

## From Seinfeld to Global Economic Meltdown

With the 40<sup>th</sup> General Election in the books and the outcome decided – a strengthened Conservative minority – this post-election commentary builds upon the themes identified in our two previous editions of Election Watch 2008. We answer the key questions that TACTIX' clients are asking: What happened? Why? And, most importantly, what happens next? All amidst the backdrop of a continuing global economic meltdown threatening Canadians' pensions, mortgages and household savings, as well as corporate bottom lines.

After six weeks of campaigning, more Canadian voters opted for Stephen Harper's message of stable and steady economic leadership than for Stéphane Dion's economic approach and campaign centerpiece, the Green Shift. In 2006, the electorate gave the Harper Conservatives the second smallest minority government in Canadian history; in effect a government with training wheels. After the October 14<sup>th</sup> vote, the Conservative's government-in-training wheels were loosened but voters did not see fit to remove the safety feature of the training wheels altogether.

What happened?

Some may say "not much". And at one level, this is true. The table below paints the picture. We went into Election 2008 with a Conservative minority government and we came out with one. The Liberals entered the campaign as the Official Opposition and they will continue in that role. The Bloc Québécois still hold the most seats in Québec. Despite NDP leader Jack Layton's assertions that he was running for Prime Minister, his party remains with the fewest seats in the House of Commons. The Green Party failed to elect a single Member of Parliament. All of this is true. However, a great deal did happen. The reverberations will be felt in the days, months, and years ahead. Read on as we examine what really happened, and what lies ahead.

### Seat Count and Popular Vote: 2006-2008

Party	Conservative		Liberal		NDP		Bloc Québécois		Green	
	2006	2008	2006	2008	2006	2008	2006	2008	2006	2008
Seats	124	143	103	76	29	37	51	50	0	0
Popular Vote	36.3%	37.6%	30.2%	26.2%	17.5%	18.2%	10.5%	10%	4.5%	6.8%

## Conservatives: The Majority That Got Away

For the Conservatives, who, according to several polls, were on the cusp of a majority before the televised leaders' debates and the September 30<sup>th</sup> U.S. market meltdown, their breakeven performance in Atlantic Canada and failure to make significant seat gains in Québec sealed their fate to return as a minority government. The outcome in Québec has an extra sting to it, given the attention paid to that province by Prime Minister Harper since coming to office in January 2006, including fixing the "fiscal imbalance" and declaring the Québécois a nation.

At least three issues emerged to undercut the Conservatives' genuine opportunity to forge a majority from expanded representation in Québec. First, the Conservatives failed to understand the significance of \$45 million in specific cultural reallocations/cuts which disproportionately impacted Québec artists. The resulting "viral campaign" – YouTube, the blogosphere, other social media – and consequent mainstream media pickup and opposition attacks were something from which the Conservatives could not recover.

This issue is instructive for any political party wishing to win Québec. In English Canada, over 80 per cent of the television being watched is generally foreign (read: American) produced. Meanwhile in Québec, approximately 80 per cent of the TV watched by Quebecers is produced within their province. Young folks watch "Loft Story" not "Survivor" and families will sit together on Sunday evenings for "Tout le monde en parle". Bottom line: in Québec, culture matters.

Second, the campaign announcement regarding young offenders, while boosting Conservative support elsewhere, resonated poorly in Quebec. And finally, operationally the Conservatives were slow to respond to the hard hitting attacks from Bloc Québécois leader Gilles Duceppe who brilliantly exploited the culture and young offenders issues as symbolic of a Conservative party out of touch with the province.

The bright spot for the Conservatives was their pickup of 11 additional seats in Ontario (up from 40 to 51, just below one-half of the seats in that province). And the Conservatives, while still being shut out of Canada's two largest cities – Toronto and Montreal – can rightfully boast that they have made further inroads into urban Canada and with new Canadian communities across the country.

## Liberals: Looking For Silver Linings

With Stéphane Dion leading his party to its worst electoral showing (26.2 per cent of the popular vote) since Confederation, the Liberal Party will go into the next election with a new leader and campaign team for the third election in a row. An uninspiring campaign and a policy centerpiece that failed to connect with voters, including Liberal voters, caused many who normally support the party to sit this election out. In fact, one of the key contributing factors to the low voter turnout in Election 2008 – 59.1 per cent – was these stay-at-home Liberals (850,000).

Although dropping 19 seats was a very poor result, there were a few silver linings in the Liberal clouds. The Conservatives were kept to a minority government, thereby keeping a parliamentary check on the governing party. Furthermore, the Conservatives' popular vote increased by only

1.3 per cent from 2006, indicating that there was hardly a groundswell of support for Mr. Harper's government. Moreover, the Liberals maintained their strong bases in Montreal and Toronto. These linings are cold comfort, however, to a party that always expects to win elections.

## The Other Contenders - NDP, Bloc, Greens

Jack Layton and the NDP picked up seven seats on election night. Like the Conservatives, their largest gains came in Ontario, where they picked up five additional seats of the sixteen which the Liberals lost in that province. The NDP ran a disciplined, well-scripted and well-financed campaign and, with the Liberals distracted once again by leadership issues, Mr. Layton and his team could easily appear as the de-facto official opposition in Parliament, repeating the role they played in the last Parliament.

In Québec, the early and mid-campaign obituaries for Gilles Duceppe were, to borrow a phrase, a bit premature. While campaign 2008 was likely his last as leader of the Bloc Québécois, he will not leave a diminished or disillusioned party. The BQ benefitted most from the Conservative's mishandling of the culture file and by clearly downplaying (some would say burying) any talk of sovereignty or separation, they remain a viable "insurance policy" for Québec voters. The other lesson for any federalist party is that questioning the utility of the BQ in Ottawa and subtly asserting that a BQ vote is a wasted vote, is not a winning strategy. Prime Ministers Chrétien, Martin and Harper have all tried this strategy with the same disappointing result.

The Green Party increased its popular vote more than any other party in 2008. And in the context of public financing of parties, Elizabeth May and her supporters can find much to celebrate. However, the broader question for the Greens, who once again failed to earn a single seat in Parliament, is what steps it must take to move beyond appearing as a sophisticated advocacy movement and finally elect members to a federal or provincial legislature.

## So ... What is the Market Doing Today?

Usually, the most often asked questions in the Ottawa political and government bubble are: What are you hearing? How do you think the vote will go? And, will my project make it into the Budget? However, these are not usual times. And in this respect, Prime Minister Harper's first post-campaign news conference – in which he outlined his six-point plan for the economy – sets the backdrop for the thematic narrative which will define his actions, those of his government and by extension, Parliament into the foreseeable future. It is all about the economy. Therefore, many Ottawa conversations over the coming months will resemble the succinct Bay Street greeting: So, what is the market doing today?

The Prime Minister has committed to tabling an Economic and Fiscal Update before the end of November. The fundamental question for his government is how they will handle federal finances, given lower than forecast corporate and personal revenues for the remainder of the

2008/09 fiscal year and major institutional forecasts indicating a continuing economic downturn for much of the 2009/10 fiscal year.

With the U.S. basically in a recession and the credit crunch contagion spreading globally, Canada – regardless of how well-positioned our economy is relative to other G7 countries – will not be immune to this slowdown. Just as troubling is the decline of energy and other commodity prices which will pull the stronger Western Canadian economy back toward the more challenged position in which the Atlantic provinces and central Canada (particularly the Québec and Ontario manufacturing sectors) now find themselves.

While Mr. Harper has governed pragmatically from the centre of the political spectrum (as any Canadian PM realistically must do) much to the chagrin of his foes who prefer to paint him as a right-wing ideologue, his government's forthcoming fiscal challenges will likely prove a test of his convictions. As a small-l liberal economist who eschews Keynesian prime-the-pump in times of downturn solutions, the Conservative government's options will be limited should the Canadian economy underperform over the next 12 to 18 months.

Transfers to the provinces (e.g. health care with a built-in 6 per cent per year escalator) and to individuals (e.g. CPP, OAS, EI.), which together represent \$126.4 billion or 52.3 per cent of total budgetary expenditures, will rise while tax collections – personal, corporate and GST – will not grow at the same rate, or may flatten. Therefore, it is very likely that Prime Minister Harper and his Finance Minister will face three stark choices: run a deficit; increase taxes; and/or, cut program spending. Running a deficit is a highly unpalatable option for the Harper Conservatives, even if it were cast as a short-term solution. Due to Paul Martin's success in slaying the deficit, it has become almost religion in Canada that no party should run a deficit.

Moreover, increasing taxes would run completely offside the government's fiscal stance and, therefore, is not a viable option. This leaves strategic program spending cuts as the preferred option, should circumstances back the government into this corner. Where things become really complicated for Mr. Harper and his Finance Minister is if spending cuts become necessary in order to balance the budget. In this scenario, look for Budget 2009 to expand upon or accelerate the present expenditure management system (EMS) within the federal government, also known as the four-year Strategic Review of departmental expenditures. A hard look will likely be taken at a significant expense item – human resources.

The political problem with program spending cuts is that the Liberals, NDP and BQ will paint any cuts, especially in the areas of culture, language programming or social transfers, as proof of the alleged Harper "hidden agenda." Adding to the government's pain, the Liberals will likely be poised to work with the opposition parties to defeat the government on a confidence motion once their new leader is selected and has had sufficient time to settle in.

Opposition parties could campaign on a "Tough Times, Tory Times" theme and fuel interest group anger at budget cuts which would be fully known and evident within the midst of a campaign. With each new forecast from respected banks and think tanks that is released in the weeks and months ahead, our potential budget and election scenarios move from the realm of game simulation to an increasingly probable reality.

## Minority Parliament 3.0: Co-operation or Chaos?

Prime Minister Harper will recall Parliament in November and table The Speech from the Throne (SFT) setting out his government's priorities for the coming session. The SFT will provide an early glimpse of how the Prime Minister, and the new Parliament, will operate. Will Parliament be a chamber of thoughtful debate on important matters of state or will it descend once again into a partisan pit of bitter recriminations and character assassination?

Mr. Harper implemented a considerable part of his agenda during his first term as Prime Minister by operating as if he had a majority. In large measure, this aggressive approach was enabled by the Liberal's preoccupation with selecting a new leader and consequent need to give Mr. Dion time to settle into his job. Now, with a strengthened minority and with the Liberals once again about to settle into another extended period of introspection and leadership change, is it reasonable to expect the Prime Minister to adjust his leadership style and approach to Parliament?

While some of the conditions that existed during Mr. Harper's first round as Prime Minister remain, one critically important feature has changed. The serious economic conditions facing Canada and Canadians, which could worsen before they improve given our economic interdependence with the struggling United States, indicate that a serious and sober tone should prevail in Ottawa. It is reasonable to expect that any party engaging in highly partisan posturing and demonstrating more interest in scoring political points than in resolving issues of importance to Canadians would be punished by voters come election time. And with a minority Parliament once again in place, that election could come within the next 18 months when voters' minds would still be fresh with images of any parliamentarian – be they Conservative, Liberal, NDP or Bloc – appearing to act irresponsibly in times of serious economic challenge.

Parliamentary committees represent another challenge to those wishing to see their elected officials behaving responsibly. In the last Parliament, several committees deteriorated into dysfunction, leaving important bills in limbo and committee witnesses shaking their heads at the behaviour exhibited before them. In the new Parliament, House of Commons committees will, once again, be dominated by opposition members. Members of Parliament of all political stripes should be put on notice that the times dictate improved decorum.

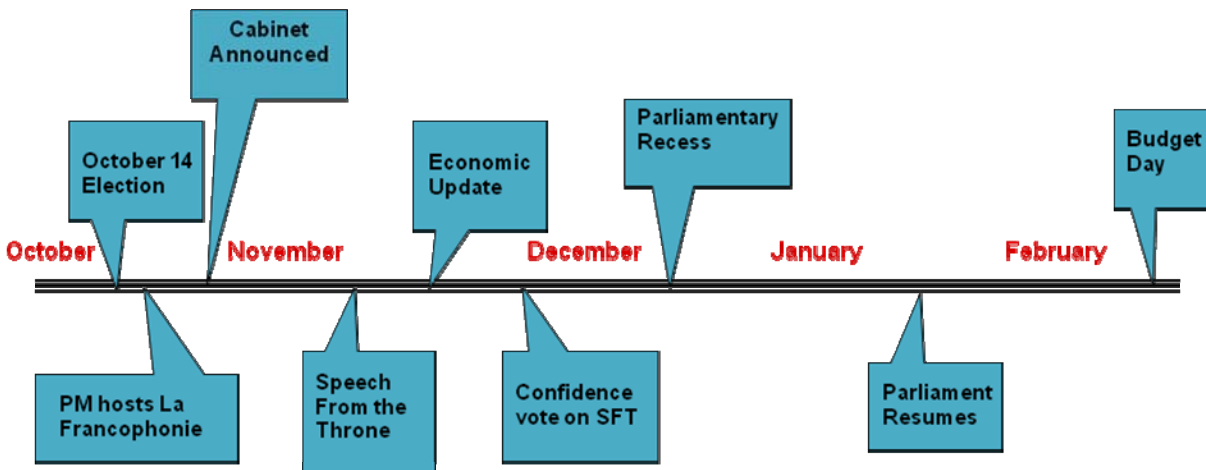
We can only hope.

## The First 100 Days

In the immediate aftermath of the election, Deputy Ministers will be finalizing departmental briefing books for their incoming Ministers and the Privy Council Office's Machinery of Government team will be working on any changes the Prime Minister wishes to make to departmental configurations. Mandate Letters will be drafted by the Prime Minister setting out the objectives he expects to be met by each of his Ministers. As well, the Prime Minister and his closest advisors will be engaging in the difficult task of building a new Cabinet while simultaneously working through drafts of the Speech from the Throne.

All of this activity is essential for the effective functioning of government and is the necessary precursor to a new government positioning itself before Parliament and the Canadian people. At the time of writing, the date upon which matters such as the announcement of a Cabinet and the recall of Parliament were unknown. The timeline below sets out several of the key events that will occur in the first 100 days of the second Harper government.

### Key Events Timeline



Traditionally, a Prime Minister takes between ten days and two weeks to appoint a Cabinet and Parliamentary Secretaries. If Prime Minister Harper holds true to form, Cabinet should be named before the end of October. Cabinet Committees will be announced at the same time, shining light on the executive decision-making process and the Ministers charged with extra responsibilities. Ministers will have only a short period of time to be briefed on their departmental responsibilities and hot files before meeting the opposition in Question Period. Prime Minister Harper has announced that Parliament will be convened in November.

The first item of business following the election of the Speaker of the House will be the tabling of the government's Speech from the Throne. The SFT is a matter of confidence so the vote that must be held will be the first test of the government's ability to command the confidence of the House. It is reasonable to expect that the Harper government will survive its first test. Given its strengthened minority, the government requires the support of only one opposition party to have its SFT passed. Support will no doubt be forthcoming.

Another important component of parliamentary business is the formation of Standing Committees of the House of Commons. Typically committees are formed within the first three weeks of the resumption of Parliament. As noted above, minority governments do not have the luxury of controlling parliamentary committees.

Mr. Harper has announced that his Minister of Finance will be tabling an Economic and Fiscal Update in November. It is normal practice for such an Update to be released in the fall, and on occasion it has been used to serve as a mini-budget.

The forthcoming Update will be particularly instructive regarding the fiscal room the government has to maneuver and could signal the government's initial approach to dealing with the global economic downturn. The Update will be followed by a Budget, typically tabled in February, within a month of Parliament returning from its annual holiday recess. Budget 2009, representing the fourth Conservative budget, will almost certainly be the most challenging one prepared by PM Harper and his Minister of Finance. It too will face a vote of confidence in the House.

## The \$300 Million Cabinet Shuffle?

While academics and pundits may argue the merits of whether the Prime Minister was justified in calling the election in early September, the issue was not a factor in the election and whether Mr. Harper sidestepped his own fixed-election law is now a moot point. With his renewed mandate, the Prime Minister has the opportunity to dramatically re-shuffle his front-bench of Ministers without risking a media or opposition storm of criticism. Simply put, a new government gets a new face.

The Prime Minister has the opportunity, if not obligation, to reward those regions – specifically Ontario – which strengthened his government. He has also signaled that he will appoint MPs to represent regions where his party did not elect MPs (Newfoundland and Montreal). Finally, with the election of more women to his caucus, it is likely that Mr. Harper will elevate some first time MPs to the Cabinet table.

Only the Prime Minister and perhaps his closest advisors (but not necessarily) are privy to his thoughts on the composition of his next Cabinet given considerations of regional balance, gender, loyalty, competence and all the other considerations inherent in this decision. If there is one Minister that is safe it is likely Finance Minister Jim Flaherty. He has already participated in several multilateral discussions and meetings during the present global economic crisis and it would be unwise both for reasons of continuity and the disturbing international signal it would send if Mr. Harper made a change at this juncture.

Other major holes to fill include the posts of Foreign Affairs and International Trade due to the retirement of David Emerson (Foreign Affairs) and the inability of former Senator Michael Fortier (International Trade) to get elected. Industry, presently and ably filled by Jim Prentice, will also be a visible, not to mention difficult, portfolio in an economic downturn.

## Money Talks

The first order of business for any political party contesting an election is to win as many seats as possible in the House of Commons and form a government. Coming a very close second is the desire to increase the number of votes it receives due to the considerable financial implications every vote now has. Under the federal election financing laws introduced by Prime Minister Chrétien, each party receives money for each vote it obtains, whether or not it wins any seats in the House of Commons, provided a certain threshold of votes is achieved. And money is an essential ingredient of political success.

In the table below we show the amount of public funding the five largest parties have received following the general elections of 2004, 2006 and 2008. The public subsidy, paid annually, was \$1.75 per vote in 2004 (it is subject to a quarterly inflation calculation). The subsidy was \$1.95 heading into the 2008 election and we have used that figure to determine the figures in the table.

### Impact of Election Financing Laws on Party Fortunes

Party	2004	2006	2008*	+/- 2004-2008
Conservative	\$9,040,232	\$9,388,357	\$10,150,401	+ \$1,110,169
Liberal	\$9,240,700	\$8,572,965	\$7,078,480	- \$2,162,220
NDP	\$2,883,919	\$4,611,140	\$4,908,296	+ \$2,024,377
Bloc Québécois	\$2,733,868	\$2,950,984	\$2,690,152	- \$43,716
Green	\$523,694	\$1,199,287	\$1,834,457	+ \$1,310,763

\*2008 numbers are based on Elections Canada return data multiplied by \$1.95 and do not take into account the most recent quarterly inflation calculation made by Elections Canada.

Three observations leap to mind. First, the Liberal Party's fortunes are trending dangerously downward. Its annual public stipend has dropped by over \$2 million within the past four years. This is a serious problem for the party, compounded by its continuing difficulties in adjusting to the new fundraising regime introduced, ironically, by a Liberal Prime Minister.

Second, the NDP has been the inverse mirror image of the Liberals, increasing their public support by over \$2 million. A stronger funding base was evident in the highly professional and polished campaign run by the NDP in Election 2008.

And finally, one of the Green Party's electoral objectives was to increase its popular vote count and thereby raise more funds. Mission accomplished. The Green Party increased its popular vote more than any other party contesting the last election and has been rewarded for it. Public funding to the Greens has more than tripled since 2004, enabling the party to fund research, hire staff and build a professional political organization.

As we noted at the outset of this Commentary, the reverberations of Election 2008 will be felt in the days, months and years ahead.

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