructure funds in particular have grown substantially since the global financial crisis, as public infrastructure becomes increasingly seen as an asset waiting to be tapped by private investors.

Ever-more sophisticated, the reorganization of debt through 'financial engineering' can significantly reduce private investors' costs and improve revenue earnings for private partners. Providing an avenue for profit making of (potentially) greater significance than operational efficiencies, design enhancements, and project cost control are the typical elements used to justify P3 infrastructure.[42] Mechanisms like debt swaps and sweeps that switch from short term to longer term liability, change the nature of interest rate payments, restructure dividend payouts and debt repayment schedules, allow for new dimensions of profit making beyond revenue earned from the infrastructure itself (e.g., tolls, user fees).[43]

Not only does financialization turn infrastructure into less of a public good than a financial asset, the involvement of private debt and equity owners alters the governance of public infrastructure as well. O'Neill summarizes the three principal implications of P3 infrastructure: services must be commercialized in order to generate competitive returns for private investors (displacing other concerns);

infrastructure design must conform to the characteristics of a financial instrument (e.g., ownership, management, regulatory environment, and material performance); and risks must be controlled in a manner consistent with private property rights and commercial/investor interests.[44]

Further, as explained by Torrance, through private partner entitlements, the governance of P3 infrastructure becomes splintered or unbundled from other municipal infrastructure with the former controlled by global investors and the latter controlled by local decision makers.[45] Shrybman raises a similar concern with P3 hospitals, only in this case he warns of the potential for a parallel private-for-profit regime to be established within the public system given that the private partner is granted control over many support services critical to care within Canadian hospitals.[46]

In light of the complexities involved with P3 schemes, and the degree of specialized knowledge required, new forms of institutional support through the creation of P3 units (sometimes called P3 agencies) are now considered an important step in the institutionalization of P3 use. As Jooste and Scott put it: “The move toward private participation in infrastructure does not simply substitute private sector capacity for public sector capacity, *it requires new forms of public sector capacity to be developed to overcome [P3] challenges*" (emphasis added).[47] P3 units promote and evaluate these projects and act as repositories of knowledge which facilitates policy learning by building government expertise surrounding the complex bidding, negotiation, and operational phase of P3 projects.[48] The policy promotion attribute of P3 units has in some cases raised concerns over the neutrality of their project evaluation activities.[49]

With several P3 units already in existence at the provincial level in Canada (e.g., Partnerships BC and Infrastructure Ontario), other orders of government were left without this promotion and support until 2007 when the federal government created PPP Canada to 'develop the Canadian market for public-private partnerships' at the municipal level in particular, but also within First Nations communities, federal departments, and to support provinces that lack their own P3 unit.[50] More than a technical advisor, PPP Canada also received substantial funding commitments from the federal government of $2.8 billion per annum for 2011-2013.[51] The P3 Canada Fund was guaranteed again in Budget 2013 with a $1.25 billion commitment "to continue supporting innovative ways to build infrastructure projects faster and provide better value for Canadian taxpayers through public-private partnerships" (described in chapter 3.3 *The New Building Canada Plan*).

Budget 2014 renewed the federal commitment to the P3 Canada Fund once more. As the name implies, PPP Canada exclusively supports P3 projects, thus municipalities and other jurisdictions are able only to access technical and financial assistance if a project uses the P3 model. The P3 Canada Fund and Infrastructure Canada's New Building Canada Fund are thus significant sources public money spent on co-lending, underwriting, and other public financing guarantees offered for privately financed P3s in Canada. PPP Canada also spends a great deal of public money on fees to private sector consultants hired to assess P3 projects on behalf of PPP Canada, raising the issue of whether this endeavour is of value for money for the public and the question of whether the public sector truly gains any retainable expertise given the degree of reliance on private consultants.

As of January 2015, as indicted in Table 3.1, twenty-three projects have received funding commitments of various sizes from the P3 Canada Fund and PPP Canada. Nearly all are municipal projects and spread across the country. All are broad spectrum P3s, involving the for-profit sector in a range of roles, DBFOM (where the private partner designs, builds, finances, operates, and maintains the infrastructure) being the most common by far. Approximately one third are public transit projects and another third are wastewater and solid waste projects, both particularly germane to municipal-level governance. These are sorely needed elements of infrastructure renewal in Canada, and thus the P3 Canada Fund targets some of the principal areas of municipal need.

If P3s were problem-free, this would be a wholly appropriate and beneficial arrangement. Given that there are many drawbacks and much public resistance to privatization in sensitive areas like municipal water systems, cities like Saint John now feel they have ‘no choice’ but to go with a P3 given the preference for this option by the current federal government. Not only is private financing shifting infrastructure governance into the private sector, but P3-tethered federal funding all but forces municipalities to choose this route whether desirable or not.[2]

Table 3.1: Canadian P3s with support from the P3 Canada Fund and PPP Canada

Project Type	Project Name	Location	Federal Funding	PPP Type
Green Energy Infrastructure	Kokish River Hydroelectric Project	`Namgis First Nation, BC	$12.94mn	DBFOM
Regional and Local Airport Infrastructure	Iqaluit International Airport Improvement Project	Iqaluit, NU	$77.30mn	DBFOM
Public Transit Infrastructure	The City of Calgary Stoney CNG Bus Storage & Transit Facility	Calgary, AB	$48.40mn	DBFM
	Edmonton Light Rail Transit System	Edmonton, AB	$250.00mn	DBFOM
	Saskatoon Civic Operations Project	Saskatoon, SK	$42.90mn	DBFM
	GO Transit East Rail Maintenance Facility	Whitby, ON	$94.80mn	DBFM
	Lincoln Station Project	Coquitlam, BC	$7.00mn	DBF
	Barrie Transit Facility Project	Barrie, ON	$5.80mn	DBFOM
	Lachine Train Maintenance Centre	Montreal, QC	$25.00mn	DBF
Brownfield Redevelopment Infrastructure	Downtown Eastside Housing Renewal Project	Vancouver, BC	$29.10mn	DBFM
Wastewater Infrastructure	Hamilton Biosolids Project	Hamilton, ON	$22.91mn	DBFOM
	Regina Wastewater Treatment Plant	Regina, SK	$58.50mn	DBFOM
	Biosolids Energy Centre	Greater Victoria, BC	$83.40mn	DBFOM
	Biosolids Management Facility	Greater	$11.00mn	DBFOM

		Sudbury, ON		
	Evan Thomas Water and Wastewater Plan	Kananaskis Country, AB	$9.95mn	DBFOM
	Lac La Biche Biological Nutrient Removal (BNR) Wastewater Treatment Facility	Lac La Biche County, AB	$3.80mn	DBOM
Solid Waste Management	Sorting and Waste Treatment Centre for the Regional County Municipality of Haute-Yamaska	Granby, QC	$12.00mn	DBFOM
	Organics Biofuels Facility Project	Surrey, BC	$16.90mn	DBFOM
Local Road Infrastructure	Saskatoon North Commuter Parkway and Traffic Bridge Replacement	Saskatoon, SK	$66.00mn	DBFOM
	North Saskatchewan Bridge	Edmonton, AB	$36.80mn	DBFOM
	Chief Peguis Trail Extension	Winnipeg, MB	$25.00mn	DBFM
Water Infrastructure	Saint John Safe Clean Drinking Water	Saint John, NB	$57.30mn	DBFOM
National Highway System Infrastructure	Regina Bypass Project	Regina, SK	$200.00mn	DBFOM

Source: PPP Canada 2015.

CONCLUSIONS

Infrastructure procurement policies contain inherent ambitions. Job creation and aggregate demand stimulation were reflected in employment- and growth-oriented public works programs initiated during the postwar era, for example. Crown corporations have historically featured social mandates which favour local suppliers or community-building through their purchasing and sales operations. Alternative service delivery like P3s and privatization seeks to transform the government from a provider of public services into a purchaser of private commodities. Private financing in the Canadian context is being used to close an infrastructure gap produced by decades of chronic underfunding by the federal government, the result of which has been to shift the burden of much-needed but expensive and aging infrastructure onto the shoulders of already cash-strapped municipalities. Privately financed P3 infrastructure creates an additional shift in society by redistributing payment burdens into the future: from today's users, taxpayers, and governments, to tomorrow's. Given that P3s are more expensive in the long run, and inhibit public sector control and decision-making throughout their contract lifespan, an indefensible asymmetry of enjoyment and responsibility is being established today with the P3 schemes of tomorrow.

Addressing the need for greater public infrastructure investment without resorting to privately financed P3 deals requires innovative public options to counter the easy (but misleading) appeal of the ‘build now, pay later’ P3 approach. CUPE suggests two solutions to the funding dilemma: new forms of federal support for the costs of public infrastructure such as the creation of a federal Public Asset Fund (proposed by the Canadian Centre for Policy Alternatives and echoing similar demands by the Canadian Healthcare Association and Association of Canadian Academic Healthcare Organizations), and the use of bond markets to finance municipal infrastructure. Greater municipal use of bond markets would first require changes to balanced budget legislation imposed provincially and even then would bring its own unique challenges, including, but not limited to, the issue of whether bond financing would be prohibitively expensive given municipalities’ poorer credit ratings and relatively narrow revenue base. Issuing federal bonds to pay for municipal infrastructure would be a more viable option.

Whatever the solution, it is clear that municipalities require greater federal support and that all Canadians stand to benefit from a renewal of public capital stock. Effective public stewardship of this investment in the future can only be hindered by higher price, privately financed P3 deals which shift control and decision-making away from democratic channels for decades to come.

Footnotes

[1] Types of risk commonly transferred through a P3 include: site risks (site conditions, site preparation), technical risks (design), construction risks (cost overruns, delays in completion, failure to meet performance criteria), operating risks (cost overruns, delays or interruption in operation, shortfall in service quality), financial risks (interest rates, inflation), project default risks, asset risks. See D. Grimsey and M.K. Lewis, M.K. *Public Private Partnerships*. Cheltenham, UK: Edward Elgar 2004, 180-182.

[2] Provincial support for public infrastructure is equally tied to P3 use in several jurisdictions, most prominently BC and Ontario where P3s are now the de facto standard way in which provincial-level infrastructure like hospitals and highways is delivered. Furthermore, provincial imposition of tight borrowing restrictions on municipalities and local agencies does not extend to P3 use which both tacitly and explicitly encourages private financing given that it is often accounted for as a lease/service payment rather than a long run debt obligation. Of course not all provinces are P3 enthusiasts, but where such a proclivity exists (most notably BC, Alberta, and Ontario), this combines with federal P3-tethered aid to all but ensure that municipalities are compelled to explore the P3 option for their large-scale infrastructure renewal.

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Chapter 4

THE FEDERAL GOVERNMENT AND OLD AGE SECURITY: THEN, NOW AND THE FUTURE

Allan Moscovitch, Nick Falvo and David Macdonald

INTRODUCTION

In **How Ottawa Spends 2013-2014**, Michael Prince took up the Harper Conservatives' agenda on seniors and social policy, arguing that there has been a change in the way that the government now looks at seniors.[1] In this chapter we revisit the major changes which the Conservatives have introduced, such as the extension of the age of eligibility from 65 to 67 years old, and the voluntary delay of Old Age Security (OAS) from 65 up to the age of 70. We start with a brief examination of the origins of the old age security in 1952. We also look at the origins of the Guaranteed Income Supplement (GIS). What does history tell us about the core principles of these programs? Do the changes brought in by the Conservatives result in changes to the core principles of these programs?

Prince effectively outlines the range of changes which have taken place during the Conservative years and provides estimates of the total cost. Here we examine in more detail the impact of the changes on the incomes of seniors. We analyze whether more people will be put into poverty as a result of the extension of the age of eligibility of the OAS to 67. This is particularly important given the reduction in the poverty of seniors attributed to the Canadian public pension system. We will also look at who might take advantage of the option to defer OAS receipt.[2]

We then take a close look at several other possible changes that the Conservatives might have considered, despite the lack of evidence that OAS or GIS expenditures were going to cause structural deficits at all. There are many choices. Since, as we will see, the OAS was originally a funded program, and funding is a key issue, they could have considered establishing a social security fund. As presently organized, the OAS has a taxback component which begins at higher income levels. In order to economize on the use of funds, the government could have considered: lowering the income band where the OAS tax backapplies; reducing the value of the OAS by making the GIS benefit produce more income for lower income seniors; and combining the OAS and the GIS into one program, since both are now effectively means tested.

Lastly, in the 2015 Budget, the Harper government offered several changes to the Tax Free Savings Accounts (TFSA) on the grounds that this tax reduction is a way in which it is providing more income to seniors. In effect the TFSA is a complement to the OAS since it is putting more income into the hands of seniors, especially those with lower incomes.[3] Here is what the government says about the TFSA

> "The TFSA provides greater savings incentives for low- and modest-income individuals because, in addition to the tax savings, neither the income earned in a TFSA nor withdrawals from it affect eligibility for federal income-tested benefits and credits, such as the Canada Child Tax Benefit, the Goods and Services Tax/Harmonized Sales Tax Credit, the Age Credit, and Old Age Security and Guaranteed Income Supplement benefits.[4]

We take a look at the claim that the TFSA is an important complementary benefit to the OAS and GIS for seniors.

ORIGINS

In 1927, the *Old Age Pensions Act*was passed, authorizing the federal government to enter into agreements to reimburse participating provinces for 50 percent of the cost of introducing a means-tested pension plan for people aged 70 or older, with income under $365 a year ($5,120 in 2015 dollars). The maximum pension was set at $20 a month, or $240 per year($3,370 in 2015 dollars). Applicants had to have lived in Canada for 20 years and in the province of application for five years.[5]

Bryden, in *Old Age Pensions and Policy Making in Canada*, notes that a 1929 report on the original 1927 scheme described it as a "non contributory, deserving poor type of legislation." The report went on to describe the original OAS as a "comparative failure" where it had been tried previously because "it put a premium on thriftlessness and fraud."[6] During the 1930s there was discussion about the growing costs of the original means-tested and non-contributory program. A federal finance department brief to the Rowell Sirois Commission in 1938 expressed concern about the lack of control over costs, and the long-term implications of the old age pension program. The brief stated that "any non contributory scheme…eventually may reach the point where it may actually endanger the finances of the nation."[7]

These early concerns about universality and affordability are themes which recur throughout the history of the program; they have also recurred in contemporary discussions about the appropriate direction for old age pensions.

The current OAS program has its origins in theaftermath of World War II. A 1950 report of a joint House of Commons and Senate Committee recommended the establishment of a federal, universal flat rate pension of $40 a month for all Canadians over the age of 70, and a supplementary plan for low-income persons between the ages of 65 and 69 ($640 a month in today's dollars). The report supported the contributory principle for this universal pension "both as a means of raising funds and of establishing an association between an individual's contribution to the program's cost and the future benefits, although the relationship would not be direct."[8]

In other words, the report recommended that those receiving benefits in future feel a connection to the receipt of the payments. They would feel that it was reasonable for them to receive the benefits since they had paid for them, at least in part. The *Old Age Security Act* and the *Old Age Assistance Act* were both passed in 1951, providing the legislative basis for the new pension program which came into being on 1January 1952. The program required residence in Canada for the 20 years prior to an application for benefits. Absence during the 20-year period "could be offset by prior residence of at least twice the total length of absence."[9] First Nations, explicitly excluded from the original 1927 legislation, were eligible for this new program.

A key feature of this new program was the "special levy, called the 'old age security tax', (which) was imposed to cover costs"[10] of the new program. It was a combination of three taxes: a two percent federal sales tax, a two percent federal income tax and a two percent federal corporation tax. It was referred to as the 2-2-2 formula by the Minister of Finance. The funds raised from these three revenue sources were paid into a special Old Age Security Fund, which was made a separate account in the government's consolidated revenues, and used to cover the benefits which were to be paid out. Any shortfall between the total of benefits paid out and the revenues raised would be loaned to the fund from government revenues; but it was expected that the cost of the universal pension would be covered by the revenuewhich it generated.[11]

The second part of the pension program was a variation on the previously existing federally cost-shared provincial pension, now restricted to people in the 65-69 age group. The federal government would pay 50 percent of the costs. Following changes instituted in 1947, the provinces were free to establish rates and qualifying income conditions; but the federal government would only share in the costs related to the conditions which they set out—$720 a year for a single person, and $1200 for those who were married ($9,200 and $15,300 respectively in today's dollars).[12]

In 1959, "the 2-2-2 formula was changed to a 3-3-3 formula, so that the tax rate on each of the three components was increased, on a staggered basis, to three percent from two percent. As well, the maximum for the personal income tax component was increased to $90 from $60 annually. The personal income tax component was again increased effective 1 October 1963, with a four percent rate applied up to $120 per year."[13]

In 1966 new legislation was introduced to modify the OAS, which would now be available to everyone who met the qualifying conditions and was over the age of 65. In addition, the GIS was introduced so that seniors would have additional support until the Canada Pension Plan (CPP) would become available to them.

Between 1970 and 1973 there were several changes which froze the OAS benefit levels at $80 a month ($440 in today's dollars), made it more difficult for people to qualify for the OAS, and increased the benefits from the GIS consistent with government philosophy at time of moving away from the universal program towards more income tested benefits for people 65 and over. By 1973, the OAS was raised to $100 ($550 in today's dollars).[14]

On 1 January 1972, the taxes in support of the OAS were folded into general taxation as part of a revision of the tax system in Canada, instituted in the *Income Tax Act of 1971*. The fund itself was not abolished until 1975; the federal government was required to transfer credits to the fund in lieu of the revenues generated by taxation. However, in June 1975, an amendment to the Old Age Security Act abolished the Old Age Security Fund. Since 1975, both the OAS and the GIS have been paid out of general government revenues. Over the period from 1952 to 1972, the fund collected a surplus of $1.6 billion after OAS payments were made.[15] In 1989, the OAS taxback was introduced which fundamentally altered the design of the OAS by taking back a portion of the OAS, making it an income-tested program above a threshold level of income.

In sum, while the OAS in the postwar period was initially intended for people over 70, it was made available to all those 65 and over in 1966. While Canada does not have an official age of retirement either federally or provincially, the availability of the OAS at 65 has had the effect of setting the standard for retirement. The change introduced by the Conservative government in 2013 to increase the age of OAS (and GIS) benefits to 67 holds the implication that in the near future, the effective age of retirement will be increased. Furthermore, while the OAS started as a universally available program, this was done on the basis that the supplement to it would be means tested. In the 1960s, the same principle was effectively maintained with the replacement of Old Age Assistance by the GIS. In the 1980s, the universality of the OAS was only maintained up to a threshold, changing the design of the base retirement income plan. Lastly, when it was first introduced, the OAS was paid out of a fund established with revenues from a series of earmarked taxes. The fund was terminated in the 1970s at a time when the federal government was receiving increased tax revenues as a result of the rapid growth of the Canadian economy.

TODAY'S OAS AND GIS[16]

Today, the following characteristics apply to Canada's income support system for seniors:

- The full OAS is available to all eligible Canadians with incomes below$71,592.[17]
- The full OAS payment as of May 2015 is $563.74 per month or $6764.88 per year
- January 2015 there were 5,530,420 OAS beneficiaries. Service Canada projects an annual expenditure of $34.921 billion for the 2015-16 fiscal year.
- Everyone who qualifies for the OAS may apply for the GIS as long as their individual or combined other income (couple) does not exceed the allowable maximum.[18] The GIS is taxed back at the rate of 50 cents for every dollar of income received by the applicant.
- Income from employment, pensions, RRSP withdrawals, investment, capital gains, rent, C/QPP, and other benefit programs is counted in determining the total income of the applicant.

- Income from TFSA accounts is not counted in determining eligibilityfor the OAS or the GIS.[19]
- The maximum GIS payment is $765.93 per month or $9191.16 per year for a single person. A partner of a spouse who is receiving the OAS is eligible for a maximum GIS payment of $507.87 a monthor $6094.44 per year.[20]
- In January 2015 there were 1,754,757 GIS beneficiaries. Service Canada projects a total GIS expenditure of $10.606 billion for fiscal 2015-16.[21]
- Combined projected expenditures are $46.072 billion including small amounts for the survivor benefit and the spouse's allowance.
- Both the OAS and the GIS are paid out from general tax revenues. No taxes are identified as a specific source of revenue and no fund exists on which the federal government can draw to pay out benefits for either program.

SENIORS AND POVERTY

There are several ways to look at poverty statistically. Statistics

Canada has long used the Low Income Cut Off (LICO), which suggests that individuals and families have low incomes if they have to spend more than 20 percentage points more than the average on food, clothing and shelter. However, these data have not been adjusted since 1992. Given the importance of transfers and tax-related social programs, data are most often adjusted for the impact of transfers and taxes on incomes. Data drawn from Statistics Canada's *Cansim*[22] (see Table 4.1 below) suggest that the percentage of persons in low-income elderly families has declined consistently over time from 17.7% in 1976 to 4.4% in 2012. The change has been particularly pronounced for elderly individuals, most of whom were non-earners. The percentage of elderly males in poverty has dropped from 55.9% to 11.0% while for elderly females the percentage has dropped from 68.1% to 13.2%.

Table 4.1. Low income line: Low income cut-offs after tax, 1992 base
Percentage of elderly persons in low income

	%	%
	1976	2012
All elderly persons in couples or families	29.0	4.4
Unattached elderly males	55.9	11.0
Unattached elderly females	68.1	13.2

Source: Cansim 206-0003 and 202-0802

The after-tax Low Income Measure (LIM), used by the OECD and more widely in Europe, shows a similar pronounced decline in poverty among the elderly over time; but it also shows that the percentage of elderly people in poverty has been growing in the 21st century with the growth of income and wealth inequality in Canada. Using the LIM measure, an individual or household is in poverty if their adjusted income is less than 50 percent of the median adjusted income. In 1976, according to the LIM, 22.6% of those in elderly families were poor; but by 1996, this number had declined to a mere 3%. Since 2003, the percentage of elderly Canadiansin poverty has risen back up to 9.9%. Since the third standard measure of poverty, the Market Basket Measure, has only been calculated by Statistics Canada since the year 2000, it does not provide a measure over a long enough period to be included here.

While there could be several reasons for this observed decline in the poverty of elderly people, the existence of social benefits (Old Age Security, Guaranteed Income Supplement, Canada Pension Plan) for people of retirement age is likely to be amongst the most important. While OAS and GIS are the principal sources of income, recent research suggests that for individual seniors in the crucial third decile, it appears that CPP/QPP benefits may be playing an increasingly important role.[23]

THE CONSERVATIVES AND OLD AGE PENSIONS: A SECOND LOOK

The Harper government announced in 2012 that it would be extending the age of eligibility of the OAS and GIS from 65 to 67.[24] As a result, it is almost certain thatpoverty willrise for those aged 66 and 67, if and whenthese changes are implemented. Information provided in Tables 4.2 and 4.3 makes it clear that once Canadians reach the age of 65 and receivethe OAS and GIS, their poverty rate drops dramatically. It can be inferred from this that OAS and GIShas likely had a very strong impact in reducing poverty among seniors; delaying the age of OAS and GIS receipt by two years therefore delays the age at which poverty is reduced among seniors households.

One likely consequence of the change will be a substantial increase in the number of people who will either continue to rely on social assistance or will begin to rely on social assistance for the two years from 65 to 67. It is likely that social assistance caseloads will rise after the age change, probably by about 30,000 seniors across the country. For example, it is clear from figures presented in Table 4.4 that, as soon as seniors reach the age of 65 (and begin receiving OAS and GIS), the percentage receiving social assistance drops significantly. Delaying the ‘age of transition’ to OASby two years would prolong dependency on social assistance. Since access to GIS is through the OAS, then those seniors receiving social assistance will be receiving substantially less income. For example at current rates, a single senior with no other income would have access to $17,088; but as a single welfare recipient, the same person would likely have access to between $7,000 and $11,000 per year depending on the province, and between $6,000 and $16,000 in the territories[25]. In other words, on social assistance, they would most likely be living on a substantially lower income. Not only will a large number of people be likely thrown into poverty, but they will be deeply in poverty. While changing the age of access to the OAS/GIS will reduce federal expenditures, it will increase provincial expenditures since it is the provinces which will be picking up the additional costs. Further, since social assistance costs are partly supported by federal payments under the Canada Social Transfer, the provinces and territories may be asking for transfer payment increases to help cover their increased costs. It will result in another case of shifting responsibilities between one level of government and another.

Table 4.2

Poverty Rate by Age, Gender and Family Status, Seniors 61-69, 2005-2009			
	Family	**Single-Female**	**Single-Male**
61	9%	36%	27%
62	8%	44%	23%
63	9%	38%	32%
64	10%	37%	22%
65	2%	21%	15%
66	1%	15%	13%
67	2%	13%	12%
68	2%	15%	7%
69	1%	16%	5%

Source: Special Tabulations using the Survey of Labour Income Dynamics, 2005-2009

Special Tabulations prepared by Richard Shillington, Tristat Resources, 2015

Table 4.3

Senior Households with a Member aged 66-67, by Poverty Status, with and without OAS/GIS Income, 2005-2009				
	Poor Households		**Poverty Rate**	
	With OAS/GIS	**Without OAS/GIS**	**With OAS/GIS**	**Without OAS/GIS**
Total	33,000	124,000	7%	25%
Senior - Couple	14,000	76,000	4%	19%
Single - Female	11,000	31,000	17%	48%
Single - Male	8,000	18,000	21%	46%
Source: Special Tabulations using the Survey of Labour Income Dynamics, 2005-2009				

Special tabulations prepared by Richard Shillington, Tristat Resources, 2015

Table 4.4. Count and Percentage of Canadian Individuals Receiving Social Assistance by Age 2010

	Count on social assistance		% of that age on social assistance	
	No	Yes	No	Yes
60	372483	28868	93%	7%
61	355898	20719	94%	6%
62	358041	31746	92%	8%
63	392411	27042	94%	6%
64	398743	29507	93%	7%
65	278573	28217	91%	9%
66	271454	11219	96%	4%
67	292091	11585	96%	4%
68	255164	9128	97%	3%
69	263803	17618	94%	6%
70	226752	7061	97%	3%

Source: 2010 Survey of Labour and Income Dynamics PUMF

Note: The data in Tables 4 above and 5 below are based on the 2010 Survey of Labour and Income Dynamics (SLID) Public Use Microdata File (PUMF), the most recent available at the time of publication. The switch over from the SLID to the Canadian Income Survey in 2012 has delayed delivery of PUMFs for 2011 and updated income data. The paper assumes that the structure of seniors OAS/GIS receipt and social assistance receipt will be distributed similarly to how it was distributed in 2010.

Table 4.5: Canadians Receiving Any OAS/GIS

Age	No				Yes			
	Mean	Income	Count	%	Mean	Income	Count	%
55	$	53,720	490,390	100%		.	-	0%
56	$	47,002	451,875	100%		.	-	0%
57	$	45,490	429,646	100%		.	-	0%
58	$	43,569	446,437	100%		.	-	0%
59	$	41,842	432,168	100%		.	-	0%
60	$	38,883	390,364	97%	$	15,457	10,987	3%
61	$	40,360	352,349	94%	$	15,379	24,269	6%
62	$	38,362	351,656	90%	$	12,712	38,130	10%
63	$	39,769	398,313	95%	$	14,202	21,139	5%
64	$	40,702	380,360	89%	$	12,626	47,891	11%
65	$	61,128	32,237	11%	$	28,145	274,553	89%
66	$	58,408	29,089	10%	$	33,032	253,584	90%
67	$	148,281	13,402	4%	$	29,314	290,274	96%
68	$	94,573	8,432	3%	$	28,456	255,861	97%
69	$	32,562	11,466	4%	$	31,229	269,954	96%
70	$	57,035	4,218	2%	$	30,141	229,595	98%
71	$	86,946	8,049	4%	$	28,814	219,557	96%
72	$	63,516	7,953	4%	$	31,124	189,109	96%
73	$	109,245	4,541	2%	$	29,727	206,041	98%
74	$	130,364	2,766	1%	$	26,973	232,132	99%
75	$	182,406	6,627	3%	$	29,807	207,177	97%
76	$	88,626	4,721	2%	$	26,434	190,974	98%
77	$	54,865	2,373	1%	$	24,589	200,144	99%
78	$	133,621	4,505	3%	$	28,654	168,999	97%
79	$	76,283	3,641	2%	$	28,222	152,328	98%
80	$	137,950	36,148	3%	$	27,942	1,081,948	97%

Source: 2010 Survey of Labour and Income Dynamics PUMF

The 2012 Budget also made it possible for some individuals to take advantage of the option to increase their OAS benefit levels by delaying take up. However, it is difficult to tell if seniors are delaying as a strategy, or whether they are delaying because their incomes are too high. Incomes of those deferring are indeed higher, which is illustrated in Table 4.5.

ALTERNATIVES

When the change from 65 to 67 was presented by the Harper government, it was presented as a part of what was necessary “to ensure the sustainability of the Old Age Security program, which is the largest spending program of the federal government.”[26] However, it was not clear to many observers that the OAS and GIS were not sustainable as they were. For example, according to a July 2012 actuarial report commissioned by the federal government: “Prior to the increase to the age of eligibility, projected total Program expenditures are respectively $32 million and $102 million lower in 2013 and 2022 than under the [previous actuarial report of December 2009].”[27] This does not suggest a system in crisis; to the contrary, this suggests a sustainable program. Further, the Parliamentary Budget

Officer similarly argues that the proposed eligibility age change was not required to maintain a structural surplus.[28]

However, even assuming that some changes to the program were necessary to ensure sustainability, it is worthwhile to ask: was the increase in the age of eligibility the best alternative? Here we explore several other possible changes to the OAS/GIS program design to see whether there were other reforms that the federal government might usefully have considered instead of one that will almost certainly result in increased poverty amongst those between the ages of 65 and 67.

First we consider the expenditure savings from an increase in the age of eligibility. What would the government actually save from increasing the age of eligibility of the OAS/GIS to 67 from 65 in the 2015 tax year? Assuming that the provinces adjust their OAS/GIS programs to 67 (and OAS survivor benefit to 62) to match the federal age change, the federalgovernment (after taxes) would save roughly $5.5 billion annually (based on 2015 figures). This includes both the increase in OAS benefits and GIS and spousal allowance benefits not paid to poor 65 and 66 year olds. Results are presented in Table 4.6.

Table 4.6: Effect of Age 67 Eligibility for OAS/GIS vs Age 65[1]
Selected Ages and Measures, 2015

Age	Person Count (000)	Change in GIS and Spouse's Allowance (millions)	Change in GIS Provincial Top-Up (millions)	Change in OAS Benefits (millions)	Change in Social Assistance (or Replacement	Change in Total Income (line 150) (millions)	Change in After Tax, Disposable Income (millions)
60	450.9	-127.7	0	0	0	-130.9	-117.4
61	431	-102.8	0.2	0	0	-121.9	-90.3
62	434.9	-5.8	-0.1	0	0	-64.2	15.6
63	466.8	-5.4	0	0	0	-77.4	41.7
64	482.5	-76.5	0	0	0	-138.3	-54.7
65	400.1	-392.1	-32	-2437	156.7	-2,665.3	-2,307.2
66	377.7	-324.7	-26	-2,235.6	16	-2,492	-2,212.6
All ages	35,582.3	-983.5	-44	-4,561.4	172.7	-5,602.7	-4,422.1

It is useful to consider the potential savings to the federal treasury from lowering the income level from $70,954 where the OAS recovery tax rate applies while keeping the taxback rate at 15 percent.[29] Decreasing the income level to $60,000 at the lower end would have resulted in a saving of $370 million in 2015 (compared to status quo, after-tax).[2] Lowering it to $50,000 at the lower end would have resulted in a saving of $830 million in 2015 (compared to status quo, after-tax). Finally, lowering it to $40,000 at the lower end would have resulted in a saving of $1.64 billion in 2015 (compared to status quo, after-tax). In other words, the savings are relatively small from lowering the income level where the taxback would apply.

What follows is an extract from the *12th Actuarial Report on the OAS*, published in 2014. It is important to note how few people are actually paying the recovery tax in general and how few are paying it in full.

> The OAS Recovery Tax, which applies to high-income pensioners, effectively reduces recipient rates, since very high-income pensioners may have their benefit completely reduced. It is estimated that 6.4% (or 337,000) of all OAS pensioners in 2013 were affected by the Recovery Tax. Of this group, 124,000 or 2.4% of all OAS pensioners that year had their pensions completely reduced. In 2050, those affected by the Recovery Tax are projected to represent 6.8% (718,000) of all OAS pensioners, while those fully affected are projected to represent 2.3% (246,000) of pensioners. Section IV of Appendix B presents more detailed information on the projected impact of the OAS Recovery Tax (accounting for TFSAs and pension income splitting) on the number of OAS basic pension beneficiaries and total amounts payable.[30]

In other words, despite the institution of the recovery tax, the OAS is currently being paid in full to 93.6 percent of all those who are in the eligible age group, while an additional 4.0 percent receive a partial payment. The question here is:what would be saved by applying the recovery tax from $60,000, $50,000 or $40,000 of income but at higher taxback rates? As an exercise, we ask what the savings would be from increasing the recovery tax rate from 15 percentto 20 percent, and also from 20 percent to 25 percent.[3] In Table 4.7 we present the results. The combination of lowering the income level where the tax back applies and increasing the taxback rate to 25 percent still have together a very small impact. Together these two changes would only result in a saving of $1.23 billion. What the results imply is that the incomes of most people who are receiving the OAS are relatively low such that a substantially lower level at which the taxback applies and a relatively higher taxback rate still do not produce much in the way of reduced OAS expenditures.

Table 4.7: Savings in Various Scenarios vs Status Quo for OAS, 2015[4]

Income at Lower Level (OAS)	.15 (OAS reduction rate)	.20 (OAS reduction rate)	.25 (OAS reduction rate)
$72,809	$0 (status quo)	$80 million	$140 million
$60,000	$370 million	$510 million	$610 million
$50,000	$830 million	$1.06 billion	$1.23 billion

What would happen if, instead of increasing the age of eligibility of the OAS to 67, the federal government reduced the OAS but ensured that the same amount was added to the GIS. This way the income-tested portion of the basic level of the transfer would be protected for those with low incomes. Here we asked what would happen if the OAS were reduced by a sum of $50 per month, and the GIS increased by the same amount. Similarly, what would happen if the sum of $100 or $200 were shifted from the OAS to the GIS? In each of these three cases, what would be the savings in OAS expenditures? The results are presented in Table 4.8. Here we see that the expedient of transferring $100 a month ($1,200 a year) to the GIS from the OAS would result in a substantial saving to the federal government, of a sum of $2.63 billion. The expedient of moving $200 per month ($2,400 a year) would bring a saving of $5.24 billion. Clearly this approach holds considerable promise to a government interested in an expenditure reduction while protecting the incomes of the most vulnerable.

Table 4.8: Savings from Increasing GIS and Decreasing OAS by Equal Amounts, 2015[5]

Amount Moved from OAS to GIS (annual)	New OAS	New Max GIS Single (annual)	New Max GIS Couple (.66 of single) (Annual)	Savings to Federal

	(annual)			Government
$0	$6,820	$8,609	$5,685	$0
$600	$6,220	$9,209	$6,078	$1.37 billion
$1,200	$5,620	$9,890	$6,474	$2.63 billion
$2,400	$4,420	$11,009	$7,265	$5.24 billion

Another possible approach would be to establish an OAS fund and use the fund to produce benefits. What contributions would be required to compensate for the savings generated by increasing the age of eligibility of the OAS and consequently for the GIS?The tax sources for the OAS fund were a 2% federal sales tax, a 2% federal income tax and a 2% federal corporation tax. Together they constituted the old age security tax.

These three tax increases would generate the following (in 2015): a 2% increase in the GST would generate approximately $13 billion a year, a 2% increase in fed income tax would generate approximately $2.9 billion a yearand a 2% increase in the corporate tax would generate approximately $5 billion per year for a total of $20.9 billion. These tax slices would create a substantial Old Age Security Fund which would have more than enough in it to add the approximately $4.4 billion saving from increasing the age of eligibility to 67. Invested for return, the remaining funds ($16.5

billion) would likely be sufficient to generate returns which would compensate for the savings. It would bea start towards the creation of an Old Age Security fund which would eventually become responsible for paying out the OAS and GIS.

WILL INVESTING IN A TFSA HAVE AN IMPACT ON THE OAS AND THE GIS?

The 2015 Budget says the following:

> One low-tax measure we are particularly proud of is the Tax-Free Savings Account. When we introduced TFSAs in Budget 2008, it was the most significant boost to Canadians' ability to save for their future since the creation of the RRSP.
>
> Since then, close to 11 million Canadians – mostly low and middle-income Canadians – have opened a TFSA.

The additions to the TFSA are being presented as the federal government's attempt to assist people with low and moderate income in retirement. How? The answer is that investment income that is sheltered in a TFSA is not counted in considering eligibility for the GIS. The question is: how many people with full OAS and at least some or full GIS eligibility would derive significant income from funds that have been placed in a TFSA?

The Canada Revenue Agency (CRA) website states the following:

> **No Impact on Income-Tested Benefits**
>
> Neither income earned in a TFSA nor withdrawals from a TFSA will affect your eligibility for federal income-tested benefits and credits, such as the Guaranteed Income Supplement and the Canada Child Tax Benefit. This will improve incentives for people with low and modest incomes to save.
>
> **Benefits for Low- and Modest-Income Canadians**
>
> Alexandre and Patricia, a modest-income couple, expect to receive the Guaranteed Income Supplement (GIS) in addition to Old Age Security and Canada Pension Plan benefits when they retire. They have saved for a number of years in their TFSAs and now earn $2,000 a year in interest income from their TFSA savings. Neither this income, nor any TFSA withdrawals, will affect the GIS benefits (or any other federal income-tested benefits and credits) they expect to receive. If this $2,000 were earned on an unregistered basis, it would reduce their GIS benefits by $1,000.
>
> http://www.tfsa.gc.ca/tfsapamphlet-eng.html

Of course, if TFSA access remains cumulative, then some time in the future (after perhaps 25 years) an individual could sell a house and then deposit $250,000 into a TFSA. If it is a principal residence, it is not subject to capital gains tax; and the returns to the proceeds that can be put into the TFSA would also not be subject to tax, being sheltered in a TFSA. At this point, the maximum that can be put into a TFSA is $41,000, including the increase announced in the 2015 federal budget.

A 2012 Finance Canada report sheds some light on what is occurring. Are there significant numbers of individuals with a TFSA who are eligible for the GIS? According to the report:

> Low-income seniors have also been taking advantage of the TFSA. In 2011, Guaranteed Income Supplement (GIS) recipients represented about 6% of TFSA holders, and their TFSA participation rate was 23%—3 percentage points higher than that of low-income individuals in general.[31]

In 2011, approximately 30 percent of adult income earners held a TFSA, with the average value of a TFSA holding at $7,525. While contributions per year stood on average at $3,727, withdrawals were at $986. Further, on balance, TFSA accounts had a net investment loss in 2011. So how are low-income seniors taking advantage of the TFSA? Is it a substitute savings account, or a vehicle for sheltering sufficient capital to have significant positive returns?

Seniors are apparently the age group with the highest participation rate in the TFSA.

> Overall, seniors[6] have been the largest users of TFSAs, with a take-up rate of 40% in 2011. Although many seniors are on a fixed income with a limited capacity to save on an ongoing basis, they have had more time to accumulate wealth and are generally well-placed to redirect their stock of existing savings to tax-assisted accounts such as the TFSA.[7]

It is not surprising to find that participation rates vary by income. Individuals with incomes below $20,000 have the lowest participation rate at 20 percent, rising to just above 30 percent for those with incomes between $20,000 and $40,000. TFSA maximization rates are very low in the bottom half of the population at only 4% on average in 2013.[32] What these data suggest is that most people with low incomes sheltered whatever savings they initially had; moreover, they may have been putting much of their savings into the TFSA. The federal government created a strong incentive for seniors to put whatever savings they have in a TFSA by discounting the income for the purposes of calculating eligibility for the GIS. But how much income is being sheltered in this way? It is an important question to answer if in fact the TFSA is having an impact on senior incomes—especially since the data suggest that at least 25 percent of those with accounts suffered a net loss on their TFSA in 2011. According to the data available in the same Finance Canada report, approximately 440,000 GIS recipients had a total of $4.3 billion in TFSA accounts, or an average of $9,772.72 per person in 2011.

INVESTING IN THE TFSA AND THE OAS

There is a further wrinkle. For the purposes of calculating OAS eligibility, investment income from TFSAs is not counted. This means that the income of moderate income earners who still have some eligibility of the OAS is enhanced if they put their savings into a TFSA rather than an unregistered account. To take an example, consider an individual who is 65 years of age or older with OAS and GIS eligibility—let us assume that they also have $10,000 in a TFSA generating at 5 percent, $500 a year. If this income counted against GIS benefits, it would represent a loss of $20 a monthor $240 a year those benefit payments. At the other end of the spectrum, someone with a high income, above the maximum income for OAS eligibility,and interest income of $500 could save a similar amount through putting their interest bearing assets in a TFSA.

Let us consider a second example. A person with a substantial pension income of $80,000 might also have substantial earnings from holding capital in a savings or equity account. At this point in 2015, and with the additions to the TFSA taken into account, that person could contribute $41,000 to a TFSA and shelter subsequent returns from this principal. If returns are assumed to be 5 percent, then $2,050 dollars can be sheltered through a TFSA. In addition to the loss of taxation on the additional income, this person would have an additional $307.50 of eligibility for the OAS ($2,050 times 15 percent). Similarly, anyone with an income in the recovery tax band (which is currently from $70,954 to $114,815) is subject to a loss of eligibility of 15 percent of the extent to which their income exceeds the minimum of the band.[33]

Using data drawn from the Office of the Superintendent of Financial Institutions Canada (OSFI) in 2012 for the impact of the TFSA on both OAS and GIS, a recent Broadbent Institute report prepared by Rhys Kesselmanstates the following:

> the OSFI 12th actuarial report on the OAS program offers long-range forecasts of these impacts. It projects the proportion of the cohort attaining age 67 in 2050 receiving full or partial GIS benefits at 30.9 percent—five percentage

> points higher than without TFSAs (2014, p. 78). A background document to the OSFI 12th actuarial report projects that the TFSA will boost GIS expenditures in 2050 by $2.8 billion to $35.6 billion, an increase of 8.6 percent relative to the absence of TFSAs, but its "high- cost" variant indicates an annual impact as high as $8.8 billion. The 12th actuarial report also forecasts that TFSAs will reduce the amount of OAS recovery tax collected in 2050 by $1.2 billion to $5.4 billion (2014, p. 77). Based on these figures, the projected future annual fiscal cost of the TFSA with respect to the total OAS program could exceed $4 billion and perhaps substantially more.[34]

In other words, while the final numbers are not clear, it appears that through the institution of the TFSA the federal government has done more than simply create a substantial tax loss; indeed, through its decision to ensure that income from the TFSA would not be counted against eligibility for the OAS or the GIS, it has created a substantial increased expenditure. There is no doubt that this will be a benefit to those people who have significant funds in a TFSA so that they can retain eligibility for the GIS, and to a lesser degree to OAS. Of course, over time, people with more funds (likely with higher incomes and assets) to put into a TFSA will benefit much more.

What we do not know is what will happen when people 65 and 67 are not able to access OAS and GIS. If they have low incomes, they will apply for welfare. Welfare officials will tell them that they must live off of their TFSA until they reduce it to the asset ceiling for welfare, an amount that varies from $300 to $4,000 for an individual depending on which province or territory they are applying in. So forcing them off OAS/GIS will also likely mean that they will no longer have much of the TFSA funds they saved in order to supplement their retirement income.

THE RRSP, THE OAS AND GIS

Another wrinkle is the ongoing effort by the Harper government to complicatethe tax and transfer system to the point where it becomes very difficult to figure out what is happening. It is also based on the principle of not increasing substantially either the first (OAS/GIS) or the second tier(CPP/QPP) of retirement income. Instead, their focus has been on the so-called third tier, on ensuring that people with private incomes in retirement can keep more of it.

If someone has a substantial RRSP and little other income (there are not many people in this category) then they could reduce their withdrawals from theirRegistered Retirement Income Fund (RRIF)at age 71 from 7.38 percent to 5.28 percent in order to retain greater eligibility for OAS and GIS. That is, with $100,000 in an RRIF and a 5.28 percent withdrawal, then the person must take out $5,280 instead of $7,380 —a difference of $2,100. That person's OAS/GIS would drop to $1,055 per month; but with the full amount of the RRIF withdrawal, it would drop to $968.33, a difference of $87 per month or $1,044 for the year. Instead of spending the money, this person could put it into a TFSA and generate greater tax free income which does not count towards OAS/GIS eligibility. It is hard to imagine many people in this situation. A more likely scenario would be an individual without eligibility for the GIS who still has some eligibility for the OAS. They would gain 15 percent of the $2,100 difference or $315 a year—although they would not have the additional $2,100 to spend. If this person put the RRSP redemption into a TFSA, then their future income would be sheltered and not reduce their OAS eligibility (although they would not have the funds to spend).

CONCLUSIONS

Over the course of four decades, seniors' poverty in Canada has seen a major decrease. While many factors have likely contributed to this, there is little denying that the OAS (and the GIS) has been one of them. Increasing the age of eligibility by two years, in spite of the fact that the status quo isfinancially sustainable to the public treasury, will almost certainly increase poverty among seniors who are under the age of 67.

What is more, the change will also result in considerably more persons aged 65 and 66 relying on social assistance, which will represent a substantial transfer of spending from the federal government to provincial and territorial governments. While ‘have provinces’ may have little difficulty absorbing these new costs, many provinces and territories will struggle with the change.

We estimate that the saving from increasing the age of eligibility for the OAS is likely approximately $4.4 billion dollars per year. Were it imperative that OAS/GIS expenditures be reduced, these funds could be found by lowering the ceiling for full eligibility for the OAS and increasing the tax back rate, or by creating an Old Age Security fund by using something like the 2/2/2 tax formula which was put in place when the Old Age Security was first instituted. It could also be found by shifting some pension funds from the OAS to the GIS, making a greater amount subject to income testing and less availability universally. Any of these alternatives could have been used by the Federal government to ensure that very few seniors fall into poverty. The federal government's decision to raise the age of eligibility for the OAS was a clear decision to increase senior poverty.

The Federal Government's decision to institute the TFSA with the condition that the income shelter would not towards OAS/GIS eligibility has likely been a source of additional spending on these two programs especially for those who have greater assets and therefore higher investment income. While many seniors have opened TFSA accounts, these accounts are likely not a significant source of additional income for people who have eligibility for the GIS. They will not keep low income seniors who are 65 and 66 out of poverty. In the long term, like many other tax related measures, the TFSA will likely be a significant form of tax shelter for people with greater financial wealth and therefore higher incomes from investments.

Footnotes

[1] Simulations are based on Statistics Cnaada's Social Policy Simulation Database and Model 22.0. The assumptions and calculations underlying the simulation results were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the authors.

[2] Simulations is based on Statistics Canada's Social Policy Simulation Database and Model 22.0. The assumptions and calculations underlying the simulation results were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the authors.

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[5] Simulations are based on Statistics Cnaada's Social Policy Simulation Database and Model 22.0. The assumptions and calculations underlying the simulation results were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the authors.

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Chapter 5

REFORMS TO THE FEDERAL PUBLIC SERVICE IN THE HARPER YEARS, 2006-2015

Ian Lee and Philip Cross

> *Canadians said loudly and clearly that they wanted an open, honest and accountable government. They want their taxpayer dollars spent wisely and well…The federal accountability act is about moving from a culture of entitlement to a culture of accountability.*
>
> John Baird, President of the Treasury Board, introducing Bill C-2 to the House of Commons, April 11, 2006

INTRODUCTION

It is no exaggeration to characterize life in the Canadian federal public service during the last 8 years as tumultuous. This led the largest federal public sector union, PSAC, to hand out buttons to its members in 2013 that said, "Harper Hates Me." Indeed, some union leaders have suggested the various reforms adopted by the Harper Government would destroy the federal public service. One can question why they say this about the Harper government, since almost everything they criticize, from cuts to staffing levels and benefits to cancelling portions of the Census, was attempted by previous governments in the 1980s and 1990s. This is particularly true of the austerity package enacted by the Chretien government in 1994. What seems to be different this time is that the changes proposed or enacted are designed to be long-lasting.

The purpose of this chapter is to provide a comprehensive empirical summary of what the Harper Government actually did concerning the federal public service and then provide an analysis of these reforms. The chapter will demonstrate that the changes - while conservative in nature – addressed fundamental structural issues that cried out for reform. Indeed, one can readily discern a strategic vision in the totality of the reforms of the public service architecture that had not undergone a major structural reform since the introduction of collective bargaining by the Pearson Liberal Government in 1967.

While there were major reforms of the public service during the past 40 years, including most importantly the Public Service Modernization Act of 2003, these various changes dealt more with process than root and branch structural reform to the collective bargaining regime, the underlying system determining compensation and benefits or the transparency of government procurement. The result was a fundamental misalignment of public versus private sector compensation and the corruption of government procurement as revealed by the Sponsorship scandal. Our analysis will be organized under four categories:

1. Accountability, including the relationship between the bureaucracy and Parliament, media and the public;

2. Compensation and benefits of federal public servants including reforms to their pensions, the age of retirement, the percentage of premiums paid, and sick leave;

3. Downsizing the federal government relative to the economy, and;

4. Collective bargaining reform.

The government's reform of civil service operations and spending has not always proceeded in a uniform manner. Reforms in the areas of collective bargaining and the size of the government have been more extensive than changes in compensation and accountability. Indeed, structural changes to collective bargaining had to be implemented before several changes could be made to compensation and benefits. The government's minority position in Parliament before 2011 and the increase in spending in response to the 2008-2009 recession diverted its priorities. However, with the passing of the economic crisis and winning a majority mandate in 2011, the government has more confidently and clearly adopted a coherent vision of how it would manage the public service.

ACCOUNTABILITY

The accountability of the federal government has been diminishing for decades. As far back as 1976, the Auditor General said "Parliament—and indeed the Government--has lost, or is close to losing, effective control of the public purse." The Harper government has made increased accountability, the centre piece of its first legislative act. The Federal Accountability Act of 2006, Bill C-2, and related legislation mapped out its approach to improving accountability by reform of the financing of political parties, toughening the regulation of lobbyists, offering whistleblower protection and widening the scope of the Auditor General. At the very moment it announced Bill C-2, the Harper government also announced its intention to reduce taxes and streamline government services, which has remained the underlying motivation of its fiscal policy outside of the 2008-2009 recession.

Bill C-2 achieved its goal of making government procurement transparent and preventing a rogue civil servant's ability to divert public funds for political (or personal) purposes, as occurred during the Sponsorship scandal during the Chretien years. That this was accomplished by having senior management oversee trivial but potentially embarrassing expenses, such as travel or food provided at receptions, was seen as a price worth paying. Many of the most fundamental changes in the Accountability Act and related legislation have become so ingrained in our political culture that their significance has been forgotten. The Accountability Act reformed the financing of political parties by banning contributions from corporations and trade unions as well as all cash contributions, and limiting individual donations to a maximum of $1,000. The Lobbyists Registration Act tightened controls and accountability of lobbyists by instituting a 5-year moratorium before senior officials leaving government could become lobbyists, although the so-called 20% rule allows lobbying before 5 years if it consumes less than 20% of the person's time. The government also extended the oversight of the Auditor General to all government finances, including foundations, and extended the coverage of the Access to Information Act to Crown Corporations.

The government soon kept its promise of increased accountability to Parliament by creating a Parliamentary Budget Officer, although it took over a year to find someone to fill the position. Despite the acrimonious relationship that developed between Kevin Page, the first PBO, and the Harper government, it is important that the PBO was created. It continues to evolve under Page's successor into a function more in line with the Congressional Budget Office.[1]

One of the motivations in creating the PBO was to restore "truth in budgeting" and prevent the substantial under-estimation of budget surpluses that were a recurring feature of the previous Liberal government. Irrespective of the PBO, the emphasis on better budget forecasting is clearly evident in the track record of the Department of Finance. There has been a marked improvement in the budget forecasting of the federal government, with or without input from the PBO. Since 2004/2005, the average error in the federal government's annual forecast of its spending has been 0.3%, while the average error for its revenue forecast has been 0.6%. These include the unforeseen impact of the recession in 2008-2009.

The importance the Harper government has attached to increased transparency in its finances has been recognized by experts outside of government. The C.D. Howe Institute in its latest annual evaluation of the quality of financial reporting by governments in Canada gave the federal government a grade of A- (the only blotch on its record was the government's use of cash-based rather than accrual accounting, a move resisted by Treasury Board officials who argue it is harder for parliamentarians to understand).[2]

The importance of the creation of the Commissioner of Lobbying is often over-looked. This independent officer maintains a registry of lobbyists, which departments they are lobbying and on what subject matter, and investigates that public office holders do not engage in lobbying for five years after leaving office. The government also banned any payment to lobbyists contingent on their achieving a specific outcome, a clear understanding of how incentives can lead to corrupt behaviours.

Whistleblower protection was the motivation behind the creation of the Office of the Public Sector Integrity Commissioner eight years ago. The results have been mostly symbolic, as is often the case in the public sector, with the number of cases remaining below 100 a year.

After the initial high-profile moves to strengthen accountability, other changes resulted in less accountability. One of the reasons is the growing power of political advisors to the Harper cabinet ministers, especially in the Prime Minister's Office. While difficult to quantify or document, this continues a trend that began in the Pearson years.[3] The power of political aides was increased by a sharp decline in polling done by government departments. The number of public opinion research projects contracted by the federal government declined steadily from 148 in 2009-2010 to 72 in 2012-2013, before a slight rebound to 81 in 2013-2014.[4] No longer able to point to independent sources of public approval, the civil service has no answer when told by aides to Cabinet that they uniquely represent public opinion.

Some proposals to increase accountability through more transparency had little impact. These include salary disclosure for political aides and access to information requests. Protecting the anonymity of the salaries paid to political aides is one reason that the limit for public disclosure of salaries was set at such a high level that it largely defeated its purpose (Bill C-461 was amended to raise the level at which salaries are disclosed from $188,000 to $444,661). Another reason this bill was essentially gutted is the evident failure of disclosure policies to slow the number of civil servants earning high salaries, and may even have accelerated it, such as occurred in Ontario.[5]

Measures to enhance accountability are working against long-term forces reducing accountability, notably the drying up of documentation in the civil service in reaction to the enactment of Access to Information in the 1980s, the classification of more civil service communication as confidential, and the centralizing of decision-making in political aides and the Prime Minister's Office.

The introduction of Access to Information laws starting in 1983 has had a chilling effect on written communication in the federal government. This has led to what Hubbard and Paquet, quoting a former Information Commissioner, call an attitude to information management that asks "Why write it, when you can speak it? Why speak it when you can nod? Why nod, when you can wink?"[6] The bare bones presentation of the minutes of meetings is one manifestation. This is the response of a civil service pursuing its own self-interest rather than risking controversy by serving the public interest. Second, an increasing number of documents are classified as confidential as the senior civil service limits the distribution of its most interesting and possibly controversial analysis. This is reflected in the rising number of complaints about Access to Information requests to the Office of the Information Commissioner, an independent officer reporting to Parliament.[7] This Office can make recommendations about whether documents should be made public, but cannot enforce its rulings. The overall result of these two forces that inhibit transparency is that documents that are made public increasingly are 'content free' (a good example is the thorough and thoughtful review of the 1986 Census published by Statistics Canada compared with its superficial overview of the 2011 National Household Survey). This hampers government accountability, since the justifications and goals of public programs are not made clear.

Another ongoing weakness in the overall approach to accountability that pre-dates the Harper administration is inter-generational equity; the responsibility that future taxpayers are not being asked to unfairly shoulder the burden for spending today. A prime example is the unfunded portion of the federal government's pension plan for its employees. The Auditor General found that responsibility for ensuring the sustainability of these plans was diffused across many departments, and that there was no clear directive that “assigned responsibilities for assessing the sustainability of the plans.” Similarly, the Auditor General concluded that Finance Canada did not systematically review the long-term fiscal sustainability for most programs beyond five years, leaving it to the discretion of officials to evaluate long-term issues (which it found was done reasonably well).[8]

Some specific Harper government policies have reduced accountability in areas unrelated to finance and budgeting. Most notably, it requires journalists to submit in advance the questions they want to ask at news conferences. While following similar trends in the US and the UK, it reduces government accountability in the name of message control. Proroguing the House of Commons in 2008 opened the door for any government to suspend Parliament when a vote of no confidence was imminent, a tactic soon adopted by the McGuinty government in Ontario to avoid answering questions about a scandal.

Other developments that have reduced accountability are not all under the government's control. In particular, the activism of the Supreme Court of Canada in designing and implementing laws (such as those related to prostitution or euthanasia) reduces accountability, since the Court is accountable to no one.

A common complaint about the Harper government approach to accountability is that it has reduced communication between government scientists and their peers and the public. Again, it is not clear this is a trend unique to the Harper government or that it only applies to scientists. The trend for more centralized control of all government communications has been evident long before 2006. Requiring scientists to get permission from management before talking to the media is at least consistent with the practice to establish more managerial control over communications that has been ongoing for decades before the Harper government took power, as noted by former PCO clerk Mel Cappe.[9]

The idea that the government was waging a 'War on Science" was imported wholesale based on accusations levelled against the Bush Administration and Republicans in Congress.[10] In the US, the issues centred on creationism, stem cells, acid rain, the impact of smoking and abortion on health. These issues are not contentious in

Canada’s public debate, which is why US-style rhetoric about a government ‘War on Science’ does not resonate here with the public.

While statistics are not science per se, the government’s replacement of the mandatory long form portion of the Census with the voluntary National Household Survey in 2011 often is cited as undermining the facts that can be used to verify claims the government makes about the basis and the impact of its policies.These accusations overlook that this was the second time a Conservative government cancelled a Census. The Mulroney government announced in November 1984 that the 1986 Census would be cut entirely, not even replaced with a voluntary survey(no one accused Mulroney of being anti-science).[11] Eventually, the Census was re-instated in 1986 but not government funding. Statistics Canada was told to find the $100 million cost of the Census “within existing budgetary allocations over the next five years.”[12] This forced Statistics Canada to adopt a combination of program cuts and a wide range of user fees (this was when it began to charge for Cansim data, among other things).

The 1986 Census was the first full quinquennial (mid-decade) Census; before that, only the decennial Censuses covered the full range of subjects, while Statistics Canada referred to the quinquennial as “mini censuses.”[13] Statistics Canada justified the need for a full Census in 1986 “because of significant socio-economic changes brought about by a recession since the decennial 1981 Census.”[14] Of course, once the precedent of a full quinquennial Census was established, it continued indefinitely without reference to whether “significant socio-economic changes” justified. This same process of finding a rationale in short-term circumstances to start a permanent spending program helps explain the vast expansion of government outlays over the long-term.

COMPENSATION

Every federal majority government from Mulroney to Chretien to Harper has tried to rein in the compensation of the federal civil service. However, previous governments have succeeded for only brief periods, before a resumption of the strong upward trend of both employment and average compensation. The Harper government learned that the challenge of slowing the growth of public sector compensation in all its forms (and not just wages) required fundamental reform if it was to succeed in the long-term. Meanwhile, the prospect of rising demand for pension and health care costs as Canada's population ages (the dependency ratio will fall from 7 workers for every retiree to 2 by 2030) underscores the need to free up government spending from compensating its own workers to meeting the growing needs of the elderly.

After receiving its majority mandate in 2011, the Harper government felt confident to undertake the structural reform of public service compensation that has eluded governments of all stripes since the 1980s. Its much-publicized cuts to government payrolls begun in 2012 are insignificant compared with the changes it is instituting to increase the contribution of civil servants to their pension benefits, raise the retirement age and reform sick leave benefits. It is easy to see how job cuts can be easily reversed; it is much harder to imagine any future government rescinding these changes to pension and medical benefits, partly because they begin to close an unsustainable gap between remuneration practices in the private and the public sectors.

The need to curb the compensation of federal public servants was clear. From 1997 to 2013, total labour income in the federal public service rose 238%, the fourth fastest of the 15 major industry groups for which Statistics Canada publishes data (behind only mining, construction and professional, scientific and technical services).[15] By 2013, average weekly earnings in the federal public administration were $1,444, the pinnacle in the public sector (including health and education, where average wages were about $1,000 a week) and the third highest of any industry, behind only mining and utilities.[16] None of these measures of compensation include non-wage benefits such as the health care plan and the unfunded portion of future pension benefits.

The long-term rise in the pay of federal public servants cannot be attributed to an upgrading of its skills. A study of public service pay that accounted for the different skill mix found that the public sector still paid a premium of 12%, without accounting for superior non-wage benefits (notably pensions).[17] As well, the fact that federal pay increases were concentrated in short time frames after a period of austerity also confirms that changes in skill were not driving the increase; if the skill mix was being upgraded, then total public sector compensation would have increased even in periods when the pay levels of individual occupations were frozen.

There are several reasons why it is preferable to look at the total compensation the federal government pays its employees, rather than more limited measures such as negotiated wage settlements. Statistics Canada's total labour income in its System of National Accounts captures the effect of the numerous adjustments to wages and salaries that are not negotiated. These include annual increments that are embedded within the pay scale for every level of an occupational classification, promotions, the employer-paid portion of pension benefits, health and dental care benefits (all paid entirely by the government), the bilingual bonus, 'cashing out' unused vacation benefits and even irregular benefits such as pay equity compensation and overtime. Average compensation also reflects long-run changes in the composition and age of the federal government's labour force, such as the trend to fewer support staff and more professionals (who of course must perform some of the functions formerly provided by support staff).[18]

Lahey calculates that the total compensation of a federal civil servant averaged $92,000 in 2009-2010.[19] This does not include all benefits, notably unfunded pension benefits. Part of the difficulty in controlling total labour costs is that different parts of government are responsible for the various types of compensation, with no entity responsible for the size of the overall package. For example, unions negotiate wage rates with Treasury Board; health and dental benefits are set government-wide by the National Joint Council; and pension benefits are set by statute.

The Conservative government under Brian Mulroney vainly tried to rein in its labour costs in the 1980s by focusing only on negotiated wage increases, while ignoring other avenues by which the public service was able to thwart the nominal push for austerity (such as reclassification to a higher pay level and annual increments within each of these levels). As a result, wages and salaries paid to federal public servants jumped 49.7% between 1983 and 1991. With employment up only 4.5%, this implies a sharp increase of 6.2% in the annual average compensation paid to civil servants. By comparison, negotiated wage settlements in the federal government averaged 3.8% over this period.[20] The gap between the increase in total compensation and negotiated wage increases shows the importance of other avenues to raise incomes, such as promotions and non-wage benefits.

The Liberal government's major push for austerity in the mid-1990s finally reined-in the overall wage bill, if only for a short period, by targeting total pay. Wages and salaries paid by the federal government to its employees fell 15.0% between 1992 and 1997, with over three-quarters of the cut occurring after 1994. The drop reflected both reducing employment by a total of 19.7%, and a marked slowdown in the rise of average compensation to just 4.7% over five years (or less than 1% a year).[21] Data on negotiated wage settlements for the federal government show five consecutive years of no increase between 1992 and 1996.[22] These negotiations covered over 100,000 workers in 1993 and 1994 alone. Unlike in the 1980s, however, restraint at the negotiating table was carried over into all other forms of compensating public servants for their labour services, as the gap between total compensation and negotiated wage settlements was squeezed to below 1% a year. Despite the much greater restraint on total income paid to employees imposed by the Chretien government than during the Harper years, there were few accusations that the federal government was permanently impairing the ability of the civil service to do its job. Public sector unions did not hand out buttons saying "Chretien Hates Me" in 1995.

A major problem in controlling incomes in the federal public service is that temporary periods of restraint usually are followed by rapid growth as employees make up the foregone pay increases. For example, the 15.0% drop in total employee compensation between 1992 and 1997 was followed by a surge of 76.2% in the decade after 1997.

The end result is that wage restraint is not sustained over longer periods, with their impact usually vanishing within a decade. Despite the marked slowdown during the austere period from 1994 to 1997, average compensation per employee rose 36.3% for the decade between 1994 and 2004, not materially different from the 43.5% increase in the decade between 1984 and 1994.[23] Adjusting for lower inflation after 1994,[24] real incomes in the federal civil service actually accelerated. Therefore, one of the challenges for the current government is to rein in employee compensation in a manner where the savings from restraint are sustained into future decades.

During the minority terms of the Harper government, a nominal move to restraint at the negotiating table did not carry over into actual pay. From 2006 to 2011, negotiated wage settlements average increases of only 1.2%, with government citing the need for restraint in view of the record budget deficit resulting from the recession. Nevertheless, there was a continuation of rapid increases in both employment and average compensation. Between 2006 and 2011 the number of federal employees increased by 10.6%. Meanwhile, total compensation rose 26.4% between 2006 and 2011, with average compensation per employee up 15.8%. The gap between actual pay and negotiated wage settlements repeats what happened under the Mulroney government, which may reflect the inexperience of both governments in handling the levers of the federal government. It may also reflect an unwillingness of a minority government to risk the controversy of alienating either the opposition in Parliament or the bureaucracy.

After receiving a majority mandate, the Harper government shifted its priority from negotiated wage rates to reducing non-wage benefits. The proposed reduction of sick leave benefits and the implementation of higher employee contributions to their pension plan are a modest but important start to restraining public sector pay. Their importance is two-fold. First, they emphasize compensation over long periods, not the quick cosmetic of a temporary wage freeze or restraint period which is soon offset by gains once the restraint period ends. Second, it recognizes that there are important benefits beyond simple wage rates, and it is these non-wage benefits that have become most out of line with private sector compensation.[25] The negotiated settlement with PSAC that traded-off future severance pay for some current benefits is another sign the government recognizes the need to rein-in long-term commitments to compensation. While negotiated wage settlements rose slightly after 2011, total compensation levelled off as the government tightened control over all pay and benefits.

In this regard, the incremental changes being made to public service pension plans establish an important precedent of gradually but more equitably sharing their cost with employees over the long-term. A number of changes have been made to public service pensions since 2006. Initially, some benefitted employees. In 2006 the Public Service Superannuation Act was amended to lower the factor used in the CPP or QPP coordination formula, with the result of increased public service pension benefits for people 65 years and over starting in 2008. In 2010, the Public Service Superannuation Regulations were amended to allow members aged 70 or 71 years to buy back up to two years of pensionable service, increasing their pension in retirement. This is consistent with the generosity in overall pay during the minority government years.

After receiving its majority mandate, the government introduced changes that began to shift the cost of pensions from taxpayers to future retirees from the federal government (it is noteworthy that pension benefits are governed by statute and therefore are not covered by collective bargaining). The Public Service Superannuation Act was amended in 2012 to gradually increase the employee share of pension costs to 50:50 with the employer. In addition, the age of eligibility for unreduced pension benefits was increased from age 60 to age 65 for new employees who joined starting in January 1, 2013.[26] The latter two changes addressed long-standing critiques comparing the generosity of these benefits with the private sector, led by the C.D. Howe Institute. All of these changes were done in a gradual manner, allowing civil servants decades to adjust their financial planning.

At the same time, the federal government began addressing its growing unfunded liability for its employee pensions. Until 2000, federal employee pension plans were unfunded and therefore were paid out of government tax revenues or more borrowing. Since then, some assets have been set aside for these funds, but nowhere near enough to meet future liabilities. As of March 31, 2013, the

Government of Canada acknowledged an unfunded liability of $151.7 billion for its employee pension plans.[27] However, Robson and Laurin note that this assumes a real rate of return on pension assets of 3.9%, unusually high in today's investment environment. If the actual real rate of return were to be only slightly lower at 2.6%, the unfunded liability of government pensions would jump from $151.7 billion to $271.6 billion.[28] Government funding for the actuarial shortfall for pensions was increased from $39.2 million to $435 million in 2013. Given these inadequate increases in funding, further reforms to pensions will be necessary, such as possibly extending the calculation of the earnings base for pensions from the highest five years of salary to a much longer period, reducing the free benefit given to surviving spouses or reducing the indexation of pensions for inflation.[29]

REDUCING THE FOOTPRINT OF THE FEDERAL GOVERNMENT IN THE ECONOMY

For most of the last 20 years, the Public Service of Canada has been subject to program review, hiring freezes, strategic review and austerity. However, these were interspersed with periods of growth in the later Chretien years after Program Review and even more so under the Harper Conservatives from 2006 to 2011. (See Table 5.1 on federal public service population below).

Subsequent to the election of the Mulroney Conservative Government in 1984, austerity, restraint and downsizing has become part of the national political vocabulary. There was a logic to this because commencing in the 1970's, the Government of Canada started to generate large deficits due mainly to significant increases in social programs and transfers that grew with the passage of time, especially during the 1981-1982 recession. The Mulroney Government attempted to address the deficit, in part, by adopting an aggressive privatization program that sold off most of Canada's commercial crown corporations such as Petro Canada, Air Canada, and Canadian National Railway.

However the reduction in the Government's footprint was not sustained. As the Parliamentary Budget Office demonstrated, there have been significant variations in the number of core federal public servants throughout the last 20 years. Between 1990-91 and 1998-99, federal employment reached a low, dropping to approximately 288,500 in 1998. By the late 2000s, employment had rebounded fully and continued to grow…In effect, federal employees lost over 70,000 jobs by the late 1990s and subsequently regained them by adding over 90,000 in the decade that followed.[30] When Stephen Harper formed his first minority government in 2006, the Government was quick to act on accountability and transparency in government but also set out their long-term agenda of a smaller, leaner Government. As will be evidenced below, the Harper legacy is mixed for while Government of Canada spending as a percentage of GDP did decline to the lowest level since the 1950s, nonetheless, the population of the federal public service increased over time. In their first Federal Budget, it announced that:

> The Government will restrain the rate of spending growth. The Government will introduce a new approach to managing overall spending to ensure that government programs focus on results and value for money, and are consistent with government priorities and responsibilities. The President of the Treasury Board will identify savings of $1 billion in 2006–07 and 2007–08.[31]
>
> More specifically, the Government was committing to a launch of its Expenditure Management System (EMS) which is "…the framework for developing and implementing the government's spending plans...".[32]

So, what did this mean to federal departments and agencies? They were now required to "… review 100 per cent of their programs with a view to better focus programs and services, streamline internal operations and transform the way they do business and achieve better results for Canadians."[33] As part of these Strategic Reviews, all Departments and agencies were then required to: "identify reallocation options totaling 5 per cent from their lowest-priority and lowest-performing program spending."[34] At the end of the 4-year cycle announced by the Government, 98% of direct program spending was to have been reviewed.

After the surge in spending due to the 2008-2009 recession, a renewed focus on reduction appeared in the 2010 budget where Finance Minister Flaherty announced that *"*...we will take specific measures to restrain the growth of program spending…we will launch a comprehensive review of administrative spending.*"*[35] In 2011, in which the Conservatives won a majority government, Minister Flaherty reminded Canadians that Budget 2010:

> …included a Strategic and Operating Review designed to realize substantial savings through greater efficiency and effectiveness. Now, with the backing we received from Canadians to guide us, we will launch that review so that,

> once it's completed, we will achieve $4 billion in annual savings.[36]

The Budget Plan 2011 highlighted the completion of the first four-year cycle of the strategic review exercise and its success in achieving targets.

> Together with measures to restrain the growth in National Defence spending, the first cycle of strategic reviews has resulted in $11 billion of savings over seven years and more than $2.8 billion in ongoing savings. As part of the Government's plan to return to balanced budgets over the medium term and in order to restrain the growth in spending, the Government will undertake a one-time Strategic and Operating Review to be conducted across all of government in 2011–12.[37]

In its study, the PBO found that:

> Approximately 4,000 FTEs have already been eliminated per Budgets 2010 and 2011. As a result of announcements made in Budget 2012, the PBO expects that the workforce will be further reduced in the coming three years by 19,200 FTEs. This decline in employment represents a cumulative reduction of approximately 7.0 per cent of the workforce between 2011-12 and 2014-15 or a reduction of 8.0 per cent from the employment peak in 2010-11.[38]

In March, 2012, the federal budget announced that a downsizing of the federal public service would occur over the 3 next years and result in a net, permanent savings of $5.2 billion and a loss of approximately 19,200 jobs.

The graph below vividly demonstrates the cumulative effect of strategic review, program and more generally austerity and downsizing for the Harper Government during its time in office reduced the revenues footprint of the Government of Canada from a high of 18% of GDP in 1990 to around 14% by 2014. However, a paradox is revealed in the following Table 5.1. While

Table 5.1: Population of the Federal Public Service, 2000-2014 (Selected Years)

Year	Total Core Public Service	Total Separate Agencies
2000	152,070	59,855
2002	170,779	66,472
2004	177,136	67,022
2006	189,280	60,652
2008	200,575	62,539
2010	216,596	66,384
2012	212,028	66,064
2014	195,330	61,808

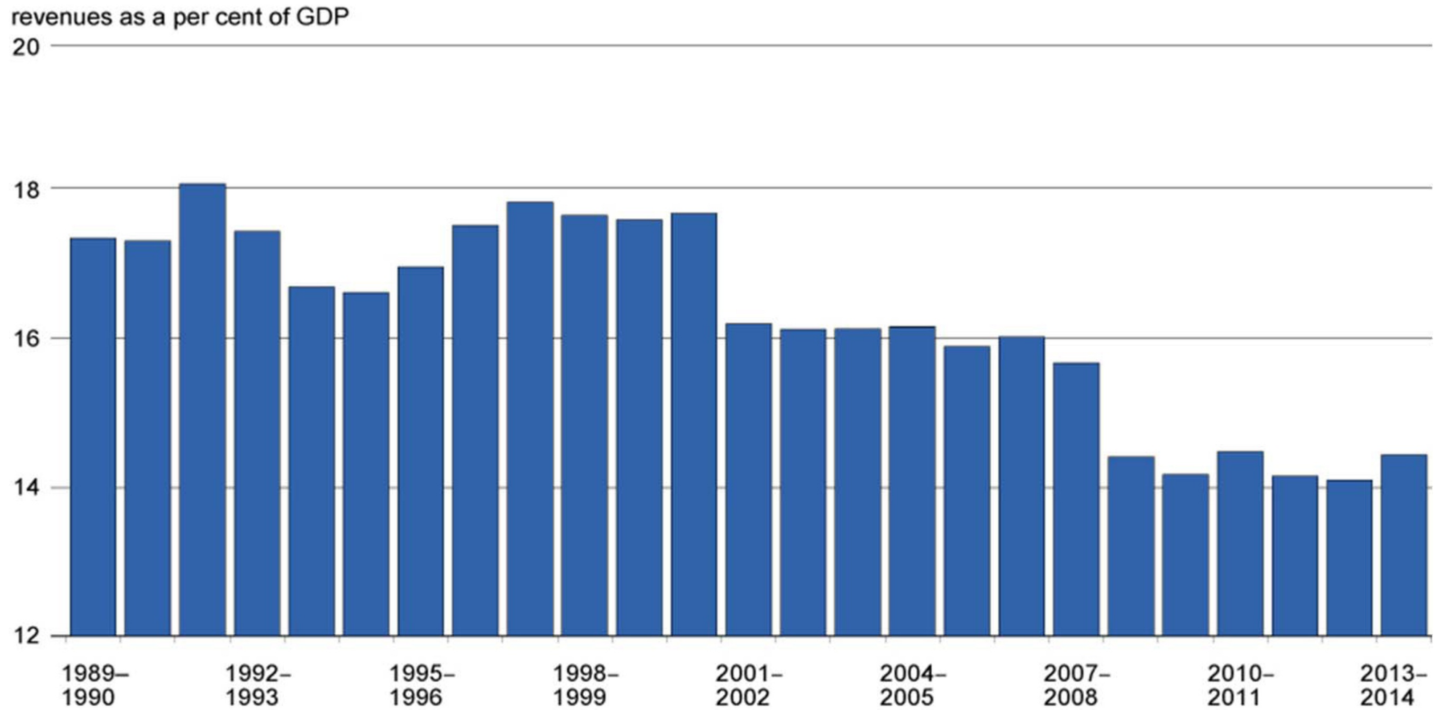
Source: Treasury Board Secretariat. *Population of the Federal Public Service by Department*, June 2015.

Federal spending as a share of Canada's GDP declined, the population of the federal core public service increased from 189,280 when the Harper Government was elected to over 2012,000 in 2012. The data clearly reveals a mixed record concerning the Harper Government's legacy.

REFORM OF COLLECTIVE BARGAINING

> *Governments increased their spending too quickly … Too much was asked and given at the wage bargaining table … too little attention was paid to the long run efficiency of the Canadian economy, and its ability to compete*, Finance Minister Chretien Budget Speech, April 10, 1978
>
> *The process is more streamlined and "rebalances" the playing field because the "pendulum had swung too far" in favour of unions at the expense of the public interest.*
>
> *[the government] must rein in the pay, benefits and costs of the public servants, which … are so out of whack with the private sector that the public service has lost its "legitimacy and credibility."*[39]
>
> Treasury Board Minister Tony Clement, July 18, 2014, Ottawa Citizen Government of Canada Revenues as a per cent of GDP, 1990-2014[40]

Government of Canada Revenues as a per cent of GDP, 1990-2014[41]



Sources: *Public Accounts of Canada* and Statistics Canada.

The fourth – and arguably the most important and far reaching - strand of structural reform of the federal public service undertaken during the Harper year's concerned collective bargaining which was first introduced by the Pearson minority government in 1967. As the quote from

Treasury Board Minister Tony Clement indicated at the outset, there was an increasing sense that the government had only been dealing with symptoms of the problem in strategic review and austerity, for the DNA that drove government growth was built into the very structure of collective bargaining. Restated, Minister Clement and the

Harper Government slowly realized they could:

1. cancel or downsize programs
2. adopt management practices to instill greater efficiency in programs
3. reduce program inputs

Indeed, the Harper Government did adopt all three strategies. Yet, an examination of the stats reviewed above concerning the size of government, revealed how quickly governments can grow again even after the austerity of the 1995-97 downsizing. After experiencing the most recent round of Strategic and Operating Review, Minister Clement slowly realized this was necessary but not sufficient to institutionalize policies and structures to prevent future growth exceeding the long run growth rate of Canadian GDP. This recognition drove the minister and the government to finally address the issue of structural reform of collective bargaining.

The government concluded there were structural factors that had been incrementally added and embedded over the past 40 years in the very framework of collective bargaining in the federal public service since collective bargaining was introduced in 1967. These changes cumulatively tilted the playing field in favour of unions. For example, unions strategically used the dispute mechanism system that allowed them to unilaterally designate strike vs arbitration to maximize their interests. Moreover, the government believed that the terms and conditions governing arbitrators were structured under the current system in such a way that it benefited unions.

Another issue concerned the imbalance of communications between government and unions. Whereas unions have detailed websites with extensive communications, the government was not allowed to provide websites with its position and logic because government lawyers argued it could be used as evidence of bad faith by communicating directly with union members, which is prohibited under current law. Over a 45 year period, the pendulum had swung slowly but decisively towards unions who can communicate endlessly, upsetting the delicate balance of power between government and unions.

The collective bargaining in the Government of Canada typically works on 3 year cycles. However, the Expenditure Restraint Act imposed in the 2008 round of negotiations (but tabled in 2009) took bargaining issues off the table due to the financial crisis. In the

2011 round of collective bargaining, the government focused on terminating severance pay. A settlement was reached whereby the government promised to pay a lump sum to get them to agree. All the public sector unions except the CRA union agreed.

In 2012, the Harper Government started to prepare for the 2014 round of bargaining. Prime Minister Harper decided the top priority of his government in the collective bargaining round would be the productivity of the public service, focusing on two issues:

1. requirement for mandatory, universal performance evaluations
2. reform of the design of the sick leave system due to the belief it is abused by some long-term employees who built up a large bank of unused sick days

However, in order to undertake these reforms, the government realized it needed to reform the very structure and architecture of collective bargaining itself in the federal public service. This brings us directly to the 2013 omnibus budget Bill tabled Oct. 22, 2013, which represented the most substantial change to the collective bargaining regime since 1967.

Critics and supporters agreed it called for major structural reforms to collective bargaining. Union supporters argued it “”aimed at weakening the position of federal public sector unions and stacking the deck in the Government’s favour”[42] while Minister Clement argued it was a rebalancing of power between government and unions as the pendulum had swung too far in favour of the rights of unions and union members against the interests of taxpayers and the greater public good.

Specifically, according to the Treasury Board Secretariat, the proposed amendments would modify the collective bargaining process by[43]:

- allowing both parties to serve notice to bargain 12 months before agreements expire;
- providing the employer with exclusive right to determine essential services;
- establishing conciliation/strike as the default dispute resolution mechanism. Arbitration will be the resolution mechanism only in cases where bargaining units have 80 per cent or more of its positions designated essential, or if both parties mutually consent to binding arbitration;
- requiring public interest commissions and arbitration boards to give

greater consideration to recruitment and retention and Canada’s fiscal circumstances over other factors, as well as considering all elements of compensation, not just wages, when making awards or recommendations;

- requiring public interest commissions and arbitration boards to set out reasons when making awards and recommendations;
- requiring separate agencies to seek approval from the Treasury Board President before consenting to binding arbitration; and
- eliminating the compensation analysis and research function of the Public Service Labour Relations Board

Amendments have also been proposed to modernize and streamline the recourse process in the federal public service by:

- handing allegations of employment-related discrimination complaints only through the grievance process, rather than through the Canadian Human Rights Commission;
- requiring bargaining agents and the employer to share expenses of grievance adjudication;
- requiring employees to obtain bargaining agent support before filing a grievance, except for grievances related to discrimination;

- streamlining the staffing complaints process;
- streamlining the policy grievances process;
- consolidating public service tribunals (Public Service Labour Relations Board and the Public Service Staffing Tribunal)

These reforms surely can be characterized as root and branch deconstruction and reconstruction. Most importantly of all these major reforms involved the designation of essential services. By resting control away from the requirement for joint agreement, the employer asserted control of designation due to the government's singular accountability for Leviathan's responsibility for the safety and security of citizens (as Thomas Hobbes taught four centuries ago).

The second most important reform was removing the compensation, analysis and research function of the PSLRB, thereby allowing the government to use outside research bodies such as Mercer Consulting, Deliotte or McKinsey to ensure an independent perspective from outside of government. The third important reform was the requirement for public interest commissions and arbitration boards to provide much greater weight to fiscal conditions of the day and include all elements of compensation – not just wages – and finally awards and judgments must be in writing with the rationale provided. These three inter-related requirements for arbitration awards represented a giant step forward in reining in boards that were seen to make unjustifiable awards by ignoring economic conditions or total compensation. The remainder of the changes were of importance by, for example, eliminating jurisdiction shopping between the Canadian Human Rights Commission and the PSLRB as well as using grievances for purposes for which they were not intended.

When one steps back and examines these reforms *in toto*, it is clear they represent a major departure from the past 45 years since collective bargaining was introduced in 1967. More importantly, it complements and supports the vision of the Harper government to establish a smaller, more efficient, more accountable federal public service.

CONCLUSIONS

This far too brief review reveals the Harper Government had a vision of civil service reform from the moment it was elected. Indeed, the very first bill it introduced was the Accountability Act that dealt with conflict of interest, lobbying and of course the establishment of the

Parliamentary Budget Office. Over time, this vision has broadened to include a smaller bureaucracy, fundamentally lower public service compensation and a new balance of power between the employer and public service unions. This could serve as a template as cash-strapped provincial governments look to trim the compensation of their employees.

While the strategic objective of the Harper government to reduce the footprint of government was delayed by the financial crisis that began in 2008-09, it was subsequently pursued aggressively not only to eliminate the deficit brought about by the recession but to adopt strategic and program review to reduce the share of government in the economy. It was so successful it reduced it to the lowest level since 1990.

However, the most important structural reforms introduced by the Harper Government related to compensation and benefits and the underlying collective bargaining system. By explicitly adopting empirical comparability with private sector compensation and benefits benchmarks, the government transformed Canadians' understanding of public sector compensation. These reforms were institutionalized by structural reforms to the entire federal collective bargaining framework in an effort to rebalance the imbalance of power that developed over the past 45 years in the federal public service under successive liberal and conservative governments. In the current climate of lower levels of economic growth, a rapidly aging population and a dramatic reduction in the dependency ratio makes it unlikely that any future government will reverse the reforms to the federal collective bargaining regime.

While the Harper government put forward an aggressive reform agenda in many policy areas since 2006, it is reasonable to argue that the most important, long lasting and far reaching reforms of all were the reforms to the federal public service in terms of accountability, compensation and benefits, the footprint of the government relative to the economy and structural reforms to federal collective bargaining.

Endnotes

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Press, 2014, 40-52.

[2] Colin Busby and William Robson, “By the Numbers: The Fiscal Accountability of Canada’s Senior Governments, 2015.” C.D. Howe Commentary No. 424, April 2015.

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[4] Data from Public Works and Government Services Canada, “Public Opinion Research in the Government of Canada, Annual Report 2013-2014.” Appendix I, p 10. Available at www.pwgsc-tpsgc.gc.ca.

[5] See Rafael Gomez and Steven Wald, “When public-sector salaries become public knowledge: Academic salaries and Ontario’s Public Sector Salary Disclosure Act.” *Canadian Public Administration*, Vol 53, Issue 1, p 107-126, March 2010.

[6] Ruth Hubbard and Gilles Paquet, *The Black Hole of Public Administration*. University of Ottawa Press, 2010, p 267.

[7] New complaints about access to information requests rose from 1,465 in 2011-2012 to 2,081 in 2013-2014. Information Commission of Canada, *Annual Report* 2013-2014, p 7.

[8] Office of the Auditor General of Canada,

[9] See Abbas Rana, “Cappe agrees with Harper: scientists should not be free to talk to media.” *The Hill Times*, Oct 28, 2013.

[10] See Chris Mooney, *The Republican War on Science*. Perseus Books Group, 2005.

[11] After initially announcing the entire Census was abolished, a legal review found that the Census had to be conducted for Manitoba and Saskatchewan, and these were re-instated.

[12] Statistics Canada, *General Review of the 1986 Census*. Catalogue No 99-137E, March 1990, p 20.

[13] Statistics Canada, *75 Years and Counting: A History of Statistics Canada*. 1993, p 93.

[14] Statistics Canada, *General Review of the 1986 Censu.* p10.

[15] Statistics Canada, *Wages, Salaries and Employers' Social Contributions*, Cansim Table 382-0006. Data currently only go back to 1997 but will be extended as the historical revision of the National Accounts proceeds.

[16] Statistics Canada, *Average Weekly Earnings*, Cansim Table 281-00026.

[17] Jason Clemens and Milagros Palacios, *Comparing Public and Private Sector Compensation in Canada*. Fraser Institute, April 2013. Their estimate of a 12% premium is supported by Lahey, who estimated the premium at 8-9% for wages, and 15% to 20% including pension benefits. See James Lahey, "Controlling Federal Compensation Costs: Towards a Fairer and More Sustainable System." In *How Ottawa Spends, 2011-2012*, ed by Christopher Stoney and G. Bruce Doern, McGill-Queen's University Press, 2011, 84-105.

[18] Lahey estimates this accounts for between 6% and 8% of the increased wage bill. James Lahey, "Controlling Federal

Compensation Costs: Towards a Fairer and More Sustainable System." 88.

[19] James Lahey, "Controlling Federal Compensation Costs: Towards a Fairer and More Sustainable System."

[20] Statistics Canada, *Major Wage Settlements by Industry*, Cansim Table 278-0007.

[21] Statistics Canada, *Public Sector Employment and Wages and Salaries*, Cansim Table 183-0002.

[22] Statistics Canada, *Major Wage Settlements by Industry*.

[23] Using other time periods produces the same results. Between 1981 and 1992, wages and salaries in the federal government rose an average of 8.8% a year; from 1992 to 2011, they increased an average of 9.6% a year, despite the cuts during the early 1990s.

[24] The CPI rose 41.4% between 1984 and 1994, slowing to 22.2% between 1994 and 2004. Therefore, real incomes of federal employees rose 2.1% between 1984 and 1994 and 14.1% between 1994 and 2004, an acceleration of 12.0%. Statistics Canada, *Consumer Price Index*, annual, Cansim Table 326-0021. Using the implicit price index for personal expenditure, a better measure of prices over long periods, and the acceleration is slightly faster at 14.9%.

[25] For an overview of how compensation compares, see Milagros Palacios and Jason Clemens, *Comparing Public and Private Sector Compensation in Canada*. Studies in Labour Markets, Fraser Institute, April 2013.

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[27] Treasury Board of Canada Secretariat, *Report on the Public Service Pension Plan for the Fiscal Year Ended March 31, 2013*.

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[32] Treasury Board of Canada, *Strategic Reviews: Frequently Asked Questions* http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp#q1

[33] Treasury Board of Canada *Strategic Reviews* http://www.tbs-sct.gc.ca/sr-es/index-eng.asp

[34] Treasury Board of Canada, *Strategic Review: Frequently Asked Questions* http://www.tbs-sct.gc.ca/sr-es/faq-eng.asp#q1

[35] Finance Canada, *Budget Speech 2010*, Finance Canada, 2010, 15.

[36] Finance Canada, *The Budget Speech by Hon. Jim Flaherty, Minister of Finance*, June 6, 2011, 7.

[37] Finance Canada, *Federal Budget Plan: The Next Phase of Canada's Economic Action Plan, A Low Tax Plan for Jobs and Growth.* Finance Canada, 2011, 181

[38] Parliamentary Budget Office, Jennifer Strauss, *The Fiscal Impact of Federal Personnel Expenses*, vii.

[39] Quoted in *Ottawa Citizen*, Kathryn May, Public service bargaining: a bruising battle lies ahead, July 18, 2014

[40] Finance Canada, Annual Financial Report of the Government of Canada Fiscal Year 2013–2014,19

[41] Finance Canada, Annual Financial Report of the Government of Canada Fiscal Year 2013–2014,19

[42] Bill C-4's Impact on Federal Public Sector Unions", Steven Barrett, Sack, Goldblatt, Mitchell, Nov. 20, 2013

[43] Treasury Board Secretariat, Changes to Collective Bargaining and Essential Services, http://www.tbs-sct.gc.ca/psm-fpfm/pay-remuneration/ca-cc/lru-mnc/faqa-eng.asp

Chapter 6

UNDER SIEGE: CANADIAN VETERANS, VETERANS AFFAIRS AND THE HARPER LEGACY

Michael J. Prince and Pamela Moss

> In future, when our servicemen and women leave our military family, they can rest assured the Government will help them and their families' transition to civilian life. Our troops' commitment and service to Canada entitles them to the very best treatment possible. This Charter is but a first step towards according Canadian veterans the respect and support they deserve.
>
> - Prime Minister Stephen Harper, 2006[1]

> The recent decision by the Conservative government to change the requirement for disabled veterans to prove their injuries every three years instead of every year shows just how badly the Conservatives are failing veterans and their families.

- New Democratic Party Veterans Affairs critic Peter Stoffer, 2015[2]

> It's ironic that the men and women who survive actual combat must return home to suffer the death of a thousand paper cuts, or slow strangulation by red tape, if you prefer.

- Elizabeth Renzetti, 2014[3]

INTRODUCTION

In 2006, the *New Veterans Charter* (NVC) ushered in a new era as it restructured the relationship between the state and its veterans. Coming out from the umbrella of the *Pension Act* of 1919, the NVC was intended to manage veterans' transition to civilian life and provide guidelines for providing services to, and compensation for, injured and disabled veterans. Conceived, structured and drafted as a *living* charter, the NVC was supposed to change as time and experience revealed achievements and failures.

Yet discourses about support for veterans range from full state support to bureaucratic stagnation. The official state line is, and has always been, to provide veterans with the best support. Reports on how veterans are faring indicate that access to services and benefits has been either immobilized or deemed inadequate by governmental offices, political pundits, veteran advocacy groups, and veterans themselves.[4] This juxtaposition between a 'we take care of our own' stance[5] and the outcry from veterans,[6] led us to examine the Harper government's record on the NVC and Canadian veterans.

The Prime Minister claims that the "vast majority" of veterans do not take issue with his government's policies on veterans support and services.[7] Yet there is substantial dissent among veterans, evidenced by the general public awareness of the plight of Canadian veterans and by the proliferation of veteran groups in social media decrying government policy. The Prime Minister also maintains that the traditional benefits afforded veterans are no longer needed for new veterans coming home from Afghanistan.[8] While he upholds the NVC, he dismisses the fundamental covenant between veterans and Canada in place for over a hundred years: veterans have served in harm's way at crucial points in their own lives and deserve the nation's support beyond what would be part of an employment relationship.[9] The rhetoric of a decrease in demand for some services and a rapid increase for others frames government services as commodities subject to the volatility of a market system operating within the parameters of a bureaucracy. This rhetoric also treats veterans as entities without (market) value and, having served their purpose through service, as disposable.[10]

The Prime Minister, while avowing to address gaps in programming, in keeping with the idea that the NVC is a living charter, reduces the nation's obligation to veterans to the individualizing notion that "people are entitled to their views".[11] By pursuing his own government's practices of reducing government support for marginalized groups of people and cutting costs in an attempt to balance the budget, the Harper government is rejecting the validity of existing and proposed programs for the support of veterans.[12] Time and again, his Minister of Veterans Affairs has been called on publicly to justify cuts to programming, explain long wait times for approval of benefits, and defend billion dollar clawbacks when veterans do not have access to needed services or appropriate programming.[13]

The Prime Minister's mobilization of the discourse of Canada as a militarist nation, through "support our troops" campaigns alongside his own personal fascination with military history, runs counter to what is happening on the ground. Many veterans feel abandoned by the Government of Canada. They and their families are at a loss as to what to do with the challenges they face financially, physically, and emotionally. Living in a state of being forsaken, they continually come under attack by bureaucrats, retired military personnel, and Veteran Affairs Canada, for speaking out, seeking financial assistance, and asking for help. Refused benefits for treatment, rebuked for being angry, and insulted by government officials, many veterans must endure obstructive tactics, in effect closing off gateways to potential support and to restrict the manoeuverability of veterans seeking help.

The 2014 closure of nine Veterans Affairs offices, primarily in non-centralized metropolitan areas, shifted the terms of engagement and prompted a flurry of negative reactions with many quarters calling for the dismissal of Julian Fantino, Minister of Veteran Affairs Canada. But the offensive continued and veterans struggled, often in isolation, especially for those seeking mental health services. Masculine norms of the military directed service personnel to respect one's place in the hierarchy and psychiatric and medical views placed blame for emotional breakdown outside military service on either previous trauma or on weak, individual constitutions.[14] Reflection on the years of the Harper government's policy on veterans shows that the perception that veterans are under attack seems true; on the ground, Canadian veterans are under siege.

In order to examine the troubled relationship between Canadian veterans and the federal government over the Harper prime ministerial years, we first describe the context within which veterans are served by the Canadian state through the Department of National Defence and Veterans Affairs Canada. We then present the unsettling aspects of the beleaguered portfolio of Canadian veterans. We next turn to a discussion of the special relationship between veterans and a nation, followed by a critique of the New Veterans Charter. We close with comments on what lies on the horizon for veterans under siege.

BACKGROUND

Veterans and their families occupy a unique position within the Canadian state. Both the Department of National Defense (DND) through the Canadian Armed Forces (CAF)[15] and Veterans Affairs Canada (VAC) have roles to play in the daily affairs of veterans. The CAF oversees the initial transitioning of veterans into civilian life. For those eligible veterans, that is, those with either honourable duty or medical release, support is mostly limited to employment opportunities. Skills are cross-checked with various occupations and vocational training programs. Resources, organized by region, are available through Integrated Personnel Support Centres (IPSCs) and are aimed at providing access to a range of programs and benefits, including, for example, vocational rehabilitation and return to work programs, home modifications for injured CAF personnel and reservists, next of kin death benefits, medical expenses, and disability benefits.[16] There is also a priority hiring in the public sector for veterans who meet essential qualifications.[17]

Once the transition begins, veterans come under the purview of VAC. Veterans Affairs Canada oversees a multitude of programs designed to provide support for and memory of veterans as they continue through their life course, whether transitioned or retired. All support programs for veterans without medical release, that is to say veterans with disabilities and those in need of mental health services, are run through the VAC. The two key programs, the Disability Benefits Program and the Rehabilitation Services and Vocational Assistance Program govern the dispensing of state funds to individuals. The Disability Benefits Program is the primary venue through which veterans get support through pension, awards, and allowances. A veteran diagnosed with a disabling condition or has acquired a service-related disability fills out and submits for review an application that is assessed through two major tools: the Table of Disabilities (TOD) through which a veteran is assigned an impairment rating with regard to the relevance and severity of the condition or disability and the Entitlement Eligibility Guidelines (EEGs) on how to assess the relevance of the diagnosis to military service which is arranged by diagnostic category and based on national and international medical research.

The Rehabilitation Program provides three types of assistance: medical, psychosocial, and vocational. Medical services are composed of numerous specialties, ranging from orthopaedic surgeons in rehabilitation medicine to psychiatrists specializing in trauma. Psychosocial services are made accessible to support individual veterans adjust to and cope with physical disabilities in order to live as a civilian. Vocational services support veterans to hone existing skills and possible gain new ones to access employment opportunities and provide financial stability for their families.

There are joint ventures between the DND and VAC, particularly through the office of Director Casualty Support Management (e.g., IPSCs). There are seven Operational Trauma and Stress Support Centres (OTSSC) serving veterans, set up in 1999, that focus on the medical aspects of trauma and stress. Operational Stress Injury Support Services Centres (OSISS) grew out of a peer support system established by veterans of the 1990s armed conflicts in Rwanda and the former Yugoslavia. There is a high degree of mutual support among private and non-profit organizations with VAC, particularly in the sense of rallying around the troops, supporting troops while deployed, and welcoming the troops home. Some groups reproduce the camaraderie of service (Canadian Army Veteran Motorcycle Units), others advocate for veterans rights (The Canadian Veterans Advocacy), while still others link veterans to potential employers (Helmets to Hardhats). Many groups, however, target service provision as part of their mission statement; they identify gaps in available services and flaws in the designed programs to meet those needs (Wounded Warriors). In a sense, these organizations are extensions of the state: they act as informal information offices, as central nodes among veteran networks, and as service providers.

HOW VETERANS ARE FARING

Some veterans seeking assistance for themselves and in some cases their families, fare better than others. A bi-ministerial support system complicates veteran support. Program provisioning is through two budgets (FY 2014-15 estimates for DND at around $19 billion and

VAC just under $3.6 billion), for two sets of clientele (injured, disabled, and transitioning to civilian life veterans and retired veterans, who may be injured or disabled with some support to their families). It involves two sets of program policies and procedures (with competing eligibility requirements for rehabilitative equipment, assistive devices, and income supports), and under two sets of priorities (national defense and support for a group of ex-CAF members and their families). Navigating such an unwieldy bureaucracy necessitates guidance through members of the bureaucracy itself, that is, transition counsellors and case workers assigned and accessed through local VAC offices. Veterans also work with advocates who are outside the bureaucracy yet know it very well.

Alcoholism, substance use, and steady employment are known challenges, especially for veterans with mental health problems.[18] Housing, too, is problematic for veterans and, although data on homelessness and veterans are limited in Canada, the number of homeless veterans seems to be on the rise. In a report on homelessness across five sites in Canada, just over 4% of those surveyed identified as veterans,[19] translating roughly to 92 veterans.

The City of Toronto estimates indicate a rising homeless veteran population, from 35 in 2009-2010 to 235 in 2014.[20] Today, the City of Toronto estimates about 368 veterans are either living on the street or are staying in shelters (about 7% of all homeless).[21] All these numbers are likely to be underestimates. Although not noted in this research, many of the veterans who are homeless also deal with mental health issues. Were it not for private organizations such as the Royal Canadian Legion, Wounded Warriors, or Veterans Emergency Transition Services Canada (VETS), as well as family and friends providing spare bedrooms and couches, homelessness rates for veterans would probably be higher.[22]

Veterans needing access to mental health care are having difficulty accessing appropriate services. One of the most common and frustrating snags veterans come across is around eligibility. The scheduled (or expected) wait for an eligibility assessment for claims for the Disability Benefits Program (using the TOD and EEGs) can be up to 32 weeks.[23] A negative assessment leads to appeals, some of which have been in process for decades.[24] Being denied access to services is especially problematic for those seeking mental health support because a lack of immediate help can exacerbate illness which may have tragic consequences. A high profile suicide case highlights the effects of how eligibility requirements play out in an individual veteran's life. Corporal Stuart Langridge, who served both in Bosnia and Afghanistan, committed suicide after seeking treatment for his post-traumatic stress. Because his condition was deemed non-military-related, continuing services and long-term help were out of his reach. Langridge's family is struggling with the military police as part of the Canadian state over several aspects of his case. Central to their claim is that Langridge was dismissed by those in positions of authority over him as a "drunk and drug user."[25] A recent report into the mental health of CAF members showed an astonishing lifetime rate of 48.4% for mental and alcohol disorders, including depression, generalized anxiety disorder, post-traumatic stress disorder, and panic disorder as well as alcohol dependence and abuse.[26] Without this recognition, many CAF members are being, and will continue to be, turned away, much like Langridge was.

The central element of the relationship between veterans and the state comprises individual veterans, their families, and their post-service lives. This focus on individuals and their close family relationships infuses veteran discourses – both within the state and among veterans themselves – which often treat the relationship between the state and veterans as separate from any other relationship that either the state or the veteran has. One effect of this focus has been the establishment of the NVC; another has been the blurring of possible connections to wider policy initiatives. For example, wider economic policy in response to economic crises coinciding with the introduction of the NVC has resulted in austerity measures that are taking a toll on new Canadian veterans. The golden ring of a triple-A credit rating for Canada has come on the backs of veterans, with reneges on the promise of support and opportunities once returned to civilian life. Since 2006, veteran benefits, and their lives, have been transformed.

Table 6.1. Comparing Canada's Veteran Financial Benefit Regimes

Program area	Pension Act	New Veterans Charter
Legislative basis	*Pension Act* R.S.C., 1985, c.P-6 *War Veterans Allowance Act*, R.S.C. 1985, c. W-3	*Canadian Forces Members and Veterans Re-establishment and Compensation Act* S.C. 2005, c. 21 *Enhanced New Veterans Charter Act* S.C. 2011, c. 12
Basic disability support	Disability Pension: non-taxable monthly benefit until one year after death	Disability Award: non-taxable lump-sum payment or annual instalment of the sum over a number of years
Other disability allowances	Exceptional Incapacity Allowance: non-taxable monthly benefit for life based on disability assessment Clothing Allowance: non-taxable monthly benefit paid for life to veterans with a disability benefit on account of amputations or other impairments	Permanent Impairment Allowance: taxable monthly benefit for life for those in receipt of a disability benefit and in VAC approved rehabilitation services Permanent Impairment Allowance Supplement: taxable monthly payment for those deemed incapable of suitable gainful employment Clothing Allowance: taxable monthly benefit paid for life to veterans with a disability benefit on account of amputations or other impairments
	Service Income Security Insurance Long Term Disability: monthly payment for veterans if total income is less than 75% of pre-release military income Canadian Forces Superannuation: payments to all CAF members with 10 years or more service and medically released, based on years	Earnings Loss Benefit: taxable monthly benefit until age 65 of 75% of pre-release military salary, and must be in VAC rehabilitation services (available also to qualified surviving spouses and dependents) Canadian Forces Superannuation: monthly annuity payments to all CAF members with 10 years or more service and

Earnings-related benefits	of service and pre-release salary	medically released, based on years of service and pre-release military salary Canadian Forces Income Support: non-taxable monthly benefit to veterans (and their surviving spouse and dependent children) with low-household income, under age 65 and searching for suitable gainful employment Supplementary Retirement Benefit: taxable lump-sum payment at age 65 to veterans in receipt of the Earnings Loss Benefit
Family-based benefits	Spousal Pension: non-taxable monthly pension until one year after death Children's Pension: non-taxable monthly benefit based on number of children and age (up to age 25 if in post-secondary education) Attendant Allowance: non-taxable monthly benefit for assistance to veterans with daily living	Family Support: can include educational grants for surviving children
Survivor benefits	Survivor Benefit: Non-taxable monthly pension beginning one year after veteran's death	Death Benefit: non-taxable lump-sum payment if veteran died during or within 30 days of military service, also for dependent children under 18 or under 25 if attending school or an adult child prevented from earning a living due to physical or mental incapacity
Captivity benefits	Prisoner of War Compensation: non-taxable monthly pension for life if a POW for three months or more	Detention Benefit: non-taxable lump-sum payment paid at release from an enemy or opposing force
	War Veterans Allowance: non-	

Income assistance	taxable monthly support to low-income veterans at age 60 or if permanently unemployable or their survivors at age 55 with additional amounts for each dependent child or orphan

Source: Developed by the authors from information on various Government of Canada web sites.

Comparing the two veteran financial benefit regimes – the *Pension Act* and the NVC – reveals a relative, although significant series of changes, toward an economic understanding of individual military service, contribution to society, and impairment. One such change is the move away from financial assistance for family members (spousal and children's pensions) to a focus on individual veterans. A related change is a shift toward family-centred services, rather than cash benefits, in the form of counselling, child care and mental health supports. The passive support of disability insurance pensions was replaced by more active support within the wider economy in terms of education, rehabilitation, training and job search assistance. Under the NVC, more financial benefits are treated as taxable income.

Yet, most significantly, veterans no longer receive life-long pensions. Depending on the type and severity of impairment, the latter measured in percentages of what constitutes normal (through the TOD), veterans are paid a disability award, a certain amount of money, and then left to live off that money for a lifetime. They are placed back into the model of a pension being tied to employment history. Even with the knowledge that veterans face hardships around secure employment, chronic illness, and mental health challenges over their lifespan, the state continues to pursue short-term vision of balancing the budget by cutting recurring costs through reducing financial support and restricting access to services – a strategy used to cut costs in other social programming in other ministries. This policy harms veterans by putting in place mechanisms that further distance the state from its veterans, encircling them into a web of bureaucratic practices that enhances the careworn status of veterans and their families.

A SPECIAL RELATIONSHIP IN WHICH DISAGREEMENTS ABOUND

When introduced in May 2005, Senator Roméo Dallaire called the NVC "a new social contract between the people of Canada and the new generation of veterans of the Canadian Forces."[27] The NVC, as explained by an advisory group to the federal government, "reinforces the social contract between Canadians and the members of the Canadian Forces. Veterans are different from the average citizen – because of their willingness to put their lives on the line to serve their country and because of the long-term impact of military service on their health. The New Veterans Charter also acknowledges the crucial role of families in Veterans' lives. It commits Canada to fulfill its part of the social contract: to provide programs and services that will promote wellness among Veterans and their families, help Veterans reintegrate into civilian life, and enable them to reach their full potential. This is a major commitment that must be honoured in full."[28]

Whether this special relationship, or social contract, is being honoured has become a fundamental judicial challenge and a heated political issue nationally. As a test of the special status of veterans in Canadian society, six Canadian soldiers injured in Afghanistan are seeking certification of a class action lawsuit on behalf of hundreds, if not thousands, of injured soldiers who applied for disability benefits after April 2006, when the NVC took effect. These veterans claim that the NVC ignores the longstanding special relationship between veterans and the Canadian government by providing less in disability pensions and support for their families than previous veterans. For these so-called new veterans (post-2006), nothing less than the honour of the Crown, a constitutional principle, is at stake. Federal lawyers counter, arguing "the government's duty to give special protections to one citizen category only applies as a legal principle in the aboriginal context. They maintain that issues raised by the veterans should be addressed by parliament and not in the court."[29]

This legal case is about both constitutional and parliamentary politics. With regard to constitutional law, determining the role of a class action against the federal government and the honour of the Crown as understood in this context as the nation's debt of gratitude and duty of care entails the re-establishment of veterans and their families as special citizens in need of special treatment. For veterans, the only route to equality is through the re-attainment of these special rights. The lawsuit is now on hold. Veterans, in an attempt to work *with* the government, have decided to see how the changes being introduced in 2015 will play out.[30] Yet even without a case in court, left in the British Columbia Court of Appeals, the legal fight will most likely play out for many years given the transformation of veterans' lives under the NVC.

With regard to the Canadian government, the site of parliamentary supremacy, the issue of a social contract is, in 2015, the stuff of national electoral politics. Since at least March 2013, when a Senate subcommittee on veterans affairs noted "the absence of a clear, universally agreed 'social contract' between the people of Canada, represented by their government, on one hand, and Canadian Forces members and veterans on the other," there has been strife.[31] Neither the Veterans Bill of Rights nor the NVC seemed to be fulfilling the void 'new' veterans were navigating. Indeed, the tremendous increase in the number of private veterans organizations over the Harper years indicate that not all veteran needs are being met. Without clarity over the meaning of such a social contract, "disagreements and misunderstanding abound."[32] The Senate subcommittee thus recommended that the Harper government "table a document that articulates and promotes the social contract between the people of Canada and their veterans."[33]

The government document and hoped-for parliamentary discussion on the social contract was dead in the water. Just over a year later, in June 2014, the House of Commons Standing Committee on Veterans Affairs recommended that “the Veterans Bill of Rights be included in the New Veterans Charter and in the *Pension Act*, and that a modified version of section 2 of the *Pension Act* be incorporated into the New Veterans Charter, and read as follows: ’The provisions of this Act shall be liberally construed and interpreted to the end that the recognized solemn obligation of the people and Government of Canada to provide compensation to those members of the forces who have been disabled or have died as a result of military service, and to their dependants, may be fulfilled.’”[34] In October 2014, the Harper government responded cautiously in a selective and imprecise manner, confirming that “it will introduce legislation to amend the New Veterans Charter with a construction clause in line with that of the *Pension Act* which has served Canadian Veterans since shortly after the First World War.”[35]

This lukewarm response from the Prime Minister framed the views of the new Minister of Veteran Affairs, Erin O’Toole, who replaced Julian Fantino in January 2015. Minister O’Toole refused to acknowledge clearly that the Canadian government has a moral, social, legal, and fiduciary responsibility to Canadian veterans. Instead, O’Toole echoed the timeworn talking points that support for the veterans is important, that the Harper Conservatives have invested further resources in the portfolio, that while there is a recognized obligation it is not frozen in time, and the evolving needs of new veterans must be met.[36] In February 2015, the Veterans Ombudsman, Guy Parent, expressed disappointment that the Minister and department had yet to provide details of fixing substantive deficiencies of the NVC, especially regarding income support.[37] These efforts are merely plugging holes in the panoply of inadequate government programming. As a consequence, ill and injured veterans and their families continue to wait, writhe, and agonize over what fallout will come with the next onslaught of veiled disclosures, broken promises, and so-called mandatory cuts.[38]

CRITIQUE OF THE NEW VETERAN'S CHARTER

Over the initial years of implementing the NVC – all under the Harper government – experience from 2006 to 2010 has stoked various concerns with the delivery of and apparent gaps in provision. Although the intention of the NVC places veterans as valuable assets to the country, the implementation of the Charter is not in the spirit of generosity. Studies and evaluations on the NVC were produced by

VAC and the Special Needs Advisory Group to the department as well as the New Veterans Charter Advisory Group. The House of Commons Standing Committee on Veterans produced four major reports on PTSD and services, health care, financial benefits, and the Charter during this time. The Royal Canadian Legion and other veteran organizations passed resolutions generally supporting the NVC but also calling for further improvements in the spirit of the Charter as a living document. Veterans Affairs Canada recognized there are "critical gaps in its provisions, specifically a need for greater financial security for particular groups, including the most seriously disabled."[39] There are ongoing concerns that Canadian war veterans and eligible CAF veterans are not receiving benefits and services in a fair and timely manner.[40]

Much of the dissatisfaction with the NVC centres on policies and practices of stratified provision. The NVC intentionally introduced a marked departure from the *Pension Act* regime of benefits and services, as summarized in Table 1. In crucial respects, the new veterans are eligible for fewer financial benefits than older war veterans who are not governed by the NVC. Yet some old veterans are being transferred into the NVC because of the timing of a claim. From within this dual-system approach flow differential and competing provisions. The most significant difference, both materially and in symbolic terms, is that under the *Pension Act* regime, a disabled veteran is entitled to a pension for life while under the NVC a disabled veteran is eligible for a disability award as a lump-sum payment to a maximum of $250,000. One obvious concern is that the significant divergence between the two approaches, with new veterans with severe disabilities receiving notably less financial support over a veteran's lifetime compared to the *Pension Act*.[41]

There is also the issue of lump-sum payments at risk of being inadequately saved, mismanaged, or poorly invested due to factors that may well be beyond the control of the disabled veteran. Such outcomes result in an insecure flow of income support, increasing the risk of financial hardship and poverty as well as of inadequate support for living with a disability.[42]This shift squarely locates a veteran within the regular workforce, subjects payment for military service to the same volatility of the market, and denies the special relationship veterans have with the Canadian state.

As a partial response, new legislation, *Enhancements to the New Veterans Charter Act*, came into effect in October 2011.

Changes aimed at providing improved financial support for those most seriously injured or ill veterans. Enhancements included more flexible payment options for those receiving a Disability Award, as well as 90 days to choose a preferred payment option. For those who choose the new payment option, payments are spread out over a longer period of time instead of in one lump-sum. With these changes and enhancements, the Harper government committed $189 million between 2011-12 and 2015-16.[43] As a result of these particular improvements to the NVC, more Canadian Forces Veterans are participating in VAC programs.[44]

Close attention to the NVC's implementation continued throughout 2012 to 2015 with further studies by the House of Commons Standing Committee on Veterans, a report by the Standing Senate Sub-committee on Veteran Affairs, a series of reports by the Veterans Ombudsman on improving the NVC, and, perhaps most damning, a performance audit report in November 2014 by the Auditor General of Canada on long-term mental health disability benefits. The audit found that between 2006 and 2014 of the 15,385 veterans who applied for long-term mental health disability benefits, nearly one in four (3,684) were denied benefits; of those denied, only about one-third challenged the initial decision. A number of these veterans waited between six months and three years to find out if they qualified for those benefits; some veterans waited between three to more than seven years for a favourable decision. Of VAC, the Auditor General observed that "the department doesn't really seem to have spent time looking at the process from the point of view of the veteran."[45]

In a classic political move of issue management, the Harper government announced, days before release of the Auditor General's report that an additional $200 million for mental health care over the next five or six years was being allocated to veterans programs. This announcement failed in trying to get ahead of the issue. It soon came to light that this new funding would be expended over a much longer period, up to 50 years to cover long-term benefits.[46]

Criticism of how the Harper government has treated veterans goes beyond the NVC as such, including a weak minister, the closure of several local VAC offices, lapsed spending on programs (see Table 6.2), and downsizing of staff in the department (see Table 6.3) in the name of less bureaucracy and faster, more efficient services. There is also the growing role of charitable organizations in provision of fundamental supports to veterans and their families and the contracting out to a private insurance company the treatment authorization process for physiotherapy and psychological services for veterans, among other benefits.[47]

Table 6.2. Budgeting and Spending by Veteran Affairs Canada

Fiscal Year	Total Budgetary Expenditures (millions $)	Lapsed Expenditures (millions $)	Lapsed[48] as a share of annual spending (%)
2000-01	2,108.6	30.9	1.46
2001-02	2,246.5	16.1	0.71
2002-03	2,475.1	50.9	2.05
2003-04	2,582.9	71.9	2.78
2004-05	2,695.3	111.7	4.14
2005-06	2,881.4	20.8	0.72
2006-07	3,027.9	270.7	8.94
2007-08	3,196.4	246.1	7.70
2008-09	3,533.2	115.4	3.44
2009-10	3,412.2	118.8	3.48
2010-11	3,515.3	41.1	1.12
2011-12	3,509.8	171.6	4.89
2012-13	3,498.1	173.2	4.95
2013-14	3,525.0	166.4	4.72

2014-15	3,577.0

Sources: 2000-01 to 2013-14 are actual expenditures from *Public Accounts of Canada* and 2014-15 are planned expenditures from Veteran Affairs Canada *Report on Plans and Priorities*.

With such policy decisions and a managerial discourse of streamlining services, neoliberalism has truly arrived in the veterans' portfolio. A key role of VAC is making individual veterans with trauma or other injuries fit for participation in wider civil society through the labour force. In an important sense, this is a longstanding function of the department, but recent policy developments suggest that relations between veterans and the Canadian government are being restructured, with seemingly more emphasis on individual responsibility and less on collective obligations. Cuts come in many forms. The contrast between non-profits filling in the gaps and private for-profit companies delivering services serves the interests of the state and not the veterans. Revamping life-long pensions into lump-sums set new veterans up as small businesses rather than citizens. The unkindest cut of all was when federal lawyers argued in a court of appeal that the federal government had no special relationship or moral commitment towards Canadian soldiers and veterans.

Table 6.3. Human Resources of the Veterans Affairs Portfolio, 2006-07 - 2015-16, Full-Time Equivalents (FTEs)

Fiscal Year	Veterans Affairs Canada	Office of the Veterans Ombudsman	Veterans Review and Appeal Board	Total
2006-07	3,695			3,695
2007-08	3,859			3,859
2008-09	4,039			4,039
2009-10	3,947			3,947
2010-11	3,708	45	108	3,861
2011-12	3,577	47	108	3,732
2012-13	3,328	44	107	3,479
2013-14	3,050	35	104	3,189
2014-15	2,796	38	110	2,944
2015-16	2,755	38	108	2,901

Sources: Figures for 2006-07 to 2013-14 are actuals from Departmental Performance Reports of Veterans Affairs and the Veterans Review and Appeal Board. Figures for 2014-15 and 2015-16 are planned resources from the 2014-15 Report on Plans and Priorities for Veterans Affairs and the Veterans Review and Appeal Board.

In the first Harper government of 2006-08, with the launch of the NVC in 2006 and creation of the Office of the Veterans Ombudsman in 2007, Veterans Affairs grew in human resources reaching a high of 4,039 FTEs in 2008-09 (see Table 6.3). Since then, staffing for the portfolio has declined by 28 per cent. As part of the second Harper government's budget austerity program, the target reduction to occur in Veterans Affairs Canada over 2010-11 to 2015-

16 was approximately 800 FTEs, which appears to be exceeded in projections, reaching a planned overall reduction of around 950 FTEs.[49] Noteworthy, too, is that the Office of the Veterans Ombudsman and the Veterans Review and Appeal Board, both arms-length and independent offices, have not been immune from staffing restraints, especially, in relative terms, the Office of the Veterans Ombudsman.

Early in 2015, the Veterans Ombudsman noted with satisfaction that progress was being made with the NVC in regard to improving transition support, counseling and training, and access to family services. At the same time, the Ombudsman voiced disappointment that substantive deficiencies with the NVC remain unresolved. To ensure the NVC suitably supports veterans and their families, the Ombudsman identifies five priorities that need to be addressed: financial security after age 65; better access to allowances for those with the greatest need; income support equity for veterans who served as reservists; better support for families; and improved income support during rehabilitation and transition.[50] In response, the Harper government, rather than addressing the situation as a whole, is releasing cosmetic tweaks to a broken system. Veterans now need only confirm loss of limb every three years, and moderately and severely injured veterans have a guaranteed pension once they reach 65.[51] That these changes are heralded as committed support for veterans by a declared pro-military government demonstrates just how flawed the NVC is in practice.

CONCLUSIONS

Our central argument in this chapter has been that CAF members and veterans are under siege. Rhetoric of a strong Canadian nation united against terrorism and the bleak reality of veterans who are suffering psychologically and emotionally as a result of doing the nation's bidding disturbs the quiescent image of security Canadians desire in uncertain times.[52] For CAF members, there is still considerable stigma of disclosing an injury or illness, especially, within a masculine and militaristic setting, one dealing with mental health and trauma.[53] For some CAF members there is the experience of being medically released before 10 years of service and thus ineligible for a pension. For Afghan veterans there is a stark legacy of living in the reality of depression, fighting against despair, coping with PTSD, and contemplating suicide. The high stakes for developing PTSD and living life-long trauma are staggering. Yet it is not only veterans with PTSD that are under attack; a great many veterans are besieged: those facing disability as a result of a range mental health challenges, those with physical impairments that have been fixed through rehabilitation, those with families to support, those who are precariously employed, and those who have yet to live through the effects of long-term stress of having served in the armed forces.[54]

Through the Harper years, the VAC portfolio has undergone a series of transformations. Numerically, contemporary veterans now outnumber the traditional veterans from the Second World War and Korean War. Programmatically, the NVC endeavours to move from a disability income approach to more of an economic model based on rehabilitation and (re)entry to the labour market. Culturally, the department is adopting more neoliberal practices and discourse in dealing with veterans and their families. Fiscally, the government has cut spending and services through restructuring programs, contracting administrative processes, and closing offices. And, politically, the policy community has become more vocal and assertive, through public protests and media statements, lawsuits and class action litigation, and the emergence of new grassroots advocacy groups for modern veterans. Although the NVC represents a major shift in the design of and eligibility for several benefits and services, and thus the character of support to veterans and their families, that shift is shaped by the expectations and claims of new veterans and their grasp of the policies and practices of the *Pension Act*. This indicates how policy legacies influence the discursive shift within the NVC; in this case, the key legacy is understood as a fundamental covenant and social contract between veterans and Canada in place for a hundred years. As no mere imaginary construct, this legacy is a long series of concrete public policies and institutionalized practices of provision.

The Harper Conservative government is laying siege to veterans by systematically relinquishing its responsibility to honour its special relationship to veterans and provide suitable support for a group of citizens whose sole purpose is to serve the interests of the state. Transforming veterans into opponents through a modern-day siege is likely to erode the very foundation upon which the state relies. Yet the production of veterans continues unabated as the prime minister attempts to buoy the image of Canada as a militarist state by ordering sorties against the Islamic State of Iraq and the Levant (ISIL), offering to train Ukrainian troops, and contemplating sending ground troops to Syria.

Veterans and their families through their service organizations and advocacy groups are advancing claims for social justice on a number of fronts. They are calling for equitable compensation for injuries and disabilities; they are asking for equality of treatment through the principle of "one veteran, one standard" in regards to all federal government programs; they are expecting the adequate provision for those in need of mental health services, access to education grants, survivor pensions, family support, and disability income; and, they are demanding effective and respectful administration, that protects the privacy of clients, and fair and timely procedures in all their dealings with DND and VAC. Amidst the smoke and fall of new announcements, lest we forget, these claims are what veterans are due.

Endnotes

[1] Stephen Harper, Office of the Prime Minister, Remarks at the launch of the New Veterans Charter, 06 April 2006.

[2] Press Release. "Veterans with permanent injuries should not be subject to review," Office of Peter Stoffer, MP, 03 March 2015.

[3] Elizabeth Renzetti, "Love the military, fail the veterans," *Globe and Mail*, 01 December 2014.

[4] David T. MacLeod and Harold Leduc, *A Dirty Little Skirmish*, Vernon, BC: J Charlton Publishing, 2015, and Stéphanie A. H. Bélanger and Michelle Moore, "Public Opinion and Soldier Identity: Tensions and Resolutions," in *Beyond the Line: Military and Veteran Health Research*, edited by Alice B. Aiken and Stéphanie A. H. Bélanger, pp. 103-113. Montréal-Kingston: McGill-Queen's University Press, 2011. Data for our analysis were newspapers articles, op-ed pieces alongside editorial writings, internet blogs, governmental reports, and academic literature. For examples of the reports we reviewed, see Office of the Auditor General, "Mental Health Services for Veterans," in *Report of the Auditor General of Canada*. Ottawa: Office of the Auditor General, 2014; Guy Parent, "A Disappointing Update to ACVA's Recommendations," Office of the Veterans Ombudsman, Ottawa, 03 February 2015. Last accessed: 25 February 2015; and Caryn Pearson, Mark Zamorski, and Teresa Janz, "Mental Health of Canadian Armed Forces," Statistics Canada, Ottawa, 25 November 2014, Cat. No. 82-264-X. Though not exhaustive, theoretical works shaping our analysis outside citation practice, were Michel Foucault, *The Politics of Truth*, New York: Semiotext(e),1997; Michel Foucault, *The Government of Self and Others: Lectures at the Collège de France, 1982-1983*, London: Palgrave, 2008; and Michel Foucault, "The Subject and Power," in *Michel Foucault: Power*, edited by James D. Fabion, New York: The New Press, 2009.

[5] This stance has been firmly held by Prime Minister Harper and his Conservative government since 2006. See, for example, Harper, "Remarks," 2006; Stephen Staples, "Harper, the Military and 'Wedge Politics'," *The Harper Record*, edited by Teresa Healey, pp. 243–53. Ottawa: Centre for Canadian Policy Alternatives; and Murray Brewster, "Stephen Harper partially disowns veterans charter amid demands Fantino resign," CBC News, 10 December 2014.

[6] The outcry has been increasing since 2006, exemplified informally by the number of established blogs written by veterans, by the increased publicity in mainstream venues over the years of support and therapy groups for veterans, and most formally by a class action suit against the federal government which has just been suspended until the effects of the 2015 changes can be assessed.

[7] Peter Mansbridge Interview with Stephen Harper, CBC News, 17 December 2014. Transcription last accessed: 12 February 2015. http://www.cbc.ca/news/politics/full-text-of-peter-mansbridge-s-interview-with-stephen-harper-1.2876934

[8] Peter Mansbridge Interview, 17 December 2014.

[9] Murray Brewster, 20 December 2014.

[10] We draw on arguments about disability in Dan Goodley, Rebecca Lawthom, and Katherine Runswick Cole, "Posthuman Disability Studies," *Subjectivity* 2014, 7(4, December): 342–61. doi:10.1057/sub.2014.15.

[11] Peter Mansbridge Interview, 17 December 2014.

[12] For a quick overview of cuts affecting marginalized groups in

Canada, see interactive graphic in Les Whittington, "Conservatives dismantling social programs built over generations," *Toronto Star*, 09 December 2013. Last accessed 25 February 2015: http://www.thestar.com/news/canada/2013/12/09/conservatives_disma

[13] The Minister's justifications have not always sat well with the Prime Minister. See Steven Chase, "Behind Harper's decision to demote, not dump, Fantino," *The Globe and Mail*, 06 January 2015.

[14] This is not an uncommon scenario. Veterans are often beset with financial and service provision evaluations after a war. See Pamela Moss and Michael J. Prince, *Weary Warriors: Power, Knowledge, and the Invisible Wounds of Soldiers*, New York: Berghahn, 2014. The extent to which the Harper government's commitment to neoliberal policy implementation has threatened the century-old covenant, however, is unprecedented.

[15] CAF has replaced Canadian Forces (CF), which was the preferred term for over two decades. Discursively, the reintroduction of "armed" signals the significance of security within the overall agenda of the Harper government.

[16] National Defence and the Canadian Armed Forces, *The Guide to Benefits, Programs, and Services for Serving and Former CAF Members, and their Families: Caring for Our Own* Director Casualty Support Management, 2014. Last accessed: 20 February 2015, http://www.forces.gc.ca/en/caf-community-benefits-ill-injured-deceased/guide.page

[17] Public Service Commission of Canada, *Priority Appointment Policy*, 2013. Last Accessed: 10 February 2015, http://www.psc-cfp.gc.ca/plcy-pltq/frame-cadre/policy-politique/prior-eng.htm

Although announced in 2006, the program was not as effective as it could have been leaving veterans unable to benefit. Priority hiring is an example of the stratified provision of benefits for veterans and their families.

[18] Alice B. Aiken and Stéphanie A. H. Bélanger, *Shaping the Future: Military and Veteran Health Research*. Winnipeg: Canadian Defence Academy Press, 2011.

[19] Mental Health Commission of Canada, *National Final Report: Cross-Site at Home/Chez Soi Project*. Calgary, Alberta; 2014: 14.

[20] VAC numbers reported in Annie Bergeron-Oliver, "The Number of Homeless Veterans in Canada is Soaring," *Toronto Star*, 30 June 2014. These numbers are likely to be gross underestimates.

[21] City of Toronto, "Quick facts about homelessness and social housing in Toronto," 2015. Last accessed: 25 February 2015. http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=f59ed4b4920c0410VgnVCM10000071d60f89RCRD&vgn

[22] A promising pilot project (collaboratively funded by VAC, OSISS, and Employment and Skills Development Canada) has provided transition housing for veterans shows promising effects for veterans. The cost for such housing is relatively low in comparison to the costs of housing and supporting veterans through existing shelter beds and drop-in centres, with an estimated $543,410 savings. See Cheryl Forchuk and Jan Richardson, "National Veterans Project: Addressing Homelessness among Canadian Forces Veterans," Presentation at the National Conference on Ending Homelessness. Vancouver, British Columbia, 3-5 November 2014. Last accessed slide presentation: 25 February 2015. http://www.caeh.ca/wp-

content/uploads/2014/11/RP8_RichardsonJ.pdf

[23] "Mental Health Services for Veterans," 2014.

[24] We found that one veteran's wait is now close to 50 years, the most extreme case we have come across (Personal communication with Peter Stoffer, Member of Parliament, Opposition Critic for Veterans Affairs, April 2015).

[25] Chris Cobb, "Interim report into Suicide of Edmonton's Cpl. Stuart Langridge's Suicide kept Secret from Parents," *Ottawa Citizen* 02 May 2014.

[26] Caryn Pearson, Mark Zomorski, and Teresa Janz, 2014.

[27] Roméo Dallaire, "On the New Veterans Charter Bill," *The Hill Times*, 02 May 2005.

[28] New Veterans Charter Advisory Group, *Honouring Our Commitment to Veterans and Their Families – The "Living" Charter in Action,* October 2009: 10-11. Last accessed: 25 February 2015. http://www.legion.ca/wp-content/uploads/2013/09/NVCAG-Honouring-Our-Commitment-to-Veterans-and-families-The-Living-Charter-in-Action_Nov09_e.pdf

[29] Tamsyn Burgmann, "Veterans deserve special rights like aboriginals, lawyer tells BC's top court," *The Globe and Mail,* 04 December 2014.

[30] See Bill C-58, An Act to amend the Canadian Forces Members and Veterans Re-establishment and Compensation Act and to make consequential amendments to another Act, Ottawa: House of

Commons of Canada.

[31] Subcommittee on Veterans Affairs, *A Study of the New Veterans Charter: Interim Report of the Standing Senate Committee on National Security and Defence*, March 2013: v. Available at: *www.senate-senat.ca/veac.asp*. Last accessed: 25 February 2015.

[32] Subcommittee on Veterans Affairs, vi.

[33] Subcommittee on Veterans Affairs, vii.

[34] Standing Committee on Veterans Affairs Report, *The New Veterans Charter: Moving Forward,* June 2014: 4. Last accessed: 25 February 2015.
http://www.parl.gc.ca/content/hoc/Committee/412/ACVA/Reports/RPe.pdf

[35] Government Interim Report and Implementation Strategy to the Standing Committee on Veterans Affairs' Report: *The New Veterans Charter: Moving Forward,* October 2014: 2. Last accessed: 25 February 2015.
http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=6709993&File=0

[36] See, as examples, House of Commons *Hansard*, 26-27 January, 2015.

[37] Guy Parent, "A Disappointing Update to ACVA's Recommendations," Office of the Veterans Ombudsman, Ottawa, 03 February 2015

[38] Gloria Galloway, "Benefits Battle Lines," *The Globe and Mail*, 20

July 2015.

[39] Veterans Affairs Canada, *2011-2012 Report on Plans and Priorities*, 12

[40] Pamela Moss and Michael J. Prince, "Helping Traumatized Warriors: Mobilizing Emotions, Unsettling Orders." *Emotion, Space and Society*, forthcoming.

[41] Alice Aiken and Amy Buitenhuis, *Supporting Canadian Veterans with Disabilities: A Comparison of Financial Benefits,* Kingston: Defence Management Studies Program, School of Policy Studies, Queen's University in association with Canadian Institute for Military and Veterans Health Research, 2011.

[42] Moss and Prince, *Weary Warriors*.

[43] Veterans Affairs Canada, *2012-2013 Report on Plans and Priorities,* 1

[44] Participation, however, does not necessarily translate into more effective support. The changes brought in feed into the vexing problem of determining eligibility, that is, what comes under the umbrella of the most seriously injured or ill veterans.

[45] Murray Brewster, "Soldiers wait up to 8 months for long-term aid," *Times Colonist, 26* November 2014: A2. See also Bill Curry and Gloria Galloway, "The long wait for Canada's most vulnerable veterans," *The Globe and Mail,* 26 November 2014: A10-11.

[46] The Canadian Press, "Tories under fire over funds for veterans," Times Colonist, 29 November 2014: A9. See also Gloria Galloway,

“Veterans fund to be spent over 50 years,” The Globe and Mail, 28 November 2014: A3.

[47] Peter Stoffer, “Feds not doing enough for veterans and their families,” Hill Times, 10 November 2014, and David Pugliese, “More cuts at Veterans Affairs as some services privatized,” Ottawa Citizen, 11 February 2015.

[48] Lapsed spending is a variance under the amount authorized for a fiscal year and represents unused spending authority that cannot be carried forward to the next year.

[49] The numbers are likely much higher given continuing divestment and the transfer of services to either private companies or individual provinces.

[50] Guy Parent, “A Disappointing Update to ACVA’s Recommendations.”

[51] The Canadian Press, “Veterans will need to verify lost limbs every three years, instead of annually,” 28 February 2015, and CBC News, “Veterans to get new retirement support,” 09 March 2015.

[52] See Moss and Prince, Weary Warriors, for a discussion of the way in which competing discourses shape the emergence of soldiers and veterans as subjects with ravished minds.

[53] Murray Brewster, “Canadian Soldier Attempts Suicide after PTSD ruins career,” CTVNews, 03 December 2013.

[54] Of the nearly 700,000 veterans, only about one third are VAC clients. Two-thirds receive no benefits.

Chapter 7

THE ISLAMIC STATE: IS CANADA 'DOING THE RIGHT THING'?

Ruby Dagher

INTRODUCTION

The Islamic State (IS) is a Sunni (Wahhabi) Muslim extremist entity that is in control of a sizeable portion of Iraq and Syria. IS members have committed many heinous crimes against fellow Sunni Muslims, Shiite Muslims, Christians, and other minorities. They have also undertaken the largest religious and ethnic cleansing campaign in recent history.[1] In October 2014, after spending more than USD $759 million in development assistance from 2003 until 2013, Canada joined Operation IMPACT, the military coalition against IS, and reinvigorated its delivery of humanitarian assistance to suffering Iraqis.

This chapter assesses Canada's contribution to the offensive against IS and argues that Canada's contribution is inadequate if Canada wants to degrade, destabilise, and weaken IS so as "to protect the vulnerable and innocent civilians of the region"[2], including those pertaining to vulnerable religious and ethnic minorities. The analysis presented herein also demonstrates that these contributions are unlikely to significantly reduce "the risks presented from the territory in which it [IS] operates … [t]o those of other similar ungoverned spaces in the broader region".[3]

To accomplish this task, the chapter begins by presenting the theoretical premise on which the arguments are built. As such, the chapter opens with a presentation of the theory of performance legitimacy and the role that basic social services play in conflict and post-conflict states. With the theoretical argument made, attention then turns to assessing the focus of Canada's post-conflict agenda in Iraq from 2003 until 2013. With a better understanding of the importance of the delivery of basic goods and services in post-conflict states and the post-conflict agenda for Iraq, the discussion then focuses on IS, the sources of its success, and the role that service delivery has played in its propaganda agenda. Finally, the discussion comes back to Canada's current role in Iraq and its response to IS. The chapter closes with a subsequent analysis of Canada's contribution to the fight against IS, the gap in Canada's response, and the implications for Iraqis and Canadians alike.

DEFINING PERFORMANCE LEGITIMACY

Legitimacy is earned by an actor through its relationship with a targeted group. This legitimacy allows the ‘legitimizee’ (actor) to act on behalf of the ‘legitimizers’ (members of the population). It also forms the base of the social contract between members of the population and the actor where the ‘legitimizers’ and the ‘legitimizee’ agree to reciprocal behaviour. There are four major sources of legitimacy: process or input legitimacy (as defined by democratic political and administrative systems[4], performance or output legitimacy, shared beliefs or feelings of citizenship or community, and international recognition of the sovereignty and legitimacy of the state. Each source can work to reinforce the other, although all four do not have to exist concurrently. For example, Somaliland enjoys three out of four sources of legitimacy with international recognition being the exception while North Korea lacks process legitimacy due to its undemocratic political system.

By definition, process legitimacy depends on the political system, international recognition depends on the international state system, and shared beliefs depend on the population's feelings of a common sense of nationhood. As for performance legitimacy, it depends on the delivery of basic goods and services. Performance legitimacy is earned when the 'legitimizee' provides for the welfare of citizens or a specific group of people ('legitimizers')[5]. While desires can vary from person to person, each individual requires a minimum level of goods and services to meet their most basic daily needs. These include basic health care, water, sanitation, electricity, education, traffic, roads, security, and basic justice. In essence, the more the object responds to the basic needs of the subjects, the higher the likelihood that the subjects will find the object legitimate. As Inbal and Lerner note: "To the degree that governments provided needed or desired services to the people … the people are likely to support the government's right to govern... and comply with the rule of law and to submit voluntarily to the government's authority".[6]

In summary, performance legitimacy does not depend on the type of political system in the country. It is at the core of the relationship between the state and the citizens as well as between the leaders and their constituencies. Moreover, unlike process legitimacy and international recognition, performance legitimacy is not exclusive to the state. It can be imparted on people, groups, and states. This lack of exclusivity introduces an important variable when a government, even a democratic one, has knowingly or unknowingly, intentionally or unintentionally ignored a portion of its population.

As it relates to post-conflict settings, the legitimacy of the post-conflict state is often contested, at least as it pertains to a portion of the population, and the relationship between the state and the population is precarious. Moreover, unlike democratic states, post-conflict states do not "derive their capacity and legitimacy from a long history of interaction between state and society.[7] They and their democratically-elected governments tend to continue to face crises of legitimacy, even after modelling their institutions and policies on democratic systems and structures.[8] Moreover, given that "[s]tates exist not only because they are successful in generating positive payoffs for a majority of the citizens, but also because a degree of loyalty binds citizens to the state" [9], post-conflict states struggle to effectively demonstrate their relevance and importance to all of their citizens.

Equally important though, conflict leads to the rise in groups[10] that have taken over the role of the state in the areas under their influence and have offered much-needed support during the difficult times of conflict and early post-conflict stages. These events often lead to competition for relevance, loyalty, and legitimacy between the state, the existing indigenous structures, and the above-mentioned groups.[11] Therefore, even with the establishment of democratic systems, including elections and the rule of law, alternative centres of authority actively compete with the young post-conflict state for loyalty and legitimacy. When these alternative actors are successful, their level of legitimacy allows them to constitute a 'state' within a state (e.g. regional warlords in Afghanistan and Hezbollah in Lebanon).[12] As such, the de-legitimization crises and the ever present competition for legitimacy have led governments and leaders in developing countries to recognise that the state's legitimacy rests more on its ability to provide its citizens with basic goods and services and less on sovereignty and elections (elements of process legitimacy).[13]

Still, many authors, including Inbal and Lerner cited earlier, have argued for the need to establish process legitimacy through a democratic system in order to then ensure distribution of basic social goods and services and equal access to them. While this argument presents a very important finding regarding equality and access, it omits the fact that (a) performance legitimacy is not exclusive to the state, (b) process legitimacy takes significant time to materialise in order to ensure equal representation and access to basic goods and services, and (c) other groups can step into the social services vacuum and present challenges to the democratic development agenda. More crucially, as the cases of many post-conflict countries demonstrate, no such process will follow a straight line from assistance to achievement without any regression or 'hiccups'. These 'hiccups', including a feeling of alienation by certain groups, represent opportunities for non-state actors to earn performance legitimacy, compete with the government and, as the case of IS demonstrates, destabilise the state and the country. Finally, while both process and performance legitimacy require capacity, investment in the government's delivery of basic goods and services can be a good first step to minimizing the basic goods and service vacuum and limiting or weakening the competition for legitimacy. This can be done in congruence with building democracies and equal representation.

As it relates to Iraq, even though the Iraqi conflict did not contribute significantly to the destruction of state physical infrastructure and the de-legitimisation of the state's political and administrative institutions per se, the following factors played a significant role in weakening the state's legitimacy:

(a) Increased basic needs: The sanctions that were placed on Iraq prior to the 2003 invasion had done significant damage to the economy and led to an increase in the suffering of ordinary Iraqis; [14]

(b) Decreased state capacity: The removal of any remnants of Saddam Hussein's power and party through the 'de-ba'athification' process led to the removal of a significant percentage of experienced state employees;[15]

(c) Exclusion: The exclusion of minorities, Sunnis, and some Shiites from the delivery of basic goods and services (including security); the Sunni's perception of decreased political power; and the lack of state investment in many areas (including Shiite areas) contributed to the de-legitimisation of the state in the eyes of many Iraqis.[16]

(d) Abysmal delivery of state-sanctioned basic goods and services: In cases where the Iraqi government did attempt to

> provide basic goods and services, the quality was extremely poor and the delivery was negatively impacted by corruption.[17]

Depending on the area in question, these factors contributed to either a service delivery vacuum or an extremely inadequate state-owned system, thus increasing the alienation of many Iraqis from their state.

Performance legitimacy plays a very important role in post-conflict countries even when process legitimacy is also being sought. The delivery of basic goods and services represents a source of legitimacy that people find easier to relate to in the short-term when positive democratic outcomes and payoffs require significant time and money to come to fruition.

CANADA’S POST-CONFLICT AGENDA FOR IRAQ (2003-2014)

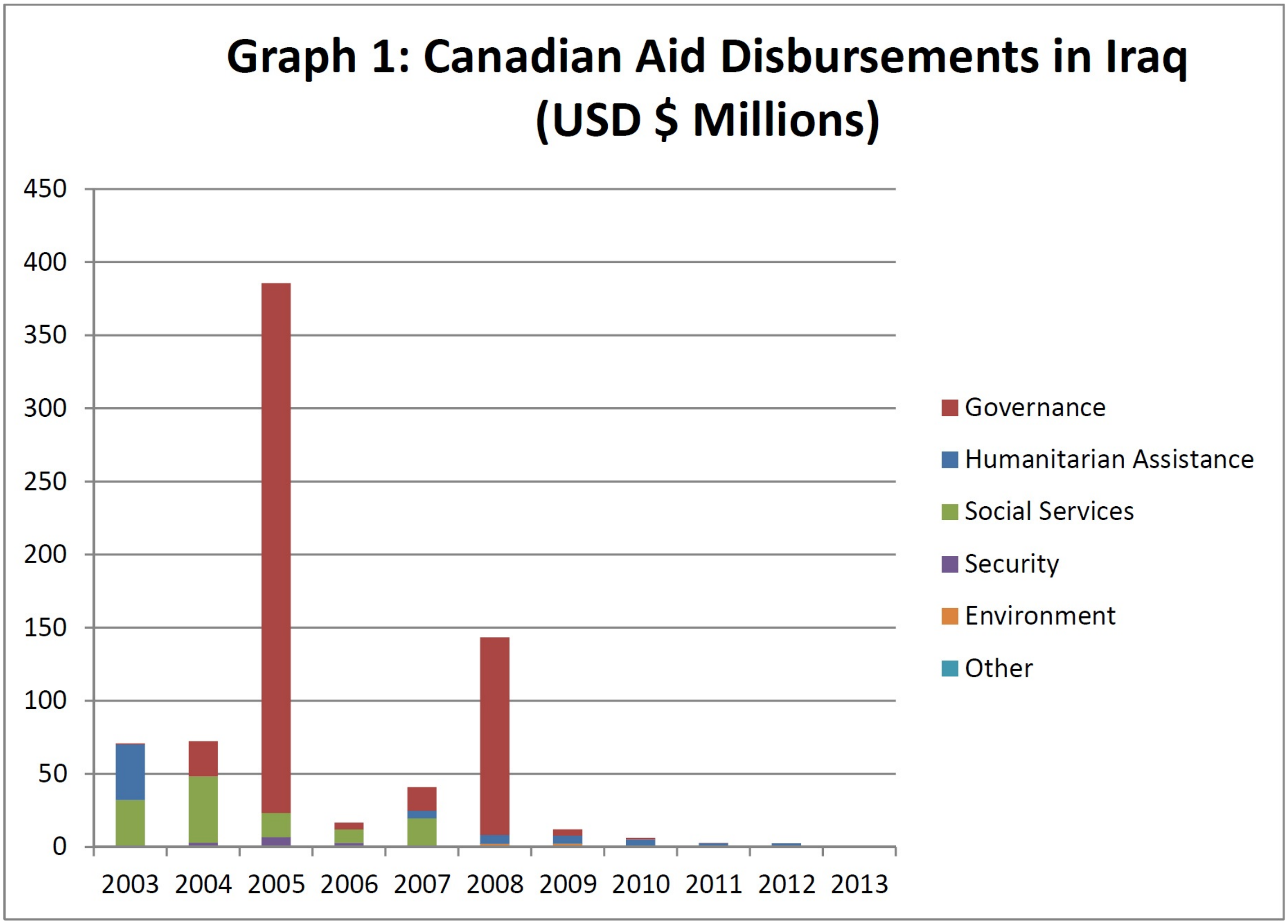
Development Assistance

Canada’s recent engagement with Iraq took shape in May 2003 following the invasion of Iraq by the United States, the United Kingdom, Australia, and Poland. The invasion led to the toppling of then President Saddam Hussein and the development of Iraq’s reconstruction plan.

In May 2003, the Canadian government, then under the leadership of Prime Minister Jean Chretien, allocated CDN $300 million for humanitarian and reconstruction efforts in Iraq. Canada was focused on helping the Iraqi population by providing them with humanitarian assistance, reconstructing the social and economic base of their society, developing effective governance and security systems, and promoting democratic development.

Yet, according to the project data provided by the Canadian government to the Organisation for Economic Development and Cooperation (OECD), Canada provided about USD $748.46 million, more than twice the amount suggested, between 2003 and 2010. Overall, between 1995 and 2013, Canada provided close to USD $759 million in assistance to the Iraqi government and the Iraqi population (USD $4.78 million in humanitarian assistance between 1995 and 2002, USD $748.46 for various types of assistance between 2003 and 2010, and USD $5.03 million in assistance between 2011 and 2013).[18] About ninety percent of the assistance provided between 2011 and 2013 was focused on the delivery of humanitarian assistance (USD $5.03 million out of USD $5.61 million).[19]

As is demonstrated in Graph 1, USD $548.45 million or a little over 73 percent of the USD $748.46 million provided by Canada between 2003 and 2010 was focused on governance activities (mostly on elections, democratic participation, public administration, human rights, rule of law, and public finance). The significant increase in spending on governance in 2005 highlights Canada's emphasis on process legitimacy. The second highest expenditure (USD $122.04 million) was on the delivery of basic social services (water and sanitation, health and education) with the majority being delivered outside the state structure through non-governmental organisations (NGOs). This amount represented only 16 percent of total disbursements from 2003 until 2010. Humanitarian assistance was third highest with expenditures amounting to USD $59.58 million. This was followed by expenditure on security (USD $11.77 million) and on the environment (USD $6.28 million).[20]



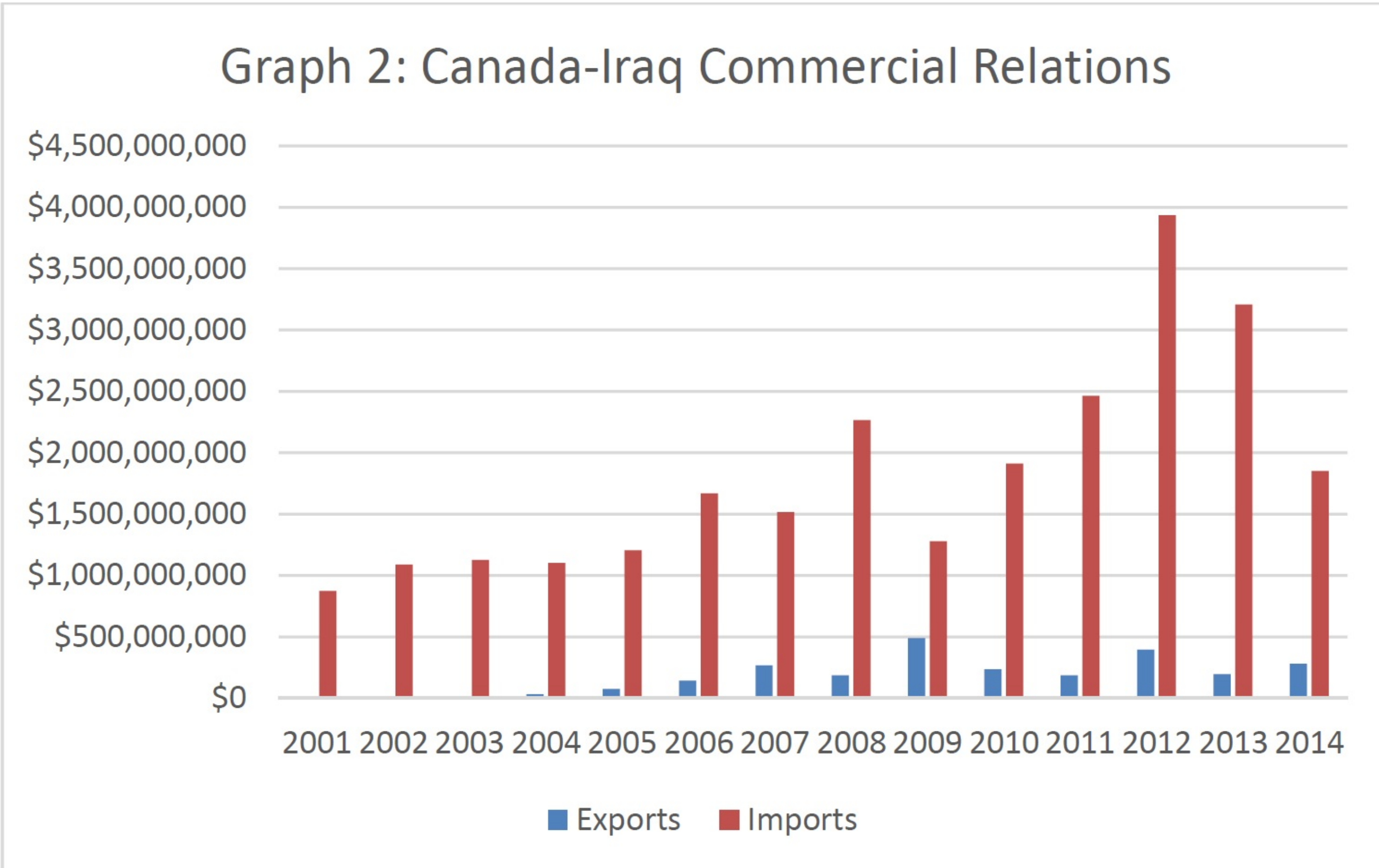
Overall, Canada's expenditures were in line with the objectives of the donor community. According to the OECD, USD $66.7 billion in official development assistance was disbursed by donors from 2003 until 2013.[21] Expenditure on process legitimacy (USD $11.7 billion) represented 18 percent of total disbursements, second only to debt payment, forgiveness, and cancellation (USD $28.9 billion or 43 percent of the total).[22] Expenditure on basic social services amounted to nearly USD $6 billion representing only nine percent of total disbursements during the 10-year period. Aid disbursed on good governance was mostly concentrated in the areas of public sector policy and management (46 percent of the expenditure on governance) as well as legal and judicial development (21 percent of the expenditure on governance). The rest of the donors' governance aid portfolio was disbursed on public financial management, elections, decentralisation, support to anti-corruption institutions, democratic participation and civil society, human rights, media, women's equality, and legislature and political parties.

Following the end of the commitment in 2010, the Canadian government made the decision to remove Iraq as a country of focus and maintain a Canadian presence through "Canada-funded regional initiatives... [with] targeted funding for humanitarian needs that includes assistance to respond to the needs of Iraq's internally displaced people and to the Syrian refugee crisis".[23] As noted above, aid disbursement levels decreased significantly to a little over USD $5 million for the period between 2011 and 2013, with humanitarian assistance representing over 90 percent of the disbursements.

Overall, Canada's attempt at helping Iraq move past the post-conflict stage rested primarily on the improvement of the central government's process legitimacy. Whether for the lack of capacity, willingness, or interest on the part of Canada and/or the Government of Iraq, this emphasis on governance and the replacement of the visibility of the government with that of NGOs in the social services sector did not help the Iraqi government earn performance legitimacy by establishing itself in contested areas that were nevertheless represented in the Iraqi Council of Representatives (the Iraqi legislature).[24] More crucially, Canada's 2010 decision to concentrate solely on the delivery of humanitarian assistance through non-governmental systems came at a time when there were continued concerns regarding stability, the feeling of alienation among many Iraqis, and increased threats from IS.

Commercial Relationship

Canada has been one of Iraq's long-standing trading partners. Canadian oil companies have $750 million worth of economic interests in Iraq and the majority of Canadian-Iraqi business transactions have been in oil (Government of Canada 2014b).[25] Oil has represented over 99 percent of total Iraqi imports into Canada since 2003, with the exception of 2008 when it represented 96 percent.[26] As is demonstrated in Graph 2, Canada's commercial relationship with Iraq has grown over the last 13 years and Iraq has become Canada's second largest trading partner in the Middle East (Government of Canada 2014b).[27]



Source: Canadian International Merchandise Trade Database.

Between 2006, when Prime Minister Harper first took office, and 2012, the year before sabotage-related activities targeting several Iraqi oil fields and the increased power and control of IS, Canada's imports from Iraq increased by nearly 226 percent (as compared to 249 percent growth from 2003 and 2012). From 2002, the year before the shock of war, to 2012, the Iraqi market also saw an increase in the presence of Canadian products. During the same period, Canadian exports to Iraq increased by 2,793 percent.

According to the Government of Canada (2014b, 1), Canada's current "mission is to contribute to Canada's economic prosperity through the expansion of the Canadian-Iraqi trade and investment relationship; to promote good governance, democracy, pluralism and respect for human rights in Iraq; and to support Canada's contributions to effective global governance and international security".[28] To do so, Canada has placed an emphasis on improving economic opportunities for Canadian companies in natural resources and reconstruction sector and has opened a trade office in Erbil, the area that is controlled by the Kurds. On the development front, Canada is supposed to be helping Iraq implement public administration reforms, modernise the relationship between the federal government and the governorates, improve its pluralistic federal system, and undertake fiscal decentralisation. It remains unclear, however, how Canada is helping the Government of Iraq through governance reforms since there is no evidence of recent non-humanitarian assistance.[29]

The Trend

According to the data provided by the Canadian government, Canada seemed to have placed a heavy emphasis on process legitimacy from 2003 to 2010. Moreover, during that period, Canada continued to build and improve its commercial relationship with Iraq, even if it meant dealing with a Prime Minister who was perceived by some to be authoritative, one who is accused of alienating portions of Iraq's population[30], and one whom the Government of Canada now identifies as a major obstacle to a unified and representative democratic Iraqi government. With little development assistance offered after the end of Canada's commitment in 2010 and the significant growth in trading activity, including a 150 percent growth in imports from 2010 to 2013, the Harper government's agenda in Iraq seems to have put a very heavy emphasis on economic transactions. This came at a time when the Iraqi government's performance legitimacy was very weak in the eyes of many Iraqis (as noted earlier) and the government was already facing severe competition from non-state groups, including IS.

THE ISLAMIC STATE

Background on IS

While its roots date back to 1999 during the war in Afghanistan, IS was born out of the wars in Iraq and Syria.[31] It originally started in Iraq as an offshoot of Al Qaeda, the entity that was led by Osama bin Laden before his assassination in May 2011. Al Qaeda Iraq was led by Jordanian Abu Musab al-Zarqawi from 1999 until his death in 2006. Its successes came at the time when Iraq was experiencing a power vacuum following the removal of Saddam Hussein in 2003. Al Qaeda Iraq was involved in anti-American insurgency and active warfare against Shiites, less extreme Sunnis, Kurds, other minorities, and the Iraqi Army. Between 2007 and 2009, the organisation lost a lot of ground to local Sunni militias and tribal leaders supported by the United States.[32] In 2009, it consolidated its leadership and moved to Mosul as a means to recover from the various events that had weakened it.[33] In 2012, Al Qaeda Iraq renamed itself the Islamic State of Iraq (ISI) and moved into Syria through its offshoot, Jabhat al-Nusra, where it found a more conducive environment for success.[34]

By 2013, ISI withdrew from the coalition with Jabhat al-Nusra and established its direct presence in Syria. It also changed its name to the Islamic State of Iraq and Syria (ISIS). ISIS became a brutal formidable fighting force but also an organisation known for its lack of corruption and its delivery of social services.[35] In Syria, where the state was in near collapse, ISIS solidified its stronghold by exalting the virtues of Islam, instilling fear of repercussions, indoctrinating children,[36] and equally as important, taking care of the basic needs of some people who had been ignored for several years if not decades. On the social front, ISIS offered "aid to civilian protestors in Damascus, free medical services to locals in Jarabulus, bags of food to the needy in rural Aleppo, and below market fuel to residents in Deir alZour governorate".[37]

ISIS soon changed its name to the Islamic State of Iraq and the Levant (ISIL) as a means to incorporate the support it received in Lebanon and Jordan. However, with the significant growth in its military successes in Iraq and Syria, on 30 June 2014, ISIL declared a Sunni Caliphate covering the area under its control in Iraq and Syria, changed its name to the Islamic State (IS), and declared its leader (Abu Bakr al-Baghdadi) as the Caliph, or leader, of all Muslims.[38] According to some reports, IS has established itself as a functioning state in an environment where the Iraqi state's presence in certain areas is weak and the Syrian state has collapsed.[39] Moreover, as recent developments in the Middle East and North Africa indicate, IS has also expanded to, and has varying levels of control over, areas in

Tunisia, Algeria, Egypt, Lebanon, Jordan, and Northern Nigeria.

Sources of Success for IS

Iraq and Syria, like many other Middle Eastern countries, represent a fertile ground for the establishment and growth of groups like Al-Qaeda, Jabhat al-Nusra, the Shiite Peace Brigades, and IS. These countries exhibit various sources of success for such organisations. In many cases, the actual or perceived vacuum that has been left by a predatory, weak, non-existent, or uncaring state has given such groups a rich venue in which to operate.

The existence of deep ethnic and religious cleavages in the Middle East has given some religious non-state groups the means to galvanise oppressed groups of people. Their success is also linked to the fact that (a) these countries' societies are made up of very large youth populations that face very high unemployment rates (34 percent in Iraq, 29.8 percent in Syria, 20.6 percent in Lebanon, 24 percent in Algeria, 31.2 in Tunisia, 33.7 percent in Jordan, and 38.9 percent in Egypt)[40] and (b) many of these youth have not benefitted from adequate state-led social and economic services.

Unfortunately, the ability of the non-state organisations to use this vacuum as a means to demonstrate to people the benefits of supporting them has allowed these groups continued support, acceptance, or at least tolerance. In the case of Iraq, there are several reports of IS stepping into the vacuum and providing education, humanitarian aid, health services, medication, waste disposal, electricity supply, transportation,[41] rent control,[42] and free bus services.[43] In Mosul, some reports have indicated that some of the city's citizens have credited IS with bringing a certain level of security to Mosul after decades of insecurity under the Iraqi Army.[44] In Fallujah, IS filled the social services vacuum by providing security, basic school equipment, assistance to the poor and elderly, and justice through religious courts (Salaheddin and Yacoub 2014).[45] The delivery of these basic services, provided IS with a source of performance legitimacy and allowed it to increase the territory under its control by establishing relationships with Sunni tribesmen and Baathist groups who had already acquired local support.[46] As one IS militant noted: "We set up soup kitchens, we rebuilt schools, hospitals, we restored water and electricity, we paid for food and fuel". [47]

It is their ability to present themselves as the better alternative to the government when it comes to certain people's basic needs that has allowed IS to command tolerance or loyalty from some of the beneficiaries of its social services. This has occurred even when its followers have committed many heinous acts that are considered un-Islamic by many moderate and some extreme Muslim scholars and groups (including Al Qaeda). So while IS has not demonstrated perfection or tolerance of the diversity of the population in Syria and in Iraq, it was still considered by some of the recipients of its services as a better, but not perfect alternative to either the Syrian or the Iraqi state.

Nonetheless, for others, IS's non-egalitarian approach in the delivery of social services as well as its violence and extremism have again led to feelings of fear and alienation. It is interesting to note that this re-emerged vacuum is now being filled by various militias, including the Iraqi Shiite Peace Brigades and the Badr Brigade, that are fighting IS alongside the Iraqi Army, and that have implemented IS's strategy of catering to the needs of the excluded groups through the delivery of basic social goods and services.

Within this chaotic situation, the Iraqi government has made attempts to rectify governmental representation and treatment of minorities and has asked for assistance in the improvement and extension of the delivery of social services.[48] Unfortunately, it has not received funding to help it in its social services endeavour. Furthermore, the work related to improved governance and democratic development is not likely to (a) fill the service delivery vacuum in the short-term, (b) rectify perceived alienation of some Iraqis from the state in the short-term, and (c) allow the state to compete with the performance legitimacy of the various groups acting on its territory.

In summary, while IS has used (a) fear to control descent, (b) religion to provide some cover for its actions, and (c) theft, oil and the black market to raise funds by interacting with allies (Sunni tribesmen) and foes (Kurdish traders) alike,[49] its actions related to the delivery of basic goods and service have played a significant role in people's tacit 'acceptance' of IS. IS is not the only organisation that uses religion and fear, but it is one of the very few that has taken advantage of the perceived vacuum to prove itself indispensable and the most currently relevant alternative to the state. In this vain, even if IS was defeated, the threats arising from the perceived social services vacuum will remain and continue to be filled by other groups looking to gain power. Given the importance of social services, the following section assesses how Canada is reacting to what has taken place in Iraq and Syria.

CANADA'S RESPONSE T0 IS

Canada's response to IS is divided into two main categories: (a) humanitarian assistance related to IS's actions and (b) the military response to IS's actions in Iraq and Syria.

Humanitarian Assistance

According to the Government of Canada, Canada continues to provide humanitarian assistance to the Iraqi population in order to help meet "the urgent health, shelter, protection, education and food needs of thousands of [Iraqi] civilians." [50]The government is also providing assistance as it relates to the prevention and investigation of and response to sexual violence and other human rights abuses.[51] This assistance is to be provided outside government channels through NGOs and the United Nations.

The officially quoted total amount of committed humanitarian and development funding for Iraqis since the beginning of 2014 is \$107.4 million.[52] However, actual committed disbursements for

Iraqis between the beginning of 2014 and July 2015 amount to only $52 million as indicated on the Department of Foreign Affairs, Trade and Development's Project Browser website. As for the Syrian crisis, the officially quoted committed amount is $503.5 million since the beginning of the crisis in 2011 and the amount of committed disbursements is only $287.93 million.

Response to IS

According to the Government of Canada, Canada's official response began on 10 August 2014 when the Government committed $5 million for humanitarian assistance. This was followed by Prime Minister Harper's 15 August 2014 announcement regarding the deployment of 30 Canadian Armed Forces personnel and two aircrafts.[53] By 7 October 2014, Canada had officially joined Operation IMPACT in Iraq.[54] The motion for the undertaking of the combat mission was passed on 6 October 2014 and it called for (a) the recognition of the eminent terrorist threat that IS represents to Canada and Canadians, (b) the threat that IS poses to the innocent and vulnerable people under the control of IS, (c) the desire of the Canadian government to respond to the needs of the Iraqi government, and (d) the wish of the Canadian government to stand by its allies, figuratively and militarily, in the fight against IS.[55]

Following the realisation of the importance of Syria for IS, Prime Minster Harper tabled a motion on 24 March 2015 to extend and expand Canada's mission against IS. According to the Government, "Operation IMPACT would be extended for up to 12 months thus moving the original deadline from 30 March 2015 to 30 March 2016. Its mandate would be expanded to authorise Canada's CF-188 Hornet fighters to join Coalition partners in attacking IS targets within Syrian territory."[56] According to the Prime Minister, the expansion would help target IS's "safe haven in Syria".[57] The motion was passed on 30 March 2015.

In the eyes of the Government, Canada is mounting a holistic response to the threat that IS poses by providing military assistance, non-lethal security assistance, humanitarian and development assistance to the Iraqi population (including for the protection of the vulnerable population), and counter-terrorism actions closer to home.

1. Military assistance

The lethal aspect of Canada's contribution is referred to as Operation IMPACT. Under Operation IMPACT, Canadian Armed Forces personnel, aircrafts, and other equipment have been deployed to fight against IS in Iraq and, more recently, in Syria. Under this combat role, Canada is expected to provide equipment support to coalition members engaged in airstrikes and assist and advise Iraqi security forces, including Kurdish Peshmerga forces (Government of Canada 2015a).[58] The total cost of Canada's initial six-month bombing campaign and special forces deployment has been calculated at $122 million by the Harper government and between $128 million and $166 million by the Canadian Parliamentary Budget Officer.[59] The expected costs for the extended 12-month mission are $406 million,[60] thus bringing the total cost of the combat mission to between $544 and $572 million over a period of a year and a half.

2. Non-lethal security assistance

As it relates to non-lethal security assistance, Canada has contributed $15 million towards the delivery of equipment such as helmets, body armour and logistics support vehicles and support to help limit the movement of foreign fighters into Iraq and Syria.

3. Counter-Terrorism Response at Home

Canada is paying special attention to the issue of foreign-fighters. Quite a few of IS's foreign fighters hold Canadian nationalities and there are fears of further recruitment, incitement, or acts of violence on Canadian soil. Actions taken by Canada include the strengthening of anti-terrorism legislation and the power of border control agents, and the curbing of funding for IS by listing the organisation as a terrorist entity under Canada's Criminal Code.[61]

Implications

According to the website of Operation IMPACT, the coalition attacks against IS have caused the group to lose "the ability to operate in 20-25 percent of the area it previously controlled."[62] However, what do these achievements really imply given the importance of the role that social services have played in the success factors of groups like IS and in the mounting challenges that the Iraqi government is facing? First, as it relates to the earlier discussion on IS's sources of success and the importance of performance legitimacy, Canada has not responded to the Iraqi government's request for assisting the government in decreasing the social services vacuum. If the idea is to liberate the population by cutting off funding to IS and not allowing it to provide social services anymore,[63] then all that Canada will be doing is leaving the vacuum intact for any other organisation to take hold, as is already being done by the Peshmerga[64] and the Peace Brigades. Canada seems to be counting on the development of a politically inclusive government that respects good governance, religious freedom and human rights, which once again focuses on the long-term.[65] Canada is missing the opportunity to invest in non-military solutions to complement the long-term governance work of other donors by helping the Iraqi government improve its performance legitimacy in the meantime.

Second, attacking IS might limit its funding ability, decrease its territorial control, and improve the Iraqi Army's capacity, but it does not solve the problem that arises when IS is degraded. As it stands currently, there are over 50 local militias [Shiite (Peace Brigades, Promised Day Brigade, etc.), Kurdish (Peshmerga, Kurdistan Workers' Party, etc.), Christian (Nineveh Plains Protection Unit, Dyvekh Nawsha, etc.), Sunni (Sons of Iraq, Qaraqosh Protection Committee, etc.), Yazidi (Sinjar Resistance Units), and other militias] fighting against IS in Iraq and over 10 fighting with IS (Ba'athist, Sunni and Salafi groups). Most of the Iraqi non-Kurdish anti-IS groups are regrouped under the banner of the Popular Mobilization Forces and are working together. In Syria, there are more than 80 local militias (Syriac Military Council, People's Protection Units, Free Syrian Army, the Islamic Front, Jaysh Al-Sanadeed, etc.)

fighting against IS and seven fighting for IS.

As in any war, many of these militias have formed convenient coalitions that are helping them defend against IS. However, if and when IS is removed from certain areas, the disagreements among these militias will likely resurface. Many of the disagreements are linked to control of territory and representation. One example is the disagreement between the Peshmerga and the Sinjar Resistance Unit over the control of Mount Sinjar and the right to represent the people in the region.[66] Canada's tactics of working with the Peshmerga and the Iraqi government as it relates to democratic governance and representation, ignores local power struggles and their outcomes.

Third, in 2014, Prime Minister Harper indicated his desire to increase Canada's leadership role by claiming the following: "If Canada wants to keep its voice in the world, and we should since so many of our challenges are global, being a free rider means you are not taken seriously".[67] Some have suggested that such an approach is necessary to allow Canada more power on the international stage. However, the fact that coalition airstrikes are leading to civilian casualties and increased anti-coalition sentiments leads one to question the price of achieving such a goal.[68] As local innocent Iraqi people are killed by coalition airstrikes (41 in the last week of February alone, 43 in June, and 24 in the first two days of July (Iraq Body Count n.d.) and many Syrians also become coalition casualties[69], the Arab population is becoming increasingly weary of the actions of the coalition (Stewart and Bayoumy 2014).[70]

Moreover, given that the conflict with IS is perceived to be a religious fight for many Muslims, the increased civilian death toll, the inability of locals to differentiate between the actions of the various coalition members, and some Sunni's perception that Canada is attacking a Sunni group in support of a Shiite group allow for a perfect storm of hatred towards Canada and increased justification for attacking Canadians at home and abroad.[71] Hence, if the idea was to root out terrorism or minimise it so as to protect Canadians, the robustness of this idea has surely been challenged. As the reasoning of performance legitimacy indicates, fighting terrorism should be done in a way that deals with the non-wealth-related sources of success of such organisations and that avoids giving them further opportunity to sell their extremism to potential recruits.

Fourth, if, as noted earlier, the objective of Canada is to contain IS so as to protect the vulnerable, then IS's spread into Tunisia (the so-called successful case of democratic awakening following the Arab Spring and the country that has provided most of the recruits for IS(Rogers 2014)), [72]Lebanon, Jordan, Nigeria, Egypt, and Algeria, among others, indicates that controlling the spread is not solely a military operation. Containing a spread that is as much a reaction to being ignored or excluded as it is ideological and religiously-based (at least as it relates to the perceptions of the recruits) requires working on the 'soft' aspects of development. Canada's plans (humanitarian assistance, economic transactions and military support) are not concerned with the 'soft' aspects of development that can bring gains in the short-term and buy time for long-term improvements. It seems that Canada's approach is based on a less than comprehensive assessment of the situation in the Middle East and the important factors at play.

CONCLUSIONS

Violence and security cannot solve all of Iraq's problems. Iraq has a portion of its population that is alienated from its government, not necessarily because they have no representation in the government, but because their representatives do not or cannot actively represent them. Improvement in the governance system is one potential long-term solution. Given the importance of performance legitimacy and the proven ability of the various groups to use it as a means to increase their power and influence, the answer to the problems in Iraq should have an active short- and medium-term engagement to help sustain the state's legitimacy and allow the government to close off the service delivery vacuum and remove low-hanging fruit for other groups. Canada has the development expertise to respond to the Iraqi government's request for assistance in service delivery. If the new Iraqi government is truly making an effort to be more inclusive then Canada has a moral imperative to divert some of the significant sums of money to projects that help increase the performance legitimacy of the central government.

Furthermore, spending millions of dollars on bombing IS in one part of the Middle East does not necessarily contain the contagion. It would be difficult to see how Canada and its coalition partners could attack IS militarily in all of the countries in which it is present. Yet, in all of these countries, Canada can support the delivery of basic goods and services and thus work on helping these governments ensure the removal of an important aspect of the short-term success of these groups.

Moreover, given that the coalition will not fold if Canada was not included in it and that there are coalition members that have brought equivalent expertise or tools (refueling boats instead of refueling planes), Canada could instead complement the coalition's aerial campaign by spending on development initiatives that eliminate the chances for these groups to earn performance legitimacy and spread. In this way, IS, and other groups, will suffer militarily *as well as* at the level of popular support, thus giving the post-conflict states better chances at survival. This approach will help to avoid the trap of defeating one group before others resurface. Moreover, with the potential for rooting out some of the social factors that lead to the acceptance of such extremist groups, Canadians are also likely to benefit.

If Canada intends to degrade, destabilise, and weaken IS in the hopes of protecting vulnerable and innocent civilians in the region and reduce the risks present in the areas where IS operates, then, given the evidence presented in this chapter, these objectives are unlikely to be met with the current agenda of action.

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[10] The term 'support' groups entails groups that catered to the needs of the population during the conflict. The term includes militias, para-military groups, NGOs, and civil society groups. These groups do not have to cater to tall citizens or provide services in an egalitarian, non-discriminatory, or most efficient and effective manner.

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[17] Mohammed Tawfeeq, "Iraqis Protest Lack of Services, Corruption." *CNN*. http://www.cnn.com/2011/WORLD/meast/02/15/iraq.protests/.

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[19] The official figures indicate a much higher budget for 2013. The data indicates a disbursement of USD $17.61 million. However, USD $17.40 is disbursed on humanitarian assistance for Syrian refugees living in Iraq rather than on Iraqis themselves.

[20] As a point of comparison, the United States spent USD $31 billion for development in Iraq from 2003 to 2010 and USD $2.34 billion between 2011 and 2013. Data was retrieved from QWIDS.

[21] Data was retrieved from QWIDS.

[22] Unfortunately, until late 2013, Iraq was still deemed to have poor democratic governance and was thought to be slipping back into authoritarianism.

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[25] Government of Canada, *Canada-Iraq Relations*. 2014.

[26] The data is retrieved from the Statistics Canada's Canadian International Merchandise Trade (CIMT) Database, http://www5.statcan.gc.ca/cimt-cicm/home-accueil?lang=eng.

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Chapter 8

BOUTIQUE BRAND: THE UNIQUE ALIGNMENT OF THE HARPER CONSERVATIVE BRAND AND BOUTIQUE TAX CREDITS

Jennifer Robson

INTRODUCTION

In his 2014 summer keynote address to the Conservative Party, Stephen Harper laid out what he and his advisors had likely hoped would be the dominant narrative for the next campaign.[1] His speech warned that, should the Conservative Party fall from government, the country would be immediately beset by new entitlement programs, new taxes and bigger government. “We know”, the Prime Minister intoned, “what [the other parties offer]: never ever cut any spending; spend more, now and always; let the deficit rise; increase taxes.” The contrast was crystal clear and implied that the Conservatives were instead, the party that will always find ways to cut spending, reduce the deficit and lower taxes, “over and over again”. If he has a hidden agenda, some have suggested, Harper is not very good at concealing it in his speeches. Instead, Harper tends to use a speech to frame a key message and then repeats that same message over and over again.[2] The repeated references in that Calgary speech to reducing the size of the federal government and to lower federal taxes were not just a self-congratulatory list of past activity, they were a deliberate statement related to the brand of the Conservative Party.

The brand of a political party is a collection of impressions, based on voters' own recollections and their emotional and cognitive response to a set of images, issues and experiences communicated by the party.[3] As with competing products in the private sector, the brand serves to differentiate one party from another. Like retail consumers, voters have agency and play an active role in constructing a party brand. For a brand to take hold, voters have to make meaning out of the symbolic images, statements and behavior of parties. Voters also have to form either positive or negative attachments to those meaningful symbols. Once formed, brands tend to be resilient. That is until or unless voters perceive sufficient brand-inconsistent behavior. In addition to thinking about website colors, venues for speeches and a leader's personal grooming, the political managers cultivating and maintaining a party brand must also pay close attention to policy choices. Quite separate from standard considerations in policy choice–efficiency and effectiveness to name two–different policy choices will have varying degrees of brand-consistency.

Under some circumstances, voters may forgive or even support a party for taking a policy direction that is a radical departure from its brand. But this is more likely to be the case if the party has invested in long-term efforts to gradually shift perception (as UK Labour successfully managed in the lead-up to the first Blair government), or if there has been some exogenous shock that demands an immediate policy response (as in the case of the massive spending program launched by the Harper Conservatives in 2009 following the global financial crisis). More often, the more politically advantageous approach is to pick a policy direction and simply stick with it.

By their own estimates, the Harper government has reduced federal tax revenues by $30 billion per year since taking power in 2006. This is, nominally, an amount roughly equal to the annual federal debt servicing costs.[4] Furthermore, the cumulative value over the last decade is approaching an amount equal to half the federal debt. While the GST cuts early on in the first Harper government no doubt account for a large chunk of the change to tax revenues, Clark and DeVries estimated that the lion's share of the reduction has been achieved through reductions to the federal personal income tax.[5]

However, a review of the basic framework of personal income taxes in 2006 and today suggests that the personal income tax reductions made by the Harper government have not, as a general rule, been broad-based in nature. The statutory personal income tax rates today are the same they were in 2006. Likewise the basic personal exemption has increased only enough to keep pace with inflation. Rate cuts and basic exemptions are blunt instruments that spread the reduction in federal taxation across a very broad base. Instead, many of the changes made by the Harper government in the last decade have been much narrower, especially the use of so-called boutique tax credits.

Remarkably, there does not appear to be an accepted definition of 'boutique credits' in the academic literature, although the term is frequently used by Canadian media and in the grey-literature.[6] There is a well-established literature on tax-expenditures,[7] with a robust debate over the efficiency and equity of forgoing government revenues through tax measures to achieve policy objectives. For the purpose of this chapter, I suggest that so-called boutique credits are a sub-set of tax expenditures with at least three common characteristics:

1) They are tax expenditures, as acknowledged by the government itself. That is, there is an identifiable cost, in foregone federal (and possibly provincial) personal income tax revenues, as a result of the measure.

2) The justification provided by the government for the introduction of the tax measure is a policy aim other than efficient or equitable taxation. That is, the policy aim is to reward certain forms of private behavior among citizens, not to address structural issues within the tax system itself.[8] These behavioral aims might otherwise be met through direct spending to provide services or conditional transfers to individuals (such as vouchers or cash benefits).

3) By design, relatively few tax filers claim them each year. Eligibility is based on personal characteristics or behaviors shared by a minority (often a very small minority) of tax filers. This is in contrast to blunt, structural chances that may affect a majority or even all tax payers such as changes to the

basic personal exemption or bracket structures.

For the purpose of this chapter, I also limit my discussion to the list of ten personal income tax credits that share the above criteria and have all been introduced since 2006 by the Harper government.[9] I do not mean to suggest that no prior federal government had ever introduced a tax credit meeting these three criteria. In fact, narrow tax credits have been introduced by federal and provincial governments of all political stripes. Neither am I suggesting that the Harper government has relied solely on these boutique credits. In fact, as the Auditor General made clear in his 2015 Spring reports, there are over 140 individual tax expenditures which can be split into structural measures (which are outside the scope of this chapter) and those that are close or even perfect substitutes for direct spending. Each credit on its own reaches only a select slice of the population of Canadian taxpayers. Some tax-payers will qualify for several of these boutique credits and will then pay a substantially different and lower effective rate compared to another taxpayers with comparable ability to pay (as measured by total income). When this happens, the horizontal equity of the Canadian tax system is reduced. Individual differences in access to boutique credits also makes analysis of the vertical equity of the tax system far more complex to assess since the final tax burden of a tax filer is now subject to a complex interaction of income but also behavioral characteristics. But one thing that is clear is that the cumulative value of the foregone revenue from the proliferation of these credits is large and has increased dramatically in the last decade. The Harper government did not invent boutique credits but it has certainly embraced them with a never-before-seen gusto. The question is why?

As Harper's Calgary speech made clear, a central part of the Conservative vision is a smaller federal government, fewer federal spending programs and lower taxes. But there is a puzzle in the fiscal policy observed over the past 10 years: Why not reduce total federal revenues and expenditures but also aggressively pay down federal debt? Reducing taxes could be accomplished by personal income tax changes that reach the broadest swath of taxpayers without introducing new distortions in the system. Both debt reduction and broad-based tax cuts would be consistent with a brand of fiscal conservatism and with a Conservative Party brand linked to smaller government and lower taxes.

In early October 2014, Prime Minister Harper announced that the Child Fitness Tax Credit (created by the Conservative government in 2006), would be doubled for the 2014 tax year and, beginning in 2015, would also be converted from a non-refundable to a refundable credit. The announcement was notable for at least three reasons:

- First, it came just before an announcement on a package of other tax and transfer measures targeted to parents with children. These included a substantial increase to the Universal Child Care Benefit, another targeted instrument introduced by the Conservatives in 2006 and a modified version of their 2011 election promise on income-splitting for parents. Keeping the changes to the Child Fitness Tax Credit separate and apart both allowed the government separate an incremental tax change from a package of new measures and prolong media attention to their particular policy proposals.
- Second, the background information released by the Department of Finance[10] quietly but directly acknowledged that the original design of the Child Fitness Tax Credit had done little if any good for low-income families. As a non-refundable credit, the instrument gave no real benefit to families who face the greatest affordability constraints, a critique that has been pointed out

several times since it was introduced in 2006.[11] It was a rare public and official admission of policy failure.

- Third, the announcement was made by the Prime Minister, and not the Minister of Finance who notionally bears responsibility for tax policy and budget-making, subject to agreement with the Prime Minister, but not the rest of Cabinet. The announcement, outside of the House, had all of the usual trappings of an orchestrated communications event, marking it as something crafted by political managers surrounding the Prime Minister. Remarkably, this window dressing managed to turn an admission of policy failure into a positive announcement. This was in contrast to 2006 when the Child Fitness Credit was created and all communications were led by the Minister of Finance. Then, the Minister of Finance had also been publicly responsible for naming an external tax force on the design of the new credit and had received their recommendations directly. By 2014, the Prime Minister took on the role as the key government spokesperson for the policy, a move that increased the political capital involved.

Previous analyses of the myriad minor tax credits introduced by the Harper government have already noted the non-negligible fiscal costs and the tenuous evidence that any of these has a measurable and positive effect on tax-payer behavior or generate economic returns.[12] So why is the government doubling-down on its predilection for small-scale tax credits? I suggest that attention to the economic and fiscal impacts of these credits is of limited use in understanding this pattern. The persistence of the pattern cannot be explained as evidence of ignorance of general principles of tax policy, fiscal costs or impact evaluations. In fact, as the background information from the Department of Finance made clear on the Child Fitness Tax Credit, the government has ample information on the take-up, distribution and impacts of its own tax credits. If these were not working or were leading to un-intended consequences, it's likely that the Finance Department would be the first to know.

I argue that two variables should receive far more attention in making sense of the recent trends on tax credits from both critics and supporters of the government's approach. These are, first, the attractiveness of tax-expenditures as policy tools and, second, the goodness of fit between tax credits and the political brand of the Conservative Party. The remainder of this chapter first describes tax-expenditures as a policy instrument, then discusses the qualities that might make these instruments particularly attractive to political decision-makers and finally discusses the way that myriad boutique credits are consistent with the Conservative Party brand, at least thus far under Stephen Harper.

TAX CREDITS: ANOTHER WAY TO SPEND

Remarkably, money that a government spends is not always recognized as an expenditure. Federally in Canada, transfers to other orders of government, costs to service the debt, program operations and administrative costs, and direct program transfers to individuals (such as OAS or CPP payments) are all "booked" in federal estimates and submitted to Parliament for authorization through the business of supply. However, when the government opts to offer an exemption from tax, a tax deduction or a credit against taxes payable, this results in a net cost to the fiscal framework. These changes to the overall flow of collecting and spending tax revenues may not be consistently recorded in the annual or supplementary estimates of government departments[13], nor are they subject to regular scrutiny or approval by Parliament. In fact, a Spring 2015 report by the Auditor General of Canada concluded that the existing information provided on tax expenditures (including but not limited to the ‘boutique’ variety which is the focus of this chapter) “does not adequately support parliamentary oversight”.[14]

The term “tax expenditure” was first coined in a 1967 speech by Stanley Surrey who used it to describe the set of exemptions, deductions and credits that reduced taxation (and therefore increased income) for eligible claimants while reducing the overall revenues to government.[15] Similarly, Maslove defined expenditures as a set of “special provisions in the tax laws providing for preferential treatment”[16] either to grant relief to individuals under certain circumstances or to provide tax-payers with incentives to behave in certain ways through tax exemptions, deductions or credits. Given some benchmark tax system, any deviation that reduces tax revenues is deemed an expenditure.[17] The disagreements amongst economists on this matter seem to come from both defining that benchmark system and, in turn, defining a deviation.

There are, arguably, several cases among the 140 items identified by the Department of Finance in their annual report on tax expenditures[18] in which an exemption of certain income or recognizing costs incurred to generate income are not actually deviations from a baseline system of taxing income. These are the so-called 'internal' or structural items. In those instances, credits may be thought of more as the arithmetic needed to determine what and how much to take out of gross measures of income to align an individual's tax burden with the desired benchmark system. For example, expenses such as child-care that have been incurred to earn income are deducted from taxation on the basis that the tax filer's true taxable income should be treated as the net after compulsory costs to earn that income. In other instances, the tax system is used to pursue particular policy objectives as determined by the government.

Historically, changes to tax credits, exemptions and deductions have generally been announced in the Budget. Projected information on their cost has only been made available for these new or altered measures, both to Cabinet and to Parliament, for which ever period of forecasting the Finance Minister wishes to use. The ongoing cost of continuing to maintain the current set of exemptions, deductions and credits is not made public for scrutiny except through periodic (though largely annual, since 1997) reports prepared by the Department of Finance. By contrast, direct spending by departments can be tracked more frequently through mandatory quarterly reports and with more granularity in the detail through Departmental Performance Reports. As noted by Lester,[19] there have been very recent changes to the federal accounting of one type of tax credit–refundable credits, where a cash transfer is paid to an eligible recipient even if he or she has no tax liability. These refundable amounts, identical for all intents and purposes to direct income transfers to individuals, are now recorded as spending in the annual public accounts. However, other tax expenditures such as non-refundable credits, exemptions and deductions are not.

As Burman, Todder and Geisser note, “like direct spending programs, tax expenditures crowd out other spending” (p.13).[20] All else being equal, a deviation from the baseline balance between revenues and spending has to be made up in some other way, whether through reductions in other spending or through increasing revenues. In either case, the tax expenditure represents a shifting of the tax burden and public benefits between and among Canadian tax payers. Table 8.1 (below) provides a list of the personal income tax expenditures introduced by the Harper government since 2006 that meet the three criteria (proposed earlier) as ‘boutique credits’. I also include the estimate, as calculated by the Department of Finance, of the projected cost of each measure for the 2014 tax year, the proportion of tax filers who claimed the credit and the average value of the claim, based on data reported by the Canada Revenue Agency.

Box 1: The different fashion lines in the boutique

Store managers have at least four major options in crafting new tax credits or adjusting existing ones:

- Exemptions: These allow a tax payer to exclude some or all income from a defined source. Examples include the exemption of investment income in registered savings (such as RRSPs) and capital gains on a primary residence.
- Deductions: These allow a tax payer to subtract some amount, generally based on a calculation of eligible costs or expenditures. The deduction may be from taxable income for both federal and provincial taxes, such as the Childcare Expenses Deduction, from gross federal taxes, such as the political contributions tax credit, or from combined net federal and provincial tax, such as the deduction for refundable medical expenses.
- Non-refundable credits: These allow a tax payer to reduce net taxes payable and are generally based on a calculation of eligible expenditures or tax payer characteristics. These credits can reduce taxes payable to zero but cannot give rise to a refund. Examples include the credits for tuition, amounts for public transit and for volunteer firefighters.
- Refundable credits: These allow an eligible tax-filer to collect a direct transfer. Amounts are generally tied to tax payer characteristics and individual or household income. Amounts may be paid in a lump sum or may be paid in installments during the year. In either case, they are triggered only when a return has been filed for the tax year. Examples include the GST/HST credit, the Working Income Tax Benefit and the Canada Child Tax Benefit.

Poterba has noted that "a tax expenditure estimate measures the amount of federal income tax revenue that is lost as a result of a particular tax provision, given current taxpayer behavior. It is not necessarily and estimate of the revenue that might be collected if the tax provision were modified, since such a change might affect taxpayer behavior."[21] In other words, while the estimates provide a dollar value of the likely cost (all else being equal), in the real world, individuals and households make choices and decisions based on the available alternatives.

Table 8.1: Boutique tax measures introduced by the Harper government and projected annual expenditure

Tax Measure	**2014 (projected), $ millions**	**% of returns with claim (most recent data published)**	**Average amount claimed per return (most recent data published)**
First-Time Donor's Super Credit	7	NA	NA
Children's Arts Tax Credit	42	2.09%	$76.55
Volunteer Firefighters' Amount	17	0.15%	$449.99
Family Caregiver Tax Credit	65	0.85%	$763.65
Family Tax Cut (income splitting)	1,915	NA	NA
Child Tax Credit (cancelled for 2015 onward)	1,620	14.08%	$576.91
Children's Fitness Tax Credit	130	6.36%	$81.86
Public Transit Tax Credit	190	6.36%	$122.32
First Time Home Buyer's Amount	110	0.72%	$675.90
Search and Rescue Volunteers' Amount	4	NA	NA

Sources: Author's calculations using Finance Canada (2015). "Tax Expenditures and Evaluations, 2014". Ottawa and Canada Revenue Agency (2014). "Final Statistics: 2014 edition for the 2012 tax year". Ottawa.

In Table 8.1, above, the cost of each individual item is estimated independently. That is, the reported figure is based on a model that holds all other factors constant but cancels that one tax item and looks that the change in federal income tax revenues. This has several implications. The first is that no behavioral change is included in the model. For example, if the non-refundable Employment Tax Credit[22] were cancelled, the model (reasonably) assumes that Canadians would not decrease their paid labour, resulting in a systematic reduction in taxable incomes and therefore federal revenues. In this case, the cost of the single credit is likely to be more accurate. But the same assumption of no behavioral change is also maintained for items such as the Tax Free Savings Account where cancellation of the favorable tax treatment might reasonably be expected to lead to shifting assets to other tax-favoured savings like Registered Retirement Savings Plans.

In these cases, reasonable assumptions of behavioral response may lead to higher or lower estimates of the true cost, and, furthermore, point to interactions between various line items. In these cases, the exact effects, in terms of foregone tax revenues, of interactions between expenditure items depends in part on the marginal tax rate of the individual tax payer. For individuals in the midpoint of a tax bracket, one or more small changes in their taxable income or tax payable are unlikely to result in any net change to taxes paid. But, when the cumulative effect of a series of credits serves to reduce a tax-filer's taxable income to a lower bracket or even to reduce their tax liability to $0, then the true cost is greater than the sum of the individual items. However, if items are substitutes for one another, then the true cost of the combined items is potentially smaller than the sum of the individual items. It is impossible to know this unless the model involved can account for each individual tax-filer's effective and marginal tax rates under multiple scenarios, as well as accurately predicting their likely behavioral response. The absence of good measures of substitution between credits and cumulative costs are the other key implications of estimating each credit in isolation.

Outside of Canada, researchers have conducted analysis of the effects of interactions between items in the US federal income tax code. For example, Burman, Todder and Geisser estimate that the interactions between US tax expenditure items lead to estimates of total tax expenditures that are between 5% and 8% higher than the sum total of individual items, depending on the combinations of items used.[23] The smallest interactions may be, they argue, in non-refundable tax credits that are limited by taxpayer's income tax liability. Here the presence of more credits leads to a smaller marginal value for each credit alone and removing one has a small effect on the remaining credits. Burman, Todder and Geisser find that deductions have the greatest interactions since American taxpayers unable to claim one will shift into other itemized deductions. But this effect is likely larger in the U.S. system where taxpayers can use a standard lump sum deduction or calculate the total of other deductions based on their personal circumstance (such as the deduction for mortgage interest) that may not be comparable in Canada.[24]

In short, the total cost, including behavioral and interaction effects, of all the various boutique credits that have been introduced by the Harper government is likely unknowable. In nearly all cases, the behavioral effects of each tax credit are likely negligible or zero. The net dollar values for the average tax filer claiming each of these boutique credits are too small to reasonably imagine they will have an impact on use of public transit, willingness to volunteer as a firefighter or, as the research bears out, parental spending on children's physical activities.

Many of the credits are aimed at parents, which raises the question of the interaction of the credits. In a separate study, I find that tax filers with incomes of $100,000 to $150,000 are substantially more likely to claim each of these credits.[25] If the subset of taxpayers who are claiming any one of these credits are the same as the subset of taxpayers claiming the other credits, then the interactions by stacking the credits is at least the same or slightly more than the notional sum ($4.1 billion) of the measures in Table 8.1.[26]

Whatever the net dollar figure might be, it is big–in the order of billions of dollars per year and certainly large enough to have financed any number of new spending programs and government expansion, or alternately, to have avoided some share of the deficits and accumulated debt from 2008 through at least 2015.[27]

THE GENERAL POLICY AND POLITICAL ADVANTAGES OF TAX EXPENDITURES

Compared to other OECD countries, the use of taxation as a way for government to 'spend' may be particularly appealing to Canadian governments, regardless of political stripe. In fact, one estimate from the Parliamentary Budget Office suggests that as much as 28% of total federal spending is now in the form of tax expenditures.[28] [29] As a percentage of GDP, Canada is more reliant on tax expenditures than many countries including Spain, Japan and even the United States.

Part of the appeal no doubt owes something to our combination of both a Westminster and strong federal system. In a system that requires the Executive to seek regular Parliamentary approvals to collect and spend public revenues, policy instruments that offer some shelter from scrutiny must be particularly appealing. Tax expenditures are not subject to the same scrutiny as program expenditures, neither at the time they are introduced– even in a federal budget–nor on an ongoing basis.[30] This is partly a result of the above-mentioned accounting practices that exclude the vast majority of tax-expenditures from the spending estimates. Because tax expenditures are fiscal policy measures, they can be added into a budget or economic update by the Minister of Finance (with the agreement of the Prime Minister), without the need for any Cabinet deliberation. This permits those at the center of the core executive to make policy changes quickly to suit their own priorities and even their own preferences.

Furthermore, as Lester has noted, the current treatment of tax expenditures also excludes them from the now-routine spending reviews that are applied to direct spending alternatives,[31] a fact also highlighted in the 2015 Spring reports by the Auditor General.[32] When tax expenditures are first created, or when they are amended, public announcements are followed by a legislative package to make any necessary changes to the *Income Tax Act*. When these are bundled into budget implementation bills or other omnibus legislation, Parliamentary scrutiny of any one individual expenditure item is necessarily reduced. Further, particularly in the case of budget implementation bills, because these are confidence measures, a majority government can be confident of whipping enough votes to guarantee passage. Even a minority government can be assured that opposition parties would have many disincentives to bringing down a government over tax cuts while cancelling a targeted spending program may be politically easier to defend, particularly in an environment of fiscal restraint.

In fact, while the Family Tax Cut[33] may be an exceptional case, most tax credits engender little or no political opposition, a second advantage. The changes to the Child Fitness Tax Credit announced in the same month as the Family Tax Cut received nothing approaching the same criticism from federal opposition parties or outside observers. In addition to a widespread reluctance by any political party in Canada, of any stripe, to be viewed as a “tax and spend” party, there is also the technical difficulty of conducting any analysis of the potential impacts and offering a feasible alternative.

Detailed analysis and critiques of tax expenditures in Canada depend on access to very limited information about individual tax measures, a fact highlighted by the Auditor General.[34] Even if data is made available, opposition parties must have a high degree of technical expertise and adequate time to make use of that information. For parties with limited Parliamentary budgets and multiple demands, the time and effort necessary to conduct their own analysis is unlikely to be seen as a worthwhile effort relative to the expected political return.

A third advantage of tax credits for policymakers is that tax expenditures are a way for federal governments to take action without facing the same challenges of other policy instruments in a federal system. Education is, for example, a clear area of provincial jurisdiction. So, for federal policy-makers a $100 million envelope could be spent as a transfer to provincial governments who may, or may not, deliver on signed commitments regarding its allocation within their jurisdiction. Negotiating the conditions of that transfer are almost certain to be difficult and slow, with multiple provincial actors engaging in complex strategic moves designed to extract the maximum possible benefit for themselves out of one single federal actor. Alternatively, that same $100 million could be spent through the tax system, in a new or improved education credit, where the federal government enjoys direct control over the policy objectives and implementation.

New credits can be announced at any time during the year with application granted as soon as the next tax year. The time lapsed between, for example, the announcement of the revisions to the Family Tax Cut and its implementation will have been not more than two or three months when the earliest eligible tax filers will have been claiming the new tax credit. Program spending requiring any degree of intergovernmental agreement cannot match that speed.

In addition to minimizing or skirting intergovernmental hurdles, tax credits also require very little, if any, incremental increase to the size and cost of public administration. Perhaps the most costly portion, over the long-run, of any public administration system is labour. Employing additional workers to manage and administer a program increases the cost of salary dollars and benefits, not only during the lifetime of the program, but for the long-term in a unionized environment. Administrative systems and architectures can differ significantly in labour intensity.

A tax system based on annual self-assessment subject to official review, with the threat of audit, needs vastly less administrative infrastructure than a policy architecture based on tools such as regulatory oversight or voluntary application with verification. Once the tax administration workforce and capital costs have been created, each incremental increase in the number or value of self-assessed credits need not lead to a tandem increase in operating costs. In the time between fiscal years 2007-08 and 2013-14, the number of full-time employees (or equivalents) at the Canada Revenue Agency has remained virtually unchanged, notwithstanding the major changes to the tax code and rising complexity of verifying the myriad new credits. By comparison other portfolios require far more effort to verify applications and enforce rules. The comparable change in the labour force of one such administratively-heavy portfolio, Citizenship and Immigration, has ballooned 48% over the same seven fiscal years.[35]

In fact, the tax system has proven such an administratively lean and flexible instrument that the Canada Revenue Agency now administers 42 separate federal and provincial benefits (for example income-tested federal and provincial child benefits) and verifies compliance on another 85 benefits (such as provincial social assistance or workers' compensation). Annual income tax returns provide a robust but also very efficient way to verify eligibility and deliver support to only the intended target population of a policy measure by relying on existing administrative data alone. Returns, particularly when they can be linked between members of a family or household, can verify personal income, household income, the number and disability status of dependents, participation in retirement savings or higher education and even housing purchases.

This expanded administrative function–without an increase in the departmental workforce–may even have permitted other federal departments to reduce their workforce. The largest programmatic portfolio, Employment and Social Development (formerly Human Resources and Skills Development), oversees a little more than $100 billion in federal spending, nearly one third of total budgetary spending. Many benefits that might normally be viewed as part of its portfolio, education savings grants, child benefits and seniors' benefits, are now largely administered or verified through the tax code. So it's less surprising to find that the number of full-time equivalent employees in the department has decreased 13% from 23,168 in 2007-08 to 22,832 in 2013-14.

Finally, to the extent that governments are concerned with the durability of their policies once they leave office, tax expenditures are very attractive for their resilience. Program expenditures that are "booked" and periodically reviewed and audited are easier to see and easier to cut. As noted by Lester, leaving tax credits out of regular spending reviews creates a broad swath of public spending that is effectively excluded from public accounting policy and best practice.[36] Because they are less visible, tax expenditures are much harder to cut. Furthermore, because existing credits are built-in to projections of current and future tax revenues prepared by officials, policymakers are primed to treat credits as sunk-costs.

Tax expenditures, once introduced, become part of the fiscal framework. While we define a tax expenditure as a deviation from some benchmark system, over time, various credits come to be seen as part of that benchmark. For example, in a 2012 study of tax expenditures, Lester defined Registered Retirement Savings Plans–including foregone taxation on investment income, the cost of annual deductions and tax-sheltered withdrawals–as part of the benchmark tax system rather than a deviation from it.[37] Yet, when RRSPs were first debated and introduced in 1957, it was clear that policymakers understood they were introducing a deliberate deviation into the tax code of the day. Like so many other budgets that have introduced other, new deviations since, the 1957 budget offered an estimate of the future annual cost in foregone federal revenues from the new RRSP policy. It seems almost quaint now that the then Minister of Finance (Walter Harris) told the House of the new RRSP that "in subsequent years, if widespread use is made of the plan, it is possible that the annual yield of the income tax may in the future be reduced by as much as $40 million."[38] Today the net cost of RRSPs (after taxable withdrawals) reported by the Department of Finance is $13.2 billion, 39 times larger than the original projection after inflation.[39] What's more, that $13.2 billion figure, is never mentioned in budget speeches or documents delivered by present-day federal ministers of finance. It (like so many other tax exemptions, deductions and credits) has come to be viewed as part of the baseline tax system. Over time, layers of these credits accumulate on the tax code, like layers of wallpaper. Any single layer becomes politically difficult to remove, particularly if it isn't quickly replaced by some similar alternative.

For example, when the Harper government announced its new income-splitting Family Tax Cut, it also announced the termination of the Child Tax Credit, a non-refundable tax credit of $2,234 (at 15% for a net value of $335) per child under age 18. The Child Tax Credit was a measure introduced years earlier by the same government. Cancelling the CTC is projected to save $1.75 billion in fiscal year 2015-16, which is very nearly enough to full off-set the projected $1.94 billion cost of the new Family Tax Cut.[40] The slight of hand of course, is that while all families with children up to age 18 were able to claim the CTC, only some will be eligible to claim the Family Tax Cut and only a very few will receive any real benefit from it. In this case, the Child Tax Credit was only terminated when something else, and something more politically valuable to the government, was introduced.

CONCLUSIONS

The previous section described, at some length, the various policy and political advantages of tax expenditures for policymakers in the Executive. These advantages are available, regardless of partisan affiliation and they are not new. So why have the Conservatives embraced boutique credits with such gusto? The answer is a particular alignment between the advantages of the policy instrument, the political circumstances the Harper government found itself in through its first and second mandates, and, most importantly, the brand the Harper government sought to establish and maintain.

The election platforms of the Conservative Party for 2006, 2008 and 2011 are instructive. Each provides a detailed list of commitments across economic, family, criminal justice, international affairs, aboriginal rights and public administration/governance policy fields, as nearly all federal party platforms have done since the mid-1990's. Despite the scope of policy topics covered, there is a remarkably repetitive use of boutique credits and tax measures, sometimes even the very same tax measures, across all three Conservative platform documents. Take the use of personal income tax measures alone. The 2006 platform[41] listed13 separate commitments based on tax credits, exemptions, refundable credits, or other reductions all aimed at individual tax payers. The 2008 platform[42] offered nine similar commitments based on tax credits for individual tax payers and, in fact, the entire chapter on benefits for families is based solely on tax credits. Many of the nine commitments involve little more than many tweaking or enhancing measures already implemented by the Harper government, such as changes to the Registered Disability Savings Plan and the Universal Child Care Benefit. The 2011 platform[43] lists another 10 commitments based again on tax credits including a blanket commitment to not raise taxes on individuals or corporations. In fact, the emphasis on low-taxation in that platform is so strong that it was included in the title of the document itself. It was the central message of the Conservative's electoral campaign in 2011 but it was also present in 2008 and 2006, reflecting deliberate choices by political managers, not happenstance.

Having, in 2006, chosen some personal income tax instruments, the subsequent platforms returned to the same trough again and again. Perhaps the best illustration of this trend is in the treatment of the Child Fitness Tax Credit. In 2006, the party promised to introduce a new federal credit of $500 for parents with children aged 16 and under enrolled in programs to promote physical fitness. No cost projections were included in the platform itself. In 2008, the party again included the Child Fitness Tax Credit in its platform with a commitment to make it a refundable, rather than non-refundable, credit. The platform lists the cost of all measures aimed at "health and fitness" in one lump-sum amount of $40 million per year. The exact share attributed to the proposed transformation of the one credit is unknown. Despite being returned with a second, though larger, minority government, the promised change to the Child Fitness Tax Credit was never made. Then, in 2011, the party proposed again to tweak the Credit by doubling its value and making it refundable, conditional on eliminating the federal deficit. The October announcement made by the Prime Minister was, in actuality, no less than six years in the making although it was framed, in the announcement, as a fulfillment of a promise made in the most recent election campaign.

Keeping, or at least being seen to keep, electoral promises is critical to governments of all political stripes and at all levels who need to maintain political support. It is one of a dwindling number of measures to guard against further erosion in public confidence in elected offices and political parties. But the fact that the Harper government, in office, has regularly and repeatedly returned to the same trough of boutique credits cannot be explained simply in terms of keeping campaign commitments. The question is why they made the boutique commitments to begin with. I think there are at least three features of these tax credits that have made them so attractive to the Harper government in particular.

First, as described earlier in this chapter, tax credits are, compared to many other policy instruments, far easier to implement. For a government that did not have a majority of Commons seats in either of its first two Parliaments, more expedient mechanisms for delivering on policy commitments would have been deeply attractive. The language of the 2006 Conservative election platform is also instructive on this point. In the opening message from the party leader, Harper wrote "it's time for a new government that will get things done." That same text also told "everyday Canadians" that "this election provides them with a chance to tell Liberal Ottawa that they've had enough; that they're tired of being forgotten; that it's finally their turn."[44] Having framed a narrative that positioned the Conservatives as outsiders in an unfriendly government town, a policy agenda that relied heavily on boutique credits would have allowed them to be seen to deliver changes for those "everyday Canadians". Insiders do not need to worry so much about potential obstacles to getting things done. After nearly ten years in government, the Conservative brand continues to cultivate that position outsider in a "Liberal Ottawa", a point emphasized in the Prime Minister's 2014 Calgary speech.

Second, boutique credits are, by definition, highly targeted instruments that rely on self-assessment in a way that direct spending measures cannot. That targeting is especially symbiotic with political communications based on finding narrowly defined voter segments. When implemented in sufficient numbers, targeted tax measures can create multiple political communications opportunities for a government in perpetual campaign mode. The most recent change to the Child Fitness Tax Credit, for example, was announced not in the traditional venue of the House of Commons but instead at a state-of-the-art community centre that delivers accessible sports and recreational programs in Whitby, Ontario. Likewise, the announcement of the new Family Tax Cut (and changes to the Universal Child Care Benefit and Child Care Expenses Deduction) was made at a community centre in Vaughn, Ontario in what was widely described as another “campaign-style event”, complete with photos of the Prime Minister doing a craft project with children.[45] Shortly after the announcement, the Conservative Party distributed (through email, social media and their own website) an interactive info-graphic that invited users to learn more about the recent income tax changes by selecting the cartoon image that best represented their own family.[46]

Like other cross-platform electronic communications from all federal political parties, the info-graphic also included prominent hyperlinks marked “Join” and “Donate” to encourage viewers, so excited by the boutique credit on offer, to immediately deliver a financial reward to the Conservative Party. Future re-announcements of both boutique credits can then be duplicated by Conservative MPs in ridings across the country in community settings far more visually appealing and accessible to individual voters (and local media outlets) than dull footage from a faraway House of Commons. For a party that relies on identifying segments of a voting population to assemble a minimum-winning coalition,[47] boutique credits allow its political managers and leaders to craft communications experiences directly to and with those same crucial subsets of the population.

More than most other instruments in the federal policy tool-chest, boutique credits allow for something approximating a direct-to-consumer strategy. That direct relationship and interaction with individual voters, in turn, reinforces the brand identification of party as one that delivers measureable benefits to self-identified “everyday Canadians”. Using a public choice frame, this approach significantly reduces the information asymmetry in transactions between taxpayers and custodians of public revenues. For those selected taxpaying members of the voting public, the benefit of the credit is tangible and the government providing it can be perceived as immediate and responsive, if only as they fill in their annual tax return, rather than remote and uncaring in distant Ottawa.

Finally, boutique credits come with little or no noticeable marginal increase in administrative overhead requirements. The Canada Revenue Agency already has the capital and labour to administer the tax code. A boutique credit–even one costing billions in foregone revenues–requires no concurrent increase in labour or capital costs to be implemented. For a party brand that emphasizes smaller government and fiscal restraint, boutique credits allow them to spend billions without making government bigger. Under the Harper government, total government revenues as a share of GDP have fallen from near 16% in 2006-07 to just over 14% in 2014-15.[48] Likewise, following a short-lived stimulus spending spree in 2009 and 2010, program expenses as a share of GDP have returned to pre-recession and record low levels of just under 13%. But, according to Sheikh, the ratio of government spending to GDP increases significantly when tax expenditures are taken into account, in fact nearly 25% higher than traditional measures of public revenue and spending.[49] While Sheikh's data show that the gap between the published and his estimated measure predates the Harper government, they also seem to suggest that the gap has increased and remained higher (by about 3% of GDP) since 2006. But, for a wide range of standard practices in fiscal management and public accounting, neither voters nor their representatives in Parliament will receive information that reframes all tax expenditures as spending. From a lay perspective, it seems counterintuitive to label a tax reduction as "spending". And yet, in terms of public finances, that is exactly what each boutique credit is. Boutique credits, like all tax expenditures, are a way to spend without being seen to do so.

For a party brand that deliberately promises to avoid new spending yet needs to provide a regular stream of targeted policy announcements that can be quickly and easily implemented, boutique credits are an ideal instrument choice. Critiques that point to a lack of evidence for any economic return, large windfall gains or the regressive nature of credits whose value rises with taxable income, are all missing a key point about a central function of boutique credits in a Harper government–they help to communicate the brand. Like a boutique retailer selling brand name goods, the boutique will stay open for as long Canadians are willing to keep buying.

Endnotes

[1] Stephen Harper, Speech to Conservative Party of Canada, Calgary. July 10, 2014.

[2] Paul Wells, *The Longer I'm Prime Minister: Stephen Harper and Canada, 2006-*. 2013, 2013. Toronto: Harper-Collins: Toronto.

[3] A. Marland, "What is a political brand?: Justin Trudeau and the theory of political branding". Paper delivered to the Canadian Political Science Association Annual Conference Victoria. June 6,

2013.

[4] Finance Canada. (2014). “Update of Economic and Fiscal Projections”, Ottawa. November 12. See Table 3.3.

[5] S. Clark and P. DeVries, “Mr. Harper’s taxing troubles”, *iPolitics.ca.* February 23, 2015.

[6] For example, an online search found 2,500 mentions of the term in mainstream Canadian media, think-tanks and economic blogs.

[7] Allan M. Maslove, “The other side of public spending: Tax expenditures in Canada.” In G. Bruce Doern and Allan M. Maslove, (Eds.). *The Public Evaluation of Government Spending.* Montreal: Institute for Research on Public Policy, 1978, 149-168.; L. Burman, E. Toder, and C. Geissler, “How big are total individual income tax expenditures, and who benefits from them?” Discussion paper No. 31, 2008. Tax Policy Centre; J. Lester, “Tax Expenditures and Government Program Spending: Reforming the Two “Spending” Worlds for Better Expenditure Management”. In G. Bruce Doern and Christopher Stoney, eds. *How Ottawa Spends, 2014-2015: The Harper Government–Good to Go?* Montreal: McGill-Queens University Press, 2014, 95-107.

[8] On this point, I borrow heavily from the Office of the Auditor General, “2015 Spring Reports: Report 3-Tax-based Expenditures”, 2015.Ottawa.

[9] As noted by the Auditor General, the identification of “internal” versus “expenditure” items often varies considerably between tax experts. Here I take a more cautious approach that excludes some personal and corporate income tax measures created since 2006 that

another author may argue should be included. If anything, my analysis here underestimates the extent and costs of the trend I describe.

[10] Finance Canada "PM announces intention to double the Children's Fitness Tax Credit", news release and background information. October 9, 2014. Ottawa.

[11] Fisher, K., Mawani, A., von Tigerstrom,TB., Larre, T., Cameron, C., Chad, K., Reeder, B. and Tremblay, M. (2013). "Awareness and Use of Canada's Children's Fitness Tax Credit". *Canadian Tax Journal 61:3*, 599-632; Tedds, L. (2014). Testimony to the House of Commons Standing Committee on Finance. Ottawa. October.

[12] B. Sand and P. Taylor, "Harper's Tax Boutique: Rethinking tax expenditures in a time of deficit". Frontier Centre for Public Policy. Backgrounder No. 91. March, 2011; M. Veall, "Top income shares in Canada: recent trends and policy implications". *Canadian Journal of Economics, 45:4*, 2012, 1247-1272;

[13] More recently, the federal government has introduced a practice of recording refundable tax credits as expenditures attributed to the line department responsible for the policy area even though the Canada Revenue Agency maintains responsibility for much or even all of the administration of the credit.

[14] Office of the Auditor General, "2015 Spring Reports: Report 3-Tax-based Expenditures", 5.

[15] S. Surrey, "The U.S. Income Tax System–the Need for a Full Accounting". Speech to the Money Marketers, November 15, 1967.

[16] Allan M. Maslove, “The other side of public spending: Tax expenditures in Canada.”

[17] R. Altshuler and R. Dietz, “Tax expenditure estimation and reporting: A critical review”. NBER working paper no. 14263, National Bureau of Economic Research, 2008.; Finance Canada, Tax expenditures and evaluations 2010. Ottawa; J. Poterba, “Introduction: Economic Analysis of Tax Expenditures”. National Tax Journal, 64, 2011, 451-457.; Parliamentary Budget Office, Federal tax expenditures: Use, reporting and review. Library of Parliament. 2011. Ottawa.

[18] Finance Canada, “Tax Expenditures and Evaluations, 2014”. Ottawa: Finance Canada.

[19] J. Lester, “Tax Expenditures and Government Program Spending: Reforming the Two “Spending” Worlds for Better Expenditure Management”.

[20] L. Burman, E. Toder, and C. Geissler, “How big are total individual income tax expenditures, and who benefits from them?”

[21] J. Poterba, “Introduction: Economic Analysis of Tax Expenditures”

[22] A credit of $1000 at 15% (or $150) against federal taxes owed.

[23] L. Burman, E. Toder, and C. Geissler, “How big are total individual income tax expenditures, and who benefits from them?”

[24] In fact, outside of RRSPs and RPPs, deductions for specific line items on the tax code are independent and cumulative allowing a tax filer to claim as many as he or she is eligible for. For example, there

is no standard lump sum deduction that can be traded for the cumulative value of the childcare expenses deduction plus the charitable donation deduction.

[25] J. Robson, "Recent federal boutique tax credits not helping those who need it most, or even most families with kids". Commentary. Canada 2020. 2015. Ottawa.

[26] If some significant share of these high income tax filers who claim multiple boutique credits are able to use them to drop from one tax bracket to another, then the cumulative costs are greater than the sum of the total since the new bracket rate represents a loss of tax revenue on all taxable income, above and beyond the value of each credit.

[27] At the time of writing, it appears unlikely that the federal government will be able to maintain the slim surplus forecast in the 2015 budget.

[28] Parliamentary Budget Office, Federal tax expenditures: Use, reporting and review.

[29] Other estimates use a far more limited definition of tax expenditures and arrive at significantly lower values.

[30] By contrast, program expenditures require regular review either by statue (as in the case of the Canada Pension Plan) or, if not required by statute, by Treasury Board policy.

[31] J. Lester, "Tax Expenditures and Government Program Spending: Reforming the Two "Spending" Worlds for Better Expenditure Management".

[32] Office of the Auditor General, “2015 Spring Reports: Report 3- Tax-based Expenditures”

[33] This is the non-refundable credit introduced for the 2014 tax year by Prime Minister Harper in late October 2014. It was the fulfillment of a 2011 election promise to introduce income-splitting for couples with children.

[34] Office of the Auditor General, “2015 Spring Reports: Report 3- Tax-based Expenditures”

[35] Author’s calculation using Departmental Performance Reports.

[36] J. Lester, “Tax Expenditures and Government Program Spending: Reforming the Two “Spending” Worlds for Better Expenditure Management”.

[37] Lester, J. (2012). Managing tax expenditures and government program spending: Proposals for reform. University of Calgary, School of Public Policy Research paper, 2012, 5(35).

[38] W. Harris, W. (1957). Budget Speech. Debates of the House of Commons. March 14, 22-23.

[39] Calculation using Consumer Price Index series V41690973, Statistics Canada and the Bank of Canada.

[40] Finance Canada, “Backgrounder: Helping families prosper”. Ottawa. October 30, 2014.

[41] Conservative Party of Canada, Stand Up for Canada. Election platform. 2006

[42] Conservative Party of Canada, The True North Strong and Free: Stephen Harper's Plan for Canadians. Election platform, 2008

[43] Conservative Party of Canada, Here for Canada: Stephen Harper's Low-tax Plan for Jobs and Growth. Election platform, 2011.

[44] Conservative Party of Canada, Stand Up for Canada p.2.

[45] J. Ditchburn, "Harper courts suburban voters with broad tax relief for families with kids". Cp24.com. October 30, 2014.

[46] Conservative Party of Canada, "New Tax Breaks for Canadian Families". November 2, 2014.

[47] Paul Wells, The Longer I'm Prime Minister: Stephen Harper and Canada.

[48] Finance Canada, Budget 2015. Chapter 5. Chart 5.2.3.

[49] M. Sheikh, "Estimating the True Size of Government: Adjusting for Tax Expenditures". MacDonald-Laurier Institute. Ottawa. February, 2014.

Chapter 9

BALANCED BUDGET LEGISLATION: LESSONS THE FEDERAL GOVERNMENT CAN DRAW FROM THE EXPERIENCES OF CANADIAN PROVINCES

Genevieve Tellier

INTRODUCTION

The issues discussed in this chapter centre on the theme of balanced-budget legislation in Canada. This is a salient topic, as the federal government announced in its most recent Speech from the Throne that it would table balanced-budget legislation (see postscript at the end of the chapter). This announcement comes as something of a surprise. While a government strongly committed to sound, prudent budgeting may reasonably be expected to adopt such legislation, surprisingly, no such federal legislation had been enacted before the outbreak of the 2008 financial crisis, even though a large majority of Canadian provinces have done so over the last twenty-five years. Furthermore, balanced-budget legislation has recently become popular in several countries. While only four countries had balanced-budget legislation in 1990, this number had risen to 41 in 2000 and 67 in 2013.[1] Consequently, the Canadian federal government seems to be somewhat at odds with current trends.

The objective of the chapter is to examine why the federal government has not yet enacted balanced-budget legislation. I argue that the primary reason for governments to adopt such legislation is to signal competency, not to balance public budgets. The Canadian experience pertaining to the elimination of public deficits clearly shows that legislated rules are neither necessary nor sufficient conditions to ensure fiscal discipline in the budget process. On several occasions, federal and provincial governments were able to balance their budgets without being forced to do so by legislation. Furthermore, balanced-budget rules do not automatically prevent the occurrence of deficits. Governments introduce balanced-budget legislation to demonstrate that they are committed to fiscal discipline and that they will manage public funds accordingly.

Consequently, governments enact legislation with objectives that they are confident they can achieve, and they will not hesitate to amend or repeal legislation if these objectives change. Notwithstanding this instrumentalization of legislated rules by governments, however, balanced-budget laws also yield benefits for citizens. As governments wish to demonstrate their competency, they need to articulate their budget initiatives publicly. Hence, balanced-budget legislation creates greater openness and transparency in the budget process.

The analysis begins with a brief description of the evolution of public deficits and debts in Canada. This overview explains the growing popularity of balanced-budget legislation in the country over about the last twenty-five years. Next, I examine how the federal government has addressed the issues of deficits and debts since the 1980s, as Canada began to experience a significant deterioration of its fiscal position. This section also explains why the federal government has not introduced a balanced-budget law and why it is now doing so. The following section centres on provincial legislation. In the analysis in this section, I examine the circumstances that led to the introduction and subsequent maintenance (or not) of legislated rules and draw some lessons from the provinces' experiences. The analysis concludes with a general appreciation of balanced-budget legislation in our democracies.

THE EVOLUTION OF PUBLIC DEFICITS IN CANADA: A BRIEF OVERVIEW

A few facts about federal and provincial fiscal positions

Public deficits and debts have recently been the focus of substantial attention and debate in Canada. However, their presence is certainly not a novelty in the country. As far back as the early years of Confederation (to say nothing of the previous period), federal and provincial governments have borrowed monies to finance public programs. Until the mid-20th century, however, the use of deficits was not systematic. Rather, they occurred irregularly, typically to finance vast infrastructure projects, economic recovery programs, or wars.[2] This situation also prevailed after World War II until the 1970s. Between 1947 and 1970, half of all budgets tabled by federal and provincial governments forecasted budgetary surpluses.[3] From Confederation until the mid-1970s, public deficits were also of small magnitude, helping limit public debt. In 1970, federal and provincial net debts amounted to 13.4 and 3.1 per cent of Gross Domestic Product (GDP), respectively.[4] Net debt equals total liabilities minus total financial assets. Unless indicated otherwise, all debt figures cited refer to net debt at the end of the fiscal year (31 March). Debt charges were also small, representing approximately 2 per cent of Gross National Product for the federal government and .2 per cent for the provinces before 1970.

The fiscal position of the country changed significantly during the last quarter of the 20th century. The federal deficit began to increase markedly from 1975, reaching unprecedented levels in the early 1990s. This new trend coincided with the establishment of several welfare programs, the oil crises of the 1970s, and the 1981/82 and 1991 economic recessions. By fiscal year 1989-90, federal interest payments had reached record levels: for every dollar collected by the government, 35 cents was allocated to debt servicing (total debt servicing costs were equal to 6.1 per cent of GDP). That same year, the federal debt alone reached 39.6 per cent of GDP.[5] Provincial public deficits also began to grow significantly after 1975, although not simultaneously in all provinces. The size of provincial debt also varied across provinces. In 1990, the total provincial debt represented 15.6 per cent of GDP, while debt charges stood at 1.8 per cent of GDP.

A distinct pattern, however, had clearly emerged by the end of the 1990s. The federal deficit began to decline during the 1993-94 fiscal year, leading to the government to realize a surplus five years later in 1998-99. Federal surpluses would continue to appear every year until 2008-09, and these surpluses were substantial. From 1998-99 to 2003-04, for instance, they amounted to $95.6 billion, which represents an annual average of $16 billon. Two-thirds of these surpluses ($59.2 billion, to be precise) were used for debt repayment.[6] By 2008-09, the federal debt had declined to $464 billion, or 29.0 per cent of GDP, from an historic peak of $563 billion, or 68.4 per cent of GDP, in 1995-96. Moreover, debt servicing costs had returned to their pre-1970 level, at 1.9 per cent of GDP (or 13.1 per cent of total federal revenues).

Most provincial governments also generated surpluses during the same period, although not of similar magnitude to the federal surpluses (with the exception of Alberta, which eliminated its net debt in 2004). Similar to the federal debt, the total provincial debt also decreased markedly, from 29.3 per cent of GDP in 1999-2000 (its all-time high) to 20.5 per cent in 2007-08. Debt charges decreased from 3.6 to 1.5 per cent of GDP during the same period. All ten provincial governments were ultimately able to generate budget surpluses in 2007-08, the fiscal year that preceded the financial crisis of 2008.

This financial crisis significantly altered Canada's fiscal position. Public deficits had returned, with consequential effects. The federal deficit for fiscal year 2009-10 alone reached nearly $60 billion. Although a record high in absolute terms, the ratio of the federal deficit to GDP remained well below the levels attained during the 1980s and 1990s, standing at 3.5 per cent of GDP in 2009-10, and this figure has declined every year since, reaching .3 per cent in 2013-14. The federal debt also increased after the financial crisis, yet it too remained below the levels witnessed decades earlier. As of 2013-14, the federal debt stood at $682.3 billion, or 36.3 per cent of GDP, while debt charges remained below 2 per cent of GDP after 2008.

The financial crisis also altered the fiscal position of provincial governments. All provinces ran deficits after 2008, although some were able to rely on reserve funds to balance their budgets (especially Saskatchewan and Alberta). Similar to the federal government, provincial deficits, debts, and debt charges have not returned to their previous record levels (representing 1.7, 25.4, and 1.5 per cent of GDP, respectively, in 2009-10). However, most provinces still incur deficits. Only three provinces (Saskatchewan, Alberta, and British Colombia) tabled budgets that anticipated surpluses for 2014-15[1].

Provincial debt has increased since 2009-10, standing at 28.6 per cent of GDP, close to its all-time peak (which was 29.3 per cent of GDP in 1999-00).

How did we get there?

The fiscal position of the country has changed considerably since the mid-1970s. Public deficits and debts have grown significantly over the last forty years, and although the financial burden of public deficits and debts has been reduced to some extent over the past ten to twenty years, their presence remains significant. Given this situation, one may ask why governments have allowed the extensive use of deficits and why it seems so difficult for them to adhere to strict fiscal discipline. According to some scholars, the persistence of public deficits is a direct consequence of our democratic institutions. In democracies, public spending is inevitably higher than what is appropriate, as the adoption of a policy requires that only a majority of voters (or a majority of their elected representatives) support it.

This rule creates a “common pool problem”, as the individuals benefiting from and supporting a particular initiative assume only a portion of its financial costs because the total cost of the policy is distributed across all taxpayers, including future taxpayers if the state borrows. The true benefit of a policy is therefore underestimated by the majority that supports it, leading to total spending in excess of a socially desirable level.[7] In addition, decision-making rules for parliamentary budgeting do not require decisions on spending and taxation to be made simultaneously, exacerbating the common pool problem.[8]

According to other scholars, a government's lack of commitment to fiscal discipline is rooted in the nature of budget administrative procedures. As Wildavsky explains, participants in the budgetary decision-making process belong to one of two groups: "spenders", who are responsible for the delivery of public programs and services, and "guardians", who are responsible for ensuring that public monies are managed efficiently and that governments live within their means.[9] Decision makers from both line departments (spenders) and Finance and other central agencies (guardians) must collaborate in an environment that has become increasingly complex. Consequently, budgetary decisions are made incrementally (the current year's budget is based on the previous year's budget), and they result from compromises between spenders and guardians.

Over time, spenders have learnt to ask for more money each year, and guardians have learnt to oppose some but not all of their demands, simultaneously demonstrating fiscal discipline and flexibility.[10] Overall, increasing public spending is easier than reducing it: "Whenever there is a crunch, administrative agencies will add on the costs of their programmatic proposals; they will not, unless compelled, subtract one from the other. Subtraction suggests competition in which there have to be losers; addition is about cooperation in which (within government) there are only winners. When the economy produces sufficient surplus, spending grows painlessly; when there isn't quite enough to go around, spending grows noiselessly as inflation increases effective taxation or tax expenditures and loan guarantees substitute for amounts that would otherwise appear in the red. The budget grows. A downward dip now and again does not slow its inexorable progress".[11]

Both the common pool problem and the incremental model suggest that the problem of public deficits and debts results from a disconnect between spending and revenue decisions. Balanced-budget legislation can therefore provide a solution insofar as it attempts to eliminate that divide. As we will see, however, balanced-budget legislation is not an essential prerequisite for doing so. We find examples of governments achieving a balanced budget without balanced-budget legislation at the federal and provincial levels. The next section examines the federal case.

THE FEDERAL GOVERNMENT'S RESPONSE TO DEFICITS

As shown in the previous section, the size of federal deficits and debt began to decline significantly in the mid-1990s. However, government efforts to restore fiscal discipline began several years earlier. Once they were elected in 1984, the Progressive Conservatives under the leadership of Brian Mulroney indicated that they were committed to reducing the deficit and controlling public debt. The Tories nonetheless failed to balance the budget. The principal cause of this failure was their inability to control the growth of public expenditures. Despite several initiatives by central agencies to limit spending increases, most cabinet ministers were able to appeal directly to the prime minister to support their own initiatives, thereby circumventing the Department of Finance's plans.[12] As former Finance Minister Michael Wilson confessed: "I could never get the support I need in cabinet to get it [the deficit] under control, and I'm sorry for it".[13] In other words, spenders dominated the budget process.

The *Spending Control Act* introduced in 1992 seems to have been the Tories' decisive initiative to curb spending. Tabled near the end of their second electoral mandate, the legislation targeted the core of the problem, it seems, by imposing strict legal ceilings on spending. The law would limit the rate of growth in program spending to 3 per cent per year on average for a five-year period (from 1991-92 to 1995-96). In reality, however, the legislation changed little. It merely compelled the government to do exactly what it had "been doing since 1984"[14], as the annual growth in spending programs had already averaged 3 per cent since the Progressive Conservatives took power. Furthermore, the *Spending Control Act* imposed retroactive limits, as it was enacted after the government had already tabled its 1991-92 and 1992-93 budgets (the legislated limits were for estimates, not actual spending).

Therefore, the government knew that it was in compliance with the law, at least during the first two years covered by the *Spending Control Act*. Ultimately, the legislation did not change the balance of power between spenders and guardians. Instead, the initiative aimed to provide legitimacy and visibility to a government that was struggling with an increasing deficit and debt while facing low popular support among voters and growing competition from the Reform Party (which was advocating balanced-budget legislation).

The strategy used by the Liberal government led by Jean Chrétien and Minister of Finance Paul Martin to eliminate of the federal deficit was entirely different. Once they came to power in 1993, the Liberals showed no interest in using legislative rules to engender fiscal discipline. In his first budget, Paul Martin clearly rejected the idea of extending the period covered by the *Spending Control Act*: "The *Spending Control Act* also requires that the government make a recommendation in the 1994 budget, as to whether or not the *Spending Control Act* should be extended beyond 1995-96. The government will adhere to the spending control limits set out in the current legislation, but is not recommending the extension of the Act beyond 1995-96. The control of expenditures which this government is exercising clearly makes the Act redundant".[15]

Instead, the government announced a major deficit reduction plan for the coming years in its 1995 budget. Among other initiatives, the plan imposed a two-year freeze on the salaries of federal public servants, made major cuts to certain programs (even if such cuts entailed sacrificing some election promises contained in their Red Book, such as cuts to the Unemployment Insurance program), established a Program Review to examine the relevance of each federal program, significantly reduced the government's financial contribution to federal/provincial programs, and relied on prudent macroeconomic assumptions.[16]

Within four years, the federal deficit was eliminated. Although the success of the Liberals in balancing the budget resulted from a combination of various factors, this outcome would likely not have occurred were it not for Chrétien and Martin's strong commitment to fiscal discipline. Paul Martin not only vigorously pledged to reduce the deficit "come hell or high water" but also received the unconditional support of the prime minister, himself a former finance minister.[17] The power clearly shifted from the spenders to the guardians under the leadership of Chrétien and Martin.

This success can also be attributed to the skilful communication strategy developed by the Department of Finance. Once he became finance minister, Martin took on the task of holding large public consultations involving both budget experts and citizens. The 1994 budget, for instance, was preceded by several public roundtables and conferences held in various cities, which were attended by the finance minister himself, as well as debates in the House of Commons.[18] These initiatives were representative of the new style of leadership emerging from the Finance Department. Martin transformed the budget process in a way that allowed him not only to justify budgetary initiatives but also to shape public expectations and mobilize public support for the government's initiatives.[19]

Upon taking office in 2006, Harper's Conservatives inherited an excellent fiscal position. The government's books had been balanced for some years, the country was experiencing a period of economic growth, and the federal debt was showing a downward trend. The previous Liberal government had pledged to reduce the federal debt-to-GDP ratio to 25 per cent by 2014-15.[20] One of the Conservatives' first announcements was their intention to achieve this objective one year earlier, in 2013-14.[21]

Under the leadership of Stephen Harper, the federal government would clearly behave in a strictly fiscally responsible manner. However, the 2008 financial crisis seriously challenged the

Conservatives’ commitment. Faced with the treat of a vote of no confidence in Parliament, the then-minority Conservative government reluctantly presented a stimulus package totalling $62 billion. However, the Conservatives immediately committed to return to a balanced budget as soon as possible.

Similar to the previous Liberal government, the Conservatives were committed to adhering to principals of strict fiscal discipline. A noteworthy difference between the Liberals and the Conservatives, however, resides in the strategy they selected to establish their respective competency and credibility on budgetary matters. While the Liberals emphasized openness and transparency, by encouraging public consultations and debates, the Conservatives focused on demonstrating their successes to convince the public of their economic management skills, especially by cutting spending and increasing the efficiency of government programs.[22] They developed a sophisticated marketing communication strategy to highlight their competency (millions were spent on advertising for budget initiatives) and limited the participation of opposing political parties in budget debates (with the extensive use of large omnibus budget bills, among other strategies).

The proposed balanced-budget legislation announced in the 2013 Speech from the Throne was well suited to this communication strategy. The announcement was made when the fiscal position of the government was improving significantly (a recent economic update indicated that the current deficit would be nearly $7 billion lower than projections six months beforehand), and the legislation would presumably come into force after the budget was balanced.

Overall, two factors significantly contributed to the success of the federal government's efforts to eliminate its deficit. First, balanced budgets became a reality when fiscal discipline was clearly the government's top priority. The federal experience suggests that balanced-budget initiatives must be unreservedly supported by key decision makers (e.g., the prime minister) who are strongly committed to fiscal discipline (and who therefore act as guardians). Second, an extensive communication strategy was used to demonstrate the government's strong commitment to eliminating deficits publicly, as difficult decisions were made to cut spending. The enactment of legislation that contains strict fiscal targets can be one element of such a communication strategy. However, such legislation is neither a necessary nor a sufficient condition to achieve a balanced budget.

The federal case suggests that right-wing parties could be more inclined to use legislation to demonstrate their commitment to fiscal discipline. Furthermore, the introduction of legislation might be influenced by the electoral calendar, as both the *Spending Control Act* and the Conservatives' proposal were presented at the end of their electoral mandate. An examination of the circumstances that led to the adoption (and subsequent amendment) of provincial legislation will provide useful information to determine whether ideology and elections matter.

SURVEYING THE PROVINCIAL SCENE

The federal case alone is insufficient to formulate generalizations regarding the origins and purposes of balanced-budget legislation. Canadian provinces, however, provide an excellent opportunity to analyse balanced-budget rules, as most have enacted legislation to that effect. Furthermore, all provincial laws were introduced more than a decade ago, and all were subsequently amended; therefore, provincial balanced-budget laws provide a rich and diverse set of observations.

Why do provincial governments adopt balanced-budget legislation?

The Canadian federal experience suggests that balanced-budget laws are regarded more positively by right-wing governments and are more likely to be introduced just before elections. Neither explanation, however, finds empirical support in the provincial context. As the information contained in Table 9.1 shows, more than half of provincial balanced-budget laws were enacted by centrist or left-wing governments, and fewer than half were introduced less than a year before general elections.

Table 9.1 **First enactment of provincial balanced-budget legislations**

Province	Legislation	Date of Enactment (Royal Assent)	Governing Party	General Election Dates
Nova Scotia	Expenditure Control Act	17 May 1996 *	Lib	25 May 1993 24 March 1998
New Brunswick	Balanced Budget Act	7 May 1993	Lib	23 September 1991 11 September 1995
Quebec	An Act Respecting the Elimination of the Deficit and a Balanced Budget	23 December 1996	PQ	12 September 1994 30 November 1998
Ontario	Taxpayer Protection and Balanced Budget Act	14 December 1999	PC	3 June 1999 2 October 2003
Manitoba	The Balanced Budget, Debt Repayment and Taxpayer Accountability Act	3 November 1995	PC	25 April 1995 21 September 1999
Saskatchewan	The Balanced Budget Act	18 May 1995	NDP	21 October 1991 21 June 1995
Alberta	Deficit Elimination Act	14 May 1993 **	PC	20 March 1989 15 June 1993

British Columbia	Taxpayer Protection Act The Balanced Budget Act	22 March 1991 ** 6 July 2000 *	SC NDP	17 October 1991 28 May 1996 16 May 2001
* The Expenditure Control Act was initially introduced in 1993 to limit spending. It was amended in 1996 to forbid deficits. ** A Spending Control Act was enacted in 1992, limiting spending only. *** The Taxpayer Protection Act was repealed in 1992. The province had no legislated rules until 2000.				

Another factor that may have prompted provinces to adopt balanced-budget rules is the deterioration of their fiscal position. All provincial balanced-budget laws were first introduced when provincial deficits had increased significantly nearly everywhere in the country. Some have suggested that stricter provincial legislation was necessary because financial markets perceived Canadian provinces to be at greater risk of default than the federal government.[23] This hypothesis is also not confirmed. Examining the data presented in Table 9.2, we observe that legislation was introduced after deficits began to decrease and while credit-rating agencies maintained their scores for most provinces. Even Saskatchewan, which likely faced the most serious financial challenge at the time, introduced balanced-budget legislation in 1995, once it had gained control of its spending and balanced its budget.[24]A reverse relationship between balanced-budget rules and deficit size seems more plausible. Indeed, provincial balanced-budget laws are the consequence, not the cause, of fiscal discipline.

Table 9.2 Annual deficits and credit-rating scores of Canadian provincial governments, 1990-91 to 2000-01

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Newfoundland and Labrador	-347	-276	-261	-205	-374	-190	-107	133	-187	-269	-350
	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
Prince Edward Island	-20	-50	-82	-71	-1	4	-4	-7	6	-5	-12
	A3	A3	A3	A3	A3	A3	A3	A3	A3	A3	A3
Nova Scotia	-257	-406	-617	-546	-233	-201	-116	-442	-261	-797	147
	A2	A2	A2	A3	A3	A3	A3	A3	A3	A3	A3
New Brunswick	-182	-354	-264	-266	-79	41	66	0	-204	-30	143
	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1	A1
Quebec	-2 975	-4 301	-5 030	-4 923	-5 821	-3 947	-3 212	-2 157	126	7	1377
	Aa3	Aa3	Aa3	A1	A1	A2	A2	A2	A2	A2	A2
Ontario	-3 029	-10 930	-12 428	-11 202	-10 129	-8 800	-6 905	-3 966	-2 002	668	1 902
	Aaa	Aa2	Aa2	Aa2	Aa2	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Manitoba	-359	-304	-766	-461	-196	157	355	52	-4	-99	137
	A1	A1	A1	A1	A1	A1	A1	A1	AA3	AA3	AA3
Saskatchewan	-361	-843	-592	-272	128	19	407	35	28	83	833
	A2	A2	A3	A3	A3	A3	A3	A3	A2	A2	A1
Alberta	-1 832	-2 629	-3 324	-1 371	938	1 151	2 489	2 659	1 094	2 791	6 571
	Aa1	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1
British Columbia	-667	-2 339	-1 476	-899	-228	-318	-385	-167	-961	-16	1 192
	Aa1	Aa1	Aa1	Aa1	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2

First row shows public account provincial deficit, $Millions (Department of Finance, Fiscal Reference Tables, 2014) and second row Moody's credit-rating scores (https://www.moodys.com/). Rating Scales are (in descending order): Aaa; Aa1, Aa2, Aa3; A1, A2, A3; Baa1, Baa2, Baa3; …; Gray cells show years legislations were enacted.

Therefore, governments primarily introduce balanced-budget rules to provide a public signal that they are fiscally disciplined and thus competent. What follows the enactment of such legislation? Some have argued that, notwithstanding the reasons for their initial introduction, legislated rules force governments to achieve balanced budgets, as legislation conveys a strong symbolic message and as elected officials wish to demonstrate their competency by complying with the law.[25] We find only partial support for this hypothesis in Canada. On the one hand, provincial governments take great care to demonstrate that they are acting in accordance with the law. For instance, they frequently show their commitment in budget speeches, news releases, public discourses, and so forth.

On the other hand, they do not hesitate to change the law when they are confronted with the prospect of running a prohibited deficit. Clearly, governments can more easily abide by the law when economic conditions are favourable. Occasionally, improvement in a province's fiscal position will encourage some governments to introduce new legislated fiscal targets. Such targets typically compel governments to dedicate budget surpluses to specific uses (such as paying down debt, establishing reserve or "rainy-day" funds, or creating capital accounts to finance long-term projects).

However, when a province's fiscal position is deteriorating, governments systematically weaken legislated balanced-budget rules. Such a situation occurred in British Columbia in 1992, Ontario in 2004, and in British Columbia, Alberta, Manitoba, Quebec, New Brunswick, and Nova Scotia after the 2008 financial crisis. Deficits were legally authorized in Saskatchewan and Ontario. Alberta legislation forbids deficits even in the presence of transfers from the province's stabilization fund. Therefore, provincial governments prefer to amend the law by introducing greater flexibility rather than to face the prospect of running a deficit and being labelled incompetent fiscal managers.

Changing legislated rules, however, can be detrimental to a government's popularity. Any attempt to soften balanced-budget provisions can steer public debates and provide a basis for opposing parties to question the government's competency. This precise situation occurred in Manitoba in 2010, when the government suddenly decided to reduce cabinet minister pay cuts that were to come in effect because the province was forecasting deficits. The opposition and several interest groups were quick to denounce what was regarded as opportunistic behaviour, while voter support for the government plunged.[26] By contrast, most provincial governments that sought to lessen balanced-budget legislation took time to develop sophisticated communication strategies to support their initiatives. These strategies were based on extensive public consultations. Extensive popular consultations were launched in Ontario in 2004, Nova Scotia in 2010, and Alberta in 2013. All three provincial governments faced important constraints that limited their ability to present new budget initiatives. In Ontario, financial penalties were imposed on cabinet members if deficits were anticipated; the Nova Scotian government was required to achieve a balanced budget every year; and the Alberta government was forbidden to use borrowing under any circumstances.

All three governments employed online polling and town hall meetings and/or discussion groups to gather information on the population's preferences with respect to a balanced budget. In Ontario, voters were also randomly selected to participate in citizens' jury sessions held across the province. Ontario and Nova Scotia also required that experts formulate recommendations to improve the province's fiscal accountability framework[2]. Amendments that precisely matched the opinion expressed by the majority of the participants in the consultations were subsequently introduced in all three provinces.

Ontarians indicated that they wanted the government to find alternatives to its "deficit-obsessed approach" and to report on the state of the deficit before the next election.[27] Penalty provisions were removed, and new rules requiring the Ontario government to regularly publish detailed budgetary information on the province's actual and future fiscal position (including a pre-election report) were introduced. Currently, Ontario's law can be considered the most comprehensive of all Canadian legislation to this effect. The government is required to produce reports on estimates, objectives, and outcomes, which include quarterly updates, annual pre-budget consultation reports, annual risk assessment reports, annual multi-year fiscal plans, and post-election, long-term fiscal sustainability reports (covering the next twenty years).

Nova Scotians stated that they were opposed to severe cuts to eliminate the deficit within one year, adding that they would recommend that the government return to a balanced budget as soon as possible.[28] The province's requirement to balance the budget annually was subsequently repealed. Albertans indicated that they would support borrowing for infrastructure "under the right conditions".[29] Under the new legislation, the government is authorized to borrow to finance spending provided that debt-servicing costs remain below a precise threshold (3 per cent of the province's average revenues).

However, initiating vast public consultations is time consuming. This type of exercise involves the use of several consultation mechanisms (e.g., town hall meetings, online polls, expert panels) and requires that governments have sufficient time to draft alternatives to present to the population, as these consultations typically focus on a few specific themes[3]. These two conditions were seriously lacking when the financial crisis of 2008 unexpectedly forced all provincial governments to reconsider their budget plans.

This situation likely explains why all provincial governments that were unable to balance their budgets without breaking the law elected to suspend their legislation for a specific period instead of taking the risk of been accused of acting illegally (even Nova Scotia and Alberta initially suspended their legislation before amending it). Notably, prior to the 2008 financial crisis, in only two provinces (Quebec and Ontario) were governments authorized to incur deficits during periods of severe economic recession. Surprisingly, only one other province (New Brunswick) added such provisions after 2008. If another severe economic crisis occurs, most provincial laws will not provide governments with the necessary flexibility to face "exceptional economic events".

Until the 1990s, few restrictions existed to limit the power of provincial budget decision makers to spend financial resources. The 1990s can then be regarded as a new era, when new fiscal rules were adopted to constrain budget decision makers. Why have a majority of provincial governments decided to adopt legislation in this regard, whereas the federal government has not? This situation is more easily understood if we regard legislation as an instrument of communication that is used by some governments to demonstrate that they are fiscally responsible. Balanced-budget legislation is not a policy motivated by ideology or electoral considerations or caused by deteriorating fiscal conditions. Rather, such legislation represents a tool that a government can use to signal its competency as a sound fiscal manager.

As balanced-budget rules introduce rigidity in the budget process, not all governments will desire to be constrained by such legislation (the Chrétien and Martin Liberal federal governments, Nova Scotia, Prince Edward Island, Newfoundland, and Labrador). Furthermore, legislated rules are not a prerequisite for achieving a balanced budget. Should we therefore conclude that such legislation serves only the interest of governments? To answer this question, it seems relevant to examine what lessons we can now draw from the provincial experimentation with balanced-budget legislation more closely

WHAT LESSON CAN WE DRAW FROM PROVINCIAL LEGISLATION?

One interesting feature of provincial balanced-budget legislation is the wide variety of rules that have been enacted over the years to create greater fiscal discipline.[30] For instance, some laws forbid governments from forecasting deficits when budget estimates are tabled (ex ante rules), whereas others require that governments balance actual budgets at the end of the fiscal year (ex post rules – in certain provinces, both ex ante and ex post rules are imposed). In some cases, deficits are prohibited on an annual basis, whereas in other cases, budgets are balanced at the end of a longer period (typically the end of electoral mandates). Furthermore, deficits occasionally include deficits or surpluses of crown corporations and other public entities (e.g., boards of education, health agencies) and/or special reserve funds (e.g., capital funds, reserve funds). Some laws impose financial penalties on cabinet members when a deficit occurs (ex ante and/or ex post), while others contain provisions to establish reserve funds (typically contingency funds to provide additional resources if unexpected circumstances arise during the year and stabilization funds to help achieve balanced budgets over a longer period). This diversity offers an excellent opportunity to examine whether balanced-budget legislation effectively engenders fiscal discipline.

First, we find that rules that impose financial penalties on elected officials if deficits are incurred are ineffective. Deficits have occurred in the three provinces that have (or had) such a provision: Ontario, Manitoba, and British Columbia. Both Manitoba and Ontario subsequently formally repealed or softened these rules, whereas British Columbia decided to maintain them. Note that British Columbia's penalties are not substantial, although the legislation tends to imply the opposite. While the law stipulates that the salary payable to each cabinet member must be reduced by 10 per cent if the province runs a deficit, and/or by another 10 per cent if a minister does not achieve his/her annual spending targets, in practice, cabinet members have incurred penalties averaging only 3.3 per cent of their total annual salary, or approximately $5,000 per year, between 2009-

10 and 2013-14. This difference results because the penalty applied only to the portion above the basic compensation for members of the Legislative Assembly. Thus far, cabinet members have incurred only a collective penalty.

By comparison, Alberta cabinet members recently volunteered for a salary cut of approximately $10,000, as the province is facing a serious revenue shortfall for 2014-15. Alberta's balanced-budget legislation does not contain penalty provisions. Even if salary cuts do not dissuade governments from running deficits, they can convey a message of empathy to the population during times of economic hardship. Accordingly, governments often appear more inclined to agree to voluntary cuts or freezes than to add such provisions in balanced-budget legislation (Nova Scotia, Ontario, and New Brunswick also adopted voluntary salary restraints for elected representatives after the 2008 financial crisis). New Brunswick amended its legislation in 2014 to include a financial penalty of $2,500 on cabinet members in the event of a deficit. The provision will enter into force for the 2018-19 budget.

Second, the rigidity imposed by balanced-budget legislation conflicts with the flexibility that is occasionally required to design budget plans. Thus far, provincial governments have not identified a mechanism to resolve this issue. Their response to the 2008 financial crisis is quite revealing in that respect, as most provinces chose to suspend their legislation without subsequently amending it (by including provisions that would address exceptional circumstances such as a severe economic crisis). The case of Quebec likely explains why provinces generally chose such a response, as Quebec's legislation contains the most detailed directives with which the government is required to comply if a deficit occurs. One of the main features of these provisions is to establish different rules for different circumstances. Deficits of less than $1 billion must be resorbed within a year, whereas larger ones must be eliminated over a multi-year period in accordance with a prescribed financial plan. Notwithstanding these provisions, Quebec was unable to comply with the law after 2008; thus, it had to suspend its legislation. This example illustrates how difficult it is to anticipate all future economic circumstances. More generally, the provinces' reluctance to include escape clauses that would permit the suspension of the law under extraordinary economic circumstances (escape clauses nevertheless exist in most provinces for natural disasters and wars) suggests that such provisions would be perceived as affording governments with excessive discretionary power.

Third, balanced-budget legislation has clearly engendered transparency and openness to the budget process. Although the Ontario example suggests that governments compensate for less-stringent fiscal rules with greater budget transparency, other provinces' legislation shows that both features can coexist. Similar to the Ontario legislation, the laws in British Columbia and Alberta require the presentation of detailed reports to provide information on the province's current and future financial position, the assumptions used to produce budget estimates, interim and up-dated reports, multi-year forecasting, risk assessment analyses, outcomes, and so forth. Some have argued that legislated rules are ineffective because governments can circumvent the law relatively easily by adopting "creative" accounting methods to conceal the true extent of public deficits.[31] Such behaviour, however, does not seem to be the norm in the provinces: most governments appear cautious and willing to provide accurate information on the province's fiscal position, especially by complying with the recommendations presented by their provincial auditor[4]. Furthermore, most provincial government have taken action to provide more detailed information since the 2008 financial crisis. Whether citizens are interested in obtaining and using this information, however, remains to be confirmed.

Fourth, the provinces that best weathered the 2008 financial crisis were those that had accumulated financial reserves in previous years. Both Alberta and Saskatchewan used part of their previous budget surpluses to establish stabilization or "rainy-day" funds, which were used to balance their budgets after 2008. Quebec and Manitoba were also able to partially reabsorb their respective deficits by using similar stabilization funds. However, the extent to which this outcome can be attributed solely to stricter balanced-budget rules is unclear. Alberta and Saskatchewan enjoyed exceptional economic growth before 2008, which helped them to generate appreciable budget surpluses. Furthermore, Saskatchewan accumulated its reserves without being compelled to achieve strict numerical targets[5]. By contrast, Manitoba's reserves were insufficient to help the province cope with the financial crisis even though the value of its stabilization fund was above 5 per cent of the government's operating expenses, the minimum target prescribed by law. Reserve funds do help governments cope with economic recessions. However, establishing precisely how much should be set aside (i.e., how much current taxpayers should pay for unforeseeable future events) seems difficult.

CONCLUSONS

As the federal government introduces balanced-budget legislation, a close examination of the accomplishments of similar legislation in the Canadian provinces is relevant. Legislated rules are often regarded as effective tools that can force budget decision makers to behave in a more fiscally disciplined manner. However, we do not find evidence that supports this assertion. Canadian provinces were able to balance their budgets without being constrained by legislated rules, and they ran deficits despite the presence of such rules. However, balanced-budget legislation did provide benefits.

First, such legislation benefited governments themselves, as it can be part of an effective communication strategy to demonstrate that governments are competent fiscal managers. Second, such legislation may benefit citizens, as balanced-budget rules necessarily increase the openness and transparency of the budget process. Without clearly explaining their budget initiatives, governments cannot establish their credibility as skilful managers.

Overall, balanced-budget legislation thus provides benefits for the entire democratic process. However, these benefits are not generated by stricter and simpler rules that force governments to behave in a predictable manner. Budgets are conceived in a complex environment that is in constant evolution. Governments must therefore make decisions that are adapted to such circumstances. The real benefits of balanced-budget laws lie in their capacity to open up the budget process and to foster meaningful public debates on important issues (such as the sustainability of public finances, the tax burden on current and future taxpayers, the use of non-renewable natural resources – i.e., issues relating to "common pool problems"). Such debate, in turn, requires greater citizen involvement in the decision-making process.

Postscript

On 21 April 2015, the federal government tabled a balanced budget. A few weeks later, it also presented a balanced budget bill to the House of Commons (as part of the omnibus bill C-59), which was adopted on 22 June and came to force retroactively with the 2015 federal budget. The federal legislation contains three main elements. The first is a financial penalty in the event of a deficit: the salaries of the prime minister, cabinet ministers and deputy ministers would be reduced by five per cent. This said, if a deficit is the result of extraordinary circumstances (the bill identifies the following: natural catastrophes, armed conflicts, and economic crises), salaries would be frozen rather than cut. The second element is the appearance of the minister of finance before the Standing Committee on Finance whenever there is a deficit. The minister would be required to explain the government's financial situation and submit a recovery plan. The third element is the requirement to allocate all budget surpluses to paying off the debt.

Compared to provincial legislation, the federal bill can hardly be said to be innovative. It contains only one unprecedented measure —that of imposing financial penalties on non-elected officials. Civil servants would thus be held at least partly responsible for the occurrence of deficits. For the remainder of the bill, the government's initiative is quite timid compared to provincial bills. What are we to make of the measures contained in the federal bill?

The government initiative relies largely on sanctions. Yet, as the provincial cases have indicated, sanctions do not work. The federal bill also creates an accountability mechanism by forcing the minister of finance to appear before the Standing Committee on Finance. However, this appearance would take place before a parliamentary committee, which is not completely free of partisan debates. This measure could well be advantageous to the government, which would then be provided with an additional tribune to justify is economic policy and recovery plan. Furthermore, the federal government's bill contains no measures that would enable it to create a financial reserve to cope with unforeseen circumstances. We can thus wonder whether budget surpluses should not also be used to create a financial reserve. Lastly, the legislation contains no rules that would force the government to publish detailed financial statements.

To conclude, the federal balanced legislation was presented at a time when the government was able to table a balanced budget for the first time during the last seven years. For that reason, the legislation can certainly be beneficial for the federal government since it allows it to show that it is concerned about the state of public finances and that it manages it budgets in a competent and responsible manner. However, it is less clear whether the federal law will contribute to significantly improving the budget process and, above all, to help the government deal with economic downturns (which may come sooner that later, according to the latest economic forecasts).

Footnotes

[1] The situation changed for some provinces in 2015-16: Québec has tabled a balanced budget, while Alberta's then conservative government has forecasted a deficit (although the budget was not adopted).

[2] Ontario's Report on the Review of the 2003-04 Fiscal Outlook (presented by former provincial auditor Erik Peters) and Nova Scotia Economic Advisory Panel (Chaired by D. Savoie).

[3] For instance, the Dollars and Sense consultations asked Albertans to respond to four precise questions (concerning the use of non-renewable resources, their volatility, the future of the Heritage and the Sustainability Funds, and infrastructure financing).

[4] The following statement from the British Columbian finance minister is illustrative of this commitment: "Today, as planned, we are tabling a balanced budget – with a $100 million surplus. And this is something we've achieved under legislated Generally Accepted Accounting Principles. Now that may sound straightforward, but it is a major achievement" (2004 Budget Speech).

[5] The Albertan government must transfer all unexpected budget surpluses to its stabilization fund, whereas the Saskatchewan government may transfer amounts from its operational budget (unspecified sources) to the stabilization fund (provision in effect before 2008).

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Chapter 10

FROM PATHWAYS TO "ASETS" IN ABORIGINAL EMPLOYMENT PROGRAMMING[1]

Donna E. Wood

INTRODUCTION

Like all developed countries, Canada has a public employment service (PES) that connects job seekers to employers. Until 1996 the PES was run by a network of about 500 federally-managed Canada Employment Centres across the country. They were also responsible for delivering unemployment insurance benefits. Starting with Alberta in 1996 and finishing in the Yukon in 2010, PES responsibilities have now been devolved to each of the 13 provinces and territories[2] through bilateral administrative agreements, not constitutional reform. Today it is provincial governments that carry the prime responsibility for the design and delivery of government-funded services to help the unemployed and underemployed upgrade their skills and connect with employers through entities called (among other names) 'Emploi-Québec', 'WorkBC', 'Employment

Ontario' or 'Alberta Works'.

Since section 91 (24) of the Canadian constitution assigns responsibility for 'Indians and the Lands reserved for the Indians' to the Government of Canada. Its labour market services for Aboriginal people[3] were not part of the 1996 devolution offer to provinces. Ottawa first developed a native employment policy and dedicated Aboriginal programming in the 1970s; in the 1990s most of these resources were placed under the direct control of Aboriginal labour market agencies. Over the past 25 years Pathways to Success, Regional Bilateral Agreements, the Aboriginal Human Resource Development Strategy, and the Aboriginal Skills and Employment Training Strategy (ASETS) have been used as the way to ensure that labour market services for Aboriginal people are locally designed, flexible, and culturally sensitive.

Managed and delivered in 2015 by 85 Aboriginal organizations through 600 points of delivery in urban, rural and remote locations across the country, ASETS is Ottawa's flagship Aboriginal employment program. From time to time ASETS has been supplemented by project-specific initiatives; there is also complementary programming through the Urban Aboriginal Strategy.

All of this federally-funded Aboriginal programming has defined time limits, including the current ASETS agreements which officially were to end March 31, 2015. In the fall of 2014 they were extended to March 2016; further extensions to March 2017 were announced in spring 2015.

An effective PES is critical to ensuring that the Canadian economy has enough workers with the right skills to meet its labour market needs. Canada's Aboriginal population is the fastest-growing population cohort in Canada and could be a rich source of potential workers. Most indictors demonstrate, however, that Aboriginal people lag significantly behind their non-Aboriginal peers. Data from the 2011 National Household survey shows that employment rates among the Aboriginal population were at 52.1 per cent, compared to the non-Aboriginal population at 61.2 per cent. Similarly, the non-Aboriginal population had the lowest unemployment rate in 2011 at 7.5 per cent, compared to 15.0 per cent among the Aboriginal population and 22 per cent for those living on reserve.[4]

Given these problems, employers often do not consider Aboriginal people as a solution to filling their labour market gaps. Many look instead to temporary foreign workers. Challenges in hiring

Aboriginal people include where they live, their low education levels, language and cultural barriers, as well as racism.[5]

This chapter assesses the support provided by the Government of Canada to Aboriginal employment and training services: the second chance programs that pick up the pieces and provide access to new opportunities when the K-12 Aboriginal education system fails. How has the programming developed and changed over time? How is it managed and delivered in 2015? Who are the key Aboriginal actors, what institutions connect them, and how do they relate to each other and to the Government of Canada? How does Aboriginal employment programming get coordinated with the mainstream PES now under the responsibility of provincial governments? How are industry partnerships working? What kinds of outcomes are being achieved? What issues are Aboriginal employment organizations facing in 2015 given federal indecision on an ASETS successor agreement and long-term renewal of the arrangements?

To answer these questions I looked to the academic literature and government reports. I also secured internal material from federal officials and experts employed by National Aboriginal Organizations (NAOs). Over the past two years the federal government has consulted on Aboriginal employment programs through regional round tables as well as the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (HUMA). HUMA testimony and its final report released in May 2014 provided a rich perspective on issues with the current arrangements.[6] The most important insights came from 25 interviews with key actors directly involved in Aboriginal employment programming including federal officials in Ottawa, representatives of National Aboriginal Organizations, as well as provincial officials and ASETS holders in all provinces across Canada. These were carried out between 2012 and 2015 as one element of a larger story I am writing on the devolution of Canada's public employment service between 1996 and 2014.

POLITICAL, SOCIAL AND ECONOMIC CONTEXT

As of the 2011 census, Aboriginal peoples in Canada totaled 1,400,685 people, or 4.3 per cent of the national population. In 2011, 49.8 per cent were Registered Indians (spread over 600 recognized First Nations governments or bands), 15.5 per cent were non-status Indians, 29.9 per cent were Métis, and 4.2 per cent were Inuit. It is estimated that 54 per cent of Aboriginal people live in urban areas, and that 70 per cent live off-reserve. Eight out of 10 Aboriginal people reside in Ontario and the four Western provinces. Five NAOs represent Aboriginal people at the intergovernmental table: the Assembly of First Nations (AFN); the Congress of Aboriginal people (CAP); the Métis National Council (MNC); the Inuit Tapiriit Kanatami (ITK); and the Native Women's Association of Canada (NWAC).

Aboriginal people continue to feel the effects of having been marginalized for much of Canada's history. In 1982 the written constitution of Canada was amended to explicitly recognize the special status and rights of First Nations, Inuit, and Métis people. Subsequent attempts at constitutional reform in 1992 failed, leaving in its wake a host of unsettled questions impacting Aboriginal people. Between 1991 and 1996 a Royal Commission on Aboriginal Peoples (RCAP) assessed past government policies toward Aboriginal people. Setting out a 20-year agenda for change, the five-volume, 4,000-page report covered a vast range of issues; its 440 recommendations called for sweeping changes to the interaction between Aboriginal and non-Aboriginal people and their governments in a range of policy areas.

Released in 1997, *Gathering Strength, Canada's Aboriginal Action Plan* committed the Government of Canada to renewal of the relationship building on the principles of mutual respect, mutual recognition, mutual responsibility and sharing as identified in RCAP.[7]

Federal policy since 1995 has recognized the inherent right to Aboriginal self-government, to be implemented through non-constitutional means. In exploring this concept, Papillon identified three narratives over the past 30 years: self-government as self-administration; self-government as an inherent right; and self-government as co-existing sovereignties.[8] His work demonstrates how federal and provincial governments appear to have backed away from their commitments to self-government in recent years, focusing instead on limited partnership arrangements. This chapter also examines how the state of Aboriginal employment programming has played out over time against these different approaches to Aboriginal self-government.

HISTORICAL DEVEOPMENTS IN ABORIGINAL EMPLOYMENT AND TRAINING PROGRAMMING

There have been five distinct phases in Aboriginal employment programming.

1970s and 1980s: The Employment Equity Period

In the 1970s and 1980s employment equity emerged as an issue and an Employment Equity Act was passed in 1986. Targeted programs for natives, women, and youth were created within the then Employment and Immigration (CEIC) department – later Human Resources Development Canada (HRDC) – including a 1977 Native Employment Policy, delivered by Aboriginal people serving as native employment counsellors. Aboriginal outreach programs were also put in place. In 1989 Ottawa created non-government advisory boards (national, provincial and local) to forge stronger partnerships between governments, business, and labour. Out of this an Aboriginal Employment and Training Working Group (AETWG) was created, bringing together senior Aboriginal representatives with federal officials.[9]

1991-1996: Pathways to Success

Pathways to Success was born out of the work of the AETWG. Five partnership principles were collectively articulated and agreed to – local decision making; funding stability; Aboriginal infrastructure and delivery control; a proactive approach to employment equity; and reducing barriers to program access.[10] These principles were important as the Aboriginal community was not interested in being accountable for the administration of programs that were limited in scope and restrictive in criteria and intent.[11] In 1991, national, regional and local Aboriginal Management Boards were created to set training priorities for Aboriginal communities and develop partnership and co-management practices. Over time 100 local boards, 12 regional or territorial boards, and one National Board were set up.[12] During this period some of the regional and local boards evolved from an advisory role into incorporated service delivery agents.[13](Virtuosity Consulting 2003).

Problems soon developed, however. Disputes arose over the allocation of funds across regions and to particular Aboriginal constituencies (RCAP 1996). The pan-Aboriginal approach did not recognize the separate Indian, Métis and Inuit decision-making structures. Off- reserve Aboriginal people felt left out. And then there was the question of authority: were the Pathways Boards full self-government or were they merely advisory bodies? During 1994 and 1995 Ottawa initiated a review of Pathways. Out of this came new arrangements that represented a further step towards Aboriginal control (RCAP 1996).

1996-1999: Regional Bilateral Agreements (RBAs)

By 1996 the single Pathways table had fractured amongst the different Aboriginal constituencies, resulting in separate national agreements between HRDC and the Assembly of First Nations, the Métis National Council, and the Inuit Tapirisat of Canada. These agreements outlined detailed financial accountability and results-based performance requirements for the employment programs and services on offer through their respective constituencies (Virtuosity Consulting 2003).

The national framework agreements set up the Aboriginal-government relationship; then service delivery agreements were developed at the local level. As identified by the three NAOs, 54 Regional Bilateral Agreements (RBAs) with local Aboriginal groups allowed them to design programs suited to their needs, provided they met HRDC program objectives. The RBAs effectively devolved responsibility for Aboriginal employment programming from the Government of Canada to the designated local Aboriginal organization.

This was also the time that Ottawa was negotiating the transfer of federal employment services – focused primarily on Employment Insurance or EI recipients – to provinces and territories through Labour Market Development Agreements or LMDAs. Services for Aboriginal people – as well as youth and pan-Canadian programming – were not on offer to provinces. As an outcome of *Gathering Strength,* in 1998 the Aboriginal Human Resource Council (AHRC) was founded as a non-profit national organization to "bring business, labour, academic and Aboriginal experts together to encourage the private sector to share responsibility for improving Aboriginal access to the labour market".[14]

1999-2010: Aboriginal Human Resource Development Strategy (AHRDS)

In 1999 Ottawa replaced the RBAs with the five-year Aboriginal

Human Resource Development Strategy or AHRDS. The framework agreements with the three NAOs were replaced by National Protocols with what are today's five NAOs, adding the Congress of Aboriginal Peoples and the Native Women's Association of Canada. Left out from the AHRDS funding envelope was the Friendship Centre movement, excluded by Ottawa as it was not a political organization.

New programs were added to AHRDS, including youth, disability, capacity building, an urban component and child care. This was viewed as a huge windfall for Aboriginal organizations. By 2003 there were 70 AHRDA agreements with 200 sub-agreements involving some 390 points of service.[15] Over time this grew to 79 AHRDA agreements, including status-blind urban agreements in Vancouver and Winnipeg. At the time, ensuring accountability for government expenditures was not a prime focus. That changed, however, when HRDC was rocked by an accountability crisis in another program area. Their tightened administrative procedures forced many AHRDA holders to re-align resources from client service to administration. They also acquired new bosses with the 2005 establishment of Service Canada that separated federal service delivery responsibilities from strategic policy making.

The agreements were renewed in 2004 for another five years under AHRDS 11. There were a number of changes, including a new emphasis on private sector skills needs; a more stringent accountability framework; and delinking the Aboriginal Human Resources Council from the AHRDA community. More importantly, in 2003 Ottawa decided to fund Aboriginal labour market programming outside the AHRDS umbrella through a new program called the Aboriginal Skills and Employment Partnership (ASEP), designed to increase access to job opportunities for Aboriginal peoples in major economic development initiatives.[16] Run directly by federal officials out of Ottawa, bidders had to set up new partnerships and legal entities. In some cases AHRDA holders qualified to run or partner on ASEP projects; in other places they became competitors.

It was during the AHRDS 11 period that the federal government concluded negotiations to transfer responsibility for the mainstream PES to all provinces through devolved LMDAs. Ultimately 2,800 federal civil servants and more than 1,000 service delivery contracts transferred over. In 2007 provinces were given additional money to provide employment services for non-EI clients through Labour Market Agreements. Many – especially British

Columbia and Saskatchewan – used the funding to expand programming for their Aboriginal citizens.

2010- 2016: Aboriginal Skills and Employment Training Strategy (ASETS)

The Harper Conservatives inherited the AHRDS structure and in 2010 changed the name again, rebranding it as ASETS or the Aboriginal Skills and Employment Training Strategy. A new Skills and Partnership Fund (SPF) was also announced to support smaller ASEP-like projects. The basic infrastructure and the Aboriginal delivery agents remained the same. Program principles, however, were re-focused on demand-driven skills development; partnerships with the private sector and the provinces and territories; and accountability and results.

All of this was very different from the Pathways, RBAs and AHRDS 1 principles where Aboriginal organizations were expected to develop and implement their own employment and human resources programs. Federal monitoring was also increased. No new money was given to ASETS holders to operationalize these pillars.

They – as well as provinces and territories – have been working with the same core funding since 1999.[17]

The most employment disadvantaged Aboriginal people are receiving social assistance on reserve. With close to 170,000 beneficiaries in 2012, the on-reserve income assistance program is the 4th largest in Canada.[18] It is managed by First Nations Bands with funding from Aboriginal Affairs and Northern Development Canada (AANDC). While ASETS holders have always been available to provide employment supports on reserve, before 2013 there was no requirement to participate. The 2013 federal budget provided dedicated funding to enhance employment resources for youth aged 18-24, and made participation compulsory through a new program to be delivered by ASETS holders called the First Nations Job Fund.

ABORIGINAL EMPLOYMENT PROGRAMMING IN 2015

In 2014 the federal department responsible for Aboriginal employment programming was rebranded as Employment and Social Development Canada (ESDC). This section of the chapter outlines the program architecture in 2015, highlighting key elements of the structure. While it is the most important component, as detailed in

Table 10.1, ASETS is just one part of Aboriginal employment programming in Canada. This structure has now been extended to 2017.

Aboriginal Skills and Employment Strategy (ASETS)

The 85 ASETS agreements are distributed asymmetrically by jurisdiction and by Aboriginal identity group. Table 10.2 provides a summary, including the total value of the agreements. The number of agreements by province is a direct result of the governance structure chosen during the RBA/AHRDA era. Facilitated by federal field staff, arrangements were struck to suit jurisdictional circumstances. Almost all ASETS holders have sub-agreement holders. For example, in Saskatchewan there is only one First Nations ASETS holder – the Saskatchewan Indian Training Association Group (SITAG) – while in British Columbia there are 13 different First Nations ASETS holders. With 65 sub-agreement holders, SITAG's allocation of about $24 million in annual funding rivals that provided to the entire province of Saskatchewan which receives about $36 million from Canada through its LMDA. Given their large Aboriginal populations, ASETS allocations to the three territories (almost $18.5 million) are almost double that provided by Ottawa to territorial governments under the LMDA (almost $9.5 million).

TABLE 10.1: FEDERALLY SUPPORTED ABORIGINAL EMPLOYMENT AND TRAINING PROGRAMMING 2014/2015[1]

Program name	Federal funding allocations	Responsibility	Comments
Aboriginal Skills and Employment Strategy (ASETS)	$343.7 million/yr	ESDC	$94 m comes from EI account. Also covers $55 m for child care. Current agreements ended in March 2015. Extended to March 2017.
Skills and Partnership Fund (SPF)	$45.6 million/yr	ESDC	Renewed in 2015 budget to 2020.
First Nations Job Fund (FNJF)	$25.2 million/yr to ASETS holder and $33 million/yr to First Nations Bands	ESDC/AANDC	In place until 2017.
Aboriginal Human Resource Council (AHRC)	$675,000 for labour market information	ESDC	Delinked from ASETS under AHRDS 11. Core federal funding ended in 2013.
Friendship Centres	None dedicated	AANDC	The Urban Aboriginal Strategy has a strong employment & training focus.

There are 57 First Nations, seven Métis, eight Inuit, and thirteen urban ASETS holders; the money is distributed about two-thirds to First Nations, 18 per cent to Métis, 5 per cent to Inuit, and 11 per cent to urban ASETS holders. The distinctions-based approach is now embedded. The previous generic National Aboriginal Management Board under Pathways was viewed as a failure, and replaced with framework agreements with each NAO, recognizing that each of the Aboriginal people have a different history and culture and face different labour market challenges.

TABLE 10.2: DISTRIBUTION OF ASETS AGREEMENTS BY JURISDICTION AND ABORIGINAL IDENTITY 2015[2]

Jurisdiction	First Nations	Métis	Inuit	Urban	Total # of agreements	Value of agreements by jurisdiction (000s)
British Columbia	13	1		1	15	$39,613
Alberta	11	2			13	$40,533
Saskatchewan	1	1			2	$34,816
Manitoba	2	1		1	4	$43,226
Ontario	13	1	1	3	18	$57,718
Québec	3		1	1	5	$31,894
New Brunswick	3			1	4	$4,074
Nova Scotia	1			1	2	$4,827
Prince Edward Island	1				1	$675
Newfoundland & Labrador	3		2	2	7	$6,015
Northwest Territories	5	1	1		7	$8,014
Yukon	1			1	2	$3,120
Nunavut			3		3	$7,334
National				2	2	$4,000
Total number of agreements	57	7	8	13	85	
Value of agreements by Aboriginal identity (000s)	$188,668	$51,456	$14,294	$31,442		$285,860

Each ASETS holder has a community board and a non-political Executive Director who then hires the necessary staff. While ASETS

Executive Directors are guided by their respective Aboriginal political leadership, they are all expected to provide the same Employment Benefits and Supports Measures as provinces do through the LMDAs, with one key exception. Since 1996, First Nations and Inuit ASETS holders have been allocated about $55 million in dedicated child care funding for day care centres on reserve and in northern communities. Métis ASETS holders are excluded from this funding envelope.

The Skills and Partnership Fund (SPF)

Started in 2010 as a smaller version of ASEP, by December 2013 80 SPF projects were operating. These included the Ring of Fire in Northern Ontario, shipbuilding in the Atlantic and on the west coast, and pipeline projects in BC. SPF-type projects are popular with politicians as they result in 'announceables' that profile the Minister and local MP. While ASETS holders could bid on SPF projects, the separate organizations that were required often competed with their programming. At the HUMA hearings many ASETS holders complained about how SPF was structured, suggesting that the funding should have been given to them to manage. Unlike ASETS, SFP has been renewed to 2020 and calls for proposal are expected sometime in 2015.

First Nations Job Fund (FNJF)

The FNJF was announced in 2013 without input or advice from the ASETS holders. A call for proposal was put out to match suitable First Nations bands with willing ASETS holders across Canada; as a result, many projects did not become fully operational until 2014. Some ASETS holders object to the threat of people losing their income assistance benefits and are reluctant to participate. The current funding runs until 2017.

Aboriginal Human Resource Council (AHRC)

Over the past 17 years AHRC has failed to build connections with ASETS holders, with neither seeing a benefit to be gained and each doing their own thing. The federal government no longer provides core funding; however, in July 2014 $675,000 from ESDC was allocated to the Council to provide labour market information on major projects located near Aboriginal communities.

Friendship Centres

Friendship Centres were mostly cut out of the AHRDA funding stream in 1999, but have remained in the employment services business as ASETS sub-agreement holders, recipients of SPF and other federal funding, and as provincial government contractors. They are primarily supported with $43 million in annual funding from AANDC's Urban Aboriginal Strategy (UAS) to the National Association of Friendship Centres (NAFC). The UAS has a strong training to employment focus. Friendship Centres are keenly interested in regaining access to ASETS funding in order to build on their existing urban Aboriginal labour market service delivery.

MANAGING RELATIONSHIPS

Aboriginal employment programs are just one part of Canada's broader public employment service. For services to be effective, Aboriginal employment organizations need to successfully manage the relationship with their key funder – the Government of Canada –

as well as with each other. They also need to connect with employers (who provide the jobs), as well as provincial governments who manage the mainstream PES and provide access to training through their postsecondary education and apprenticeship systems.

The Federal-Aboriginal relationship

The federal-ASETS relationship is defined through contribution agreements between each ASETS holder and the Government of Canada. These are managed by Service Canada (SC) officials working in each province. The smallest agreements have a value of less than $500,000; the largest is almost $25 million. All ASETS holders are subject to an extensive accountability regime involving direct oversight, monitoring, and correction of expenditures by federal auditors. Service expectations, reporting, and accountability requirements are outlined in the individual agreements as well as in detailed federal documents that are considered to form part of the agreements. While in the 1990s Aboriginal delivery of employment programming was viewed as a step towards self-government, today ASETS holders are viewed by the Government of Canada as hired contractors being paid for providing services through one of their many program lines.

Over the years the national agreements and political framework accords with the Assembly of First Nations (AFN), the Métis National Council (MNC), and the Inuit Tapiriit Kanatami (ITK) fell by the wayside while the Congress of Aboriginal people (CAP) and the Native Women's Association of Canada (NWAC) acquired ASETS agreements of their own. The AFN, MNC and ITK receive annual ESDC funding to support working groups to assist with program management. For example, two to three times per year some of the 57 First Nations ASETS holders – as well as Aboriginal politicians – meet with federal officials. There are parallel and separate technical working groups for the other Aboriginal constituencies. While useful for information sharing, Aboriginal informants consider that limited action gets taken; for example, few of the recent recommendations from a task force on reducing the reporting burden have been implemented.

Ottawa used to regularly host cross-Aboriginal conferences and sharing of best practices, especially in the late 1990s-early 2000s under Liberal Ministers Bradshaw and Blondin-Andrews. However, engagement has significantly diminished under the Conservatives. A federal official characterized the relationship as one of "benign neglect" on the part of Ottawa politicians. Diane Finlay – Minister from 2006-2013 – showed very little interest. Collective engagement improved under Jason Kenney, Minister from 2013-15. However, Aboriginal informants interviewed felt that the consultation sessions undertaken on ASETS renewal were pro-forma and failed to incorporate Aboriginal feedback.

The Aboriginal-Aboriginal Relationship

Since the federal-Aboriginal relationship is managed in siloes – using the distinctions-based approach chosen in the late 1990s – finding a coordinated Aboriginal voice is challenging as there are no institutional structures to support the work that would be required to overcome their differences. This contrasts with provinces and territories who work together through the Forum of Labour Market Ministers (FLMM). Using this mechanism, they were somewhat successful in pushing back against Ottawa's 2014 unilateral imposition of the Canada Job Grant.

Over the past few years AFN and MNC officials have tried to collaborate and initiate pan-Canadian and pan-Aboriginal best practices sessions; however, this has been difficult without federal funding. In 2015 the MNC took the initiative to host an ASETS conference in Vancouver, billed as the 'first annual' spring ASETS conference. While over 150 people from across Canada attended, it did not receive endorsement from the other NAOs. Some informants suggested that it was more of a business undertaking for the organizers.

At the operations level, Service Canada engagement with their respective provincial ASETS and SPF holders varies from one province to another. Federal officials in Ontario routinely bring all ASETS holders together on a quarterly basis. This is viewed as very helpful. This also used to occur in British Columbia, but stopped after Ottawa became more prescriptive about how Service Canada regions could use their funding. First Nations ASETS holders in BC still come together through an Aboriginal Human Resources Labour Council; however non-First Nations ASETS holders are not part of the conversation.

Provincial-Aboriginal Partnerships

Partnerships with provinces and territories and the private sector formally became one of three ASETS pillars in 2010. It is easy to see why partnerships with the provinces are being prescribed by Ottawa. Collectively they receive about $2.7 billion annually from the federal government to run the provincial PES, reinforced by postsecondary education, social assistance, and child care programs funded primarily from the provincial tax base. Post-devolution provinces have developed expertise, competence, and capacity – in labour market information, training of career development practitioners, client management systems – that ASETS holders could benefit from. Federal officials no longer have this kind of expertise.

However, provincial partnerships with ASETS and SPF agreement holders are weak. A federal official noted that "Building partnerships with the provinces [around Aboriginal employment programming] is our biggest challenge and weakness". ASETS holders seem to agree. The regional engagement report on ASETS renewal noted that "with respect to partnerships with provincial and territorial governments, many agreement holders expressed that there were either no partnerships in place or they were not as beneficial as they could be".[19] An ESDC evaluation noted that while ASETS holders tended to collaborate with provinces, SPF agreement holders did not, citing a lack of inclusion in provincial strategies and friction from duplication of services. This leads to competition for clients.[20]

Partnerships vary from one province to another. New Brunswick has a long-standing Aboriginal Employment Strategy Initiative (AESI) committee where all ASETS holders meet quarterly with federal and provincial officials. In Québec, ASETS holders formally engage with the Commission des partenaires du marché du travail or CPMT. However, Ottawa is not involved. Relationships in other provinces are mostly ad hoc and locally-based. While these can be productive, ASETS holders interviewed for this research would like to see a more formal relationship with their provincial government, one that recognizes them as a 'partner' as opposed to being considered as just another 'contractor'.

Only the federal government can assist ASETS holders gain this kind of standing with provincial governments. Despite a commitment in each bilateral Canada Job Fund Agreement signed in 2014 – like the Labour Market Agreements that preceded it in 2008 – to "better coordinate the delivery of their respective programs for

Aboriginal persons", Ottawa has been 'hands-off' on how to operationalize the partnership in each province. There have also been no attempts to develop a pan-Canadian employment framework to formalize the relationship, either through the FLMM or with NAOs at the Aboriginal Ministers' table.

Private Sector-Aboriginal Partnerships

This 'partnership' pillar was meant to formally add a labour market demand component to ASETS. This direction has been supported by Ottawa since 1998 through the establishment of the Aboriginal Human Resource Council. However, problems with private sector partnerships include a lack of labour market information; the fact that most Aboriginal clients are multi-barriered; political sensitivities between some First Nations and specific industries; and employer preferences to use temporary foreign workers over Aboriginal people.[21]

Interviews for this research did not include an assessment of Aboriginal partnerships with the private sector. However, a 2012 Conference Board of Canada study on business engagement with

Aboriginal workers identified that a significant portion of businesses surveyed (31.4 per cent) were not aware of, or had limited knowledge of, government funded programs for Aboriginal employment and training. It also noted that "the large number of Aboriginal organizations that exist in Canada acts as a labyrinth of information that is too complex for employers to navigate in their desire to reach out to potential Aboriginal workers".[22] A simplification of points of contact between organizations and employers, as well as increased opportunities for sharing best practices among ASETS holders was recommended.

WHAT RESULTS ARE BEING ACHIEVED?

An Aboriginal informant noted that "ASETS is Canada's greatest hidden asset". Other than a page on ESDC's website listing the 85 ASETS holders that links readers to each ASETS site[23], little other consolidated information is available to the public. AHRDA was evaluated in 2009, ASEP in 2013, and ASETS/SPF in 2015 (HRSDC 2009, HRSDC 2013, ESDC 2015). These reports were generally positive. A reference to RBAs/AHRDA/ASETS results has usually been included in the annual Employment Insurance Monitoring &

Assessment Report, as well as departmental performance reports. Available information on program results is summarized in Table 10.3.

TABLE 10.3 PERFORMANCE DATA FOR ABORIGINAL EMPLOYMENT PROGRAMS[3]

Program	1997/98	99/00	05/06	08/09	09/10	10/11	11/12	12/13	13/14
RBA/AHRDA/ASETS[4]									
Spending (000s)	$224.5	$320.0	$340.0	$351.6	n/a	n/a	$344.4	$347.6	$347.6
Clients served	14,200	28,082	54,360	59,986	60,737	49,005	48,014	45,380	n/a
Returns to work	n/a	10,028	15,977	17,865	16,162	14,315	16,323	13,589	18,017
Returns to school	n/a	n/a	5,624	7,639	8,122	7,174	5,272	4,286	8,060
Unpaid EI benefits (000s)	n/a	$7.7	$15.4	$18.9	$24.6	$19.0	$11.7	$14.4	$15.8
ASEP/SPF[5]									
Spending (000s)	-	-	$24.8	$23.1	$31.4	$74.3	$59.4	$2.3	$32.6
Clients served	-	-	1,693	3,316	4,010	9,434	10,372	5,300	10,523
Employed	-	-	217	2,459	1,265	2,737	4,755	861	3,195
Returns to school	-	-	-	-	-	-	-	301	320

Since 2005/06 almost 53,000 clients have been served each year through AHRDA/ASETS, with an average 16,000 returned to work and 6,600 returned to school. These numbers have been fairly consistent from one year to the next. ASEP/SPF has served an average of 6,400 clients over the same period, with an average of 2,200 employed. To put these numbers in context with the larger PES, provinces served 693,904 clients in 2013/14 using LMDA funding (EI Commission 2015) and over 300,000 annually using LMA funding.[24]

A great deal of client information is collected by ASETS holders and uploaded to a database managed by ESDC. However, all that ASETS holders can access is their own data plus national summaries, so results cannot be compared. Changes promised by Ottawa to the client management system have never materialized and many Aboriginal organizations have had to develop their own alternative client reporting systems.

CURRENT ISSUES

A number of issues have been identified throughout this chapter. The first is a *loss of autonomy* that Aboriginal people have over the programming on offer. Pathways principles established in the early 1990s were designed to ensure Aboriginal control and management so that labour market services were locally designed, flexible, and culturally sensitive. This continued under the RBAs and AHRDS 1. However, it seems to have disappeared under AHRDS 11 and ASETS, with agreement holders now treated by the federal government as just another contractor to be used at their discretion, subject to line by line supervision and contestation of expenditures by federal employees. Ottawa's decision in 2003 to directly manage ASEP also effectively took control away from Aboriginal experts already charged with this responsibility.

ASETS holders today are almost completely dependent upon the federal government for their funding, and significantly limited in their capacity to adopt policies outside of the framework established by Ottawa. Given the power imbalance between the parties, ASETS does not even fit with Papillon's previously mentioned concept of self-administration as a form of delegated authority. With the closing of the constitutional window and the rise of neoliberal ideas in the 1990s, the focus in ASETS has shifted from a rights-based view of self-government to autonomy based on 'good governance' that emphasizes accounting and reporting.[25] The democratic input of the Aboriginal population into employment programming today is barely greater than the old model of direct federal control. ASETS holders are significantly challenged in making room for culturally relevant employment and training programming choices.

Issue number two is the *amount of money on offer, how it is distributed, and uncertainty around the arrangements*. ASETS holders are very concerned over the delay in renewal, despite consultations and public hearings that have demonstrated the program's continued relevance. There are also funding concerns; there has been no increase to the core ASETS allocations since 1999, despite increases in the cost of living as well as a significant increase in the number of Aboriginal people requiring services. Just accounting for inflation would have increased ASETS allocations by an additional $33 million.

The overall Aboriginal population grew at an average rate of 3.6 per cent per year from 2006 to 2011, four times faster than the non-Aboriginal population.[26] Given their current disadvantage in the labour market, Aboriginal people require dedicated employment services – publicly funded – to access the labour market. Not only can ASETS holders not continue to do more with less, the existing allocation formula that distributes funding across regions and Aboriginal groups is seriously outdated. Putting the formula on a principled footing is only possible with funding increases to minimize losers.

The third issue of *fragmentation and complexity* is felt mainly by employers. With 85 ASETS labour market agencies across Canada segmented into First Nations, Métis, Inuit and off-reserve agencies, plus separate SPF funded projects (up to 80 at one point in time), plus 117 Friendship Centres offering employment services in urban areas, it is understandable why employers find it hard to figure out where to find suitable Aboriginal workers. Some kind of consolidation and integration to achieve economies of scale – including having SPF projects managed by existing ASETS holders – would provide an opportunity to improve and stabilize the brand on a pan-Canadian basis, as well as build capacity among perhaps fewer but stronger Aboriginal labour market organizations. Provinces like British Columbia, Ontario and Nova Scotia have recently grappled with consolidating and branding their PES and may have lessons to offer.

Insufficient coordination with provinces and territories is the fourth issue identified through this research. Over the past 20 years Canada's PES has been devolved by Ottawa to two different agents: a large one (provinces and territories) and a much smaller one (Aboriginal organizations). Provinces are developing significant capacity in this area. Defined efforts to bring all ASETS holders within each province into closer alignment with each other and their respective provincial government through formal partnership accords – as are used in New Brunswick and Québec – would build institutional capacity among ASETS holders as well as concrete partnerships with provincial governments. The model is not new: over the past ten years Aboriginal politics have increasingly become a trilateral affair, led by provincial governments and Aboriginal organizations, not Ottawa.[27]

Dealing with the final issue – *siloed management, weak stewardship, and transparency* – requires federal leadership. Despite the fact that they are the prime funder of labour market programs, federal-provincial and federal-Aboriginal conversations on important issues – labour market information, on-line career resources, client tracking systems, indicators and targets, labour mobility, the use of temporary foreign workers, how money gets distributed – take place in silos, with different federal civil servants involved in each. The Aboriginal conversations are further segmented into First Nations, Inuit, Métis, and off reserve groupings. In July 2015 the Forum of Labour Market Ministers announced the formation of a national Labour Market Information Council. This presents a new opportunity to enhance transparency in pan-Canadian reporting, including data that would allow for comparisons across jurisdictions and Aboriginal constituencies to promote policy learning. NAOs and ASETS holders should look to this institution as a way to forge better connections with the mainstream Canadian PES.

CONCLUSIONS

There have been many changes to federally-funded Aboriginal employment programs over the past 25 years, as well as external developments that have impacted the programming. The federal commitment to expansion and growth, along with supporting Aboriginal control and empowerment evident in the late 1990s has diminished significantly; there are important new actors in the game as provincial and territorial governments have taken on new labour market responsibilities; funding arrangements have tacked new programs on to the old ones leading to greater fragmentation between the Aboriginal organizations delivering the programs; and federal support for capacity-building and coordination between the Aboriginal organizations on a pan-Canadian basis and within each province has become much weaker.

Despite these changes, there is an enduring commitment to retaining the current service delivery platform through the Aboriginal Skills and Employment Training Strategy (ASETS) – as heard at the HUMA parliamentary committee in 2014 and cross-Canada regional roundtables in 2013 and 2014 (ESDC 2014). Support for ASETS renewal was also reiterated by Canada's Premiers through a letter to the Prime Minister of Canada in the fall of 2014. Despite this, the 2015 federal budget did not commit to ASETS renewal. Instead, the much smaller project-related Strategic Partnership Fund (SPF) was renewed to 2020, with projects to be started in 2015/16.

Increasing the participation of Aboriginal people in the labour market and closing the socio-economic gap will require new attitudes and openness on the part of Aboriginal people and employers, as well as considerable support from government policies, programs and practices that promote training, education, upgrading, skills development, and labour force attachment for Aboriginal people. Canada's Aboriginal population is the youngest cohort in the country and the fastest growing. Without direct federal government support and solid institutional structures to facilitate integration into the economy through an effective public employment service, employers will continue to bypass Aboriginal people, leading to their continued marginalization in Canadian society.

The Pathways to ASETS legacy over the past twenty-five years has made a significant difference to Aboriginal labour market outcomes in Canada. Governments and Aboriginal organizations need to come together to build on and strengthen the existing ASETS platform. Renewal discussions in 2015 – no matter who forms government after the fall federal election – provide a window of opportunity to address a number of issues that are impeding improved labour market outcomes for Aboriginal people. Hopefully the research outlined in this chapter provides timely information to assist in those deliberations.

Footnotes

[1] Funding allocations are from ESDC 2014/15 Report on Plans and Priorities and federal press releases.

[2] Calculations done by the author based on financial information provided by ESDC in May 2015. Sums have been rounded. Some urban ASETS holders are also First Nations. Does not include funding for the First Nations & Inuit Child Care Initiative (FNICCI).

[3] Adapted from data provided by ESDC, drawing on Departmental Performance Reports, EI Monitoring and Assessment Report, and 2015 ESDC Evaluation Report. Data for all years between 1997/98 and 2013/14 is available; only selected years are presented. Spending allocations exclude federal stimulus funding through ASTIF.

[4] Includes Regional Bilateral Agreements (RBAs), Aboriginal Human Resource Development Agreements (AHRDAs), and Aboriginal Skills and Employment Strategy (ASETS).

[5] The Aboriginal Skills and Employment Partnership (ASEP) program started in 2003. The Skills and Partnership Fund (SPF) started in 2010.

Endnotes

[1] I would like to thank the federal officials and representatives of national Aboriginal organizations who provided background information for this paper and feedback on earlier versions. Peer review comments were also helpful.

[2] When the term 'province' is used in this paper, it generally also includes territorial governments.

[3] The term 'Aboriginal people' in this paper refers to the indigenous population of Canada and includes First Nations (Status Indians), Inuit, and Metis.

[4] These outcomes vary by Aboriginal identity and sex.

[5] Conference Board of Canada 2012, *Understanding the Value, Challenges and Opportunities of Engaging Métis, Inuit and First Nations Workers*, Report July 2012, by Alison Howard, Jessica Edge and Douglas Watt, available at http://www.conferenceboard.ca/temp/a3de26cb-e285-4880-91fe-12be4f1619de/13-004_understandingthevalue-rpt.pdf, accessed February 17, 2015.

[6] See http://www.parl.gc.ca/CommitteeBusiness/StudyActivityHome.aspx?Cmte=HUMA&Language=E&Mode=1&Parl=41&Ses=2&Stac=8177

[7] Canada, 1997, *Gathering Strength: Canada's Aboriginal Action Plan*, available at http://www.ahf.ca/downloads/gathering-

strength.pdf, accessed February 17, 2015.

[8] Martin Papillon, "The Rise (and Fall?) of Aboriginal Self Government", in *Canadian Politics*, sixth edition, James Bickerton and Alain G. Gagnon, University of Toronto Press. 2014.

[9] Canada Employment and Immigration, *Pathways to Success: Aboriginal Employment and Training Strategy: a Background Paper.* Canada Employment and Immigration, 1990.

[10] Canada Employment and Immigration, *Pathways to Success.*

[11] Tina Eberts, "Pathways to Success: Aboriginal Decision Making in Employment and Training" in *Aboriginal Self Government in Canada: Current Trends and Issues*, edited by John H. Hylton. 1994.

[12] Royal Commission on Aboriginal Peoples, *Report of the Royal Commission on Aboriginal Peoples*, 1996, available at http://www.collectionscanada.gc.ca/webarchives/20071115053257/http://www.ainc-inac.gc.ca/ch/rcap/sg/sgmm_e.html, accessed February 26, 2015.

[13] Virtuosity Consulting, *History of Federal Employment Policies and Programs 1985-2002*, produced under contract to Human Resources Development Canada. 2003.

[14] Royal Commission on Aboriginal Peoples, Ibid.

[15] Virtuosity Consulting, *History of Federal Employment Policies and Programs 1985-2002*

[16] Human Resources and Social Development Canada, *Summative Evaluation of the Aboriginal Human Resources Development Agreements*, Final Report, July 2009.

[17] In response to the economic downturn, in 2008 additional funding was allocated to AHRDA holders through a new Aboriginal Skills and Training Strategic Investment Fund or ASTIF. This funding ended in March 2011.

[18] Aboriginal Affairs and Northern Development Canada., *On Reserve Income Assistance*, internal document. 2014.

[19] Employment and Social Development Canada, *Aboriginal Skills and Employment Training Strategy (ASETS) Regional Engagement Thematic Report,* prepared by Aboriginal Affairs Directorate/Aboriginal Programs Operations Directorate.2014, 4.

[20] Employment and Social Development Canada, *Evaluation of the Aboriginal Skills and Employment Training Strategy and the Skills and Partnership Fund, Final Report*, Evaluation Directorate, Strategic Policy and Research Branch, 2015, 8. available at http://www.esdc.gc.ca/eng/publications/evaluations/skills_and_emplo accessed May 20, 2015.

[21] Employment and Social Development Canada, *Aboriginal Skills and Employment Training Strategy (ASETS) Regional Engagement Thematic Report*

[22] Conference Board of Canada, *Understanding the Value, Challenges and Opportunities of Engaging Métis, Inuit and First Nations Workers*, 17.

[23] See http://www.esdc.gc.ca/eng/jobs/aboriginal/agreement_holders.shtml. Each ASETS holder releases their own annual reports.

[24] Donna E. Wood, *The Devolution of Canada's Public Employment Service.* Forthcoming

[25] Martin Papillon, "The Rise (and Fall?) of Aboriginal Self Government", 125-126

[26] National Aboriginal Economic Development Board, *Progress Report*, available at http://www.naedb-cndea.com/reports/NAEDB-progress-report-june-2015.pdf, accessed July 15, 2015.

[27] For example, British Columbia has a Tripartite Agreement on First Nations Health Governance, as well as an Aboriginal Post-secondary Education and Training Policy Framework and Action Plan: 2020 Vision for the Future.

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