Quebec Premier Pauline Marois immediately opted out of the job training program in the federal budget. Quebec was also unhappy about the end to tax credits for investing in trade union and credit union investment funds. Ottawa-Quebec relations, writes Dan Gagnier, are "on a negative trajectory." Montreal *Gazette* photo.

Unilateralism a Drag on Federal-Provincial Relations

Dan Gagnier

The Harper government provoked a range of reactions from provincial capitals with the labour training changes in its 2013 budget, none more negative than Quebec's. Dan Gagnier proposes that the move not only did a disservice to Quebec's record, it imperiled federal-provincial relations generally by further entrenching an impose-first, negotiate later approach to thorny jurisdictional issues. If we continue to proceed as though major decisions can be imposed in an un-collaborative process, he writes, we'll be burdened with a whole new set of problems of our own making.

Asymmetrical federalism is a well-accepted principle in today's Canada. But unilateral federalism corrodes relationships and prevents collaboration: in fact, it is divisive. It may help Ottawa in its political strategy going forward and it's certainly an aid to managing cash flow and the deficit. But in Budget 2013, the labour training component in particular will severely test the ability of the federal government to effectively execute its strategy.

The federal government's proposition is to negotiate with the provinces over

the coming year to put in place a formula that better aligns the needs of the economy and the job generators (i.e. the private sector) to develop employable workers. How can anyone object to such a laudable goal? What are some of the provinces objecting to? Are they not all being treated equally?

It is facile to conclude that because there are thousands of jobs going unfilled that the existing programs managed by provincial governments are lacking in performance. Ontario and Quebec, for example, have well established approaches to job training and employment requirements; their strategies address the particulars of their markets and of their economies.

Quebec reacted viscerally to the federal budget provisions and immediately adopted an all-party opposition to this unilateral intervention. Declaring it unacceptable and insulting, the Parti Quebecois government announced that it would not participate. Ergo: "Ottawa, you can take your money but we will not play or negotiate on this incursion into a field of provincial / constitutional jurisdiction." The final resolution is querulous but falls short of rupture, and leaves the door open to talk without pre-conditions.

The salt in this wound was the simultaneous and unilateral withdrawal of the federal tax credit for the workers' unions and Caisse Desjardins' investment funds, largely directed at Quebec businesses. Add a dash of vinegar over the perception of reduced infrastructure funding, compared to Ontario, and you have a potent mélange.

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Ontario is holding its opinion and will react in good time. It may choose to negotiate while Saskatchewan and Alberta support the labour/training approach proposed by Ottawa.

It is evident that there has been little or perhaps no consultation with the provinces on this proposal, which is to take the place of the Labour Market Agreements expiring in March 2014. There will have to be provincial agreements to implement Ottawa's proposal of a three-way, $15,000 investment split among employers, the province(s) and Ottawa for workers qualifying for training. After first serving notice that it would not participate, Quebec unanimously passed an all-party resolution in the National Assembly. Drafted by the Liberals with support of the CAQ, it gained the acquiescence of the PQ. This resolution leaves the door open to negotiations while stressing that labour training is in provincial jurisdiction and calls for no preconditions to renewal of the Labour Market Agreement.

Ontario has referred to the proposal from Ottawa as a shell game. BC is concerned about the cost and Nova Scotia and Newfoundland want more information. At the level of buy-in to the approach, only Alberta and Saskatchewan have indicated support.

Making changes to the Labour Market Agreements will not be easy. It could result in a patchwork quilt across the country while not or solving the problem of matching of skills to jobs, thereby defeating Ottawa's decision to revisit these agreements.

On substance, of the $500 million distributed annually to the provinces under the Labour Market Agreements, Ottawa forecasts being able to redistribute about 60 percent directly to workers in the form of employment subsidies. This would mean that the provinces and employees will have to match, creating an unforeseen financial outlay.

Under the existing agreements, Quebec receives $116 million, while $194 million is disbursed to Ontario. These amounts were provided without conditions in order to allow both provinces to fulfill their labour employment training strategies while offering services to workers without unemployment insurance or who qualified under their programs.

The Quebec case of the Federal Tax Credit removal for the FTQ/CSN and Desjardins funds hurt on two fronts. The first at the level of the middle class and workers who benefit from a form of savings and returns in a province where almost 50 percent have no pension fund at work. The second at the level of foregone benefits to employment creation and support for Quebec enterprises.

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The record of the current structure in Quebec, if one judges on performance-based results, is not one we should sneeze at. If we use the FTQ Fonds de Solidarite as an example, we are looking at $8.8 billion in assets with no debt. The Fund has generated and sustained 500,000 jobs since its inception. The benefits, apart from return on investment for subscribers, include injection of $6.3 billion in Quebec companies over ten years in all regions of Quebec. Some 67 percent of this is in venture capital or risk-capital investments.

The Fund is also small-business friendly, with some 2,239 firms having less than 100 employees. On the investor side, there are 600 thousand subscribers who have, on reaching retirement age, received some $4 billion over the last ten years. Over the past three years, which we all know have been difficult, the Fund has returned 6.9 percent on an annual basis.

The dynamic in federal-provincial relations is on a negative trajectory, leading Quebecers in various walks of life to tag revitalization or restructuring of federal-provincial processes as a priority. Failure to consult or discuss can only complicate negotiations following unilateral decisions.

It is small wonder, then, that the union-based funds see the federal move as an attack against an investment class vehicle that has been, not uniquely, but more effectively, in Quebec. For the Caisse Desjardins, with five million members, the move was characterized as a "hard knock"' and a double whammy following the provincial government's abolition of tax credits for new entrants in 2013 as well as a 2.2 percent compensatory payroll tax in the co-operative sector estimated to be worth $70 million annually.

Of course, there is another side to this picture. In his editorial after the budget, Andre Pratte of Montreal's *La Presse* labelled the reaction of Quebec's finance minister to the Labour Market Agreements "hysterical" and Ottawa's choice on the funds as injudicious but certainly not one to kill off the various funds affected. The question Pratte poses in terms of public policy is a valid one: should the state eternally subsidize the growth of labour-driven investment funds at either level of government, federal or provincial?

Others have questioned whether these funds have gained a competitive advantage, allowing them to benefit in 2012 from $145 million in federal tax credits alone. Controlling close to 40 percent of the risk capital in Canada, do they not have a preferential advantage over more traditional players?

We do not have to answer this question immediately, as Ottawa has granted a two-year phase out during which we can expect to see a mobilization of union members, shareholders and investors to try to get Ottawa to reverse or amend its decision. We will also see more political rhetoric and positioning as the PQ budget comes down in early 2014, possibly as a precursor to an election.

Ontario's path is different. With a larger economy, Ontario abolished tax credits to a phase-out in 2010, later extending the timeline to 2011 while increasing the maximum allowable for tax credits from $5,000 to $7,000. Simultaneously, in 2008 and 2009, two funds were created. The Ontario Venture Capital Fund, with $205 million to invest in private funds, and the Emerging Technologies Fund, with $250 million to invest in new technologies in partnership with angel investors and existing private funds.

From a numbers perspective, it is evident that the result of these two different approaches has seen risk investment as a percentage of total dollars under management steadily decline in Ontario as a result of the elimination of the Ontario tax credit in 2005. Correspondingly, Quebec has seen growth to the point where, despite Ontario's larger economy, it is equal in numbers of dollars under risk management. An OECD study on Entrepreneurship at a Glance in 2011 ranked Quebec third behind Israel and the US, thanks to labour-driven funds outstripping both Canada and Ontario.

The Quebec legislature then passed another unanimous resolution requesting that Ottawa renounce its decision to abolish the tax credit on workers' investment funds. Together with the previous resolution on the Labour Mobility Agreements, Ottawa is generating stress lines that will exacerbate Quebec-Ottawa relations. Business reporters such as Jean-Philippe Decarie opined that Ottawa has unnecessarily taunted Quebec in the name of polishing its image on reaching its balanced budget objective. Decarie cites a Secor study that demonstrates Ottawa recovers its disbursements thanks to increased economic activity and fewer payments on unemployment insurance.

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Workers and middle class families cannot be mobilized to contribute more to their province or to Canada when lack of collaboration convinces them that Ottawa limits their access to unemployment insurance, uses their contributions to create surpluses and limits their possibility to recoup losses through workers' investment funds.

Looking forward without overly relying on how well we have come through the last decade, our future challenges are daunting well beyond the laudable goal of balancing our operational budget deficit. Without discussion between Premiers and the Prime Minister on the economy, we reduce our capacity to face shared challenges. The past model of interminable first ministers' conferences belongs to a by-gone era but franchising discussions to Ministerial Councils or bilateral conversations is not sustainable.

Canada is one of the most decentralized federations in the world. This is both a strength and a weakness. If we cannot avoid engendering more stress lines we will feed the fires of discontent. If we continue to take for granted that decisions and leadership can be sustained without discussion and collaboration, we will dissipate our energies on problems of our own making. This drag within our country needs to be reduced and the time is now for political leadership.

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