

*Nations and Nationalism* 20 (2), 2014, 337–354.

DOI: 10.1111/nana.12049

# Accommodation and the politics of fiscal equalization in multinational states: The case of Canada

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DANIEL BÉLAND\* and ANDRÉ LECOURE\*\*

*\*University of Saskatchewan, Saskatoon, Canada*

*\*\*University of Ottawa, Canada*

**ABSTRACT.** The politics of accommodation in multinational states sometimes features an important, yet often overlooked, fiscal dimension. In fact, the scholarly literature on the accommodation of nationalist movements emphasizes territorial autonomy, access to power and representation within central institutions, and the promotion of the state national identity, but it is virtually silent on how patterns of territorial fiscal redistribution, and more specifically programs of horizontal fiscal equalization, may contribute to accommodating sub-state nationalism. This article looks at the Canadian case and analyses the multidimensional relationship between equalization policy and Québécois nationalism. It explains how a key motivation behind the creation of Canada's fiscal equalization program in 1957 was to "end" the institutional and political isolation of Québec and how equalization may have, thereafter, contributed to making Québec's secession less appealing to a good number of Quebecers than it would have been in the absence of this program. Simultaneously, the article discusses how equalization may have contributed to a certain political backlash against Québec in the other provinces, thus providing mixed evidence in the assessment of the accommodation potential of equalization policy.

**KEY WORDS:** equalization, fiscal federalism, accommodation of nationalism, Québec, Canada

Fiscal policies are at the centre of the operations of the modern state and yet the scholarship on nationalism and its accommodation is largely silent about them. This neglect includes fiscal federalism and, more specifically, equalization programs that redistribute financial resources to reduce fiscal disparities among constituent units. Federal equalization programs are about horizontal fiscal redistribution; as such, they structure the dynamics of the relationships between federal and constituent unit governments, as well as between constituent unit governments themselves (Lecours and Béland 2010). The politics of managing sub-state nationalism is inextricably tied to the nature, structure, and workings of the state. In multi-ethnic and multinational contexts, federalism plays a vital role in managing diversity. Therefore, it is

reasonable to think that equalization programs, which are present in most federal systems, have the potential to shape the accommodation of nationalist movements that develop in multi-ethnic, multinational, or even strongly regionalized federal contexts.<sup>1</sup>

Drawing on the Canadian case with respect to Québec, the objective of this article is to analyse the role of equalization programs in the politics of accommodation of nationalist movements. The analysis of the Canadian case suggests that equalization programs indeed have an accommodation dimension, but that they can also produce resentment in other parts of the country, which may work to undermine the feelings of national solidarity and unity equalization is meant to generate.

Four main sections comprise this article. The first section explains how equalization programs can be viewed from the perspective of nationalist management. The second section presents a brief overview of equalization in Canada. The third section shows that the creation of the Canadian equalization program in 1957 owed much to national unity concerns, and that the territorial fiscal redistribution benefiting Québec inherent to the program since its inception has been of great value to Québec political actors defending the province's continued presence in the Canadian federation. Yet the fact that Québec consistently receives the largest federal equalization transfers in absolute terms has generated political resentment in the rest of country. In the fourth section, we discuss how equalization can become a divisive political issue, a perspective that informs the conclusion's analysis of the accommodation potential of equalization programs in multi-ethnic, multinational or strongly regionalized federations.

### **Equalization and the Management of Sub-State Nationalism**

Sub-state nationalism remains a significant political force in several Western liberal democracies (Gagnon and Tully 2001). In countries such as Canada, Belgium, Spain, and the United Kingdom, nationalist movements shape politics through claims for recognition, autonomy or even independence (Keating 2001). States have had to respond to these claims, which represent a challenge to their constitutional, institutional, and political structures. The ways states deal with nationalist movements have been the subject of a fairly dense literature (McGarry and O'Leary 1993; Coakley, 2003), which has emphasized three broad approaches (Lecours and McEwen 2008).

The first approach is territorial autonomy. The general argument behind territorial autonomy as an approach for managing regional nationalism is that the decentralization of decision-making reduces majority-minority conflict. In this context, scholars have also emphasized that autonomy for a specific region/community provides the type of political empowerment, cultural protection, and recognition of distinctiveness that regional nationalist movements seek to gain (Lapidoth 1996; Nimni 2005). The more general framework for

discussing territorial autonomy has been federalism. Within the literature on federalism, there exists a solid corpus on federalism and territorial, national, and ethnic cleavages (Amoretti and Bermeo 2004; Burgess and Pinder 2007). The dominant view expressed in that literature is that the management of ethnic, cultural, linguistic, and/or national diversity is a foremost virtue of federalism (Elazar 1994; Burgess 2006). The idea is that conflicts in multi-ethnic and multinational states can be avoided, or at least lessened, by devolving power over language, culture, and other fields such as education that traditionally create tensions between a country's main communities.

The second approach is the representation of minority national communities within central political institutions and processes. This can be done through the creation of a ministerial or bureaucratic position designed to speak on behalf of the national minority and articulate its collective policy and political preferences. In some cases, it may also involve reserving a share of parliamentary seats for minority representatives, in excess of their population share. The state may also provide representation to territorial minorities within a second chamber, which acts as a "house of regions." Consociationalism, or power-sharing, is perhaps the ultimate arrangement for strengthening the influence of minority national communities at the centre. The logic of consociational democracy, as presented by Lijphart (1977) and others (McRae 1974; 1997), is to accept the presence of distinct national identities and groups within a society rather than seek assimilation or integration into a larger, alternative identity. The mechanisms of consociationalism involve the sharing of political/executive power between the groups and the use of collective vetoes on matters deemed to affect vital group interests.

The third approach is the promotion of state national identity and ties. Members of national minorities often identify with, and feel a sense of belonging to, the minority national community *and* the nation projected by the central state. There is, therefore, potential for states to develop and nurture a loyalty amongst citizens for whom nationalist movements claim to speak. All states engage in nation-building in an effort to strengthen their legitimacy in the eyes of their citizens, but this form of politics is especially evident and important in multinational states where nationalist movements challenge the state's claim to represent a nation. In these states, contemporary nation-building processes have featured, perhaps most prominently, the various pillars of social protection inherent to the welfare state that gave concrete expression to abstract notions of national solidarity (Béland and Lecours 2008; McEwen 2006).

Fiscal arrangements are virtually never mentioned in the literature on accommodation. This is problematic in part because accommodation almost unavoidably goes through the modern state, which is largely about fiscal extraction and redistribution (Tilly 1985). As a key component of this fiscal foundation of the state, equalization programs exist in most federal states, with the notable exception of the United States (Béland and Lecours, forthcoming; Watts, 1999). In multinational states such as Canada, these programs can be

logically linked to each of the three above-discussed approaches to the management and accommodation of nationalist movements.<sup>2</sup>

First, equalization is an almost necessary component of federalism. Most federations in the world run a stand-alone equalization program (the United States is the most notable exception). Indeed, as a result of political decentralization, federal systems run the risk of having variable quality in public services across constituent units since some of these units will almost unavoidably have greater means than others. To address this situation, federal governments typically make payments – equalization payments – to constituent units that stand below a certain fiscal standard. There is much more to federalism than a simple constitutional division of power; indeed, federalism also involves fiscal arrangements of which equalization is very often a part. Therefore, equalization might be part of federalism’s potential for accommodating nationalist movements.

Second, part of the logic of providing a national minority with an opportunity to be well-represented within central institutions and to have access to political power at the centre is to give its members an incentive to remain citizens of the state. In other words, the marginalization, lack of representation and/or powerlessness of a minority community within central institutions can represent a powerful incentive for secession. Equalization can also be thought of in terms of incentives for members of a minority community to remain citizens of the state, only the nature of the incentives is financial rather than representational or political. In fact, equalization payments can make federalism seem like a good fiscal proposition for a minority community living within a lesser-off constituent unit. Hence, even those within this minority community who may feel their constituent unit is politically marginalized within the federation, or that the federal government promotes and projects an identity that is not theirs, might accept the political status quo rather than support independence. Differently put, equalization raises the costs of secession in constituent units that are net receivers of this type of program.

Third, equalization may not only work towards unity in federal states by “buying off” poorer constituent units; equalization also presents good potential for strengthening the state national identity and community. It is reasonable to think that, in the longer term, equalization programs can work to create a community of redistribution that may generate feelings of country-wide togetherness and solidarity, thereby making support for secession less likely. Indeed, from this perspective, equalization, just like social programs such as public pensions and universal health care (Béland and Lecours 2008; McEwen 2006), gives substance to abstract notions of territorial solidarity through concrete territorial fiscal transfers; it can thus represent a nation-building device. From this perspective, territorial redistribution can become a powerful tool of country-wide national unity.

The case of Australia shows that this type of thinking about equalization contributed to the creation of the program there in the context of regional discontent. In Australia, the practice of financial assistance to poorer states

that begun immediately after 1901 was aimed at reducing discontent in Western Australia, Tasmania and, to a lesser extent, South Australia (Commonwealth Grants Commission 1995: 4–12). Western Australia was a reluctant participant in the federation; not only was it at the territorial periphery of the new country and “felt itself particularly neglected by the government on the other side of the continent” (Macintyre 2009: 182), but the transfer of customs and excise duties to a Commonwealth government would strongly hurt its economy. By the 1920s, dissatisfaction with the economic and fiscal consequences of the union for the state had produced a strong secessionist movement in Western Australia. At a broader level, in the early 1930s, the three poorest states (Tasmania, Western Australia and South Australia) pressured the Commonwealth government to create an independent commission to administer and formalize financial assistance to the states, even presenting a joint request to Prime Minister J.A. Lyons in 1933 (May 1971: 30). In early 1933, a referendum campaign for secession in Western Australia was heating up and Lyons went to the state to promise the creation of a special commission to deal with the allocation of special state grants. Although this promise was not enough to convince a majority of Western Australians to vote against secession, it shows how horizontal fiscal equalization can be thought off, and used, by national politicians as a tool for fighting off secessionist movements. While Great Britain’s reluctance to recognize the secession of Western Australia explained the continued territorial integrity of the Commonwealth of Australia in the short term, the disappearance over time of all secessionist, and even nationalist, feelings in the state can be attributed in large part to the systematization of equalization beginning in 1933 (Craven 1986).

In this article, we explore the Canadian case to show how equalization presents accommodation potential for nationalist movements in a federal system and how it can also generate some resentment towards the minority national community. But first we offer a brief overview of the Canadian equalization program.

### **The Canadian Equalization Program**

As suggested above, equalization programs exist in most federations, and Canada is one of them. Created in 1957, equalization is a program managed and funded by the federal government through general tax revenues (MacNevin 2004: 188–189). The program allocates payments to specific provinces when their fiscal capacity falls below a certain national average. Provinces that are above this national average do not receive any equalization payments. Although the equalization formula that sets the parameters for horizontal fiscal redistribution has been modified on many occasions since 1957, the basic logic of the program has not changed. For instance, equalization payments have always been based on an assessment of fiscal capacity, with the exclusion of expenditure needs as a fiscal criterion. Finally, the federal

government remains in charge of equalization, as both Ottawa and the provinces have rejected the idea of establishing an arms-length agency that would, like in Australia, make recommendations on payments (Béland and Lecours 2011).

In 1982, equalization was enshrined in the Canadian Constitution, where it is described as a key component of the Canadian federation: “Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.” (Constitutional Act 1982: Subsection 36[2]) Even if other federal programs, such as Employment Insurance (EI), have a strong territorial redistribution component, equalization remains the most visible form of horizontal fiscal redistribution in Canada (Courchene 1984).

Despite its overall institutional stability and constitutional status, equalization is the site of on-going debates about the proper way to assess provincial fiscal capacity and the size of the payments offered to receiving provinces. For instance, over the years, experts and politicians have debated the status of natural resources within the equalization formula. This is not a purely technical debate, as the partial or full inclusion of non-renewable resources, such as oil and gas, can have dramatic consequences on the amounts allocated to receiving provinces (Lecours and Béland, 2010).

For 2012–2013, the federal equalization program will make payments worth a total of \$15.4 billion to six provinces: Québec at \$7.391 billion; Ontario at \$3.261 billion; Manitoba at \$1.671 billion; New Brunswick at \$1.495 billion; Nova Scotia at \$1.268 billion and Prince Edward Island at \$0.337 billion. Although health transfers to the provinces are nearly twice as high as equalization payments (the Canada Health Transfer allocated more than \$28 billion to the provinces in 2012–2013), equalization is a major component of Canada’s fiscal arrangements and of the federal budget. In fact, from the mid-1980s to the mid-2000s, on average, equalization represented between 5% and 7% of the federal budget (on this issue see Expert Panel on Equalization and Territorial Financing Formula 2006). Equalization is an important revenue source for many receiving provinces. For example, equalization payments represent nearly 20% of Prince Edward Island’s budget, and approximately 7% of Québec’s budget.

Although the sheer size of transfers to Québec helps explain why the status of the province in relation to the equalization program is contentious, it does not tell the whole political story. As we suggest, nationalist politics and the issue of national unity have significantly impacted the politics of equalization in Canada. In fact, the very creation of the federal equalization program was directly related to the logic of accommodation towards Québec, a genesis that casts serious doubt about the potential counter-claim that only the size of transfers to Québec explains the political salience of its status within the program.

### Equalization as a Form of Accommodation

Although equalization as a stand-alone federal program was created in 1957, horizontal fiscal redistribution is as old as the 1867 British North America (BNA) Act, which featured statutory subsidies that had an equalization component “in that they were per capita grants up to a maximum population.” (Courchene 1984: 65) In fact, in the late 1860s, “Better Terms” for the province of Nova Scotia created “the precedent that additional grants to any province may be made at the discretion of Parliament.” (Stevenson 2007: 3) Yet the notion of a formal equalization program only emerged in the late 1930s. At that time, the fiscal crisis stemming from the Great Depression was undermining federal-provincial arrangements, as “the mismatch between taxation powers and constitutional responsibilities had by the 1930s clearly reached unacceptable proportions. It was the explosion of social [policy] costs, formally provincial responsibilities, which accounted for most of this dynamic imbalance” (Milne 1998: 181). It is in this context that the 1940 report of Royal Commission on Dominion-Provincial Relations (better known as the Rowell-Sirois Commission) made the case for a much more centralized fiscal and social policy system for Canada. From this angle, it directly contributed to the legitimization of federal welfare development in Canada. Simultaneously, the Rowell-Sirois report proposed the establishment of National Adjustment Grants allocated to the provinces based on their respective fiscal needs (Courchene 1984: 65). Interestingly, this widely debated and most controversial report supported the creation of that equalization program partly in the name of national unity. According to the report, equalization, in the form of the National Adjustment Grants, would prevent inhabitants of lesser-off regions of the country from feeling they had been left to their own devices by more fortunate regions (Royal Commission on Dominion-Provincial Relations 1940: 79). Although these National Adjustment Grants never materialized during the 1940s, the Rowell-Sirois Commission provided a broad rationale for the adoption of a stand-alone equalization program in Canada (Milne 1998: 181).

The connection between national unity and the emergence of the federal equalization program comes across in the context of the post-war debate about the future of the tax rentals system (Courchene 1984: 27–35). Created during the Second World War, this system was aimed at helping the federal government finance the war effort. In this context, it effectively centralized fiscal federalism, as Ottawa took over many provincial taxes in exchange for fiscal transfers to the provinces. These transfers had a redistributive component because Ottawa “took into account differences in fiscal capacity through per capita payments (implicit equalization) and provided minimum base grants to poorer provinces” (Marchildon 2005: 422).

Although the tax rentals system remained in place immediately after the war, some provinces, especially Québec, voiced their dissatisfaction. Québec’s opposition to the tax rentals system was the product of French-Canadian

nationalism, which focused on defending the province's autonomy to protect its language, religion, and traditional way of life (Balthazar 1986). In this context, Québec's *Union Nationale* (UN) government decided to opt out of the tax rentals system as early as 1947. In 1954, still in an effort to bolster provincial autonomy, the Québec government decided to re-impose the provincial income tax. The same year, an important provincial report, the Tremblay Report, supported autonomist claims, particularly in the fiscal field. These two events created shock waves within Canadian federalism, including – and especially – in fiscal policy (Milne, 1998: 190). As explained by historian Penny Bryden (2009), these political shock waves proved instrumental in the creation of the federal equalization program in 1957. As she points out, in the aftermath of Québec's income tax decision, the allocation of "equalization payments, regardless of whether or not a particular province rented its tax fields to the national government, would be a way of ending the isolation of Québec (Bryden 2009: 81) Hence, as a stand-alone program, equalization was created with the implicit objective of moving beyond the fiscal isolation of the only French-speaking province in Canada (e.g., Béland and Lecours 2011; Bryden, 2009; Pickersgill 1975: 309).

Early discussions around the creation of a federal equalization program were therefore fed by concerns over the implications for national unity of Québec's autonomist postures. Placing Québec firmly within Canada's fiscal federalism in the context of a program that would financially benefit a large province whose economic development was allegedly hampered by a century of social conservatism seemed to favour Canadian unity. As equalization moved to the centre of the agenda in the mid-1950s, other poorer provinces, particularly those in Atlantic Canada, supported this idea, which converged with their perceived material interests (Bryden 2009).

Equalization did not solve Canada's national unity problems. Beginning in the 1960s, in the context of the transition from an essentially traditional and defensive French-Canadian nationalism grounded in the Catholic religion to a modern, language-focused and more assertive Québécois nationalism, Québec governments sought to change the province's political status through either greater autonomy within Canada or outright independence (Rocher and Smith 2003). In 1980 and 1995, Parti québécois (PQ) governments organized referendums on "sovereignty," with the second one resulting in a win for the opponents of independence by the narrowest of margins (50.6% against 49.4%). Still, there are reasons to think that equalization may have mitigated the consequences of Québécois nationalism on Canadian federalism, at least when it comes to the secessionist option. Equalization provided explicit fiscal incentives for Quebecers to remain within Canada.

Financial and economic issues have been the Achilles' heel of the Québécois secessionist movement. As the movement developed in the late 1960s and the 1970s, the PQ presented independence as a way to achieve the political, cultural, and socio-economic emancipation of Francophones. In the 1980 referendum, the PQ argued that a "yes" vote would pave the way to such



emancipation through social democracy. The “no” side countered with various financial and economic arguments suggesting that Quebecers would be less well off after independence. In addition to involving references to economic isolation, this discourse emphasized the loss of fiscal transfers, including equalization, which would come with independence. In the end, these arguments proved persuasive and the “no” side garnered 60% of the vote. In the 1995 referendum, the argument for independence was less concrete than in 1980 (gone were the references to emancipation and social democracy); however, the counter-arguments of the “no” side remained fairly similar, except that, in the new context of free trade, the suggestion that an independent Québec would be economically isolated was no longer relevant. In other words, in 1995, Quebecers were encouraged to vote “no” in part so that they would not lose the fiscal support from equalization and the rest of fiscal federalism afforded to them.

Even outside the high-stakes moments of sovereignty referendums, Québec politicians who oppose independence very often argue that Canadian federalism is a worthwhile financial proposition for their province. Long-time Québec Premier Robert Bourassa famously spoke of *le fédéralisme rentable* (profitable federalism) as a way to highlight the concrete benefits for Quebecers of staying within the Canadian federation. Equalization payments, which Québec has received since the creation of the program in 1957, are a big part of this *fédéralisme rentable*. This type of defence for Canadian federalism has grown in importance over the years. Not only has the identity trajectory of Quebecers moved towards a pre-eminence of the Québécois identity at the expense of the Canadian one<sup>3</sup> in the context of a nation-building process (McRoberts 1997), but the failure of multiple rounds of constitutional negotiations that were widely interpreted in Québec as a rejection of the province by other Canadians have left Quebecers with a good dose of suspicion towards the rest of Canada (Gagnon 2004). As such, speaking on behalf of federalism in Québec is typically more easily done with a focus on its components, such as equalization, that bring material benefits to the province.

Equalization has also been used strategically by the federal government to support federalist forces in Québec.<sup>4</sup> As a program entirely controlled by the federal executive, equalization can have punctual political uses. For example, the details of the 2007 reform that resulted in a boost of equalization funds for Québec were announced just a week before a provincial election in which the federalist Québec Liberal Party was in a tight three-way contest with more nationalist parties. The timing of the announcement was widely seen as a move by the federal government to help a federalist ally in Québec (Bryden 2007). In sum, equalization serves as a means to accommodate Québécois nationalism insofar as the program provides fiscal incentives for Quebecers to support the province staying within Canada.

Equalization also contributes to the accommodation of Québec sub-state nationalism by redistributing fiscal resources in a manner seen as expressing

Canadian citizenship and territorial solidarity. In Québec, the political actor that promotes the view that equalization is simply part and parcel of Canadian citizenship is the Québec Liberal Party. For the federalist Liberals, it is the right of Quebecers as Canadian citizens to have their province receive equalization payments from Ottawa.<sup>5</sup> Liberals explain that, although Québec's position as a recipient province is an unfortunate situation, it is the product of both its late industrial development and its lack of non-renewable natural resources such as oil and gas. Consequently, there is no shame in receiving equalization payments. In fact, former Québec Liberal Premier Jean Charest (2003–2012) even suggested that the program should be enhanced, as the unconditional nature of equalization makes it a better funding structure than conditional transfers (Séguin 2004).

For sovereignist politicians, equalization represents a political problem. Their argument for an independent Québec means that they can never ascribe any value to Canadian citizenship. As such, they typically want to avoid speaking about equalization and, when forced to do so, will attempt to put it in a broader fiscal and policy context.<sup>6</sup> Sovereignist politicians suggest that, in the overall scheme of fiscal federalism, Québec does not gain anything; in fact, they argue, it probably comes out a loser, in part because they judge that the federal government has invested more heavily in other provinces. Therefore, the sovereignist view on equalization is that it simply sends back to Quebecers a part of what it has paid through taxes and other contributions to federal coffers. From this perspective, it is Québec's money coming back home. Although this view is ridiculed in the rest of Canada, it has some credibility in Québec. For example, in a 2009 public opinion poll, 31% of Quebecers said they paid more income tax to the federal government than the federal government spent in the province, against 23% who said the opposite (30% felt things evened out, while 16% did not know).<sup>7</sup>

There is a third perspective on equalization in Québec that implicitly endorses the notion that Quebecers as Canadian citizens have a right to equalization payments, but characterizes as shameful the province's status as a recipient. The defunct *Action démocratique du Québec* (ADQ) first articulated this position (Robitaille 2011), which was picked up by François Legault's *Coalition Avenir Québec* (CAQ). In the 2012 Québec election campaign, Legault said his objective was that "in 10 years, Québec will pay equalization to the rest of Canada" (Leblanc 2012).

In sum, there are reasons to think that equalization serves to accommodate Québécois nationalism not only by providing fiscal incentives for the province to remain within Canada, but also by working to keep a good number of Quebecers feeling a part of the Canadian political community. However, the accommodation effects of equalization are undermined by the fact that Québec's status as a recipient has fed resentment towards the province in the rest of Canada. We now explain how this has happened.

## Manufacturing Resentment

There are many different views of equalization in Canada. On one hand, the program enjoys strong support in many parts of the country, especially in traditional recipient provinces such as New Brunswick and Manitoba. On the other hand, in other provinces, particularly but not exclusively Alberta, equalization is viewed as a program that unfairly benefits Québec. This resentment, which is informed by right of centre ideologies, is linked to three different, yet interrelated, arguments about Québec and equalization.

The first is simply that Québec receives too much equalization money. As stated above, Québec has been receiving equalization payments on a continuous basis since the inception of the program in 1957. Moreover, until Ontario began receiving equalization payments in the late 2000s, Québec was by far the largest recipient province. Equalization is a function of both provincial population and fiscal capacity. Hence, Québec's sheer size (eight million people in 2012) has meant that it has received the largest annual equalization payments. Provincial politicians outside Québec have often highlighted that fact. In 1971, for example, British Columbia Premier W.A.C. Bennett explicitly mentioned that Québec was the largest beneficiary of the federal equalization program, as he advocated its dismantlement: "The Government of Canada has paid out over \$5,500,000,000 in equalization payments since their introduction in 1957, and they continue to increase substantially each year. One province, Québec received 47 per cent of this amount." (Bennett cited in Resnick 2000: 23)<sup>8</sup> Reporting on equalization outside Québec also tends to emphasize that Québec receives the "the lion's share" of equalization payments (Howlett and Carmichael 2008). Yet, breaking down equalization payments on a per-capita basis shows that provinces such as New Brunswick, Manitoba, and Prince Edward Island rely more on equalization payments than Québec. In fact, equalization represents a greater proportion of these provinces' budgets than it does Québec's (Perry 1997: 170). However, Canadian media outlets seldom talk about equalization payments in per-capita terms, as they typically state aggregate numbers (total amounts of money transferred to each receiving province, regardless of population). This type of reporting makes Québec look like the most fiscally dependent province in Canada, at least as far as equalization is concerned (Lecours and Béland, 2010). This feeds resentment towards Québec, especially in a wealthy province such as Alberta, which has not received equalization payments since the early 1960s (Courchene 1984).

The second argument about Québec and equalization that builds and expresses resentment towards the province is that equalization payments are a political tool to accommodate Québec. Contrary to other federations such as Australia, decisions on equalization payments in Canada are entirely at the discretion of the federal executive. This governance structure allows for the politicization of equalization (on this issue see Béland and Lecours 2011). As we have just explained, there are good reasons to think that equalization is,

among other things, an accommodation mechanism. The fact that a program whose primary stated objective is to help poorer provinces deliver quality public services serves the politics of nationalist accommodation has proven difficult to accept, particularly in the consistently non-recipient province of Alberta, and some other wealthier provinces such as British Columbia. Part of the frustration comes from the fact that equalization payments have not stymied Québécois nationalism and claims for secession.

For instance, in a 2004 article dealing with fiscal negotiations between Ottawa and the provinces, the *Vancouver Sun* argued that, because Québec receives so much money from Ottawa through equalization, “if there’s one federal program that should convince Quebecers to button their lips about separation it’s equalization” (Yaffe 2004: A19). Equalization payments are often viewed as a way to “buy” federalist votes, that is, to entice Quebecers to support non-secessionist parties. The following quote from the left-leaning *Toronto Star* illustrates this common wisdom in reference to Conservative Prime Minister Stephen Harper: “Especially in his first mandate, Harper seemed intent on gaining the favour of Quebecers. For instance, he recalibrated the equalization formula, giving Québec billions of dollars more.” (Chung 2008: A19). For many outside Québec, the nationalist accommodation use of equalization is a perversion of the program: “Equalization is about creating a similar calibre of essential services spanning Canada’s rich and poor provinces, ensuring a Confederation where health, education and social safety nets meet a lowest common denominator. It is not a national subsidy so have-not premiers can buy must-have votes through crass electioneering” (Martin 2007: A1).

Resentment against Québec stemming from the view that equalization payments are used to more or less successfully “buy off” Quebecers’ loyalty to Canada is compounded by three perceptions about the workings of Canadian fiscal federalism. The first is that equalization takes money from wealthy provinces such as Alberta to give it to poorer provinces such as Québec. In reality, equalization is not a direct transfer of money from one province to another (federal revenues from all provinces are used to finance equalization payments), but it is common in wealthier provinces to depict equalization as an unfair system on that basis. This sense of unfairness is amplified in provinces rich in non-renewable natural resources such as oil and gas, where the position is that revenue from these resources should be shielded from equalization through their exclusion from the calculation of provincial fiscal capacity. In fact, in provinces such as Alberta, there is a sense that some revenue from the oil and gas industry is lost through equalization, which diminishes the meaning of the constitutional ownership of the natural resources by Canadian provinces (Lecours and Béland, 2010).

The second is the belief that Québec gets equalization money because it has political clout in Ottawa. For most of the years since the equalization program was created in 1957, federal executives have been led by a prime minister from Québec, which generated the widespread perception that Québec effectively

ran the country. Former Alberta finance minister Ted Morton (2005: 3) once claimed that “Alberta’s fate appears to be the opposite of Québec’s: the more it contributes financially, the less it receives politically.”<sup>9</sup> This type of comment reflects feelings of “alienation” in the West. These feelings, which are particularly prevalent in Alberta, developed in large part as a result of federal governments being regularly formed by the Liberal Party of Canada, which was dominated by Québec and Ontario through the 1960s, 1970s, and 1990s. Over the last decade, to counter this apparent control of the federal executive by Québec and Ontario, many Alberta politicians and public intellectuals called for the creation of a “firewall” around the province to protect it against a government they did not think had the province’s interests in mind. For instance, during the 2012 Alberta electoral campaign, the Wildrose Party, which ended up losing against the Conservatives after a fierce battle, advocated the creation of such a “firewall” (Gerson 2012). Overall, Western alienation, which is partly grounded in the idea of Québec’s disproportionate influence in federal politics, is antithetical to equalization as a program that benefits Québec.

The third perception about the workings of Canadian fiscal federalism that favours equalization generating resentment towards Québec is the notion that the program is inefficient, and that it promotes economic dependency in the poorer provinces (Holle 2012). Those who criticize the program in the name of economic efficiency often argue that Québec is a foremost example of equalization’s perverse consequences. For example:

Initially, equalization was intended to help poorer parts of the country catch up to the wealthier parts. Now, it is simply assumed that the poor will stay poor. B.C. and Saskatchewan might move in or out of the “have” column, but Québec and Atlantic Canada will remain firmly entrenched in equalization dependence, and no one expects that to change.

But then, if Québec were to actually free itself from federal equalization, one vital argument for staying within Confederation would be lost. If Newfoundland and the Maritimes were to achieve true economic self-sufficiency, they would cease to be de facto colonies of the federal government (Ibbitson 2004: A4).

For this columnist, equalization produces an economic dependency which, for Québec, has the added dimension of representing an incentive to stay within the federation. Some observers go further and argue that equalization payments to Québec are not only a waste, but support separatism. After reminding the reader about the large equalization transfers received by that province every year, one commentator suggested that “Québec [then] uses its equalization windfall, not to improve essential services but to fund its secessionist agenda. Hence, Ontario and Alberta are being forced to subsidize [sic] Québec’s secessionist movement. Another reason to scrap the equalization program.” (Sauve 2004: A15)

The final argument about Québec and equalization that builds on, and expresses, resentment towards the province is that, through equalization,

wealthier provinces such as Alberta and Ontario have been financing Québec's progressive social policies (Holle 2012; Milke and McMahon, 2012). There is significant policy divergence across provinces in the Canadian federation, but amongst all inter-provincial discrepancies the cleavage between Québec and the other provinces stands out. For example, Québec is the only province to administer its own earning-related pension system (the Québec Pension Plan), selects most of its immigrants, and run its own labour training program. Furthermore, concerning social policy, it is not only the fact that Québec residents enjoy a \$7-per-day publicly funded day-care system, a public drug insurance program, and the lowest university tuition fees in the country, but also that these distinct policies are very much flaunted by Quebecers as embodying a progressive model of society (Béland and Lecours 2008).

These much-vaunted social policies are met with some puzzlement in the rest of Canada. The notion that Québec can "afford" these policies while not being one of the wealthiest provinces in the country seems impossible, even if personal income tax rates in the province are higher than elsewhere in Canada. In this context, the workings of fiscal federalism, and more specifically the equalization program, are used to account for why Québec governments implement a series of costly social programs politicians in other provinces say they cannot afford. Thus, non-recipient provinces such as Alberta and British Columbia "help fund Québec's lavish social programs" (Milke 2012). This is the seemingly dominant view in English-speaking Canada. It is fed by newspaper commentaries and conservative think-tank reports (Eisen and Milke 2010), and is seldom challenged (for an exception, see Holden 2012).

Overall, the combination of the federal equalization program and Québec's generous social programs generates resentment towards the province from other Canadians, who think that their money is paying for services Quebecers receive but that they do not enjoy themselves. This resentment was palpable when Québec university students began a "strike" in 2012 to oppose a tuition hike. Canadians outside the province were astounded that students paying the lowest tuition fees in the country would "complain" when nobody else did. Commentators in Alberta and British Columbia suggested that Québec students needed a lesson in equalization so they understood that Albertans were paying for their modest tuition fees (Corbella 2012). The 2012 Québec student strike episode shows that, even in the absence of talks specifically around equalization, the program can feed anti-Québec sentiments.

## Conclusion

The main objective of this article was to draw attention to the role of fiscal federalism and, more specifically, equalization policy in the politics of accommodation of nationalism. Although exploratory in nature, the article suggests that students of nationalism and its accommodation should pay closer attention to fiscal federalism and equalization programs when they do exist, as is the

case in most federal systems. As argued above, in Canada, equalization has served as a tool to accommodate Québécois nationalism. Simultaneously, equalization has generated much resentment toward Québec. Although the sheer size of transfers to Québec may partially explain the controversial status of Québec in relation to the federal program, our analysis makes it clear that this situation is also about sub-state nationalism and territorial identities, which have long shaped Canadian politics, including fiscal federalism.

Research on fiscal federalism and the accommodation of nationalism can serve to help answer many pending questions on nationalism. For example, to what extent can territorial redistribution towards a community where there exists a nationalist movement placate nationalist demands? The rise and fall of secessionism in Western Australia in the 1920s and 1930s suggests that equalization can tame independence movements since the creation of the Commonwealth Grants Commission to address some of Western Australia's grievances seem to have undermined support for independence. Or, to what extent does such redistribution, or territorial fiscal autonomy, undermine national unity if it comes to be viewed by the public as unfair because it serves to accommodate a "complaining" or 'privileged' minority? In Spain, the Basque *fueros* (fiscal autonomy) have served as fodder for nationalist claims in Catalonia. In the United Kingdom, how does the Barnett formula used to allocate money to Scotland factor into the debate on independence there?

Beyond Canada, Spain and the United Kingdom, there is fertile empirical ground for looking into these questions (we can think of countries such as India, Belgium, and Nigeria) but there also exists some methodological challenges. For instance, the accommodation dimension of territorial redistribution is often mostly implicit; indeed, political actors rarely declare publicly that money goes towards a specific community to fight off nationalist pressures. Although unstated, these types of strategies can be real and play a key role in the evolution of nationalist movements and their political accommodation.

### Acknowledgements

A previous draft of this article was presented at the 2012 annual conference of the Prairie Political Science Association (Saskatoon, Canada). The authors thank Shannon Boklaschuk, Jörg Broschek, Penny Bryden, Joe Garcea, Patrik Marier, and the other participants to the conference for their comments and suggestions. This research project was funded by the Social Sciences and Humanities Research Council of Canada. Daniel Béland also acknowledges support from the Canada Research Chairs program.

### Notes

1 We understand a multi-ethnic federal context to refer to federal systems where there are important ethnic/linguistic cleavages but where groups do not identify with a nation different from

the one projected by the state (Switzerland, for example). A multinational context refers to a federal system where a significant number of citizens identify with a different nation than the one projected by the state and seek autonomy or independence for the community they consider theirs (as is the case in Canada, Spain, and Belgium). A strongly regionalized federal context involves the presence of a distinct territorial identity within a federation, often informed by a distinct history or distinct economic structures or interest, and where the region's political class seeks some type of protection from the state. Western Australia from independence to the 1930s is an example here.

2 Even in mononational federations, equalization programs that work to reduce the impact of territorial disparities on the quality of public services across the country can serve to neutralize regionalist sentiments. In Germany, for example, the equalization system was kept on, mostly unreformed, after unification despite the substantial cost increase generated by this decision (Benz, 1999). This choice may have been primarily about redistribution and territorial equality but, coherent with the argument advanced in this article, it also most likely served national unity.

3 According to a 2009 CROP survey conducted in Québec, 81% of respondents said they identified as both Quebecers and Canadians. Of these respondents, 37% said they were Quebecers first, 18% said they were Canadians first, and 26% said they identified as both equally. In addition, 13% of respondents said they were only Quebecers, while 6% said they were only Canadians.

4 'Federalist' are supporters of Québec's continued presence within the Canadian federation.

5 Interview with Québec government equalization analyst, 2011.

6 Interview with Bloc québécois (BQ) Member of Parliament, 2011.

7 CROP survey, April 2009 <http://ideefederale.ca/wp/?p=7>

8 That BC premier also called into question the economic efficacy of the federal equalization program: "There is little evidence these unconditional grants, which have been paid to certain provincial governments, have increased the relative standard of living of the citizens in the areas in which they have been received." (Bennett, cited in Resnick, 2000: 23)

9 In Alberta as elsewhere in Canada, it is common to misrepresent how equalization works, by stating that money from richer provinces is directly sent to poorer ones, which is not the case as citizens from all provinces contribute: "Last year alone, Alberta contributed an extra \$9 billion. Québec received 48 per cent of all equalization money. The equalization program is a federal transfer program where Ottawa collects extra taxes from so-called have provinces – Alberta and Ontario – and gives it unconditionally to have-not provinces. Under the present formula, Alberta contributes twice as much as Ontario and we have only one-third of the population" (Beauchamp, 2004: A19).

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