

The Prospect of a Hanging? The Political Context for the 2009 Federal Budget

A lot can happen in two months in politics. But it is hard to find another time in Canadian politics when a government has done such an about face as the government of Prime Minister Stephen Harper did between November 27, 2008 and January 27, 2009. On November 27, 2008 the Harper government released *Protecting Canada's Future: Economic and Fiscal Statement* [The Statement] that projected five balanced budgets and outlined some cost cutting measures to help achieve them. Two months later the same government tabled *Canada's Economic Action Plan: Budget 2009* that projected four deficit budgets and a broad array of spending measures and tax cuts that represented the largest stimulus package in peace-time Canada. What can account for the dramatic shift in the government's position? What role did politics play in the about face by the government? In this paper, I will discuss the political context for the 2009 budget by considering the factors that caused the government to change course. A key question is: how important was the prospect of a hanging by the opposition parties in explaining the radical change in the Harper government's position?

The differences in the content and language of the Statement and the Budget are striking. The Statement painted an ambiguous picture of Canada's position in a deteriorating global economy. It stated that "the financial crisis has sparked a global recession", but only conceded that Canada is in a "technical recession", meaning that in the last quarter of 2008 and the first quarter of 2009 Canada experienced negative growth.¹

The G20 Summit was a reference point for both the Statement and the Budget, but there was a dramatic difference in the G20 commitments that were referenced. The

Statement cited Canada's G20 "responsibilities to ensure financial sector stability" and "strengthen our world-leading financial system in line with our G20 commitments"². It outlined past actions taken by the government and the Bank of Canada to support Canada's financial institutions and ensure continued access to affordable credit and announced new ones. It also promised temporary relief to seniors with Registered Retirement Income Funds and to federally- regulated private pension plans."³

The Statement also emphasized "maintaining and bolstering Canada's solid fundamentals" and protecting its "hard-won fiscal advantage."⁴ It stated that without action, there would be deficits"⁵ Rather than acknowledging that deficits were inevitable, cost cutting measures were outlined and balanced budgets were projected for the next five years.

The Statement stressed spending cuts, balanced budgets and measures to improve access to credit, but it said little about stimulating the economy. Previously announced tax cuts were touted as examples of stimulus and there was a commitment to expedite already announced infrastructure funding and to support workers needing retraining and communities hit especially hard by the downturn. Beyond these measures, there was only a commitment to "monitor the economic situation" and "continue to take necessary actions to support the economy, balancing the economic benefit of such actions with the impact on the fiscal situation".⁶

Adopting a 'wait and see' approach in November 2008 could have been justified on various grounds. Waiting another few weeks to see if the economic situation would stabilize or worsen before acting was defensible. A case could have been made that it was wise for the Canadian government to wait and find out the approach that would be

adopted by the new Obama administration. For example, if the Obama administration provided financial support for the ailing Canadian-American auto sector then Canada would have little choice but to follow suit or risk losing its production to the United States.

A case could also have been made for taking the time to consult with the provinces, stakeholders and the public before acting. There also were good explanations for the cost cutting measures. There was a sound case to be made for capping equalization payments. And it might have been reasonable for politicians to set an example – as they had in the 1990s – by limiting their own salaries and benefits in difficult times.

Such explanations for not providing immediate stimulus and focusing instead on financial institutions, access to credit and certain kinds of spending restraint were available to the government. Unfortunately, the Harper government did not make them, at least not consistently or persuasively.

To make matters worse, some of the decisions in the Statement reflected a phenomenon that can cause major political problems for governments: solutions without problems. That is, political trouble often results when governments act boldly to change policies without laying the groundwork with the public and media by outlining the problems that have to be fixed.

There were at least three contentious policies in the Statement that riled the opposition but did not rally public support for the government since there was no broadly based public understanding of them. The government promised to “modernize” the pay equity regime.⁷ The existing approach to pay equity, which allowed pay equity

complaints to be filed with the Canadian Human Rights Commission after collective agreements had been signed, was to be replaced by a system which would incorporate pay equity into the collective bargaining process.⁸ There was an argument to be made that settling pay equity issues outside of collective agreements was expensive and litigious. But did the public and media understand the problem and see why it had to be addressed during an economic downturn? The opposition pounced on the proposed policy change and portrayed it as a betrayal of women's rights to equality in the workplace.

The Statement also committed the government to pass legislation to limit the annual wage increases for public servants and politicians. The rationale was that public sector wage increases were higher than in the private sector and they had to be made affordable".⁹ Legislation can be used instead of collective bargaining to set public sector salaries. But was there any reason for political observers to believe such legislation was warranted in November 2008? There had not been lengthy strikes by public sector unions that disrupted services to the public. Rather than rallying public support, this proposal left the impression that the government was being heavy-handed.

One short paragraph that was inserted into the discussion of departmental restraint stated that the government intended to abolish subsidies to political parties as of April 1, 2009. Members of the public might have been bewildered about how such a policy change related to the economic downturn, but opposition parties had no doubt that the Harper government was motivated by partisanship. While it is true that since subsidies to political parties are based on the number of votes they receive, the Conservatives stood to

lose the most money, the reality is that the Conservatives are the most effective fundraisers.

The proposal was a major threat to all three opposition parties and united them in their determination to force the government to back down. Within hours the New Democrats and Liberals were talking to each other about defeating the government and asking the Governor General to turn over the reins of government to a coalition that would have the support of the Bloc Quebecois. Though the government backtracked on its most contentious proposals within days the coalition was announced publicly and was poised to defeat the government. The government was only saved after the Governor General agreed to the Prime Minister's request to prorogue Parliament until January, when an early budget was to be presented.

One of the reasons why the government came so close to being defeated is that it was operating on the basis of faulty political assumptions. It assumed that it could take a 'wait and see' approach to a stimulus package and play partisan politics with the Statement since it had time on its side. From its perspective, the government had won a decisive victory in the 2008 federal election which had occurred just over 6 weeks earlier. Defeat in the House of Commons and another election did not seem possible.

Moreover, although a coalition between the Liberals and the NDP had been mentioned during the 2008 election campaign, the idea had been rejected by the Liberal leader. Also, the math did not work for a Liberal-NDP coalition. When the 77 Liberal seats were combined with the 37 NDP seats, the resulting 114 seats left the two parties well short of a majority in the 308 seat House of Commons. Also, while there had been

experience with minority governments involving 2 parties, the idea of three parties working together took both the Canadian government and the public by surprise.

Fear for their survival might have been the initial spark that united the opposition parties, but their message to the public was the need for a stimulus package to kick-start the flagging economy and help Canadians struggling with the effects of the economic downturn. Thus, the government's task was straightforward: present a stimulus budget that would gain the support of at least one opposition party or risk defeat in January.

The groundwork for a less partisan, more inclusive and consensus based approach to the Budget was laid on January 26, 2009 in the Speech from the Throne which stated "it is imperative that we work together, that we stand beside one another and that we strive for greater solidarity".¹⁰ Rather than the solutions without problems that characterized the Statement, the Budget was based on an extensive consultation process and the government appointed a high profile advisory committee chaired by Carole Taylor, a former British Columbia Finance Minister.

The Budget also acknowledged that the global economy was "in the most synchronized recession in the post-war period", the "ongoing financial market crisis" was the worst since the 1930s, and Canada had entered a recession.

The G20 was cited, but not to support measures to enhance credit. Instead, the government stated that its actions in the Budget "fulfill Canada's commitments at the recent G20 leaders' summit to provide timely stimulus to domestic demand".¹¹

The Budget projected 4 years of deficits with a broad array of spending measures to stimulate the economy, provide relief to those in need and to garner widespread support not just in the House of Commons but amongst Canadians from various

backgrounds and regions. Parts of the Budget reflected a partnership among the various levels of government: the \$12 billion spent on infrastructure over 2 years, consisted mainly of municipal and provincial 'shovel ready' projects. The Budget was regionally balanced: to counter the criticism of Premiers like British Columbia's Gordon Campbell that the auto sector was being given special treatment there was money for forestry, agriculture and shipbuilding that benefitted industries in other regions. Seniors, aboriginals, low-income Canadians, the unemployed were given some measure of assistance in the Budget.

The about face by the government was bold and unprecedented, but was it precipitated solely by the prospect of a hanging or were there other factors that explain the dramatic shift? The Finance Minister Jim Flaherty argued that the government's change in approach could be explained by the rapid and dramatic deterioration of the economy. He pointed out that when the Statement was released forecasters were still projecting positive economic growth for Canada in 2009.¹² It is true that forecasts for growth plummeted between September 2008 and January 2009. For example, consensus survey forecasts for real Canadian GDP growth declined from 2.0 percent in September 2008 to 0.5 percent in November to -0.1 percent by December and -.8 percent by January.¹³ With such a rapid and consistent deterioration in the economic situation the government had little choice but to join other G20 countries and inject a jolt of stimulus into a seriously flagging economy.

Another factor explaining the government's change in direction was the historic amount of consultation that occurred in a short period of time in December 2008 and January 2009. There were meetings with the provinces, municipalities, industry groups,

aboriginals as well as the traditional pre-budget roundtables and there was advice from the newly appointed advisory committee. I attended the first pre-budget roundtable meeting in Saskatoon on December 18, 2008. What was most surprising was that among the 20 to 30 people representing groups from Alberta, Saskatchewan and Manitoba there was a broad consensus that the government had to craft a stimulus budget and had no choice but to run a deficit. In fact, the group's recommendations resembled the main elements of the 2009 Budget. When fiscally conservative business groups, like some of those at the December meeting in Saskatoon, were advocating a deficit budget with a stimulus package it was easier for members of a Conservative government to believe that they could present such a budget without betraying their principles. At meeting after meeting the government found broadly based support for significant economic stimulus and a willingness to accept a deficit Budget.

Just as the economic situation was changing almost daily so was the political one: by January it was not clear whether defeat of the Budget would represent a hanging for the Conservatives or the resurrection of their hopes for a majority government. Just as the government was surprised by the proposed coalition so were Canadian voters and the majority were not impressed. A poll done by the Strategic Counsel on December 3, 2008 found that 58 percent of Canadians opposed the coalition, while only 37 percent supported it. Other polls showed similar results. Polls also showed that if an election were held the Conservatives would win a majority government.

There is no evidence that the government contemplated taking advantage of the favourable polls by engineering an election. To do so would have been irresponsible. If the defeat of the Budget led to an election then the country would have been plunged into

uncertainty and deprived of a government that could take decisive action during the campaign. If, on the other hand, the Governor General denied the Prime Minister's request for an election and called on the coalition to govern, then, there would have been intense regional divisions and serious questions raised by some about the legitimacy of Canada's constitutional system. No responsible government could have taken Canada down either of these roads and compounded an economic crisis with a political or even a constitutional crisis.

The about face by the government between November 2008 and January 2009 can be explained by the rapidly deteriorating economic situation, the emergence of a broadly based consensus in favour of a stimulus deficit budget and the need for economic action and political stability in a time of crisis. The prospect of a hanging may not have been a decisive factor in determining the government's approach to the economic crisis.

However, the old saying is that there is nothing that concentrates the mind like the prospect of a hanging in the morning. In this sense, the coalition was effective. It forced the government to focus on the economic crisis and its affects on Canadians. Without the coalition there probably would not have been such broadly based consultations or an early budget. The prospect of defeat, however short-lived, also taught the government that partisan games had to be set aside in favour of moderation, inclusiveness and consensus.

¹ Government of Canada, Department of Finance, *Protecting Canada's Future: Economic and Fiscal Statement*, November 27, 2008, 10.

² Ibid., 46, 9.

³ Ibid., 75.

⁴ Ibid., 6.

⁵ Ibid., 46.

⁶ Ibid., 9.

⁷ Ibid., 46.

⁸ Ibid., 55.

⁹ Ibid., 54.

¹⁰ Government of Canada, Speech from the Throne, January 26, 2009.

¹¹ Government of Canada, *Canada's Economic Action Plan: The Budget in Brief 2009*, 3.

¹² "It's all about confidence" (interview with Jim Flaherty), *Policy Options*, 30, #3(March 2009), 5.

¹³ Government of Canada, Department of Finance, *Economic and Fiscal Update 2008* (December 17, 2008), 3; *Budget 2009*, 56.