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Abstract

Two different forms of regional conflict occur in a federation: conflict of taste and conflict of claim. These conflicts may support each other but not necessarily – they are independent in concept and have different implications for regional tensions. Conflict of taste arises from differences in political preferences amongst populations arising from institutions, historical context and culture. Conflict of claim arises from one region having greater wealth than others and being expected to share it with others. The latter is particularly problematical when the rich region is small and has little influence in determining transfers as large per capita transfers from a small rich are needed to have any significant impact on large populated poor regions. While, both conflicts lead to regional stress and a possible break-up of a federation, conflict of claim can be divisive since it focuses on sharing the pie rather than creating the pie. The concepts are applied to Canada's federation.

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The analysis contained in this paper focuses on two different forms of regional conflict in a federation: conflict of taste and conflict of claim.¹ These conflicts may support each other but not necessarily – they are independent in concept and have different implications for regional tensions. Conflict of taste arises from differences in political preferences amongst populations arising from institutions, historical context and culture. Conflict of claim arises from one region having greater wealth than others and being expected to share it with others. The latter is particularly problematical when the rich region is small and has little influence in determining transfers as large per capita transfers from a small rich are needed to have any significant impact on large populated poor regions. While, both conflicts lead to regional stress and a possible break-up of a federation, conflict of claim can be divisive since it focuses on sharing the pie rather than creating the pie.

Much of the literature on conflict in federal states focuses on differences in tastes among regions². Heterogeneous regions differ in cultural tastes for public and private goods but will co-operate to achieve economic and social benefits from a union. Many characterizations of federal unions assume that transfers are made between sub-national states (or as we shall also call regions) to achieve a cooperative outcome by a central government. However, transfers themselves create conflict since transfers made between regions result in one region giving up wealth to another. Thus the political process used to determine transfers could result in conflict of claim. If, in a democracy, a large poor region votes for large transfers from a rich small-populated region, the small region perceives it has little control over decisions. Even the progressivity of the tax system is part of the overall transfers since a rich minority can be out-voted by those who benefit from redistribution, a point to which I return later. The concepts will be applied to Canada where both types of conflict are present.

The plan of this paper is three fold. In the next section, I spell out in more detail the underlying concepts related to regional stress: conflicts of taste and claim. This is followed by a brief historical review of evolving economic and political shifts in Canada

¹ The original ideas developed here go back to a paper I had written with the late Richard Simeon (Mintz and Simeon 1982). The discussion in this paper is based on a book that I am currently writing on Canada's Western Drift.

² An exception is Spolaore and Wasziarg 2017 who discuss conflicts over public and rival goods. With public goods (one person's consumption does not diminish the other's as in the case of law and order or governance), differences in preferences will lead to conflict since club members cannot agree on the institution. Conflict of taste described here pertains to voter differences not only with regard to the provision of public goods but other public choice decisions. Rival goods are those in which consumption by a person diminishes what is available to others. With rival goods such as money conflict arises as club members fight over the product they both wish to have. Conflict of claim arises over wealth, resources and land as rival goods as used by Spolaore and Wasziarg.

especially in the past 40 years. I conclude with a discussion of current developments in Canada with respect to conflicts of taste and claim.

Conflict of Taste and Claim

What is a region?

Oft times, we refer to regions. But what makes a region a region?

Regions can be political entities as defined by its legal borders such as country, province or state. Sovereign governments directly rule the region creating laws that apply to it thereby creating a common institutional framework. Yet, even within a political entity, there may be several regions, which are observed in terms of the common characteristics such as their economic structure, history, culture and institutions.

In the discussion below, regions will be identified in terms of certain common characteristics. Some regions may be dominated by a particular industry such as finance (e.g. London), manufacturing (e.g. the Rust Belt in the United States) or by a common culture (e.g. Quebec, Canada). Obviously, a region may correspond to a particular legal entity such as Quebec, which is a province dominated by a Francophone population since its inception and a manufacturing/service economy. It is not uncommon though for a region to overlap several political jurisdictions. This is particularly important in the discussion below regarding Western Canada with four provinces: British Columbia, Alberta, Saskatchewan and Manitoba.

An economic perspective in explaining the two conflicts

The underlying principles for the allocation of spending, tax and regulatory powers in a federation (see Oates 1999, for example) typically include the following: (i) national public goods (defence and trade) and economies of scale (large risky projects like satellites) favouring central government provision; (ii) inter-regional spillovers (such as transportation, communication and fiscal spillovers favouring coordination or central government provision; (iii) inter-regional redistribution which favours a central provision (iv) subsidiary favouring sub-national government provision of local public services and tax policies ("closer to the people"), and (v) accountability favouring strict allocation of powers to each level of government.

These principles provide a normative view on "what should be done" but does not provide positive analysis on "how is to be done". Conflicts arise when regions cannot agree on the "what" because they do not have the access to "how" mechanisms. This is especially important in the Canadian case since the central government institutions have no formal regional representation (it is best achieved through informal

mechanisms like cabinet appointments). This is unlike the United States or Germany with formal regional-based representative institutions at the federal level.

In Simeon and Mintz 1982, a simple model is presented explaining conflicts of taste and claim in detail. This will not be repeated here but it is worthwhile laying out some of the key considerations, heuristically.

Conflict of taste

With conflict of taste, we can think of two regions making quite different political choices between public and private goods (such as represented by a similar production possibility frontier). If they both operate in autarky, they can choose freely the optimal amount of public and private goods that they desire through public spending and tax powers determined by majority voting in each region. However, spillover gains might exist between the two regions such as external threats or sharing a public factor, leading to increased consumption in both regions if they combine. If they form a union, the combined population makes a single optimal choice of public versus private goods. Both regions are better off if the increased consumption results in higher welfare.

Why will conflict of taste result in a two regions preferring autarky? First, the spillover gains may be insufficient to compensate for lack of autonomy. Second, regions differ substantially in their choices of public for private goods so that they put a very high premium on their autonomy (in other words, their preferences do not overlap). Third, power matters. The larger region through majority voting in a union can influence most the outcome – smaller regions will be willing to be part of a union if the economic gains are significant enough to them.

The above assumes no transfers from one region to the other. Transfers could be made from the larger region to smaller ones to compensate for losses in autonomy. But who decides on the size of transfers? Transfers involve conflict of claim.

Conflict of claim³

Conflict of claim raises a different set of issues. Regions may have similar preferences but one region is wealthier such as having access to natural resources or tidewater

³ The idea behind conflict of claim, as I call it, is derived from R. J. May (1969) who described how some federations were unstable due to the difficulty of achieving fiscal adjustments when a small rich region supports large poor regions. May discussed a number of case studies such as Malaysia and Singapore prior to their break-up and the rebellion by the Biafra region in Nigeria. May identified Canada as a stable federation since the richest “have” provinces – Ontario, British Columbia and Alberta – were more than half of Canada’s population, subsidizing the “have-not” provinces. Below, I will suggest that Canada is less stable than one thinks due to conflict of claim.

compared to the other. A union is only possible if the two regions combine for economic gains. However, to achieve an agreement the rich region might pay compensation to the poor region out of altruism or for certain benefits (such as discouraging poorer populations moving to the rich region). The amount paid to the poor region is bounded by (i) the minimum needed to compensate the poor region to be as least as well off in autarky and (ii) the maximum that the rich region is willing to give up before it is in worse position compared to autarky.

Now, suppose that the poor region is much bigger than the rich region. To compensate the poor region, a large per capita grant paid by the rich region is needed to have any impact on the poor region in per capita terms. And who is to make this decision? If it is central government, largely controlled by the voting population in the poor region, the rich region could be made worse off (alienated) compared to autarky if a large per capita transfer from the rich is supported in elections. If the rich region is the donor by choice, it might want to see the poor region operate differently (e.g. moral hazard) that could be resented by the poor region receiving the funds. Obviously, a political solution is not simple.

A broader framework when both conflicts occur

Conflicts in federation therefore revolve around differences in taste and claim that cannot be easily resolved at a "national" level. For example, when populations vote on progressivity of the income tax, the large population might determine the "national choice" for redistribution even though the smaller region might disagree with the decision. This is an example of conflict of taste over redistributive policies.

However, the choice of tax progressivity can also influence inter-regional transfers. For example if the national government provides a public good of equal per capita value, the richer region will pay more for the public good through the progressive income tax compared to the poorer region. The poorer region votes for more redistribution that effectively leads to more transfers from the rich to poorer region. This is an example of conflict of claim.

Voters, however, may not just be interested in personal gains but also with social groups to which they identify (Shayo 2009 and Holm 2016). If voters are only concerned about their own personal interest, they will vote for those public goods and services and tax policies that maximize their individual standard of living. For example, using Shayo's example, poor households vote for more progressive taxation and higher transfers compared to rich households if only personal economic interest is pursued. With elections, the poor population would dominate outcomes thereby leading to a more redistributive government than desired by the minority rich.

On the other hand, voters identify with a social group more similar to themselves (such as a region or ethnic group) rather than their own interest (or interests of their own social status), they may choose less redistributive policies if their social identity is less well off. They may also socially identify with the nation state, thereby voting for less redistribution if they believe the nation state is weakened (Shayo's empirical results looking at OECD countries show that stronger national state identification can lead to less redistribution compared to pure self-interest decision-making).

When preferences among populations for public goods and services differ, conflicts are reduced with institutions that provide greater autonomy to regions especially in areas where tastes matter most (culture and education, for example). Conflict of claim, however, is more difficult to handle since it involves regional transfers to be made from a rich to a poor region – these transfers imply a zero-sum game unless the donor feels that there are positive gains from its wealth given to other regions that can lead to economic gains such as promoting free trade or reducing pressures from fiscally-induced migration to the rich region.

If a central government determines fiscal transfers from rich regions supported by majorities in large poorer regions (Boulton and Roland 1997), this could result in the donor region feeling its wealth is being expropriated by a majority of another region – autonomy might be a better outcome for the small rich population. This point is broadened in Holm's analysis, whereby conflict of claim will not necessarily arise among regions if there is strong social identification with the nation state. However, a combination of wealth and less-population tends to result in states having a weaker identification with the nation state, thereby resulting in a greater preponderance for conflict of claim.

To illustrate, Catalonia and its conflict in Spain is an example of both conflicts of taste and claim for the same region. Catalonia has different culture and history than other parts of Spain, including its distinct language, Catalan. Catalonia is also the most industrialized region in Spain with the highest per capita income. In 2006 Catalonia was provided "nation" status and the same taxation responsibility as the Spanish central government. Spain's Constitutional Court struck down portions of this autonomy statute in 2010, ruling that Catalans constituted a "nationality" but not a "nation."⁴ After the 2008 global financial crisis, many in Catalonia expressed anger with the per capita transfers made to poorer regions from the taxes they paid to the central government.⁵ Support for separation became stronger as a result.

⁴ See <https://www.britannica.com/place/Catalonia>.

⁵ Catalonia accounts for 20 percent of the Spanish economy, 25 percent of central government revenues and received only 11 percent of national spending. Some argue that the overall transfer to rest of Spain is \$19 billion. See "Catalonia in Contention", Harvard Political Review, <http://harvardpolitics.com/world/catalonia-contention/>.

Federations are often viewed as unstable when populations strongly differ in culture. Singapore, dominated by the Chinese population, eventually broke away from Malaysian federation dominated by the Bumiputera. This is clearly a difference in “tastes” that can create divisions in a federation, which I entitle “conflict of taste”. However, it also reflects differences in economic power, as Singapore was richer than Malaysia. The federation would have resulted in a loss in wealth for Singapore through transfers to regions for which Singapore had little affinity.

A less well-known factor for unstable coalitions therefore arises from “conflict of claim” resulting from asymmetric economic and political power. This instability arises when a small rich jurisdiction in a federation are looked upon as the source of transfers for the rest of the country. To make much of a difference, a large per capita transfer has to be made from the rich to the poor.

A Canadian Perspective

Canada has been undergoing a major transformation since its inception. At its founding as the Dominion of Canada in 1867 with four provinces– Ontario, Quebec, New Brunswick and Nova Scotia – its initial focus was obviously on Central Canada and the Maritimes with a sparse population in the West. The British government arranged for Canada to pay 300,000 pounds for Rupert’s Land and the North-Western Territory in 1869 from the Hudson Bay Company, which gave up its charter to the British Crown. The lands were transferred to Canada in 1870. Other provinces were established or jointed later – Manitoba in 1870, British Columbia in 1871 and Prince Edward Island in 1873 – which created a coast-to-coast country under the Dominion of Canada. From the North-West Territories land, Alberta and Saskatchewan became provinces in 1905 as well as Manitoba being expanded and new territories created in the North.

With the vast area of land, Canada’s population was 3.5 million in 1871, primarily concentrated in Ontario (1.6 million) and Quebec (1.2 million)⁶. Western Canada’s population, including British Columbia to Manitoba, eked out at 84,000.

Of course, Western Canada exploded over the years (Table 1). Today, over 30 percent of the Canada’s 36 million resides in the four Western Provinces (11.4 million), which is now more than Quebec’s (8.3 million)⁷. Ontario remains the largest province with 13.9 million people so that Central Canada – Ontario and Quebec – accounts for three-fifths of Canada’s population. However, if we look at the distribution of the population in another way, 25.3 million or 70 percent of Canadians live west of the Ottawa River that divides Ontario from Quebec and the Atlantic. This is a significant change from 1970

⁶ <http://www.statcan.gc.ca/pub/11-516-x/sectiona/4147436-eng.htm>.

⁷ <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=510005>.

when Quebec was the second largest region (27.9 percent of the population compared to 26.5 percent for Western Canada).

Table 1: Provincial Shares of Canada's Population: 1971-2014

Year	NFLD	PEI	NS	NB	PQ	ONT	MAN	SASK	AB	BC
1971	2.4%	0.5%	3.6%	2.9%	27.9%	35.7%	4.5%	4.2%	7.6%	10.2%
1981	2.3%	0.5%	3.4%	2.8%	26.4%	35.5%	4.2%	3.9%	9.2%	11.4%
1991	2.1%	0.5%	3.3%	2.7%	25.2%	37.2%	4.0%	3.6%	9.2%	12.0%
2001	1.7%	0.4%	3.0%	2.4%	23.8%	38.4%	3.7%	3.2%	9.9%	13.1%
2006	1.6%	0.4%	2.9%	2.3%	23.4%	38.9%	3.6%	3.0%	10.5%	13.0%
2011	1.5%	0.4%	2.8%	2.2%	23.3%	38.6%	3.6%	3.1%	11.0%	13.1%
2014	1.5%	0.4%	2.7%	2.1%	23.1%	38.5%	3.6%	3.2%	11.6%	13.0%

Source: Statistics Canada

Canada is often viewed as having four regions: Atlantic, Quebec, Ontario and the West. Certainly, the economic structure of the provinces differs. Western Canada is especially resource-based (Table 2) while Ontario and Quebec have larger manufacturing, finance and public sectors as a share of GDP (the Atlantic tends to be more resource based with fishing, forestry, mining and oil and gas but the economies are small).

Table 2: GDP Share of Major Sector in Region (%)

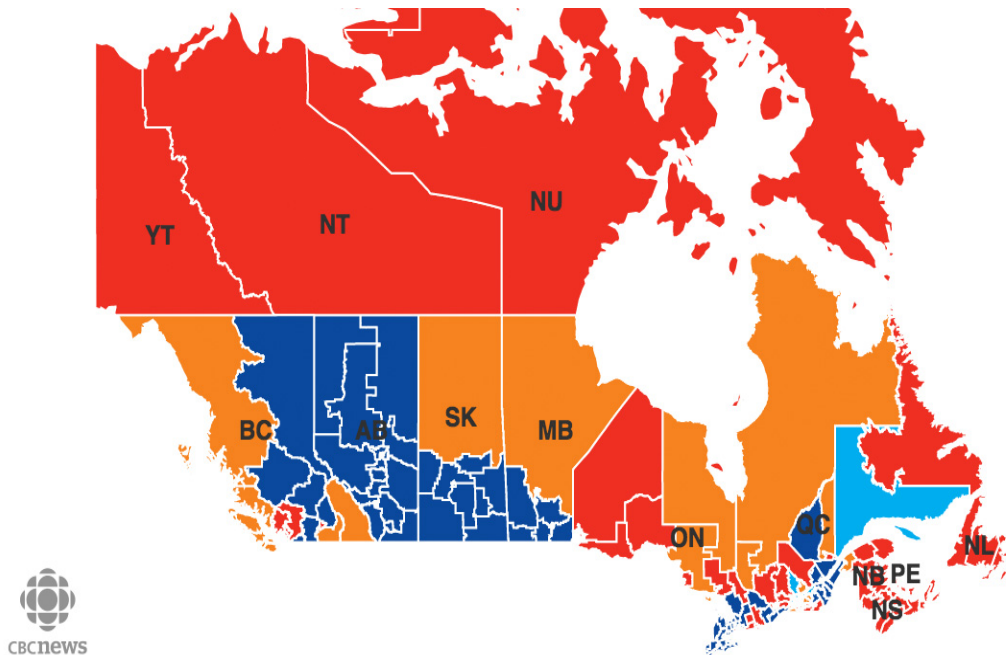
	1984	1997	2002	2007	2013
Atlantic, Eastern and Central Region	4	7	2	7	3
Manufacturing	13.7	13.9	14.2	11.0	9.0
Other Goods Producing Sector (Utilities and Construction)	8.9	7.3	6.5	6.8	8.0
Resource Sector (Agriculture, Fishing, Forestry, Oil Gas and Mining)	5.2	5.4	9.3	11.8	9.2
Private Service Sector	21.8	29.1	29.0	28.8	29.1
Public Sector Services (Education, Health Care and Social Assistance)	25.0	23.7	22.3	23.5	25.1
Finance and Real Estate	15.4	19.6	17.4	16.9	18.3
Western Region	4	7	2	7	3
Manufacturing	8.2	10.5	9.9	8.5	7.9
Other Goods Producing Sector (Utilities and Construction)	9.4	8.9	8.2	9.4	10.3
Resource Sector (Agriculture, Fishing, Forestry, Oil, Gas, Mining)	16.7	15.4	15.9	19.1	18.7
Private Service Sector	24.9	29.9	31.0	29.7	28.5
Public Sector Services (Education, Health Care and Social Assistance)	16.9	16.8	17.2	17.1	17.7
Finance and Real Estate	15.1	18.5	17.9	16.2	16.8

Source: Statistics Canada

With the growth of the west, Canada is moving from a mono-centric to polycentric economy – one being the Ottawa-Toronto-Montreal Triangle and a smaller one forming in the West. Unlike the Atlantic Provinces, which accounts for barely more than a twentieth of Canada's population and is struggling to even maintain its current population, the West continues to grow even if its progress is challenged from time to time by short-term downturns in commodity markets.

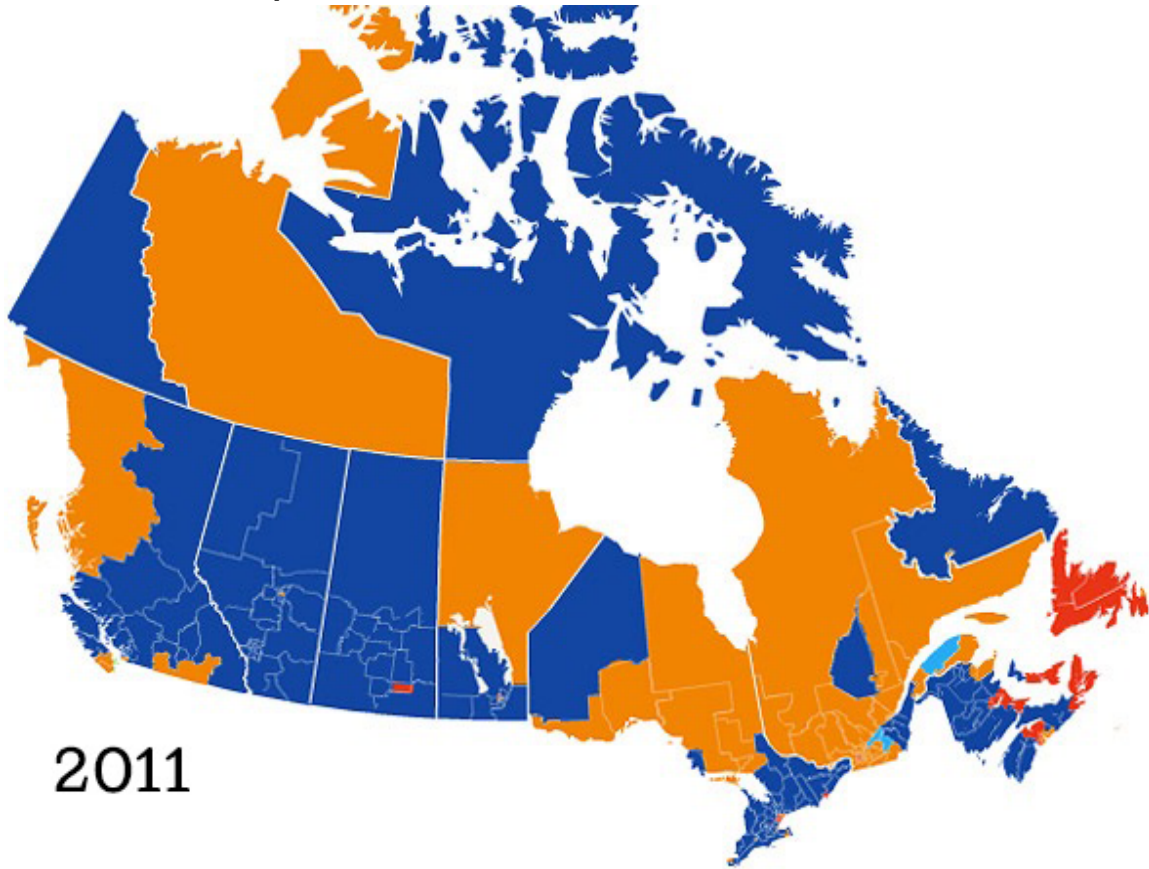
Each of the Western provinces does not always act in political harmony since their political preferences are not necessarily in sync with each other. However, there is a region – interior British Columbia, Alberta, Saskatchewan and southern Manitoba – that is largely resource-based especially concentrated in oil, gas and mining. In federal elections, at least recently, they tend to have similar voting patterns. Historically, all four provinces share a common history – they were underdeveloped parts of Canada at time of Confederation in 1867 but grew quickly over time as further discussed below. Resource and management was a significant conflict in federal-provincial relations as the three Prairie Provinces (Alberta, Saskatchewan and Manitoba) were not given ownership of land and natural resources when they became provinces. This shall be discussed further below.

Map 1: Federal 2015 Election Distribution of Seats



Legend: Conservative (dark blue), Liberal (Red), New Democratic Party (Orange) and Bloc Quebecois (light blue).

Map 2: Federal 2011 Election Distribution of Seats

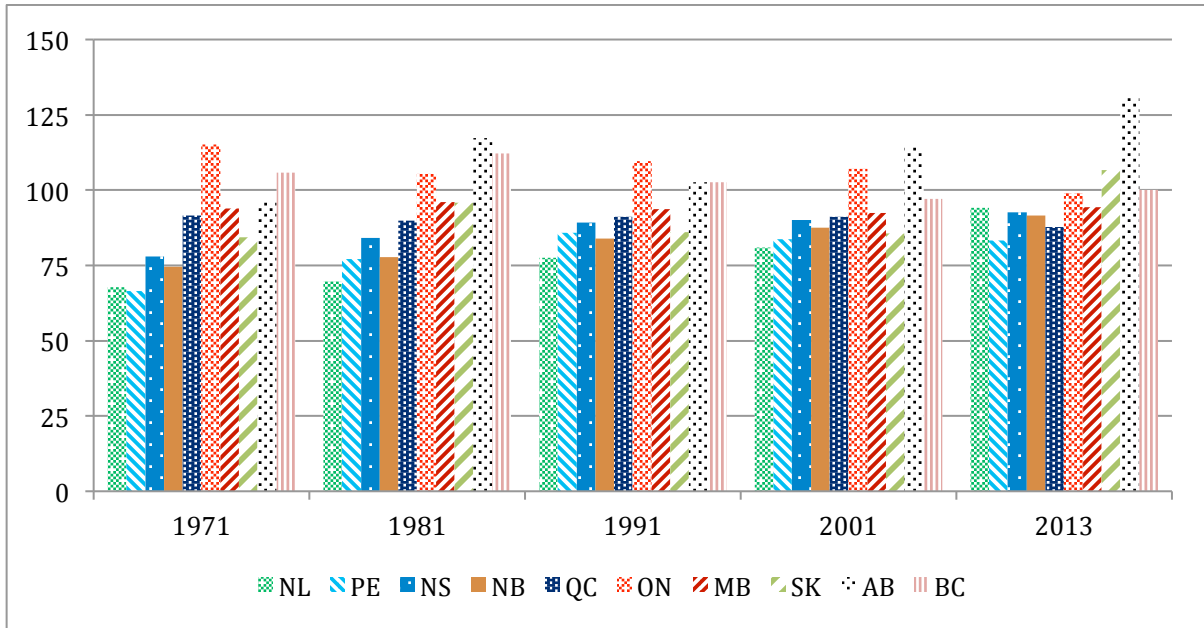


Legend: Conservative (dark blue), Liberal (Red), New Democratic Party (Orange) and Bloc Québécois (light blue).

Economic Shifts in the Canadian Economy

With the growth of Western Canada, a destabilizing “conflict of claim” conflict became salient in Canada arising from differences in economic power between large and small-populated regions. After 1973 with the boom in oil prices, Canadian economic power shifted to the West. While populous Ontario was the perennial “have” province that subsidized other provinces, the world changed with Ontario per capita GDP and personal disposable income moving to the national average and Alberta becoming much richer than other provinces after 1970s (figure 1). Ontario is no longer the rich province to subsidize the rest of Canada, officially becoming a “have-not” province under Canada’s equalization formula in 2009 (this is changing in 2019 as Ontario is expected to no longer receive equalization payments as a “have not” province).

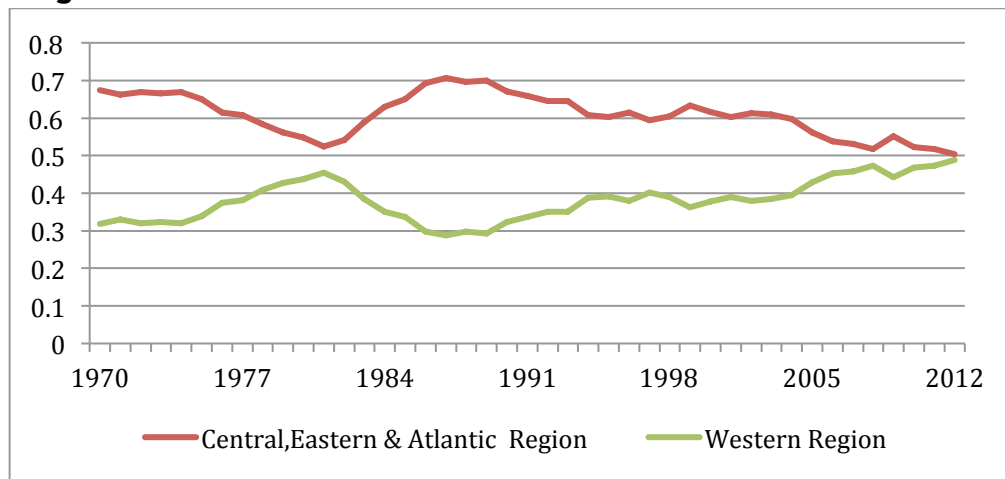
Figure 1: Real Per Capita Disposable Income (2007 Chained Dollars) by Province: Various Years



Source: Statistics Canada

Growth and labour productivity depends in part on capital investment. Over the past four decades, private investment has shifted to the West in part due to the strength of the resource sector that is capital-intensive. Today, the four Western Provinces account for almost half of private investment, a much bigger share than their population share (figure 2).

Figure 2: Private Investment Shares – Western Canada vs Rest of Canada



Source: Statistics Canada

Implications for regional conflict

The case of Canada illustrates both conflicts of taste and claim but for different regions. Quebec, originally New France, has had a different language, religion, history and culture from the rest of Canada, which was originally dominated by Ontario formed by British loyalists and English-speaking. Conflict of taste has been expressed in the Belle Province seeking autonomy in the delivery of public services especially education and culture but not necessarily restricted to it. Quebec elected a separatist party in 1976, voted against separation in 1980 and almost passed a referendum to separate in 1995.

Conflict of claim is well illustrated by Alberta's role in Confederation. Although Alberta history was influenced by American migration in the Far West (Woodward 2011), its climate and geography shaped its development similar to Saskatchewan, interior British Columbia and southern Manitoba. Resource ownership has given substantial wealth to Alberta resulting in the 4th largest Province becoming the wealthiest part of Canada as documented above.

Quebec has received the largest net financial transfers with the federal government spending more in the province than it receives in taxes, helping support a vote against separation. The same is not the case of Alberta that is large per capita contributor to the rest of Canada. According to the Library of Parliament (Canada 2017), Quebec roughly received \$1500 per capita in net transfers from the federal government while Alberta paid \$6000 per capita to federal government in net taxes. In a recent paper (Hartmann, Thurgood and Thies 2018), the cumulative net contributions for the period 2007-16, uncorrected for inflation, were estimated. Albertans paid roughly \$5600 per capita or \$230 billion in federal revenues net of federal expenditure to the rest of federation (Table 3). This was far more than the per capita net contributions of Ontario, British Columbia or Saskatchewan (Saskatchewan became a net contributor in 2009).

Canada's Fragmentation

Canada is viewed as a "mosaic" rather than a "melting pot" with immigrants identifying to their cultural or social background rather than a national identity as in the case of the United States.⁸ It is a relatively ethnically diverse among advanced countries. Using a conventional measure of diversity or fragmentation,⁹ Alesina et al estimate fragmentation for a large number of countries with 1 representing the complete fragmentation and 0 representing homogeneity. Canada's measured ethnic

⁸ The term "mosaic" came from an American, Victoria Hayward who published *Romantic Canada* in 1922. See <http://activehistory.ca/2016/05/creating-the-canadian-mosaic/>.

⁹ Fragmentation is measured as 1-H, with H being the Herfindahl Index of squared ethnic, religious or language shares of the population.

fragmentation is 0.7124, religious fragmentation at 0.6958 and language fragmentation as 0.5772. In contrast, the United States fragmentation variables are 0.4901 (ethnic), 0.8241 (religion) and 0.2514 (language). Generally, European countries have lower fragmentation values than North America. The significant fragmentation in Canada helps explain the weakness of national identification, which contributes to greater potential conflict among regions.

Table 3: Cumulative Net Contribution of Provinces 2007-2016

Province/Territory	Net Contribution* \$billion	Average Annual Net Contribution per Capita** (\$thousands)
Newfoundland & Labrador	-\$15.4	-\$3.0
Prince Edward Island	-\$10.4	-\$7.3
Nova Scotia	-\$59.8	-\$6.4
New Brunswick	-\$33.2	-\$4.4
Quebec	-\$116.7	-\$1.4
Ontario	\$96.3	\$0.7
Manitoba	-\$40.2	-\$3.1
Saskatchewan	\$3.3	\$0.3
Alberta	\$228.6	\$5.6
British Columbia	\$47.4	\$0.6
Yukon	-\$9.4	-\$2.6
Northwest Territories	-\$10.6	-\$2.5
Nunavut	-\$12.6	-\$3.5

*Calculated by Mowat Centre in current dollars.

**Based on 2016 population.

Source: Mowat Centre

The federal government has been long dominated by Central Canada or the "Laurentian Consensus"¹⁰, with political, business and thought leaders residing in the two major provinces. However, given today's distribution of population and economic power, political coalitions can now form either by Central Canada (Ontario and Quebec) or by Ontario and Western Canada, the latter happening from 2006-2015.¹¹ While some may view that the 2015 election that returned the Liberals to power with strong representation from Central Canada, Bricker and Ibbotson's (2013) key message still holds – a political coalition of Ontario and the West can dominate Canadian politics without Quebec playing a central role just as a Central Canadian coalition does not require support from Western Canada. Electoral power at the federal level therefore depends on the distribution of seats in Canada's first-past-the-post system and

¹⁰ John Ibbotson 2012.

¹¹ Hansard; 39th Parliament, 1st Session; No. 087, November 27, 2006.

provincial shares largely depend on population shares. The question is which type of political coalition will dominate in the 21st Century pivoted around Ontario and whether Canada will have unstable coalitions over time, depending on shifts in economic and political power.

A political coalition without the West can result in regional stress if the West feels that its wealth is being expropriated. A coalition without Quebec can result in central government decisions being made without taking into account Quebec's distinct tastes.

Accommodation with Conflict of Taste: Quebec

If there are not differences in tastes amongst regions, obviously no accommodation is needed for regional preferences. A more likely differentiation in voting would arise with voters having different economic backgrounds that can be dealt with through a central government's political process. The approach to accommodation for conflict of taste is decentralization in a federation where provinces have control over certain powers, especially those most attached to cultural and economic affairs. The federal role would be to support national identity and mitigate spillovers at the central level.

In the case of Canada, conflict of taste was endemic ever since both France and Britain competed for control of North America in the 17th and 18th centuries. The Francophone population dominated Quebec while an Anglophone population including British Loyalists who left the United States after the American Revolution dominated Upper Canada (Ontario). For much of its history, Canada has been vexed with the issue of accommodating Quebec, which clearly expresses a different culture, language and, putting it in political terms, different voting preferences than the rest of Canada. When such differences in tastes arise, it can be difficult to maintain a federation since a coalition of interests may not be possible, each jurisdiction looking for its own independence. Even though Quebec had two referenda to separate in 1980 and 1995 and rejected the concept (by a slim majority the second time), Canada has been able to maintain its federation by adjusting its policies to enable Quebec to pursue its objectives as a nation within a nation.

A partial list of these adjustments has included the following.

First, certain constitutional guarantees were provided that enabled provinces to have power over institutions related to their institutions. At the time of Confederation, the provinces were given control including education, hospitals and property rights under the British North America Act of 1867. Primary education was particularly important since it was related to maintaining the Catholic religion in Quebec and Protestantism in Ontario (Section 93) as well as guaranteed religious education for the minority. French and English were also guaranteed in proceedings of both Parliament and the Quebec Legislature (Section 133). When the Supreme Court of Canada was later created, two of

its judges were to be from Quebec (that used civil law) and proceedings were in both languages. Bilingualism has been extended over the years at the federal level such as requiring the civil service to speak both French and English.

Second, Quebec was given more autonomy with respect to taxation powers. The federal government rented tax fields in 1942 from all provinces during the Second World War (only federal tax rates therefore applied and cash grants were given to the provinces). After the Second World War, rental agreements with the provinces continued until 1962, except for Quebec, which preferred tax abatements instead. Quebec introduced its own corporate income tax in 1947, its own personal income tax in 1954. Today, Alberta and Quebec are the only two provinces that collect their own corporate income tax and Quebec is the only province to collect a personal income tax. Quebec also negotiated a unique arrangement with the federal government to collect value-added taxes – Quebec collects both the federal Goods and Services Tax and provincial Quebec Sales tax while other provinces enable the federal government to collect the Harmonized Sales Tax for both governments via a tax collection agreement.

Third, Quebec was also historically given opting-out provisions with respect to federal spending powers (other provinces were given the same option but were not interested in the arrangement). In compensation for its non-participation, Quebec received tax point transfers instead of cash-based grants. By 1966, as a result of these various opting-out provisions, Quebec was receiving twenty-three additional personal tax points and one corporate tax point point over and above the tax abatements of the other provinces. Other arrangements are often provided to give Quebec more autonomy such as in the case of labour market training.

Fourth, part of this accommodation has also included Quebec's ability to share power in Ottawa with Ontario by being part of the winning coalition, including the John A. MacDonald's first government at time of Confederation.

The use of asymmetric federalism has enabled Canada to deal with Quebec's special place in Confederation. It has not been an easy issue to manage especially since Western Canada was dominated by non-British and non-French immigration over the years and hence, did not understand why it did not receive special consideration. This resentment particularly grew more important with Western grievances over federal policies as discussed below.

Accommodation with Conflict of Claim: Alberta

Conflict of claim is more difficult to handle since it involves a zero-sum game over the distribution of resources. With strong regional rather than national identification (Holm 2016), voters in a small province feel more aggrieved over the transfer of resources to the rest of Canada.

When Canada was created, the MacDonald government pursued a National Policy that encompassed three elements. Tariffs would be used to protect the manufacturing industry in Central Canada. Immigration would be pursued to grow populations in the West. And, a railway would be built to connect all parts of Canada. While the National Policy successfully aimed to build Canada into a nation and forestall U.S. growth in the western part of the continent, it also had sewn seeds for discontent in later years. The conflict over provincial natural resources ownership is especially prominent and remains so today.

The Western provinces resented the domination of Ontario over banking as well as federal tariffs that made consumer goods and farm equipment more expensive. Farmers were particularly upset with loans called in during the depression, leading to call for separation in Alberta. This resulted in the election of the Social Credit party that passed legislation to tax and regulate all banks in Alberta. The legislation was declared by the courts as *ultra vires*¹² since only the federal government had banking powers. Nonetheless, the Western provinces did create co-operatives and non-bank financial institutions over the years to fund business development and mortgages in their provinces. Tariffs have been reduced with free trade agreements and many of these century-old grievances have thus disappeared. However, the development of natural resources continues as the most important conflict of claim.

When Canada was created, the four initial provinces in Confederation – Ontario, Quebec, New Brunswick and Nova Scotia – owned lands and resources. When British Columbia joined in 1871 and Prince Edward Island joined in 1873, they were given similar rights to land and natural resource ownership. However, Manitoba, which became a Province in 1870 and later, Alberta and Saskatchewan in 1905, no similar rights were given. At the heart of the problem, Manitoba, Saskatchewan and Alberta were created from Rupert's Land that was purchased by the federal government from the Hudson's Bay Company. The federal government wanted to retain ownership for colonization and railway construction and other provinces wanted more federal grants if the three provinces were given resource ownership (Janigan 2013). Provincial grievances continued until 1930 when the federal government transferred ownership to the three Prairie Provinces.

While mineral revenues were not significant, land ownership was important to the provinces as a source of revenue. At the beginning of Confederation, much of the federal revenues initially came from custom duties and excise taxes with a minor amount from non-tax revenues. Custom duties accounted for 60% of total revenues,

¹² Supreme Court of Canada Reference Re Alberta Statutes - The Bank Taxation Act; The Credit of Alberta Regulation Act; and the Accurate News and Information Act, [1938] SCR 100
Date: 1938-03-04.

which was a major source of revenues for the Dominion. Excise duties, also a Dominion tax, accounted for about a fifth of total revenues. Provincial revenues were generally from non-tax revenues (land sales, licenses and Public Domain (natural resource revenues)) although the federal government raised some non-tax revenues such as from territories. Thus, the lack of resource ownership for the three Provinces was a significant issue as the Provinces needed funds for schools, hospitals and infrastructure as their populations grew.

The conflict of claim over resource ownership reached a new level in 1980 with the adoption of the National Energy Program, a catalyst fuming Western separation. The federal government took on a public policy that subsidized domestic energy prices below the world market paid for by taxing the exported energy sold to the United States with a potential loss of \$133 billion in the present value of energy rents accruing to the oil and gas producing provinces¹³. With a downturn in oil prices and the NEP, Alberta's economy was badly hit resulting in the creation of Western Canada Concept Party in favour of separation (it elected a member to the Alberta legislature). With the election of the Mulroney government at the federal level in 1984 that ended the National Energy Program, calls for separation quieted down.

No western provinces had a referendum to separate after National Energy Program in 1980 but they did express their disaffection with Central Canada by spawning the new Reform party at the federal level, which eventually merged with the Progressive Conservatives to become the Conservative Party. This new party eventually led to a political coalition of Ontario and Western interests, resulting in the election of the Harper government in 2006.

Conflict of claim for oil and gas producing provinces, Alberta and Saskatchewan primarily, has reasserted itself in the past several years. With the development of oil sands projects and controversy over their environmental impact, attempts have been made to stop their development.¹⁴ While several new pipelines were in service by 2010 (such as Enbridge's Clipper line and TransCanada's Keystone pipeline), the Obama government in the United States would not sanction TransCanada's proposed Keystone XL (the Trump government has now approved it but it is still subject to Nebraska

¹³ Helliwell and McCrae (1981), the Albertans lost \$46,000 per capita and non-Albertan Canadians gained \$7,500 per capita.

¹⁴ It could be argued that conflict of taste is involved since Albertans have different preferences as an oil producer rather than consumer. In a 2015 Abacus poll on priorities, economic issues ranked highest in all provinces (roughly a third) although most in Alberta (47%). Environment ranked fourth of seven issues, least in Alberta, Saskatchewan and Manitoba (rough 5%) and highest in British Columbia (10%). These differences in "tastes" are not significant. See <http://abacusdata.ca/what-keeps-us-awake-top-national-issues/>.

regulatory approval). A proposal by TransCanada to build the Canada East line converting a natural gas mainline from Alberta to Montreal and extending to New Brunswick was withdrawn in face of federal regulatory changes during the application stage and Quebec's opposition. An Enbridge pipeline, Northern Gateway, shall no longer be built, after regulatory approval, when the federal government banned tanker traffic for British Columbia's north coast. A proposal by Kinder Morgan to expand the TransMountain pipeline to export more oil from Vancouver's port has been approved by the federal government but has an unclear future due to British Columbia and First Nation opposition (recently the federal government purchased TransMountain as Kinder Morgan announced it would withdraw from building the pipeline political opposition. A recent federal court decision has stalled the pipeline construction due to the need for greater consultation with First Nation near tidewater and study of marine life impacts. As a result of new pipeline transportation projects being blocked, the transportation system for Alberta oil is highly constrained, resulting in a current loss in revenues and royalties of \$14.7 billion per year, based on one recent estimate. Bill C-69 replacing the National Energy Board with a new energy regulator is feared by Alberta and Saskatchewan (and now Ontario) that many resource projects will be put on hold due to regulatory costs.

Similar opposition has developed towards Liquefied Natural Gas plant developments in British Columbia – Canada has not yet built an LNG plant for exporting natural gas to Asia unlike the United States and Australia even though the British Columbia Liberal government tried to develop projects before it lost power in 2017 (the current NDP government requires support from the Green Party to be in power – the Green Party is opposed to LNG developments). This has also become a grievance for oil and gas provinces in other parts of the West.

These recent developments are a classic issue of conflict of claim in part between British Columbia and Alberta/Saskatchewan but also with the federal government and Quebec.¹⁵ Canada is pursuing carbon policies to reduce greenhouse gas emissions by 30 percent by 2030, which at current trends is unlikely to happen. Opposition to pipeline construction and LNG plants that would raise Canada's GHG emissions in the coming years is based on concerns that it will make it harder for other parts of Canada to achieve climate change goals. On the other hand, Alberta, Saskatchewan and, to a lesser extent, Manitoba feel particularly aggrieved since oil and gas development is being constrained and wealth is being lost even though production continues elsewhere in the world especially in the United States with its growth in shale oil and gas production.

¹⁵ Fellows (2018) estimates that the federal government is losing annually \$1.5 billion, the industry \$6.7 billion and the Alberta government \$7.6 billion due to discounted oil prices from pipeline constraints.

The resolution of these issues is not easily achieved as in the case of Quebec's conflict of taste, thereby making it a more dangerous form of regional conflict. Perhaps, these issues could be dealt with institutional reform such as creating a truly regionally-based elected second chamber at the federal level but this is a topic would need much more exploration and discussion. Alternatively, Canada's decentralized federal structure enables regional differentiation to take place at the provincial level, even if not all conflict federally are settled.

Conclusions

This analysis focused on two different forms of regional conflict in a federation: conflict of taste and conflict of claim. Conflict of taste arises from differences in political preferences amongst populations and conflict of claim arises from one region having greater wealth than others and being expected to share it with others – it can be especially problematical when a small rich region is expected to support large populations. Both conflicts lead to regional stress and unstable federations. Canada illustrates the nature of these conflicts – Quebec in terms of tastes and Alberta in terms of claim. Both conflicts could be difficult to resolve politically in the coming years.

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