



## Now We All Know the Ballot Question!

A global economic meltdown was not in the game plans prepared by any of the parties contesting the 2008 election. Nevertheless, it has emerged as the dominant issue of this campaign. As can often be the case, external factors beyond the control of any party or leader can have a dramatic impact on electoral fortunes. How parties and leaders respond to the unexpected and the dramatic can help to shape the electorate's perception of their respective capabilities to govern. External factors played a significant role in the last federal election – an RCMP news release announcing an investigation of Liberals in connection with income trusts, followed by the tragic Boxing Day death of a young woman caught in gang-war crossfire in Toronto which reinforced the Conservative's law-and-order message, ultimately spelled doom for the Liberals in 2006. In 2008, it is the rapidly deteriorating global economy and the potential contagion effect on Canadians that has intruded on carefully planned election strategies.

The first three weeks of this election were appropriately characterized as a Seinfeld campaign; an election about nothing in particular. This played to the advantage of Prime Minister Harper's Conservative Party and it seemed to be working. The incumbent Conservatives appeared to be cruising to an easy victory, the primary question on many people's minds being whether it would be a majority or a considerably strengthened minority government. This dynamic has evaporated.

Initial signs of the dramatically shifting electoral dynamic came to light during the French and English debates on October 1<sup>st</sup> and 2<sup>nd</sup> respectively. The debates provided the first major opportunity for party leaders to address Canadians' mounting concerns about plummeting stock markets, failing U.S. investment banks, and the tightening of credit around the globe. It was immediately following these debates that the Conservative's seemingly smooth sailing hit voter turbulence. Why?

First, Liberal leader Stéphane Dion's debate performance exceeded the very low expectations that had been established pre-election by an intense Conservative advertising campaign framing him as a weak and ineffectual leader. The Liberal leader's performance did not validate the perception of incompetence that had been built around him. Second, the Prime Minister performed well in the debates but he was under constant attack from all four opposition leaders. Moreover, his reassuring message about the strengths of the Canadian economy relative to those of the United States and other countries somehow seemed to miss the growing concern and uncertainty voters felt about their future prospects.

All of a sudden, the election narrative that the Prime Minister had so skillfully woven, from pre-writ to election writ, began to unravel. Re-crafting the narrative in the last week of the campaign was not in the Conservative's strategic plan.

As the final days of the campaign unfold, most Canadian voters will be asking themselves two important ballot questions as they enter the polling booth:

- Which party and leader are best able to steer Canada through the rough economic shoals that lie ahead?
- Do they need a majority of the seats in the House of Commons to do their job?

The race is on. The electorate is volatile. All predictions made one week ago are off.

## What Does it Take to Win a Majority?

Canadian voters have decided two elections in a row that no party was worthy of having a majority Parliament bestowed upon it. It is very possible that voters will arrive at the same conclusion on October 14<sup>th</sup>. If so, it will mark the third time in Canadian federal electoral history this has occurred, the last being the Diefenbaker-Pearson see-saw battles of '62, '63 and '65. The prospect of another minority government raises the question: what does it take to win a majority of the seats in the House of Commons?

To answer this question we take a look back over forty years of electoral history, spanning twelve federal election campaigns. The results are set out in the table below.

### Popular Votes and Election Outcomes – A 40-Year History

Election Year	Winning Popular Vote Percentage	Outcome
1968	45.3%	Liberal Majority
1972	38.4%	Liberal Minority
1974	43.1%	Liberal Majority
1979	35.8%	Progressive Conservative Minority
1980	44.3%	Liberal Majority
1984	50.3%	Progressive Conservative Majority
1988	43%	Progressive Conservative Majority
1993	41.2%	Liberal Majority
1997	38.4%	Liberal Majority
2000	40.8%	Liberal Majority
2004	36.7%	Liberal Minority
2006	36.2%	Conservative Minority

Historically, a popular vote count in the low forty-percentile has been sufficient to form a majority government. It should be noted, however, that the magic figure for forming a majority has declined a percentage point or two since 1993. What differentiated 1993, and all subsequent federal campaigns, was the fact that five political parties were battling each other for representation in the House (although there were only four-party contests outside Quebec), instead of the three-way Liberal, Progressive Conservative, NDP battles of the 1970's and 1980's. The introduction of additional voting options has led to new and interesting vote splits in the key provinces of Quebec, Ontario and British Columbia. Moreover, additional voting options, with a party such as the Greens as Exhibit 1, are made more viable by the election financing rules which reward parties with public financing even if they elect no Members of Parliament.

The 1997 election, the one aberration to the forty per cent-plus rule-of-thumb, may be particularly instructive today. We learned that it is possible for a majority government to be attained with 38 per cent of the popular vote. It is more likely, however, that we are in for yet another in a string of minority Parliaments. Perhaps this is an unintended consequence of Prime Minister Chrétien's financing rules, compounded by Prime Minister Harper's changes which prohibited all corporate and union political contributions.

## What Will They Do If Elected?

With all due respect to Jack Layton, Gilles Duceppe and Elizabeth May and the parties they represent, the reality of Election 2008 is that there are only two contestants with any chance of forming the next government. For our clients and friends in the business community, it is important to understand where the Conservatives and the Liberals are positioned on several key public policy issues. What follows is a head-to-head comparison of these two parties' policies in a handful of priority areas. [Note: This list is not exhaustive.]

### Conservative and Liberal Platforms

Policy Issue	Conservatives	Liberals
Tax Reform	<ul style="list-style-type: none"> <li>▪ Raise the small business eligibility threshold to \$500k</li> <li>▪ Index the lifetime capital gains exemption to inflation</li> <li>▪ Reduce excise tax on diesel and aviation fuel from 4 to 2 cents per litre</li> <li>▪ Create a \$5,000 tax credit on eligible costs for first-time homebuyers</li> <li>▪ Make the Children's Fitness Tax Credit refundable</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shift Canada's tax system away from income and towards pollution</li> <li>▪ Cut the lowest income tax rate from 15% to 13.5%</li> <li>▪ Reduce "middle class" tax rates from 22% to 21% and from 26% to 25%</li> <li>▪ Reduce corporate tax rates to 14% by Year 4</li> <li>▪ Reduce small business tax rates by an additional 1%</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Introduce a \$500 Children's Arts Tax Credit</li> <li>▪ Improve depreciation rules and the tax credit status of apprentice tools</li> </ul>	<ul style="list-style-type: none"> <li>▪ Put a price on carbon that rises to \$40 per tonne within 4 years</li> <li>▪ Eliminate special tax treatment for oil sands development</li> <li>▪ Make the SR&amp;ED Tax Credit 25% refundable</li> </ul>
<p>Sectoral Assistance</p>	<ul style="list-style-type: none"> <li>▪ Increase the Strategic Aerospace and Defence Initiative by \$200M over 4 years</li> <li>▪ Increase the Automotive Innovation Fund by \$200M over 4 years</li> <li>▪ Abolish tariffs on a wide range of imported machinery and equipment</li> <li>▪ Extend "super" flow-through share incentive for mining</li> </ul>	<ul style="list-style-type: none"> <li>▪ Create a \$1B Advanced Manufacturing Prosperity Fund to support investment in "greener technologies"</li> </ul>
<p>Energy and Environment</p>	<ul style="list-style-type: none"> <li>▪ Implement the "Turning the Corner" action plan to reduce GHG emissions by 20% over 2006 levels by 2020</li> <li>▪ Develop and implement a North American cap and trade system for GHG and air pollution</li> <li>▪ Introduce an Environmental Enforcement Act to strengthen and consolidate enforcement and penalties</li> <li>▪ Reaffirm the ban on the bulk transfer of water</li> <li>▪ Promote the development of northern pipelines</li> <li>▪ Promote biofuels, wind and other energy alternatives</li> <li>▪ Generate 90% of electricity from non-emitting sources by 2020</li> <li>▪ Prohibit bitumen exports to countries lacking equivalent emission reduction targets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Put a price on carbon that rises to \$40 per tonne within 4 years</li> <li>▪ Set hard targets for GHG emissions for 2020, 2035 and 2050 based on 1990 emission levels</li> <li>▪ Design mandatory, absolute emission caps for the largest polluting sectors</li> <li>▪ Implement a cap and trade system that interacts with international trading systems</li> <li>▪ Pass tough National Ambient Air Quality Standards</li> <li>▪ Implement a National Water Strategy</li> <li>▪ Provide a Renewable Power Production Incentive to more than double non-emitting energy sources</li> </ul>

<p>Infrastructure</p>	<ul style="list-style-type: none"> <li>▪ Meet its Building Canada Plan commitment to invest \$33B in infrastructure between 2007 and 2014</li> <li>▪ Continue the gas tax transfer to municipalities at a permanent level of \$2B per year after 2014</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$10B for clean water, sewage and energy</li> <li>▪ \$8B for a national transit strategy</li> <li>▪ \$3B for infrastructure in small communities</li> <li>▪ \$4.5B for trade gateways</li> <li>▪ Develop an Infrastructure Bank to provide low-cost financing for governments</li> </ul>
<p>Social Policy</p>	<ul style="list-style-type: none"> <li>▪ Allow income splitting for caregivers of family members with disabilities</li> <li>▪ Improve the Registered Disability Savings Plan</li> <li>▪ Fully index the Universal Child Care Benefit to inflation</li> <li>▪ Make the Universal Child Care Benefit tax free</li> <li>▪ Increase the Senior Age credit amount by an additional \$1,000</li> <li>▪ Give self-employed Canadians the opportunity to access maternity and parental benefits</li> <li>▪ Increase funding for the Targeted Initiative for Older Workers to \$50M per year</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduce the number of people living below the poverty line by at least 30% and the number of children living in poverty by at least 50%</li> <li>▪ Create a Guaranteed Family Supplement to provide up to \$1,225 per year per family</li> <li>▪ Create a refundable child tax benefit of \$350 per child</li> <li>▪ Replace the current employment credit with a refundable employment credit of \$1,850</li> <li>▪ Provide for catastrophic drug coverage</li> <li>▪ Establish universal early education and child care</li> </ul>

## Sealing the Deal

In the final days of the campaign each of the party leaders will strive to consolidate their base, maintain any gains they may have made to date, and find a way to “seal the deal” with a sufficient number of voters to achieve their respective electoral objectives. Here is what to watch for over the Thanksgiving weekend.

### Conservatives

For the home stretch of Campaign 2008 the Conservatives must use every opportunity and *policy drop* as they term them, to bridge back to the “strong and steady leadership for uncertain times” messaging with which they launched their campaign in September. The Prime Minister must remind Canadians that he predicted tough times in 2008 due to troubling U.S. economic indicators in his year-end interviews – which were widely reported – in December 2007.

In addition, the Prime Minister and key regional ministers and candidates must use each tour and media opportunity to note that the Conservative government took measures in the spring of 2008 to enhance the Bank of Canada's flexibility to inject liquidity into the financial system, a measure that was opposed in the House of Commons by all of the opposition parties. Moreover, the government took measures to end risky 40-year mortgages and insisted on 5 per cent down payments for government-insured mortgages.

Above all, the public and media focus in these last days of the campaign will be on each leader's reaction to external and unpredictable events. At every opportunity, Prime Minister Harper must employ a CAP – concern, action, perspective – messaging formula. This means that he must show genuine concern and compassion for the anxiety that Canadians rightfully feel about their investments, their mortgages and their jobs. He must reiterate the action taken by the government – financial system reforms, broad-based tax relief, balanced budgets and national debt repayment over his mandate – well in advance of present events. Finally, he needs to offer some reassuring perspective on how a Prime Minister should react – calm and cool – and seek to contrast that with the opposition leaders.

In short, Conservative fortunes and their desire to retain government rest squarely on the shoulders of Stephen Harper and his words and comportment in response to all campaign developments until the polls close on October 14<sup>th</sup>.

## **Liberals**

With economic turmoil dominating the latter stage of the election, Liberal leader Dion will continue to tell Canadians that the Prime Minister lacks empathy for and an understanding of Canadians' very real concerns about jobs, homes, and families. While the PM is telling Canadians that there are some wonderful buying opportunities in the stock market, the Liberals share Canadians' concerns. In essence, the Liberals and the other opposition parties will try to turn the Conservative's election strategy – make this election all about Prime Minister Harper and his leadership skills – on its head. In essence they are saying, "Ok, if you want this campaign to be about Mr. Harper, we are good with that. Bring it on." A gift – which has relegated the controversial Green Shift centerpiece of the Liberal election platform to the sidelines of the national debate – has been handed to the Liberals that they must capitalize on in the closing days in order to meet their objective of forming the next government.

With growth in Quebec highly unlikely, Mr. Dion's message will be intended to resonate most clearly in Ontario, where the manufacturing sector has been hit hard and, most importantly, the province with the most seats in the House of Commons. In order to be successful, the Liberals must siphon voters away from the NDP and the Green Party in Ontario and British Columbia, in a final weekend push to consolidate the "progressive" vote around the only party that has a chance to form a government as an alternative to the Conservatives.

## **NDP**

Jack Layton's key election objective is to become the Leader of the Official Opposition. He will be focusing on closing the deal with voters in Toronto, Vancouver, and Atlantic Canada, areas in which he has a genuine opportunity to take seats away from Liberals and win others if splits go his way. Growth in Quebec is not in the cards for the NDP. Of note, as

long-time NDP Member of Parliament Bill Blaikie commented recently, thanks to the election-financing rules that provide public funds to parties based on the number of votes they receive during an election, for the first time ever the NDP has the financial resources to take the election fight down to the wire. Having the money to purchase television ads in the closing days of a campaign is a new luxury that the NDP will seek to exploit.

### Bloc Québécois

Considered down and almost out at the outset of the election, Bloc leader Gilles Duceppe's objective of stemming Conservative growth in Quebec has benefited the most from the Conservative's announcements to reduce arts funding and to deal with young offenders. These are two touchstone issues to many Quebecers that Mr. Duceppe was quick to capitalize on. With antipathy towards the Liberals and Mr. Dion still high in Quebec, the natural beneficiary was Mr. Duceppe. He has the easiest task of all of the party leaders, as he can remain within a single province over the long weekend and continue to hammer the Prime Minister on arts cuts, young offenders, and for demonstrating a lack of empathy for Quebecers who are concerned about losing their jobs.

### Green Party

Elizabeth May's closing weekend focus will be on her head-to-head election battle with Defence Minister Peter MacKay in the riding of Central Nova. This was a quixotic move on Ms. May's part to take on a popular MP and Senior Minister in a Conservative stronghold. With the Liberals not fielding a candidate in this riding, this race has been made interesting. The second thing that the Green Party will be doing is seeking to increase its share of the popular vote in order to secure increased public funding under the election financing rules for future electoral contests. This latter objective may have been undermined to some extent by Ms. May's public exhortation to Green Party supporters to strategically vote Liberal in ridings where tight two-way Conservative-Liberal races are occurring.

### A Parting Shot

We will be preparing the third edition of our *2008 Election Watch* commentaries once the smoke clears from election day. What began as a snooze-fest election campaign has suddenly become exciting, with significant consequences for Canadians facing challenging economic times.

Please remember to vote!

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